OPERATIONAL REPORT 2015

CENTRALE BANK VAN ARUBA

CENTRALE BANK VAN ARUBA

Address

J.E. Irausquin boulevard 8

P.O. box 18

Oranjestad

Aruba

Telephone

(297) 5252-100

Fax

(297) 5252-101

Website

www.cbaruba.org

E-mail

cbaua@setarnet.aw

ORGANIZATION CHART

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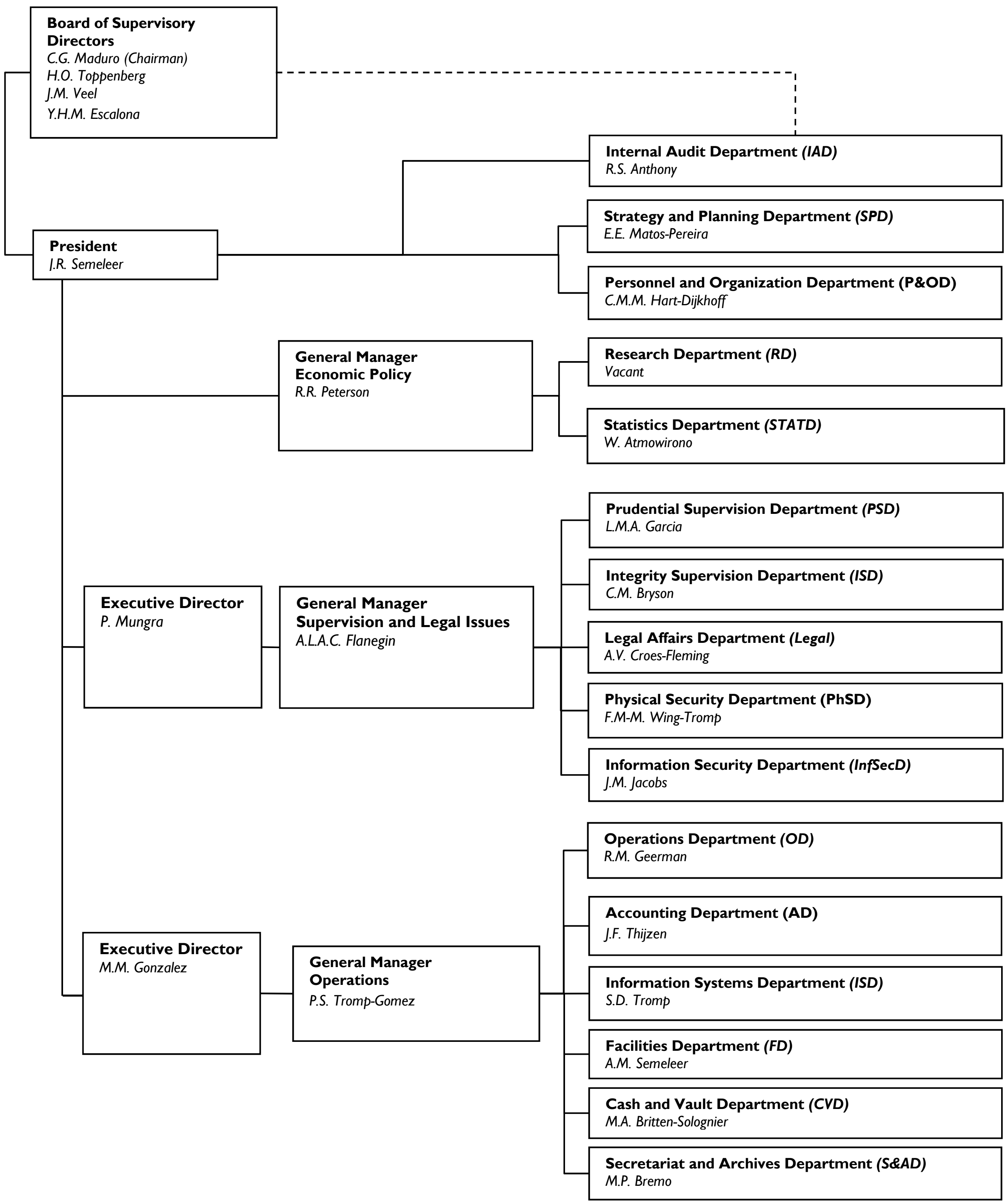

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List of abbreviations

Afl.	Aruban florin
AML/CFT	Anti-money laundering and combating financing of terrorism
APFA	Stichting Algemeen Pensioenfonds Aruba (the civil servants pension fund)
AVV	Aruba Vrijgestelde Vennootschap (Aruba exempt corporation)
BID	Bureau Interne Diensten
BC	Budget Committee
BoSD	Board of Supervisory Directors
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBO	Central Bank Ordinance
DIA	Departamento di Impuesto (Aruban Tax Authority)
DOF	Department of Finance
DNB	De Nederlandsche Bank
ELMAR	N.V. ELMAR (the government-owned electricity provider)
ERMC	Exchange Rate Margin Compensation
FDA	Stichting Fondo Desaroyo Aruba (Foundation Development Fund Aruba)
GDP	Gross Domestic Product
GOA	Government of Aruba
IC	Investment Committee
MPC	Monetary Policy Committee
ONCS	OnNet Clearing System
PC	Project Committee
RMC	Risk Management Committee
SC	Strategic Committee
SETAR	Servicio di Telecomunicacion di Aruba (Setar) N.V. (the government- owned telecommunications company)
SOERMC	State Ordinance Exchange Rate Margin Compensation
SOFEC	State Ordinance Foreign Exchange Commission
SOFET	State Ordinance Foreign Exchange Transactions
SOSSB	State Ordinance on the Supervision of the Securities Business
SVB	Sociale Verzekeringsbank
US	United States
WEB	Water en Energie Bedrijf Aruba N.V. (the government-owned water and power company)

1

Policy objectives

1 Policy objectives

The Centrale Bank van Aruba (CBA) has a sui generis legal status and pursues a number of policy objectives arising from the statutory tasks assigned to it in the Central Bank Ordinance (CBO) (AB 1991, no. GT 32) and other legislation. Achieving these objectives is a fundamental condition for sound economic and financial development. CBA's principal policy objectives are to:

- **Maintain public confidence in the Aruban florin**

The CBA conducts monetary policy to protect the stability of the value of the Aruban florin through the preservation of its fixed exchange rate vis-à-vis the US dollar. To this end, an adequate level of international reserves is maintained at all times.

- **Contribute to financial stability**

The CBO also assigns the CBA the responsibility to promote the stability and integrity of the financial system. The supervisory activities are carried out mainly via ongoing off-site surveillance and periodic risk-based on-site examinations to assess the financial soundness of the supervised institutions and/or their compliance with relevant laws and regulations.

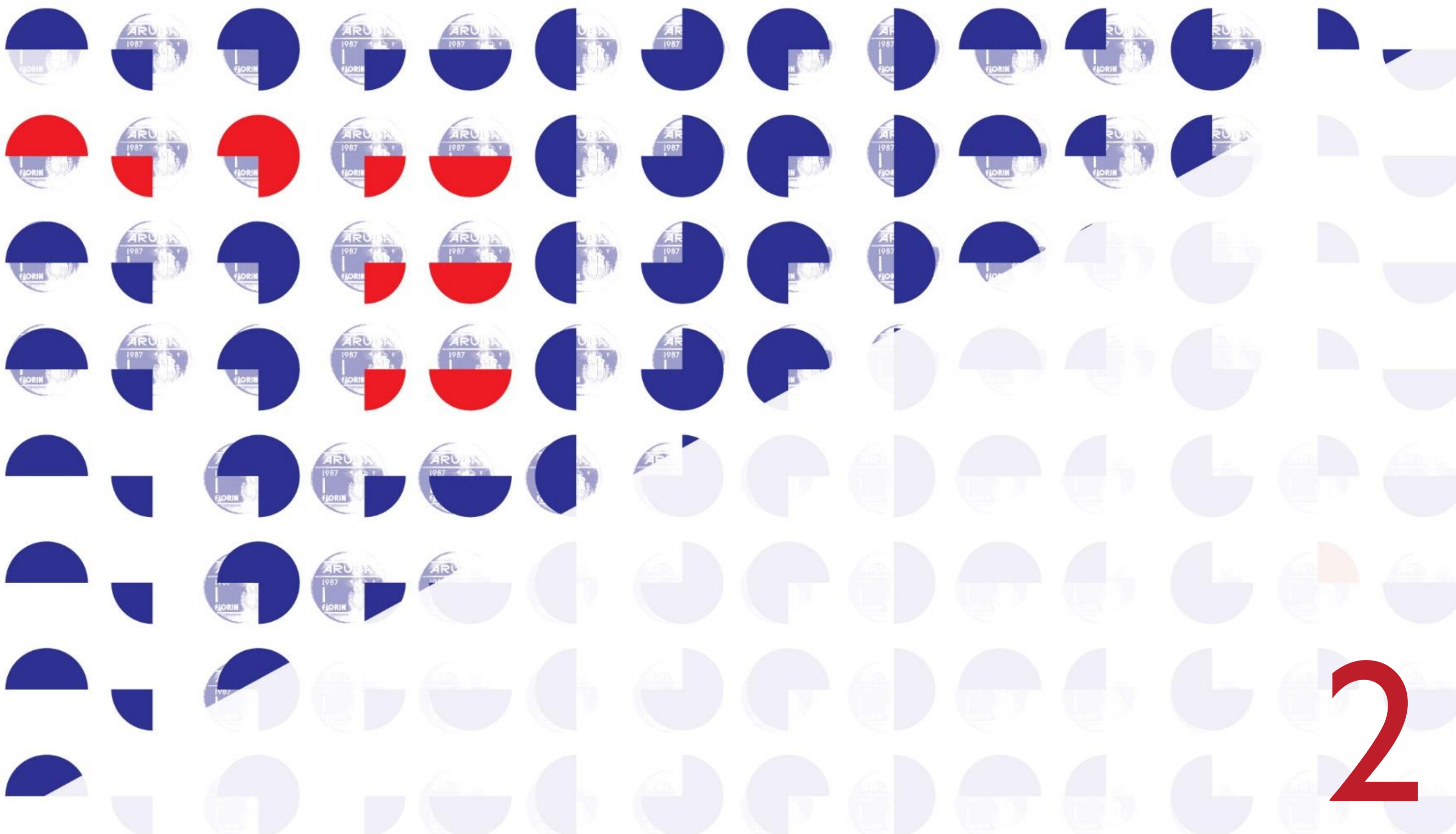
- **Ensure smooth circulation of the Aruban florin**

The CBA is the sole issuer of florin bank notes. In accordance with the CBO, the CBA is responsible for the design and printing of secure and safe bank notes. The CBA withdraws from circulation and destroys damaged or worn florin bills. Furthermore, it contributes to an efficient domestic payment system by managing the OnNet Clearing System (ONCS).

In line with its policy objectives, the CBA performs the following tasks and related activities:

Tasks	***Related activities***
a. Conduct monetary policy.	Formulate and implement measures to, *inter alia*, maintain the adequacy of the international reserves.
b. Supervise the financial system.	Perform risk-based supervision of financial institutions to protect the interests of depositors and policy-holders and promote the stability and integrity of the supervised sectors.
c. Issue florin bank notes.	Bring safe and secure bank notes into circulation to meet the needs of the public.
d. Issue coins on behalf of the government.	Bring safe and secure coins into circulation to meet the needs of the public.
e. Promote efficiency in settling domestic payments.	Operate an automated clearing system between the CBA, commercial banks, and a number of government-related institutions.
f. Act as the banker for the government.	Execute payment orders and intermediate in the issuance of government debt paper on the domestic capital market.

g. Regulate the flow of international payments.	Regulate payments between residents and nonresidents and collect foreign exchange commission on behalf of the government.
h. Manage Aruba's official reserves, consisting of gold and foreign currency holdings.	Invest CBA's foreign currency reserves in accordance with prudent guidelines, aimed at preserving these reserves and, thus, fostering confidence in the Aruban florin peg with the US dollar.
i. Advise the Minister of Finance on financial matters.	Produce relevant macroeconomic, financial, and monetary analysis and provide expert policy advice.
j. Monitor economic and financial developments.	Collect, compile, and analyze financial and economic data for the purpose of monitoring, policymaking, and dissemination through the publication of regular reports, as well as giving presentations to stakeholders.



2

A quick look at the year 2015

2 A quick look at the year 2015

- In conducting monetary policy, the CBA applies the reserve requirement as its main instrument. During 2015, the reserve requirement rate was maintained at 11 percent, while the advance rate was kept at 1 percent.

- Thanks to the upward trend in net foreign assets, the international reserves remained adequate when benchmarked against the Gross Domestic Product (GDP), the money supply, and, most important, the current account payments. The foreign reserve adequacy continues to support the fixed exchange rate regime of the Aruban florin with the US dollar, which complements the price stability objective of the CBA.

- The legal interest rate, which equals the advance rate plus two percentage points, stayed unchanged at 3 percent. The legal interest rate can be charged in cases of default of payment. However, parties are at liberty to enter into contracts with penalty interest rates that deviate from the legal interest rate.

- During 2015, inflationary pressures were again minimal. The 12-month average of the consumer price index reached 0.5 percent, up from 0.4 percent in 2014. This development was induced by an increase in the electricity tariffs in October 2014, the effect of which was partly mitigated by a decrease in gasoline prices in 2015.

- The broadening of the supervisory net continued during 2015 as insurance brokers were brought under the CBA's supervision. Other legislative proposals that will further expand the CBA's supervisory mandate to sectors not yet regulated, particularly the securities business sector, are in the pipeline. The CBA continued its efforts to strengthen the regulatory framework by issuing new or revised guidelines.

- In 2015, the CBA started drafting a proposal to regulate consumer credit. The main objective of the regulation of this activity is to prevent market abuse, inter alia, by setting a cap on the consumer lending rates, and to prevent overcrediting. The proposal will also impose minimum information requirements on all lenders that engage in consumer lending. A draft legislative proposal has recently been submitted to the Minister of Finance and Government Organization.

- The financial sector as a whole remained adequately capitalized, liquid, and profitable. The nonperforming loans ratio of the commercial banking sector continued its declining path in 2015 and reached 4.7 percent at end-2015.

Financial highlights for 2015

At year-end 2015, CBA's total assets amounted to Afl. 1,504.4 million, i.e., Afl. 235.8 million or 18.6 percent higher than at year-end 2014. This increase was attributed mainly to the rise of Afl. 268.6 million (26.8 percent) in the foreign currency assets of the CBA, largely the result of increases of Afl. 229.3 million (523.3 percent) and Afl. 41.0 million (4.3 percent), respectively, in the category 'due from banks' and the category 'government and other papers', compared to December 31, 2014.

The increase in the category 'due from banks' was caused by proceeds of the sale of foreign exchange from foreign loans (Afl. 278.6 million) obtained by the Government of Aruba (GOA) and deposited on the CBA's accounts held at foreign banks during the year 2015. The increase in the category 'government and other papers' was attributed mostly to net cash transfers in the amount of Afl. 26.6 million made to the CBA's investment portfolios to partly replenish these accounts during the year 2015. In addition, the government and other papers held by the CBA were positively impacted by the interest received (Afl. 17.4 million), as well as by the upward change in the market value of the CBA's investment portfolios (revaluation account) (Afl. 7.0 million).

The increase in foreign currency assets was partially offset by decreases of Afl. 27.3 million (11.4 percent) and Afl. 7.3 million (45.9 percent), respectively, in the value of the gold holdings and in the category 'receivables' as of December 31, 2015, compared to December 31, 2014. The drop in the value of the gold holdings was primarily attributed to the decline in the market price of gold as of December 31, 2015 (Afl. 1,901.43 per fine troy ounce), compared to December 31, 2014 (Afl. 2,146.66 per fine troy ounce). The decrease in the category 'receivables' as of December 31, 2015, compared to December 31, 2014, was caused primarily by declines in the items 'local checks not processed', 'prepaid expenses', 'local checks sent for collection', and 'mortgage loans to personnel'.

On the other hand, the Afl. 235.8 million (18.6 percent) growth in the liabilities and capital & reserves of the CBA as of December 31, 2015, compared to December 31, 2014, was due chiefly to increases in the 'deposits of residents' (+ Afl. 243.8 million or 30.6 percent), as well as 'bank notes in circulation' (+ Afl. 9.5 million or 3.6 percent). These increases were partially offset by a fall in the 'revaluation account' (-/- Afl. 20.4 million or 17.6 percent). The increase in the category 'deposits of residents' resulted primarily from a surge of Afl. 194.8 million (26.5 percent) in the deposits of the commercial banks, a rise of Afl. 27.8 million (440.4 percent) in the deposits of Stichting Fondo Desaroyo Aruba (FDA), and a growth of Afl. 22.9 million (45.0 percent) in government deposits. The increase in the 'bank notes in circulation' was due mainly to higher (net) Aruban florin cash withdrawals by the commercial banks at the CBA during the year 2015. Furthermore, the drop in the 'revaluation account' was attributed predominantly to the previously mentioned decline in the market price of gold at end-2015 compared to end-2014.

Table 2.1: Condensed Balance Sheet (before allocation of net result)
(in Afl.)

	As of December 2014		As of December 2015	
Assets				
1. Gold		**238,910,454**		**211,617,786**
2. Foreign currency assets				
2.1 Due from banks	43,827,955		273,170,085	
2.2 Government and other papers	953,680,983		994,684,182	
2.3 Other	4,446,539		2,688,773	
		1,001,955,477		**1,270,543,040**
3. Other assets				
3.1 Receivables	15,903,209		8,609,554	
3.2 Stock of coins and printing cost bank notes	1,563,119		1,260,036	
3.3 Fixed assets	9,615,588		11,464,558	
3.4 Projects in progress	578,473		860,928	
		27,660,389		**22,195,076**
Total assets		**1,268,526,320**		**1,504,355,902**
Liabilities and equity				
1. Bank notes in circulation		**261,773,570**		**271,278,795**
2. Deposits of residents				
2.1 Government	50,832,229		73,709,343	
2.2 Commercial banks	735,934,104		930,716,054	
2.3 Other	9,185,905		35,313,361	
		795,952,238		**1,039,738,758**
3. Deposits of nonresidents		**1,106,545**		**2,211,935**
4. Money in custody		**1,811,266**		**1,811,810**
5. Payables and accrued Expenses		**3,525,062**		**4,352,575**
6. Revaluation account		**115,760,367**		**95,338,921**
7. Capital and reserves				
7.1 Capital	10,000,000		10,000,000	
7.2 General reserve	76,312,882		76,312,882	
		86,312,882		**86,312,882**
Net result for the year		**2,284,390**		**3,310,226**
Total liabilities and equity		**1,268,526,320**		**1,504,355,902**

Source: CBA.

In 2015, total net income (net of interest expenses) rose by Afl. 2.7 million or 13.6 percent to Afl. 22.7 million (December 2014: Afl. 20.0 million). This surge resulted primarily from an increase in the CBA's 'other revenues' of Afl. 9.9 million (146.4 percent), when compared with the same period last year, largely because of the revenues (+ Afl. 9.3 million) obtained from the introduction of the State Ordinance Exchange Rate Margin Compensation (SOERMC) (AB 2014, no. 57) effective April 1, 2015. The effect of the rise in the CBA's 'other revenues' was largely offset by a drop of Afl. 7.2 million (54.3 percent) in the CBA's 'revenues', when compared to the same period last year. The drop in the CBA's 'revenues' was caused mostly by the realized losses incurred from the restructuring of the CBA's long-term investment portfolio and its medium-term investment portfolio managed by an external asset manager. The portfolios were restructured to better position them for the anticipated rise in the interest rates in the United States by reducing both the unrealized losses in the long-term investment portfolio and the risk of premium losses in the medium-term investment portfolio managed by an external asset manager. The total realized losses associated with the restructuring operation amounted to Afl. 5.0 million for the CBA long-term investment portfolio and Afl. 4.4 million for the CBA medium-term investment portfolio managed by the external asset manager.

Total expenses increased by Afl. 1.7 million or 9.6 percent to Afl. 19.4 million at end-2015 (December 2014: Afl. 17.7 million), due mostly to rises of Afl. 1.3 million (36.1 percent) and Afl. 269,525 (32.0 percent) in operating expenses and depreciation expenses, respectively. The growth in operating expenses was caused mainly by a rise of Afl. 621,051 in consultant fees and was largely related to expenses incurred in connection with the rating advisory services. Furthermore, the rise in depreciation expenses in 2015, when compared to 2014, relates to the Afl. 196,077 adjustment in the accumulated depreciation expenses in the 'Premises' category recorded in the month of January 2014.

At end-2015, net profit amounted to Afl. 3.3 million, i.e., Afl. 1.0 million or 44.9 percent higher than in 2014. This increase in net profit, as previously mentioned, was mainly attributed to a rise in net income (net of interest expenses), which was partially offset by an increase in total expenses.

Table 2.2: Condensed Profit and Loss Account
(in Afl.)

	2014	2015
1. Net interest revenues	13,241,905	6,050,763
2. Other revenues	6,775,876	16,694,838
Total income	**20,017,781**	**22,745,601**
3. Amortization of stock of bank notes	310,644	310,644
4. Personnel expenses	12,885,429	12,985,767
5. Operating expenses	3,694,560	5,026,681
6. Depreciation expenses	842,758	1,112,283
Total expenses	**17,733,391**	**19,435,375**
Net result	**2,284,390**	**3,310,226**
Profit distribution		
Allocated to the Treasury Department	2,284,390	3,310,226
Allocated to the General Reserve	-	-

Source: CBA.

3

The business of the CBA

3 The business of the CBA

3.1 Domestic payment system

3.1.1 Currency operations

The CBA has the sole mandate to issue florin bank notes and coins in Aruba. In carrying out this mandate, it determines the quantity, denomination, substrate, and characteristics of the notes, and advises the GOA hereon with regard to the coins, which are on the GOA's balance sheet. Florin bank notes and coins are provided to the commercial banks, which in turn meet the public's demand for currency. The CBA redeems surplus bank notes from commercial banks and withdraws them from circulation. It processes the redeemed notes, destroying the unfit ones via an environmentally friendly bank note destruction machine. The aim is to have only high quality bank notes in circulation. In this regard, the CBA acquired a new banknote sorting machine in 2015, offering superior performance in terms of productivity and detection of counterfeited banknotes.

Florin bank notes in circulation

Table 3.1 provides an overview of the florin bank notes in circulation per denomination for the years 2011-2015. As can be derived from this table, the total number of bank notes brought into circulation increased by 3.3 percent in 2015 compared to 2014, while the total value of bank notes in circulation rose by 3.6 percent to Afl. 271.3 million at the end of 2015. Despite the widespread use of payment cards, including debit and credit cards, and electronic payments through online banking, the use of florin bank notes continued to grow in 2015. The Afl. 100 denomination continued to represent the largest share of all bank notes issued, comprising 49.4 percent of the total bank notes in circulation, while the Afl. 500 bank note remained underused.

Table 3.1: Bank notes in circulation
(in numbers)

	2011	2012	2013	2014	2015
Denomination					
500	10,130	10,157	9,391	8,989	8,424
100	1,595,866	1,766,549	1,881,641	2,107,291	2,208,548
50	301,808	341,701	350,926	294,633	252,645
25	632,727	701,902	734,241	901,252	963,585
10	754,701	774,928	805,517	840,343	860,953
5	176,424	176,338	176,320	176,271	176,118
Total	**3,471,656**	**3,771,575**	**3,958,036**	**4,328,779**	**4,470,273**

Source: CBA.

The Afl. 5 florin bank note was replaced by a Afl. 5 coin in 1996. These bank notes can only be redeemed for other florin banknotes or coins at the CBA until January 31, 2034.

As also shown in Chart 3.1, the 100 florin bill remained by far the most commonly used denomination.

Chart 3.1: Bank notes in circulation by denomination

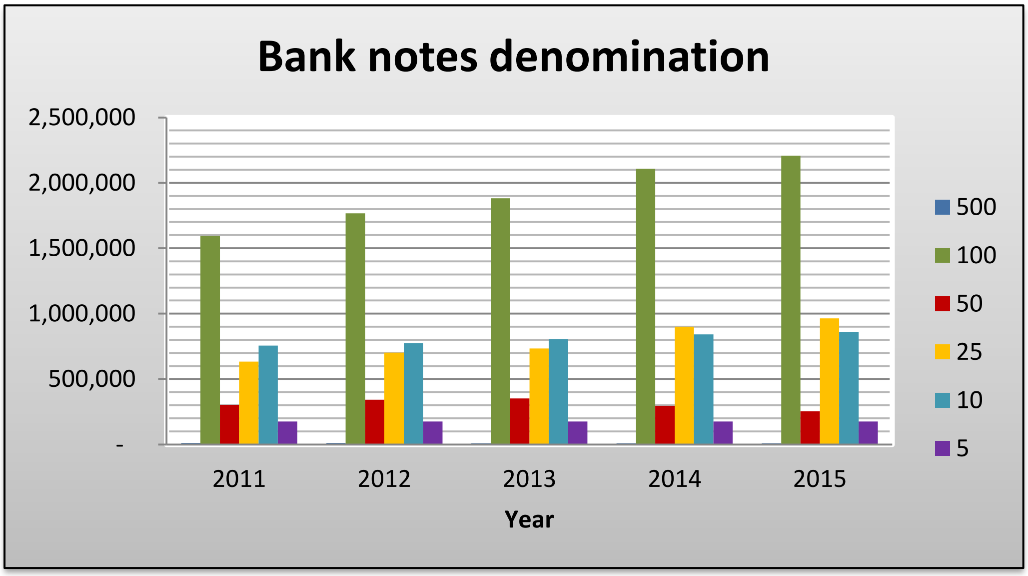


Chart 3.1: The Afl. 100 denomination continues to be the most used bank note.

Counterfeit florin bank notes

The number of counterfeit florin bank notes has been quite low over the years. The CBA provides extensive information on its website and through brochures via the commercial banks to help the public in verifying the authenticity of the florin bank notes. Nonetheless, a few cases of counterfeit florin bank notes were registered in 2015.

Coins in circulation

The CBA also is entrusted with issuing coins on behalf of the GOA, which are on the balance sheet of the GOA.

Table 3.2: Coins in circulation
(in number) (in thousands)

	2011	2012	2013	2014	2015
Denomination					
5.00	1,739	1,787	1,873	1,936	2,040
2.50	91	92	94	94	101
1.00	8,675	9,104	9,586	10,006	10,671
0.50	6,928	7,141	7,605	7,992	8,193
0.25	13,286	14,231	14,979	15,820	16,579
0.10	20,925	21,733	23,138	24,287	25,272
0.05	21,108	22,450	23,313	24,482	25,375
Total	**72,752**	**76,538**	**80,588**	**84,617**	**88,231**

Source: CBA.

The total value of coins in circulation in 2015, excluding commemorative coins, increased by Afl. 1.7 million (5.4 percent) to Afl. 33.2 million (2014: Afl. 31.5 million). As depicted in Table 3.2, the two smallest coin denominations, the 5 cent and 10 cent coins, are the largest in circulation, followed by the 25 cent coin.

Chart 3.2 illustrates the number of coins in circulation by denomination.

Chart 3.2: Coins in circulation by denomination

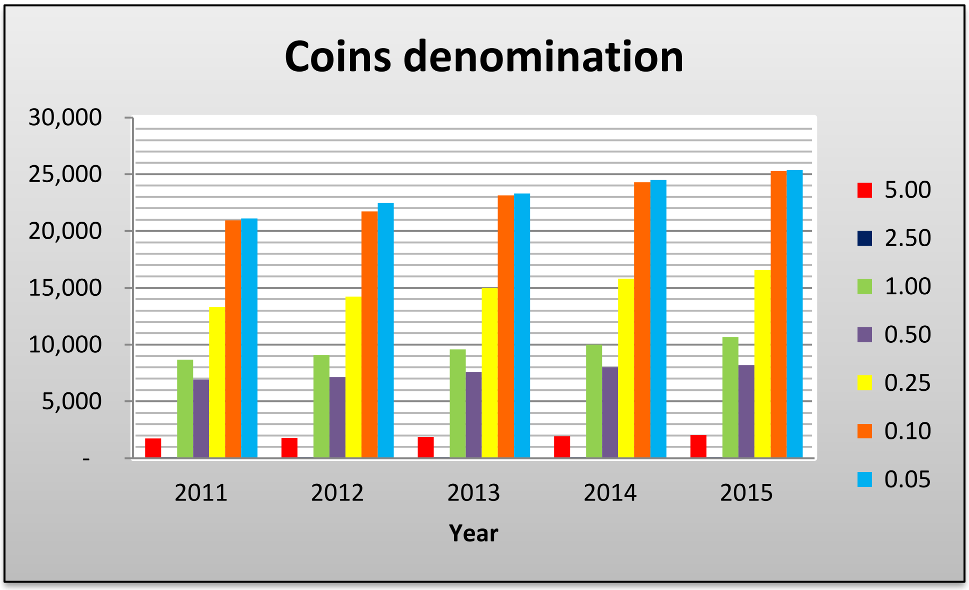


Chart 3.2: The 5 cent and 10 cent denominations remain the most used coins.

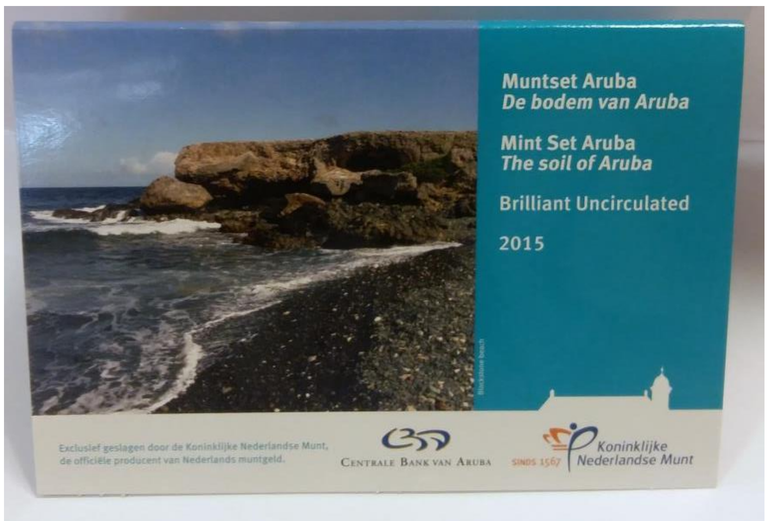
Commemorative coin

In 2015, on behalf of the GOA, the CBA issued one silver commemorative proof quality coin with a nominal face value of Afl. 5. The coin was issued in connection with the celebrations held in different parts of the Kingdom of the Netherlands to commemorate its bicentennial anniversary.

Aruba forms part of the Kingdom of the Netherlands since 1636. This coin features an image of a ship representing Johannes van Walbeeck, who was the first Dutch commander to set foot in Aruba. Important Dutch landmarks in Aruba depicted on this coin are the Fort Zoutman (with the King William III tower), the Old Mill, and the flags of Aruba and the Netherlands, which are in color.

Coin set

The 2015 coin set carried the theme 'The soil of Aruba' to illustrate various types of soil structures that provide the foundation of the existence of our island.

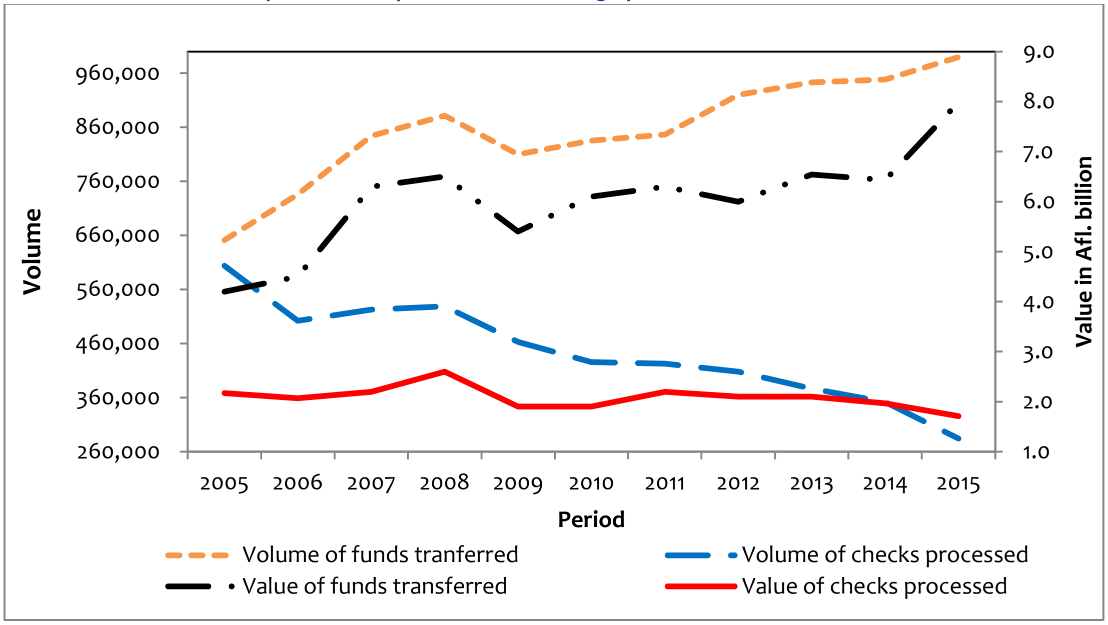


3.1.2 Clearing system

The CBA operates a network clearing system called the OnNet Clearing System (ONCS) (previously known as the Goldnet Clearing System), contributing thereby to a secure and efficient payment system that allows the public to complete transactions smoothly. This batch-clearing electronic payment system processes payments between the commercial banks, the Department of Finance (DOF), a number of government-related institutions, such as the Water en Energie Bedrijf Aruba N.V. (WEB), the N.V. ELMAR (ELMAR), the Servicio di Telecomunicacion di Aruba N.V. (SETAR), the Stichting Algemeen Pensioenfonds Aruba (APFA), and the CBA. This system is based on a secured web-client solution through which local interbank checks and fund transfers are settled on behalf of the public.

Following a significant decline in 2009, the volume and value of funds transferred through the ONCS continued to steadily increase, reaching, respectively, 989,466 and Afl. 8.0 billion in 2015, when compared to the previous year. As illustrated in Chart 3.3, the volume as well as the value of checks processed continued their downward trend, falling further in 2015 by about 67,197 checks (19.1 percent) to 284,365 checks and by about Afl. 0.3 billion (15.0 percent) to approximately Afl. 1.7 billion, respectively, compared to 2014.

Chart 3.3: Transactions processed by the CBA Clearing System



Source: CBA.

3.1.3 Banker to the government

Within the scope of the CBO, the CBA also functions as the banker for the GOA and advisor to the Minister of Finance. As part of its treasury services to the government, the CBA accepts deposits from the GOA and carries out its foreign payment instructions as well as a portion of its local payments. Additionally, the CBA provides services involving the issuance and settlement of local government securities.

In conformity with the CBO, the CBA does not charge any fee on the domestic and foreign payments carried out on behalf of the government. These payments are cleared through the accounts of the Department of Finance (DOF) and the Departamento di Impuesto (DIA), including the earmarked accounts of the DOF held at the CBA. The total balance of these accounts amounted to Afl. 73.7 million at the end of 2015 (December 31, 2014: Afl. 50.8 million). Government deposits held in earmarked accounts increased to Afl. 23.1 million at the end of 2015 (2014: Afl. 15.1 million), due mainly to the net inflow of proceeds from the GOA's foreign loan in the fourth quarter of 2015, which was partially offset by the outflow of funds to cover the GOA's interest payments on its external debt. In addition, the development fund account, managed by the FDA, increased by Afl. 27.8 million to Afl. 34.2 million at the end of 2015 (December 31, 2014: Afl. 6.3 million), mostly due to the transfer of matured deposits from the commercial banks to the CBA.

The CBA assisted the government in 2015 with the renewal of four 3-month treasury bills in tranches of Afl. 45 million and Afl. 20 million at each issuance. Furthermore, it facilitated the renewal of two 6-month cash loan certificates in the amount of Afl. 8 million at each issuance. In 2015, the yield on the 3-month treasury bills fluctuated between 0.59 percent and 0.81 percent, significantly lower than the fluctuations in the yield in 2014, which swung between 0.83 percent and 1.70 percent. The weighted average yield on the 3-month treasury bills was 0.71 percent in 2015, considerably lower also than in 2014 (1.28 percent), reflecting temporary excess liquidity in the domestic market and the low interest rates on the international money markets.

In 2015, the CBA also intermediated on behalf of the GOA in issuing government bonds on the domestic market in three tranches with maturities of 12 years, 15 years, and 20 years up to a maximum amount of Afl. 55 million. The proceeds of this issuance were used to cover the government's financing needs ensuing from the execution of its 2015 budget. The remainder of its financing needs for the year 2015 was covered through loans on the domestic capital market.

The CBA is currently in the process of converting the already issued GOA local bearer bonds into registered electronic bonds on a voluntary basis as stipulated in the State Decree regarding government securities (AB 1988 no. 6), as amended by AB 2014 no. 64. This voluntary conversion is expected to be completed by the end of 2016. It is also the intention of the GOA to issue local registered electronic bonds only as of the third quarter of 2016.

3.2 International payment system

3.2.1 Daily exchange rate fixing

The CBA's official buying and selling rates for the US dollar from and to the commercial banks remained fixed at Afl. 1.7895 and Afl. 1.7905, respectively. Besides the US dollar, and in accordance with article 12, section 3 of the CBO, the CBA publishes daily quotations for eight other foreign currencies based on data provided by the European Central Bank (ECB).

These rates are published on a daily basis on the CBA website and are valid for amounts up to Afl. 100,000. For transactions above Afl. 100,000, the commercial banks can set other exchange rates. During 2015, the selling rate of the Euro against the Aruban florin to the commercial banks varied between Afl. 1.889 and Afl. 2.133, while the buying rate fluctuated between Afl. 1.888 and Afl. 2.132. At the end of December 2015, the value of the Euro depreciated against the value of the Aruban florin, pushing both the selling and buying rate down by 10.3 percent and 10.4 percent, respectively, to Afl. 1.949 and Afl. 1.948, respectively, at the end of December 2015, when compared to the previous year (December 31, 2014: Afl. 2.174 and Afl. 2.173, respectively).

3.2.2 Foreign exchange transactions

In 2015, foreign exchange transactions settled through the CBA resulted in a net purchase by the CBA of Afl. 263.8 million of foreign exchange, Afl. 243.4 million higher than in 2014 (see Table 3.3). This increase was attributed to an Afl. 132.7 million net purchase of foreign exchange from the commercial banks, compared to an Afl. 49.7 million net sale of foreign exchange in 2014, and an Afl. 74.7 million increase in the net purchase of foreign exchange from the GOA. In contrast, net purchase of foreign exchange from other clients declined by Afl. 13.7 million.

Table 3.3 Foreign exchange transactions
(in Afl. million)

	2013	2014	2015
I. Total purchases of foreign exchange	**1,038.5**	**961.6**	**997.1**
From:			
1. Commercial banks	629.2	600.6	689.9
2. Government	388.9	319.7	278.6
3. Other	20.4	41.3	28.6
II. Total sales of foreign exchange	**1,113.3**	**941.2**	**733.3**
To:			
1. Commercial banks	730.3	650.3	557.2
2. Government	374.0	280.6	164.8
3. Other	9.0	10.3	11.3
III. Net purchase/sale (-) of foreign exchange	**-74.8**	**20.4**	**263.8**
IV. Net purchases/sales (-) from/to commercial banks (I.1-II.1)	*-101.1*	*-49.7*	*132.7*
V. Net purchases/sales (-) from/to government (I.2-II.2)	*14.9*	*39.1*	*113.8*
VI. Net purchases/sales (-) from/to other (I.3-II.3)	*11.4*	*31.0*	*17.3*
	-74.8	**20.4**	**263.8**

Source: CBA.

The expansion in the net purchase of foreign exchange from the GOA, related to the foreign exchange transactions carried out by the CBA in 2015 on the government's behalf, was caused by a Afl. 115.8 million decline in foreign exchange sales to the GOA. This was partially offset by a decrease of Afl. 41.1 million in foreign exchange purchases from the GOA. This contraction in foreign exchange purchases from the GOA resulted mostly from lower receipts of funds from the bond issuances on the international capital market during 2015 when compared to 2014. In 2015, the GOA executed a portion of its foreign exchange payments directly to abroad, resulting in a fall in foreign exchange sales to the GOA.

On a gross basis, the CBA's total foreign exchange purchases grew by Afl. 35.5 million or 3.7 percent to Afl. 997.1 million in 2015, resulting from an Afl. 89.3 million increase in foreign exchange purchases from the commercial banks, while purchases from both the GOA and other clients declined by, respectively, Afl. 41.1 million and Afl. 12.7 million. The latter was driven mostly by lower transfers from notified foreign accounts.

Furthermore, the total gross foreign exchange sales of the CBA continued to decline in 2015 by Afl. 207.9 million or 22.1 percent to Afl. 733.3 million. This decline stemmed from decreases in the foreign exchange sales to both the commercial banks and the GOA of, respectively, Afl. 93.1 million or 14.3 percent and Afl. 115.8 million or 41.3 percent.

3.2.3 Foreign exchange regulations

During 2015, no changes were made to the foreign exchange regulations. Pursuant to the State Ordinance Foreign Exchange Transactions (SOFET) (AB 1990, no. GT 6), payments related to current account transactions are not restricted, while for capital transactions above a certain threshold a special foreign exchange license is required from the CBA. The annual upper limit for executing capital transactions without any administrative restrictions was kept at Afl. 300,000 for resident natural persons and Afl. 750,000 for resident legal entities (excluding commercial banks). Also, dividend distributions to and dividend receipts from nonresident shareholders require a declaration from the CBA before the dividend amount can be transferred.

Pursuant to the Notice concerning Foreign Exchange Transactions, AW 2014/1, commercial banks also require a special foreign exchange license when granting loans to nonresidents that exceed Afl. 1,000,000 per annum per individual or group of nonresident borrowers, as well as for certain transfers or purchases from and sales of financial instruments such as bonds and notes to nonresidents

Table 3.4 Overview of special foreign exchange licenses issued
(in Afl. million)

	2014		2015	
Description	**Number**	**Value in Afl.**	**Number**	**Value in Afl.**
1. Lending / Borrowing abroad				
a. Refinancing	8	347.0	1	44.0
b. Other	53	344.4	39	553.8
2. Portfolio investment abroad	17	204.7	8	175.1
3. Selling / Buying real estate	86	241.6	88	222.9
4. Transfers to and from notified foreign accounts	127	97.2	106	114.1
5. Other capital transactions				
a. Participation in local companies by nonresidents	12	354.9	12	394.6
b. Participation of residents in companies abroad	2	1.2	0	0.0
c. Granting of guarantees to nonresidents	2	7.8	4	7.1
d. Other	26	33.5	10	34.5
Total	**333**	**1,632.3**	**268**	**1,546.1**

Source: CBA.

As illustrated in Table 3.4, the amount of special foreign exchange licenses granted by the CBA during 2015 dropped by 65 (19.5 percent) to 268 compared to 2014. Special foreign exchange licenses granted for selling and buying of real estate rose by 2 (2.3 percent) to 88, while the categories lending/borrowing abroad, portfolio investment abroad, transfers to and from notified foreign accounts, and other capital transactions all showed a decrease in 2015 compared to 2014.

In 2015, the total value of the transactions for which licenses were granted declined by Afl. 86.2 million (5.3 percent) to Afl. 1,546.1 million, caused mainly by decreases of Afl. 93.6 million (13.5 percent) in the amount of transactions related to lending/borrowing abroad, which included 2 infrastructural projects, Afl. 29.6 million (14.5 percent) related to portfolio investment, and Afl. 18.7 million (7.7 percent) related to the selling and buying of real estate. The total value of transactions for other capital transactions and transfers to and from notified foreign accounts rose, respectively, by Afl. 38.8 million (9.8 percent) to Afl. 436.2 million, and by Afl. 16.9 million (17.4 percent) to Afl. 114.1 million in 2015 when compared to 2014.

The number of declarations granted for dividend distributions and receipts to/from nonresident shareholders in 2015 increased by 10 (34.5 percent) to 39 compared to 2014. This increase is also reflected in the total value of dividend distributions and receipts in 2015, which shows a growth of Afl. 15.1 million (29.0 percent) to Afl. 67.3 million when compared to 2014.

3.2.4 Foreign exchange commissions

Based on article 2, paragraph 1, of the State Ordinance Foreign Exchange Commission (SOFEC) (AB 1990, no. GT 5), residents must pay a 1.3 percent foreign exchange commission on their payments to nonresidents. These payments may be effectuated through, inter alia, domestic commercial banks or via foreign accounts reported to and approved by the CBA.

However, based on the State Decree Regulation Exemption Foreign Exchange Commission, certain transactions conducted by designated groups of companies (including government-related companies) are exempted from the payment of foreign exchange commission.

Pursuant to article 12 of the State Ordinance on the Free Zone, free-zone companies may request an exemption from the payment of foreign exchange commission on foreign payments for the import of goods and services for the purpose of re-export.

Also, offshore companies, which have obtained an exemption based on article 19 of the SOFET, as well as Aruba Exempt Corporations, the so-called AVVs, which were incorporated before January 1, 2006, and by virtue of law are considered nonresidents, are not subject to the payment of the foreign exchange commission.

The GOA is responsible for determining the policy concerning the foreign exchange commission, while the CBA, pursuant to article 5 of the SOFEC, is entrusted with the levy and collection thereof. In 2015, the CBA transferred Afl. 52.9 million to the GOA's account held at the CBA (2014: Afl. 52.3 million). The total amount of foreign exchange commission collected grew by Afl. 2.7 million (5.2 percent) in 2015 to Afl. 53.6 million compared to the previous year.

3.2.5 Exchange rate margin compensation

Pursuant to the SOERMC, all institutions that have been granted an authorization by the CBA to act as a foreign exchange bank should pay the net Exchange Rate Margin Compensation (ERMC), effective April 1, 2015. The ERMC is a compensation resulting from the difference between the amount payable by the commercial banks to the CBA stemming from the sale of foreign currency to the public and the amount paid by the CBA to the commercial banks for the buying of foreign currency from the public.

Based on article 3 of the SOERMC, a tariff of 0.375 percent is to be paid by the commercial banks to the CBA on the counter value in Aruban florin for the selling of foreign currency transactions by commercial banks to the public, while a tariff of 0.125 percent is paid by the CBA to the commercial banks on the counter value in Aruban florin of all the buying of foreign currency transactions from the public. The amount of net ERMC collected for the year 2015 by the CBA amounted to approximately Afl. 9.3 million.

During 2015, the CBA conducted onsite examinations at all 4 commercial banks in order to assess compliance with the reporting obligation laid down in the SOERMC. Based on the findings of these onsite examinations, the commercial banks had to submit revised monthly declarations for the year 2015. To date, all banks, except one, have submitted the revised monthly declarations for the year 2015 to the CBA.

3.3 Managing the foreign exchange reserves

The CBA manages Aruba's net foreign assets as laid down in article 12, sub 1, of the CBO. It also applies, among other things, the B-9 rule for commercial banks and the 40-60 percent investment rule for institutional investors to regulate the maximum allowed foreign asset holdings of these sectors. The B-9 rule allows commercial banks to hold a certain level of foreign exchange reserves as working balances for the settlement of the foreign transactions of their clients. The 40-60 percent investment rule requires institutional investors to invest part of their funds domestically.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2015. The CBA continues to pursue a prudent investment policy to minimize potential losses and aims at preserving its capital by investing in securities with a minimum credit rating of single A. The official foreign exchange reserves are invested by the CBA solely in US dollar- denominated securities, comprising government and US agency securities (including mortgage-backed securities), securities issued by qualifying supranational financial institutions, corporate bonds, and money-market instruments, which include mostly certificates of deposits, time deposits, as well as treasury bills. The corporate sector investment option is limited to the financial services sector, specifically banks and financial institutions, as well as industrial companies.

3.4 Monetary policy

The reserve requirement rate, which is the CBA's main tool of monetary policy, remained unchanged at 11.0 percent in 2015. The Monetary Policy Committee (MPC) of the CBA met 5 times during 2015 to review monetary developments and the economic outlook, and to assess whether a change in monetary policy is required. The more frequent assessments of the adequacy of the monetary policy permit the CBA to respond swiftly to developments within the monetary sector and/or economic conditions. The MPC considered several indicators, including the level of net foreign assets (and official reserves), (core) inflation, and banking sector credit. The reviewed economic indicators remained adequate throughout 2015. Consequently, the MPC decided to uphold the reserve requirement at 11 percent and the advance rate at 1 percent throughout 2015.

According to CBA estimations, Aruba's economy expanded by merely 0.1 percent in real terms during 2015, mainly because the strong performance of the tourism sector was counterbalanced by significantly reduced consumption and investment. Domestic credit increased by 0.9 percent driven chiefly by an upturn in loans to individuals (3.2 percent), which was partially offset by contractions in business loans (4.5 percent). Consumer credit, on the other hand, decreased by 0.8 percent signaling that consumers were cautious about borrowing, as consumer confidence remained negative throughout 2015. Net claims on the public sector rose by Afl. 33.9 million (21.0 percent) in 2015 compared to 2014, due to increases in gross claims (Afl. 22.7 million or 6.6 percent) and government deposits (Afl. 22.2 million or 21.8 percent). These were partly offset by a decrease in development funds (Afl. 10.9 million or 13.1 percent).

In terms of developments in the international reserves, net foreign assets (excluding revaluation differences of gold and foreign exchange holdings) surged by Afl. 342.7 million (29.2 percent) in 2015, compared to 2014. This significant improvement resulted from surpluses in both the current and the capital and financial accounts of the balance of payments in 2015. More specifically, the surplus in the current account was caused mainly by a contraction in the deficit on the goods account (Afl. 309.4 million or 15.8 percent), whereas surges in tourism receipts (Afl. 79.6 million or 2.8 percent) and other services (Afl. 30.8 million or 5.7 percent) (both registered in the service account of the balance of payments) also contributed to the current account surplus. Furthermore, the surplus in the capital and financial account contributed to the favorable outcome of the balance of payments, notwithstanding its decrease from Afl. 346.2 million in 2014 to Afl. 147.3 million in 2015. Consequently, the level of the international reserves remained adequate throughout 2015.

3.5 Financial sector supervision

The CBA is the sole supervisory authority in Aruba with respect to the financial sector, aiming primarily at safeguarding confidence in the financial system of Aruba by promoting the financial soundness and integrity of the supervised sectors and institutions. Currently, it is entrusted with the regulation and supervision of the credit system, the insurance sector including insurance brokers, company pension funds, money transfer companies, and trust service providers pursuant to the sectoral supervisory state ordinances. Furthermore, the CBA is tasked with overseeing compliance with the AML/CFT State Ordinance and with the Sanction State Ordinance 2006.

The strengthening of the regulatory framework continued in 2015. In line with the intensification of the legal requirement contained in the supervisory laws requiring financial institutions to implement policies, procedures, and measures to ensure sound business operations, the CBA issued a Directive on Sound Business Operations in 2015.

On January 30, 2014, the State Decree regulating insurance brokers (AB 2014 no. 6) went into effect. Under this decree, all insurance brokers, including the already existing insurance brokers, are required to obtain a license from the CBA to be able to commence or, in the case of the already existing insurance brokers, to continue their insurance brokerage activities. Insurance companies and credit institutions licensed by the CBA are exempted from this provision. Travel agencies also are exempted from this provision insofar as it concerns intermediation for travel insurance. Insurance brokers already active in Aruba on January 30, 2014 were granted a transition period of 6 months to amend their processes and systems to meet the licensing requirements and to submit a license request. By year-end 2015, the CBA issued 10 licenses to insurance brokers.

The draft State Ordinance on the Supervision of the Securities Business (SOSSB) is still in the legislative process. In 2015, the Advisory Council provided its comments on the draft approved by the Minister of Finance and Government Organization in 2014. This draft state ordinance introduces a licensing obligation for securities brokers, portfolio managers, investment schemes, and operators of a stock exchange and ongoing supervision on the same. Furthermore, provisions are included in the draft state ordinance that impose a prospectus obligation for the issuance of securities and prohibit and punish market abuse (insider trading and market manipulation). Implementation of this ordinance is expected before the end of 2016.

Upon the request of the Minister of Finance and Government Organization, following a motion passed by the Parliament of Aruba in 2014, the CBA drafted a legislative proposal for the introduction of a deposit insurance scheme. The draft proposal was presented to the Minister of Finance and Government Organization on August 27, 2015. This draft is currently being revised as a result of the comments received from the Department of Legislation and Legal Affairs.

In 2015, the CBA drafted a proposal to regulate consumer credit. This proposal was recently submitted to the Minister of Finance and Government Organization. Important objectives of this proposed law are to ensure that consumers receive sufficient information before entering into a consumer loan agreement, to place a cap on the lending rates on consumer loans, and to prevent overcrediting.

Finally, in November 2015, the CBA also hosted a well-attended Liquidity Risk Management Seminar on behalf of the Caribbean Group of Banking Supervisors. The seminar was organized by the Association of Supervisors of Banks of the Americas and facilitated by lecturers of the Board of Governors of the Federal Reserve System. A total of 24 participants, representing 9 jurisdictions in the Caribbean and Latin American region, attended this seminar. With the aim of providing an in-depth exposure to liquidity risk management concepts and methodologies, the seminar covered, among other topics, cash-flow modelling, stress testing, and international regulatory (liquidity) requirements.

For further details on the supervision of the financial sector, please refer to the "Financial Sector Supervision Report 2015" on the CBA's website.

3.6 Organizational affairs

At the end of December 2015, the CBA employed 88 persons full-time, an increase of 5 compared to the end of the previous year. During 2015, 6 new employees were hired, and 1 labor contract was terminated. The management of the CBA would like to thank its staff members for their loyalty and ongoing commitment and dedication to the CBA during 2015.

For the fifth consecutive year, the CBA's external auditor successfully completed an audit review of its mid-year financial figures in 2015. The CBA also achieved its goal of having the external auditor complete the year-end audit for 2015 by early 2016. On January 29, 2016, the external auditors of the CBA issued an unqualified opinion with respect to the 2015 financial statements of the CBA, which subsequently were adopted by the Board of Supervisory Directors (BoSD).

3.6.1 Strategic plan of the CBA

The CBA initiated the process of developing a multi-year strategic plan in 2015. Over the years, the environment in which the CBA operates has become more dynamic and complex, requiring a strategic approach in addressing the many trends and challenges, both inside and outside the CBA. Therefore, the CBA started with the development of its strategic plan "Bela Yen: Nos Plan Strategico 2016-2020" (Bela Yen) in 2015, which takes into account the main tasks of the CBA imposed by the CBO. With Bela Yen, the CBA sets its strategic course for the period 2016-2020. In drafting Bela Yen, the Executive Committee (EC) received technical assistance from De Nederlandsche Bank (DNB). In 2013, internal and external trends and challenges were identified, and a preliminary mission statement as well as draft strategic objectives were defined. Moreover, the 2015 department plans as well as several discussions between the EC, General Managers, and Department Managers served as crucial inputs for the strategic plan. By the end of 2015, a first draft of Bela Yen has been prepared, which is currently being elaborated further by, among others, identifying strategic initiatives. The mission, vision, and ambitions of the CBA as set out in Bela Yen are illustrated below.

3.6.2 Training, courses, and seminars

During 2015, as part of the CBA's commitment to continuously upgrade skills and foster knowledge sharing, the CBA staff participated in a number of courses, seminars, and conferences held locally and abroad. With regard to educational development of the personnel, the CBA has granted assignments to 8 colleagues to follow either a Master's Program or a specialization training in a certain area. With respect to internal trainings, the CBA organized several training sessions for its personnel in the areas of leadership, coaching, integrity, and project management PRINCE2 foundation.

3.6.3 Internal organization

The organizational structure of the CBA incurred various changes during 2015. The Information and Physical Security Department (IPSD) was split into 2 separate departments, namely, the Information Security Department (InfSecD) and the Physical Security Department (PhSD), effective June 1, 2015. In addition, 2 new departments were established out of the Information Systems and Facilities Department (ISFD), being the Information Technology Department (ITD) and the Facility Management Department (FMD), as of September 1, 2015. Also, a new department, namely, the Strategy & Planning Department (SPD), was created as of September 1, 2015 to, among others, facilitate the development of Bela Yen and to support the implementation of the strategic policy of the CBA.

The 2015 internal audit plan provided assurance on the control frameworks that manage key financial risks. This was undertaken as planned and any material issues were reported to the President. Additionally, the Internal Audit Department (IAD) assisted the external accountants during the bi-annual review and audit of the CBA's financial figures. With the focus on further enhancing the performance of its tasks and activities, the IAD acquired an audit software solution to be rolled out during 2016. Furthermore, the processes and procedures of a number of departments, including the Cash and Vault Department, were reviewed and updated.

During 2015, the ITD successfully executed the first phase of a comprehensive project to upgrade the core components of the IT infrastructure. This upgrade consisted of expansion of the hardware capacity and update of essential Citrix software, providing a strong foundation to build on for future IT and business needs.

The ITD also dedicated significant man hours in 2015 on the development of a new web-based application platform, known as the CBA e-Client Service Portal, that will be able to host a suite of multi-departmental solutions. This platform will be launched in 2016 and will enable automation of several of the CBA's internal and external business processes.

The ITD in collaboration with the InfSecD continued to work on the further improvement of the business continuity capabilities of the CBA. In addition to performing a successful testing exercise in the fourth quarter of 2015, the CBA acquired additional hardware and software solutions to further speed up the recovery process in case of a disaster. Furthermore, The ITD and InfSecD have investigated possible other ways of backup and recovery, including real-time backups at external locations. This will come into fruition in 2016.

In the field of information security, the InfSecD was primarily responsible for producing and maintaining the required audit documentation for all (ongoing) upgrades and updates of the CBA's software and related IT infrastructure. One major upgrade that started in 2015 was the replacement of the CBA's Human Resource Management (HRM) software. Furthermore, the InfSecD made strides in 2015 to further enhance the information security aspects within the organization through the execution of various projects, such as the implementation of (network) auditing software, folder access and outlook auditing software, the organization of awareness sessions and the implementation of endpoint security policy enhancements.

In its continuous effort to execute the recommendations in the report "Structuring the information management at the CBA", the Secretariat & Archives Department (SAD) selected two work processes, namely, the recruitment process and that of weekly statements of the Statistics Department, to be pilot tested in the workflow module of its document management software. In 2015, 2 colleagues of the SAD obtained their certification as advanced application managers, which will facilitate the further implementation of the workflows. For this project, the SAD will receive technical assistance from the "Bureau Interne Diensten (BID)" in 2016 in view of its expertise in this area.

During 2015, the SAD obtained approval to upgrade the current document management software to the newest version. The actual upgrading will take place in 2016, in close cooperation with the ITD. Hereafter, the SAD will be in charge of training CBA staff regarding the new version, thereby aiming for efficiency gains and sustainability with regard to document management of the CBA. This user-friendly document management system allows users throughout the CBA to create their own document registration and to access cases, files, and documents in real-time in the document management system, thereby allowing the CBA to move to an environment where less paper is being used.

Furthermore, the Human Resources Department (HRD) enhanced its tasks and procedures through the execution of various projects in 2015, such as the preparations regarding the new job descriptions, the introduction of the Code of Conduct based upon the core values of the CBA, including information sessions for all employees of the CBA, and the review of supplementary health care benefits. Also, the HRD implemented the HRM software, which is a comprehensive tool that enables the digitalization of core HRD processes, including payroll. This HRM software provides several modern functionalities such as an employee self-service portal, digital personnel records and dashboards for management information.

4

Governance and accountability

4 Governance and accountability

The focus in this section is on corporate governance and risk management with special attention to financial risks.

4.1 Governance structures

The CBA is a public entity established under Aruban law. Its independence is laid down in article 2, paragraph 2 of the CBO, and it is a bearer of rights and duties. While its principal tasks are stipulated in the CBO and other rules and regulations, the CBA strives to have a sound corporate governance system in place that supports proper and effective decision making through the implementation of appropriate checks and balances procedures to ensure accountability, due process, and transparency.

Management structure

The CBA is managed by a President and two Executive Directors, who together form the EC. The members of the EC are appointed and dismissed by the Governor of Aruba. In addition to the CBO, the EC operates according to the general regulations set out in the State Decree giving directives to the President, the Executive Directors, and the BoSD (A.B. 1992, no. GT 4).

The management team of the CBA consists of the EC, General Managers, and Department Managers. In addition, the CBA has 6 committees in place, i.e., the MPC, the Investment Committee (IC), the Project Committee (PC), the Budget Committee (BC), the Risk Management Committee (RMC), and the Strategic Committee (SC).

The MPC convenes periodically to evaluate the CBA's monetary policy. The IC advises on matters related to investment strategy, policy, and instruments. The PC is responsible for advising the President on the feasibility, priority, planning, and implementation of essential projects. The BC is tasked with the preparation and submission of the CBA's budget to the BoSD for approval. The RMC ensures that sound policies, procedures, and practices are in place for the management of material enterprise-wide risks. The SC provides effective strategic guidance to the CBA when implementing the Bela Yen. Except one, all these committees have been formally established via a charter, and are chaired by a member of the EC.

BoSD

The BoSD of the CBA consists of at least three and at most five members. The Government Commissioner is the Chairman of the BoSD and is appointed and dismissed by the Governor of Aruba. The members of the BoSD are appointed for a term of 5 years. At the end of 2015, the BoSD consisted of four appointed members (including the chairman). The

BoSD supervises the CBA's operations and oversees the management of its property as well as the funds entrusted to it. On request of the BoSD, the EC reports on policies implemented, as well as on administrative and management issues. The BoSD meets with the EC at least four times a year and exercises its duties according to the rules set forth in the State Decree giving directives to the President, Executive Directors, and the BoSD. Its tasks include, among other things, the approval of the budget and the adoption of the financial statements. After approval by the BoSD, the budget is sent to the Minister of Finance and the President of the Aruban Parliament, while the financial statements are submitted to the Minister of Finance, as well as the President of the Aruban Parliament. The adoption of the financial statements by the BoSD also serves to discharge the President and the Executive Directors from liability. The BoSD is responsible for appointing the CBA's external auditor.

In 2015, the BoSD and the EC held 7 scheduled meetings to discuss several matters, including but not limited to the 2014 annual report, the 2015 mid-year review, and the 2016 budget. In addition, the Chairman of the BoSD held weekly meetings with the President to discuss matters related to the CBA.

The employment conditions for the staff, including pension provisions, are determined by the BoSD and the President after consulting with the Minister of Finance. The remuneration of the BoSD is determined by the Minister of Finance, after consulting with the members of said Board and the President. Also, additions to the general reserve and the forming of earmarked reserves are determined by the EC following prior written approval of the Minister of Finance.

4.2 Risk management

The CBA faces a number of risks with respect to the performance of its (main) tasks. Some of these risks are general, while others are unique to central banks. Risk management is integral to the CBA's daily operations, with management's efforts directed towards ensuring that detailed procedure manuals, proper segregation of duties, and clear delineation of roles and responsibilities are in place and integrated in departmental processes and procedures.

The RMC is responsible with establishing a standardized risk management system for the CBA. This committee monitors and provides advice on all material risks, and recommends the steps needed to mitigate these risks. Based on its analysis of the identified risks, the risk matrix of the CBA has been updated in 2015.

The most important risks for the CBA are financial, compliance, operational and reputational risks. Financial risk relates to the risk of incurring financial losses when credit, market, and liquidity risks are not contained sufficiently. Financial risk is monitored strictly by the IC, which is chaired by the Executive Director responsible for the operations of the CBA. The steps taken to mitigate this risk are further elaborated on in paragraph 4.3.

Compliance risk is the threat posed to the CBA's financial, organizational, or reputational standing resulting from violations of the prevailing laws, regulations, code of conduct or organizational standards of practice. In this regard, the CBA has an incident reporting policy in place to document, assess and take appropriate actions with respect to, among others, compliance risk.

Operational risk refers to the risk of a negative impact on the CBA's assets, resources or operational requirements induced by people, processes, systems/infrastructure, or external sources. These risks include, but are not limited to, the following:

- Risk associated with processing and storing currency, including risk of theft and robbery.
- Risk related to bringing into circulation bank notes and coins that are not adequately guarded against counterfeit.
- Risk associated with the operations of the local payment system, which could arise from technical faults.

To guarantee the continuity and safeguarding of its IT systems and processes, the IPSD was responsible for, among other things, protecting business information and information systems of the CBA until May 31, 2015. As mentioned previously, this department was split into 2 separate departments, namely, the InfSecD and the PhSD as of June 1, 2015. Both these departments, in close cooperation with the ITD and the IAD, advise on policies, rules, and procedures concerning both the information and physical security of the CBA.

Reputational risk relates to the potential damage to the CBA due to negative publicity or external reaction, leading to deterioration or loss of confidence in the CBA. More specifically, reputational risk could arise when policy errors occur regarding monetary policy or supervision of the financial system that could negatively impact the economy in general and the CBA's reputation in particular. Reputational risks entails, among others, the risk associated with the dissemination of confidential information and the risk of publishing inaccurate data.

The CBA views risk management as an integral part of the day-to-day responsibility of the President, Executive Directors, General Managers, and Department Managers. The CBA has an IAD that independently supports the EC and the BOSD in matters related to the evaluation of the effectiveness of internal controls, risk management, and governance processes.

4.3 Financial risks

The CBA is exposed to financial risk (i.e., credit, market, and liquidity risk) associated with the management of its financial assets and liabilities. More specifically, management of the official reserves has a direct effect on the size and structure of the CBA's balance sheet, as well as its financial performance.

Credit risk, which is the risk that a counterparty to a financial contract fails to discharge its obligations in accordance with agreed-upon terms, is the most important source of financial risk of the CBA associated with its holdings of foreign currency assets for investment and liquidity purposes.

Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates because of changes in market prices and comprises three types of risks: interest rate risk, currency risk, and other price risk. Interest rate risk is the largest source of market risk for the CBA with respect to its financial assets, when compared to currency risk and other price risks. In this respect, the accounting policies stated in the CBO require that changes in the valuation of the financial assets of the CBA are recorded on its balance sheet under its revaluations account. The CBA established investment guidelines instructing the asset managers that all its financial assets must be denominated in US dollars only, thereby containing the currency risks for the CBA with respect to its financial assets, as the Aruban florin is pegged to the U.S. dollar at a rate of Afl. 1.79.

Liquidity risk is the risk that CBA encounters difficulty in meeting its obligations arising from its financial liabilities that are settled by delivering cash or another financial asset. Since the CBA is the ultimate source of liquid funds to the Aruban financial system and has the authority to provide ample Aruban florin liquidity, though within regulatory limits, liquidity risk is considered low. As previously mentioned, the CBA's ability to provide ample Aruban florin liquidity is exercised with due regard to its policy objective of maintaining public confidence in the Aruban florin. With respect to the role of the CBA in providing foreign currency to commercial banks and the GOA for transactional purposes, this risk is classified as high since the CBA will need to constantly keep a proper level of liquid foreign assets at hand.

To minimize aforementioned financial risks, the CBA implements a prudent investment policy strategy, which is fully fixed-income based. Against this background, the CBA invests in financial instruments that meet high standards in terms of credit quality and liquidity. Within these strict parameters, the CBA seeks to diversify and optimize its return.

Strict investment guidelines have been established for asset managers. Any deviation from these guidelines requires prior written approval of the President. The IAD verifies that investments are executed according to the stipulated guidelines.

Implementation of the strategic investment decisions is delegated to the asset managers. The portfolios are further categorized by a duration position, which consists of a liquidity portfolio, that is managed by the CBA, a medium-term portfolio with an average duration of 0-3 years that is managed by an external asset manager, as well as a medium-term portfolio with an average duration of 0-3 years and a long-term portfolio with an average duration of 0-10 years, both managed internally.

The IC meets weekly to discuss, among other things, matters related to both current domestic and international market trends and economic developments that could impact CBA's official reserve, as well as investment performance and related risks. The IC periodically discusses the performance report of each asset manager on a monthly basis, and advises the President on strategic or tactical changes in the investment policy, if deemed necessary.

During 2015, the IC revised the CBA's investment guidelines and reduced the price constraints further, as well as the asset allocation (inter alia corporates). The maximum purchasing price of US Treasuries was lowered from USD 102 to USD 100 and the maximum asset allocation in the category of industrials within the corporate bonds category was increased to 15 percent from 10 percent. Furthermore, the investment policy and strategy were revised in 2015, to push down the duration of its investment portfolios, in light of the changing international investment environment.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