



OPERATIONAL REPORT 2019



CENTRALE BANK VAN ARUBA

Page intentionally left blank.

Copyright © 2020 Centrale Bank van Aruba All rights reserved

Address

J.E. Irausquin Boulevard 8
P.O. Box 18
Oranjestad
Aruba

Telephone

(297) 525-2100

Website

www.cbaruba.org

E-mail

informationcenter@cbaruba.org

Facebook

Aruba su Florin

Instagram

@centralebankaruba

Table of contents

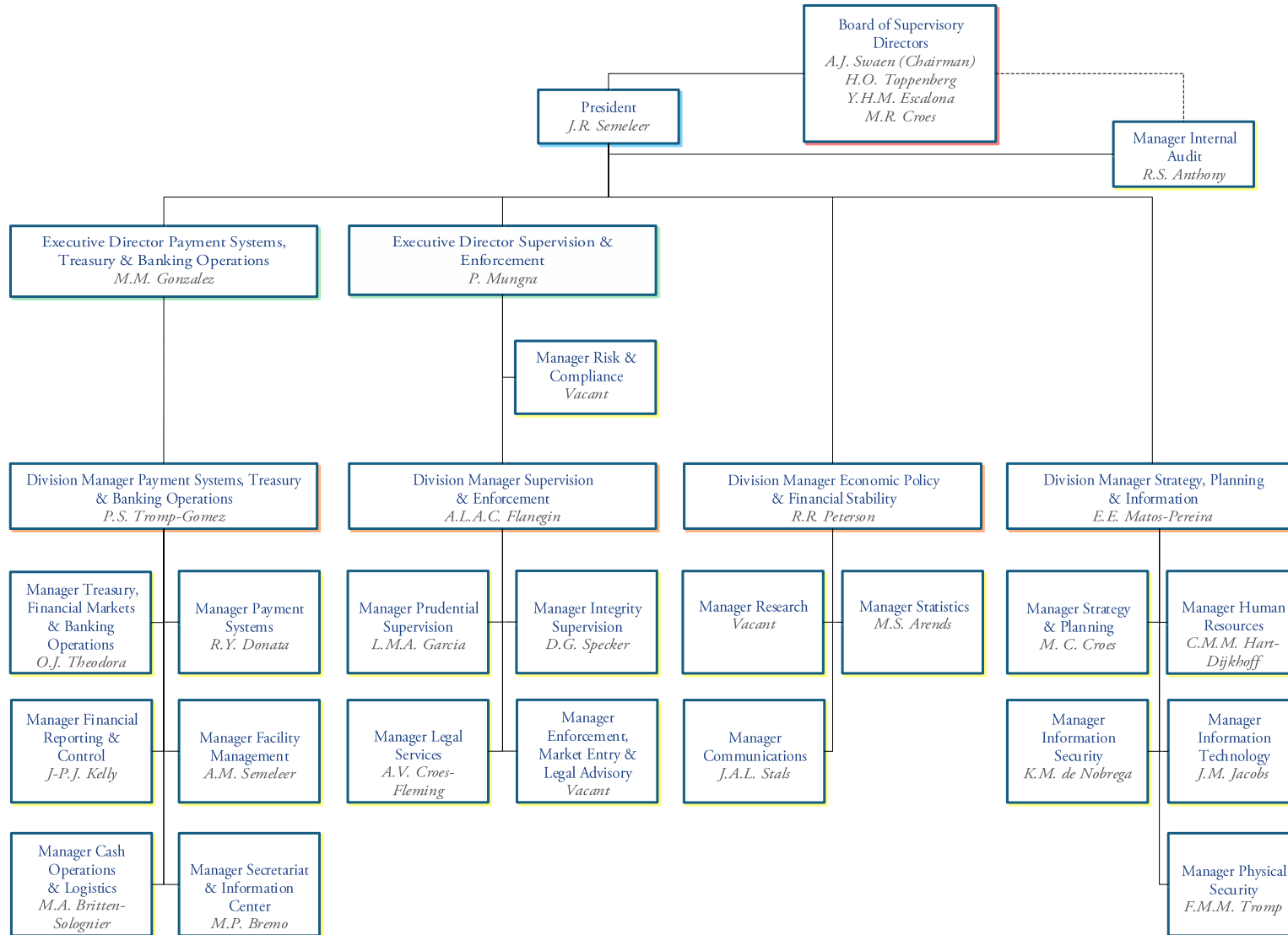
List of abbreviations.....	5
Organizational chart as of July 1, 2020.....	6
The legal mandate.....	7
CBA at a glance in 2019.....	8
1. The strategic plan of the CBA.....	9
2. Monetary policy and economic development.....	12
3. Financial sector.....	14
4. Payment system.....	17
5. Treasury management.....	23
6. Organizational affairs.....	28
7. Governance.....	30
8. Risk management.....	32
9. Financial highlights for 2019.....	35
10. Key indicators up to June 30, 2020.....	39

List of abbreviations

AML/CFT	Anti-money laundering and combating financing of terrorism
ARA	Assessing Reserve Adequacy
BAVP	Turnover tax – additional provisions for Public-Private Partnerships
BoSD	Board of Supervisory Directors
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBO	Central Bank Ordinance
CPI	Consumer Price Index
DIMP	Departamento di Impuesto (the Aruban Tax Authority)
DNFBP	Designated Non-Financial Businesses and Professions
DOF	Department of Finance
EC	Executive Committee
ECB	European Central Bank
ERMC	Exchange Rate Margin Compensation
FAME	Forecasting Analysis and Modeling Environment
FATF	Financial Action Task Force
FEC	Foreign Exchange Commission
FIU	Financial Intelligence Unit of Aruba
FPN	Foro di Pago Nacional (Platform of National Payments)
FPNC	Fundacion Pa Nos Comunidad
GIFCS	Group of International Finance Centre Supervisors
GOA	Government of Aruba
HRM	Human Resources Management
GMWA	Global Money Week Aruba
IAD	Internal Audit Department
IBNS	International Bank Note Society

IC	Investment Committee
IFRS	International Financial Reporting Standards
IG	Information Governance
IMF	International Monetary Fund
IP CSM	Instant Payment Clearing and Settlement Mechanism (also known as “I-Pago”)
IT	Information Technology
MPC	Monetary Policy Committee
NRA	National Risk Assessment
ONCS	OnNet Clearing System
RMC	Risk Management Committee
SOERMC	State Ordinance on Exchange Rate Margin Compensation
SOFEC	State Ordinance on Foreign Exchange Commission
SOFET	State Ordinance on Foreign Exchange Transactions

Organizational chart as of July 1, 2020



The legal mandate

In accordance with its legal mandate, the Centrale Bank van Aruba (CBA)

- determines monetary policy to safeguard the stability of the value of the Aruban florin (florin);
- promotes financial soundness and integrity in the supervised sectors and institutions;
- issues florin banknotes and, on behalf of the Government of Aruba (GOA), florin coins;
- manages the foreign exchange reserves and regulates the flow of international payments; and
- acts as a banker to the GOA and provides both solicited and unsolicited advice to the Minister of Finance on financial and economic matters.

CBA at a glance in 2019

Net income

Afl. 25.9 million

Total assets and liabilities

Afl. 1,822.2 million

Total number of publications relating to the economy and financial sector

47



104

Total employees

Net domestic assets

Afl. 2,856.9 million

Net foreign assets

Afl. 1,712.5 million

Money supply

Afl. 4,569.4 million

72

Total number of financial institutions under supervision

Legal interest rate

3.0%

Advance rate

1.0%

Reserve requirement

12.0%

Total value of coins in circulation

Afl. 39.7 million

Total value of banknotes in circulation at end-2019

Afl. 258.9 million

Total value of funds transferred through the clearing system

Afl. 10.2 billion

Total value of foreign exchange licenses issued during 2019

Afl. 1,643.1 million

Total gold and foreign exchange reserves

Afl. 1,789.1 million

I. The strategic plan of the CBA

Strategic Plan “Bela Yen”

The strategic plan of the CBA’s “Bela Yen: Nos Plan Strategico 2016-2020” (Bela Yen)¹ comprises the mission, vision, and the strategic objectives of the CBA. Through the execution of this plan, the CBA sets its strategic course for the period from 2016 to 2020, and has established three (3) main ambitions:

1. to be a **prominent central bank** in the region;
2. to execute its tasks in an **efficient and result-oriented** manner; and
3. to be an **attractive organization** for top talents.

Mission, vision, and core values

The CBA has the following mission, vision, and core values.

Mission

The CBA contributes to the financial stability and economic well-being of the Aruban community by

- maintaining the stability of the value of the florin vis-à-vis the US dollar;
- promoting financial soundness and integrity of the financial system; and
- promoting an efficient and reliable payment system.

Vision

In 2020, the CBA is a prominent central bank in the region, driven by a culture of integrity, excellence, and innovation.

Core values

The CBA has adopted six (6) core values which are integrated into its mission and vision (see Figure 1.1).

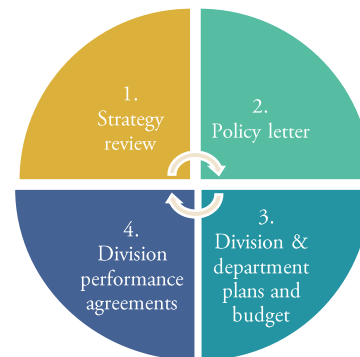
Figure 1.1: CBA’s core values



Strategy, planning, and information

The CBA has a strategic planning framework in place to implement Bela Yen (see Figure 1.2) and has set out eleven (11) strategic objectives to achieve its vision and ambitions (see Figure 1.3).

Figure 1.2: CBA’s strategic planning and control framework



¹ “Bela Yen” is a saying in Papiamentu meaning “full steam ahead”.

Figure 1.3: CBA's eleven (11) strategic objectives



In recent years, the environment in which the CBA operates has become increasingly more dynamic and complex. To identify opportunities and threats in this environment, the CBA needs to take into account

- the globally low interest rate environment
- the strict international regulations and guidelines: the Basel Committee on Banking Supervision, International Association of Insurance Supervisors, International Organization of Securities Commissions, and Financial Action Task Force (FATF);
- expansion of the supervisory mandate;
- technological innovations; and
- domestic developments: weak public finances, moderate economic growth, and possible deficit in the current account of the balance of payment.

Consequently, in the first quarter of each year, the Executive Committee (EC) evaluates the progress made so far in the implementation of Bela Yen, and whether it should be adapted considering the CBA's constantly changing internal and external environments. Following the strategy review, the EC issues a policy letter indicating its priorities for the next year. Based upon the priorities included in this policy letter, plans and budgets are accordingly prepared on both division and department level. Finally, the individual performance agreements of the CBA personnel are drawn up for the upcoming year, taking into account the division and department plans. This strategic planning and control framework ensures the necessary alignment with Bela Yen.

In addition to this framework, management reports are furnished regularly to adequately monitor the implementation of Bela Yen.

Strategic achievements in 2019

In 2019, the strategic achievements of the CBA included, inter alia

- the introduction of the new series 2019 florin banknotes;
- the implementation of a framework for risk-based supervision for credit institutions, insurance companies, and company pension funds;
- the coordination of the National Anti-money laundering and combating financing of terrorism (AML/CFT) Risk Assessment (NRA) Aruba, including the organization of a 3-day workshop in collaboration with the World Bank;
- the intensification of the enforcement of the supervisory laws and regulations, as evidenced by a sharp increase in the number of administrative fines and other enforcement measures imposed by the CBA over the past few years;
- the completion of the research on 'cost of doing business';
- the implementation of the data classification and data loss prevention solutions;

- the implementation of a new function house, that included the evaluation of all job descriptions and according to the HAY method;
- the completion of the data science training program;
- the completion of a strategic multi-year plan for information technology (IT) and information security; and
- the coordination of a national financial education program in the form of Global Money Week Aruba (GMWA), as well as the Cyberschool program aimed to fostering financial education in Aruba, hereby aiming to educate our future generation on the importance of good financial householding, and to enhance the online vigilance and digital skills of kids.

Strategic focus for 2020

The CBA will focus on the following strategic objectives in 2020:

- the go-live of the CBA Instant Payment Clearing and Settlement Mechanism (IP CSM), also known as I-Pago,
- the introduction of a new CBA lending facility framework,
- the finalization of the NRA for ALM/CFT,
- the operationalization of the Foro di Pago Nacional (FPN),
- the implementation of a new financial software package,
- the compliance with the Policy Paper on Business Continuity Management for the supervision on commercial banks,
- the harmonization and further tightening up the supervisory legislation,
- the conduct of research on the effects of climate change in small economy islands in the Caribbean,
- the renewal of the IT hardware platform of the CBA, and
- the formulation of a strategic human resources plan.

2. Monetary policy and economic development

The Monetary Policy Committee (MPC) met eight (8) times during 2019, and assessed several monetary indicators, current economic conditions, and projections. During each meeting, a decision was made on whether a change in the monetary policy stance was deemed necessary, based on the adequacy of the mentioned indicators, e.g., net foreign assets (and official reserves), (core) inflation, liquidity, and banking sector credit growth.

In the meeting of February 8, 2019, the MPC decided to increase the reserve requirement rate from 11 percent to 12 percent. This decision was established on the assessment that the level of official reserves fell short of the reserve adequacy metric proposed and used by the International Monetary Fund (IMF) for small open economies, and that reserves projected in the medium term would fall significantly below the lower bound of the reserve adequacy bandwidth as advised by the IMF. During the subsequent meetings in 2019, the MPC decided to

- maintain the reserve requirement rate at 12 percent, and
- maintain the advance rate at 1 percent.

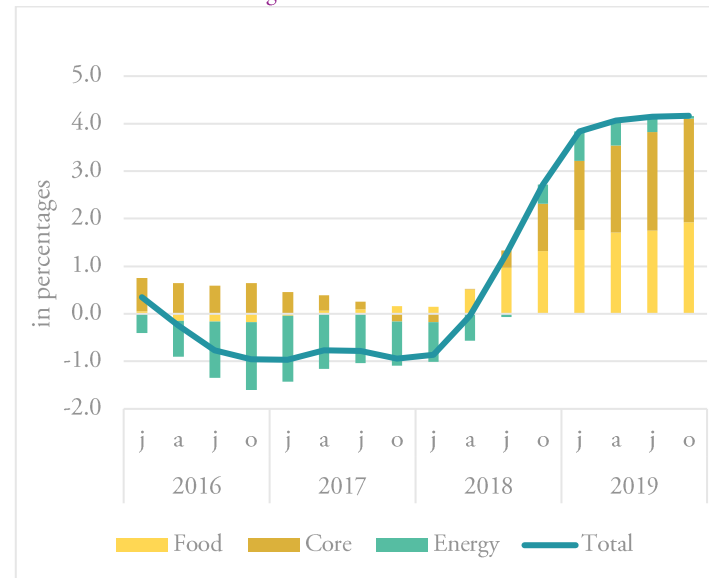
Economic developments

According to CBA estimates, the Aruban economy declined by 0.7 percent in real terms in 2019. Despite the good performance of the tourism sector, economic growth was hampered by a further decline in real consumption (-0.3 percent). The negative effects of the “Turnover tax – additional provisions for Public Private Partnerships” (BAVP) levy introduced in July 2018 on private consumption amplified by the January 2019 increase in excises on alcohol appeared to outweigh the positive effects of the lowering of the income and wage tax. Overall, investments increased by 2.2 percent in real terms,

despite growth in private investment being hampered by significant delays in the planned execution of various investment projects.

Inflation, as measured by the 12-month average Consumer Price Index (CPI), accumulated to 4.3 percent in December 2019 (2018: 3.6 percent) (see Chart 2.1). The rise was caused mostly by increasing prices in the food and communication components. The higher prices in the food component were driven by more expensive fruit and vegetables, as the closure of the border with Venezuela limited Aruba’s access to cheaper options of the mentioned items.

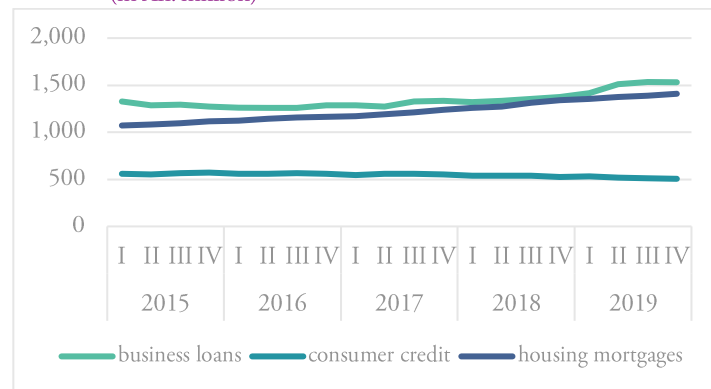
Chart 2.1: 12-month average rate of inflation



Source: Central Bureau of Statistics.

Commercial banking sector credit increased by 8.3 percent, fueled mostly by upturns in business term loans > 2 years (+18.8 percent), business mortgages (+10.7 percent), and housing mortgages (+5.2 percent). On the other hand, consumer credit contracted by 3.7 percent in 2019 (see Chart 2.2).

Chart 2.2: Credit components
(in Afl. million)



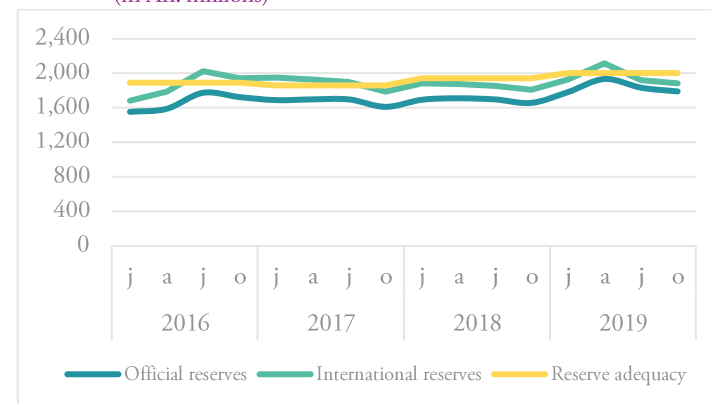
The current account balance of payments measured a surplus of Afl. 110.6 million for 2019, a significant turnaround from 2018, when a deficit of Afl. 37.3 million was recorded. This development resulted mainly from the strong performance in the tourism sector, which spurred a 3.7 percent surplus on the services account. Together with a smaller deficit on the income account, this surplus outweighed a higher deficit on the goods account. Both the deficits of the primary account (consisting mainly of income from labor, investment, and rent) and the secondary income account (current transfers) narrowed in 2019, reaching Afl. 279.0 million and Afl. 141.1 million, respectively.

The financial account resulted in a net lending of Afl. 113.3 million in 2019 compared to a net borrowing of Afl. 37.5 million in 2018.

The outcome on the financial account was due mainly to Aruban residents providing intercompany loans to nonresident companies and net outflows on the direct investment and portfolio investment accounts.

The level of the international reserves remained adequate throughout 2019 when benchmarked against all benchmarks, including the IMF's Assessing Reserve Adequacy (ARA) metric (see Chart 2.3).

Chart 2.3: International reserves and official reserves
(in Afl. millions)



Outlook 2020

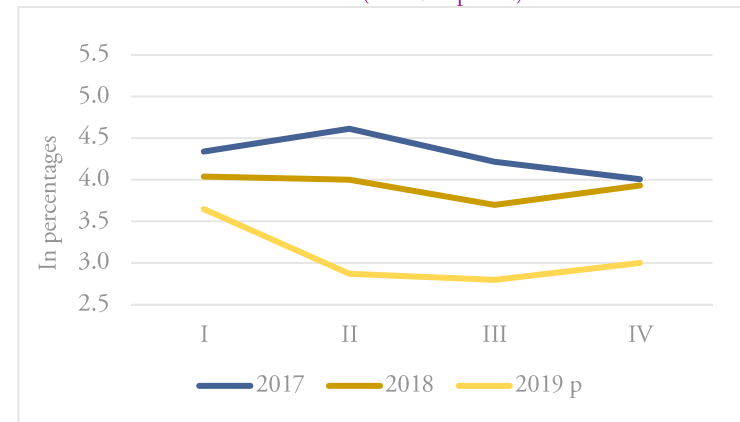
Looking forward to 2020, a main monetary policy focus of the CBA is the continuous monitoring of the levels of the net foreign assets in light of the developments of the COVID-19 pandemic and the measures taken by the GOA to contain the spread of this virus. In particular, the absence of foreign exchange inflows related to tourism will challenge the adequacy of reserves in 2020. The CBA stands ready to take all necessary measures to safeguard international reserves and the value of the florin during these challenging times.

3. Financial sector

The CBA is the sole supervisory authority of the financial sector in Aruba. In executing its supervisory task, it seeks to safeguard confidence in the financial system by promoting the financial soundness and integrity of the supervised institutions. The CBA, pursuant to various sectoral supervisory state ordinances, is responsible for the regulation and supervision of the credit institutions, insurance companies, insurance brokers, company pension funds, money transfer companies, trust service providers, and, as of January 1, 2017, the securities business. In addition, the CBA is entrusted with overseeing compliance with the State Ordinance on the Prevention and Combating of Money Laundering and Terrorist Financing (AB 2011 no. 28) (AML/CFT State Ordinance) and the Sanction State Ordinance 2006 (AB 2007 no. 24).

The financial sector as a whole remained adequately capitalized, liquid, and profitable in 2019. The nonperforming loans ratio of the commercial banking sector continued its declining path in 2019, reaching 3.0 percent at year-end 2019 (see Chart 3.1).

Chart 3.1: Development of nonperforming loans (gross) to total gross loans of the commercial banks (at end of period)



Source: CBA: commercial banks; p= preliminary figures.

Figure 3.1 highlights the most important achievements in 2019 in the areas of prudential supervision, integrity supervision, market entry, and supervisory enforcement, all of which contribute to the accomplishment of the strategic objectives set by the CBA, in particular with respect to Strategic Objective II “Confidence in the financial system is retained”.

Figure 3.1: Major achievements in key supervisory areas in 2019

Prudential Supervision

- Conduct of 11 onsite examinations primarily in the areas of asset quality and governance.
- Implementation of a framework for risk-based supervision for credit institutions, insurance companies, and company pension funds.
- Strengthening of the guidelines for insurance companies for the calculation of the solvency margin.
- Issuance of a revised directive on the publication of the effective interest rate.
- Issuance of a revised directive on the publication of the audited annual financial statements.
- Issuance of a (revised) directive on the appointment of an external auditor.
- Issuance of a directive on the appointment of a certifying actuary.

Integrity Supervision

- Conduct of 22 AML/CFT onsite examinations.
- Organization of five information sessions for financial institutions and DNFBSs.
- Coordination of the NRA Aruba, including the organization of a 3-day workshop in collaboration with the World Bank.
- Revision of the AML/CFT Handbook.
- Drafting of a proposal for the amendment of the AML/CFT State Ordinance in connection with the introduction of a new banknote series.
- Issuance of a brochure for DNFBSs regarding “How to combat money laundering and terrorist financing in 5 steps”.
- Provision of an assessor to the GIFCS for its assessment of the Cayman Islands vis-à-vis the GIFCS standards regarding the supervision of trust companies.

Market Entry and Enforcement

- Registration of two money exchange companies.
- Granting of 12 dispensations to insurance brokers to conduct brokerage services for insurance companies not established in Aruba.
- Granting of dispensations to two persons to act as sales agent at two insurance companies established in Aruba.
- Started implementation of the revised policy rule on banking licenses and admission requirements for credit institutions operating in or from Aruba.
- Intensified enforcement of the supervisory laws and regulations, as evidenced by a sharp increase in the number of administrative fines and other enforcement measures imposed by the CBA over the past few years.

The regular onsite examinations at the supervised institutions and the ongoing offsite surveillance, which includes the desk-review of the required periodic financial and regulatory reports filed by the supervised entities, are the main pillars based upon which the CBA executes its supervision. These onsite examinations together with the ongoing offsite surveillance also serve as the primary source of information to feed the risk-based supervisory framework. The onsite and offsite activities are key to maintaining a close watch on the financial and nonfinancial developments at the supervised institutions, assessing their ongoing compliance with the relevant laws and regulations, and, if and where considered necessary, taking appropriate measures to enforce compliance.

The risk-based approach, together with the strict enforcement policy of the CBA and its ongoing commitment to comply with international standards and best practices in the area of financial sector regulation and supervision, have been instrumental in maintaining a solid and reputable financial sector.

For further details on the supervision of the financial sector, please refer to the “Financial Sector Supervision Report 2019” on the CBA’s website.

Outlook 2020

The current challenges facing the financial sector, caused by COVID-19, are significant. Nonetheless, based on the stress tests conducted in April 2020, the CBA remains confident that the ample capital and liquidity buffers of the commercial banks are sufficient to weather the storm that is notably impacting Aruba, as well as the global economy on a scale not witnessed perhaps since the last depression in the 1930s.

4. Payment system

The CBA brings safe and secure banknotes and coins into circulation to meet the public's need. It also operates a clearing and settlement system between the CBA, commercial banks, and a number of GOA-related institutions to facilitate the transfer of funds between the participants.

In 2019, the CBA effectively increased the safety, reliability, and efficiency of the domestic payment system to a level in accordance with best practices. The key achievements in 2019 were

- the introduction of the new series 2019 florin banknotes,
- the conversion of more than eighty percent of the 2003 series florin banknotes into the new 2019 series banknotes in a swift and secure manner by December 31, 2019,
- the implementation of the policy document for the reporting of unusual transactions by the CBA to the Financial Intelligence Unit of Aruba (FIU), and
- the completion of preparatory activities for the implementation of the new IP-CSM, also known as I-Pago.

Currency operations

The CBA has the sole mandate to issue florin banknotes and coins in Aruba. In carrying out this mandate, the CBA determines the quantity, denomination, substrate, and characteristics of the florin banknotes. In addition, the CBA is entrusted with the issuance of coins on behalf of the GOA, and advises the GOA on that. The total value of coins in circulation are accounted for in the GOA's balance sheet.

The new 2019 series florin banknotes

On June 3, 2019, the CBA put the new 2019 series florin banknotes into circulation to replace the old 2003 banknotes series. Five new banknotes were issued after years of intensive preparations, of which the

new 200 florin banknote replaced the 500 florin banknote of the 2013 series. The CBA worked in close cooperation with various local stakeholders, including local artists and the commercial banks, as well as international banknote designers and specialists, suppliers of banknote paper, security features, and security printers.

The new 2019 series florin banknotes are vertically oriented and are inspired by the theme 'Life in Aruba: Past, Present and Future'. Each banknote in the new series depicts elements of the flora and fauna, cultural heritage, monuments, and landmarks of Aruba.

The new 2019 series florin banknotes are secured against alteration and illicit reproduction, with each note protected by with numerous security features. These range from traditional ones, such as the paper quality, watermark, security patterns, and UV fibers to the most modern features, such as intaglio micro lettering printing, spark with color shifting ink, and the 3D Motion Surface. The watermark of the banknotes is Aruba's national symbol, the burrowing owl ("Shoco"), and the security ink SPARK® with color shifting ink represents Aruba's national bird, the "Prikichi". In addition, the banknotes have security features for the visually impaired. Figure 4.1 illustrates the front and reverse of the new 2019 series florin banknotes.

The 100 florin banknote with its predominant green color won the prestigious banknote of the year 2019 award by the International Bank Note Society (IBNS). The note depicts an iguana and a whiptail lizard on the front side, while the aloe plant and the traditional ribbon dance are shown on the reverse side.



Figure 4.1: The new 2019 series florin banknotes

18



With the issuance of the new 2019 series florin banknotes, the CBA realizes an important milestone in promoting the protection of Aruba's fragile flora and fauna. To ensure that the public is familiar with the design and security features of the new 2019 series banknotes, the CBA distributed various informational materials and conducted extensive informational campaigns on television, radio, social media, website, mobile app, community centers, national library, and made presentations to various specialized organizations.

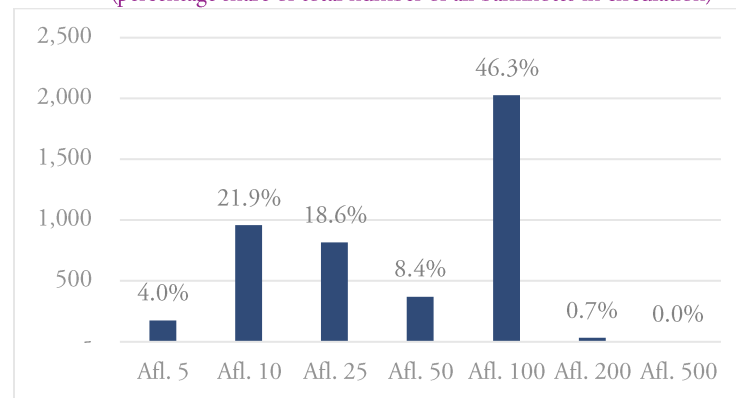
For further details on the new 2019 series florin banknotes, please refer to the "New Bank Notes 2019" page on the CBA's website, "Aruba su Florin" page on Facebook, @centralebankaruba on Instagram, and mobile app "Aruba su Florin" (App Store and Google Play).

Banknotes and coins in circulation

The total number of banknotes brought into circulation decreased by 9.4 percent in 2019 compared to 2018. Consequently, the total value of banknotes in circulation dropped by 13.1 percent compared to 2018, reaching Afl. 258.9 million at the end of 2019. This decline is attributed to the widespread use of payment cards, including debit and credit cards, and electronic payments through online banking.

As illustrated in Chart 4.1, the Afl. 100 banknote continues to represent the largest share of all banknotes issued, comprising 46.3 percent of the total banknotes in circulation at end-2019. With the introduction of the new 2019 series florin banknotes, the Afl. 200 banknote was brought into circulation, effectively replacing the underused Afl. 500 banknote.

Chart 4.1: Banknotes in circulation by denomination in 2019
(percentage share of total number of all banknotes in circulation)

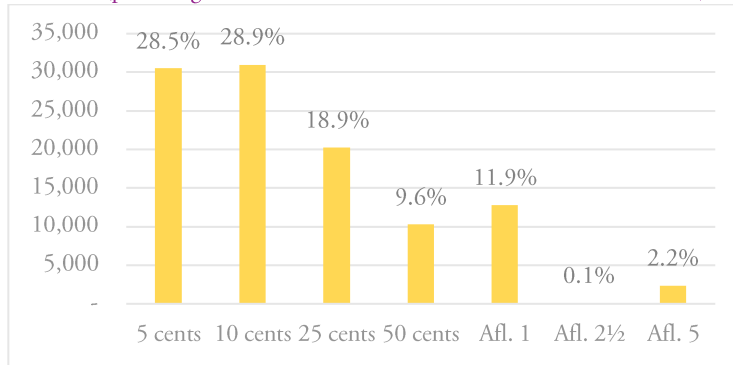


Deadlines have been set to exchange the florin banknotes that were put out of circulation:

- the 1986 series florin banknotes (December 31, 2021),
- the Afl. 5 banknote of the 1990/1993 series florin banknotes (January 31, 2034), and
- the 2003 series florin banknotes (August 12, 2049).

The total number of coins in circulation increased by 4.4 percent in 2019 compared to 2018. As a result, the total value of coins in circulation in 2019, excluding commemorative coins, grew by Afl. 1.5 million to Afl. 39.7 million compared to Afl. 38.2 million in 2018. As depicted on Chart 4.2, the two smallest coin denominations, the 5 cent and 10 cent coins, represent the largest share of all coins in circulation, followed by the 25 cent coin.

Chart 4.2: Coins in circulation by denomination in 2019
(percentage share of total number of all banknotes in circulation)



Counterfeit florin banknotes

The number of counterfeit florin banknotes has been quite low over the years. The CBA provides extensive information on its website, Facebook, Instagram, mobile app, and through brochures via the commercial banks to help the public verify the authenticity of the florin banknotes. Nonetheless, a few cases of counterfeit banknotes for the 2003 series florin banknote were registered in 2019.

Commemorative coin

In 2019, on behalf of the GOA, the CBA issued one (1) silver commemorative proof quality coin with a nominal face value of Afl. 5, depicting the “Turtuga” (see Figure 4.3).

Figure 4.3: Commemorative coin 2019



The Green Sea Turtle (*Chelonia mydas*), in Papiamentu called “Turtuga” belongs to the family of large turtles. At the moment, there are seven sea turtle species worldwide, four of which live in the waters around Aruba. The Green Sea Turtle is the largest of the sea turtles. It is more brown than green in color and has a relatively small head. The Aruban beaches are a favorite location for the female sea turtles to lay their eggs. With a bit of luck, it is possible to see both the nesting turtle mothers and the hatchlings. During the breeding season, the nests on the beaches are fenced off to protect them against beach guests.

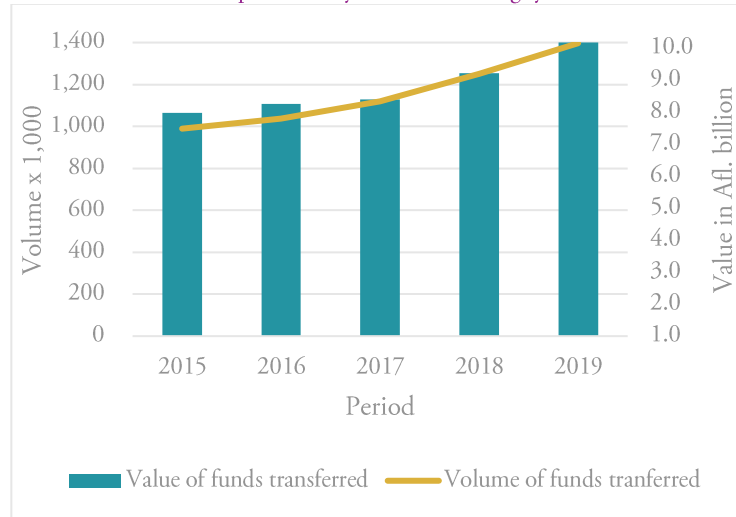
Outlook 2020

During 2020, the CBA has officially launched the mobile app ‘Aruba su Florin’, and will distribute the new Treasure Box for children at primary and special education schools. Also, the CBA will produce a new book “Nos Florin” to foster financial education among children.

Clearing system

In 2019, the CBA operated a clearing system called the OnNet Clearing system (ONCS) (previously known as the Goldnet Clearing System), which processed the direct credit files (salaries, pensions, and tax returns) and direct debit files (standing orders from utility companies) separately from the regular transactions between the commercial banks. During 2019, these files were processed twice daily for further distribution between the clearing members. The duration of the transfers between clearing members was not consistent and varied between three (3) to five (5) working days. Furthermore, the volume and the value of funds transferred through the ONCS continued their upward trend compared to previous years (Chart 4.3). The expansion in electronic transfers was due primarily to a growth in electronic payments via online banking and payments through debit and credit cards.

Chart 4.3: Transactions processed by the CBA clearing system



Outlook 2020

In line with its ambitions and strategic objectives, the CBA continues to work on the modernization of the payment infrastructure. In this regard, three high-level goals have been identified.

- **Further improvement of Aruba's payment infrastructure:**
The CBA's goal is to upgrade and innovate the Aruban payment infrastructure and develop it into a Caribbean frontrunner.
- **Be beneficial to all stakeholders:**
The modernized payment system must benefit all stakeholders/users of the Aruban payment infrastructure.
- **Introduce the CBA's oversight role:**
Through the introduction of a payment system ordinance, the CBA can be mandated the oversight role/task with respect to the payment system.

On January 20, 2020, the CBA rolled out the new instant payment clearing and settlement mechanism (IP CSM), also known as I-Pago, in close collaboration with the commercial banks and an international payment services provider. With this new payment platform, the clearing of local transfers between the commercial banks is reduced from five (5) working days to a maximum of ten (10) seconds, making the transferred amount available on the account of the payee / end customer within seconds, 24 hours a day, 7 days a week, 365 days a year.

In 5 easy steps, interbank transfers will be effectuated within 5-10 seconds:

1. The originator fills the payment details and sends the payment to his/her bank.
2. The originator bank debits its customer's account and sends the payment to the IP CSM.
3. The IP CSM validates the beneficiary account via the beneficiary bank.
4. The IP CSM settles the payment between the two banks.
5. The IP CSM notifies the originating bank and the beneficiary bank of the payment.

One of the main advantages of I-Pago is that the beneficiary has immediate access to the received funds. For E-commerce purposes, instant payments eliminate the risk for online merchants of not getting paid, as well as the risk for the customer of not receiving the goods despite having paid, because the release of goods and services can be quickly synchronized with the payment. For business-to-business payments, instant payments improve cash flow, make it easier to manage funds, reduce late payments, and speed up the payment of invoices, even when customers' accounts are at different banks.

The CBA introduced a new fee structure for the use of I-Pago by the participating commercial banks, which is based on the investments it

made and transaction volume estimates. All transactions equal or below Afl. 250 are free of charge, while a fee of 70 cents is charged on all transactions above Afl. 250. With this fee structure, the CBA wants to stimulate the use of I-Pago.

For further details on I-Pago, please refer to the “I-Pago” page on CBA’s website, “Aruba su Florin” Facebook page, and @centralebankaruba on Instagram.

With the introduction of the new 2019 series florin banknotes and the implementation of I-Pago, Aruba now has a more efficient, reliable, and secure payment system. The new I-Pago payment infrastructure provides the technology to implement further modernization of the payment system in the near future, such as web payments, in-store payments, person-to-person payments, and request to pay payments.

Furthermore, one of the CBA’s goals includes the establishment of the FPN. This platform will involve regular meetings between the CBA, the commercial banks, and other relevant stakeholders. Topics for discussion will be related to payment innovations and financial inclusions, among other things.

5. Treasury management

The CBA provides treasury management services for the GOA by executing local and international payment orders and intermediating in the issuance of GOA debt paper on the domestic capital market. The CBA also manages the foreign exchange reserves and regulates the flow of international payments. The mentioned reserves are invested in accordance with prudent guidelines aimed at preserving capital and having continuous adequate liquidity for the banking system, thus fostering confidence in the peg of the florin with the US dollar.

Management of the foreign exchange reserves

The CBA manages Aruba's net foreign assets as stipulated in article 12, sub 1 of the Central Bank Ordinance (CBO). In this regard, the CBA applies foreign exchange instruments, such as the B9 regulation for commercial banks and the 40-60 percent investment rule for institutional investors, to regulate the foreign asset holdings of these sectors.

The B9 regulation allows commercial banks to hold a certain amount of foreign exchange reserves as working balance for the settlement of the foreign transactions of their clients. The 40-60 percent investment rule requires institutional investors to invest at least 60 percent of their funds domestically.

The CBA closely monitors the liquidity needs of the banking sector and the GOA, and it manages its foreign exchange reserve holdings prudently to be able to adequately meet these liquidity needs at all times. To this end, the CBA evaluates its foreign exchange investment strategy periodically against the established investment guidelines, taking into account developments on the international financial markets.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2019. The CBA pursued a prudent investment policy primarily to preserve its capital, while seeking diversification and optimization of return by investing the foreign exchange reserves within strict parameters:

- Fixed income securities are denominated solely in US dollars with short-term duration (1-3 years).
- US government and US agency securities (including mortgage-backed securities) are limited to AA credit quality ratings.
- Asset-backed securities require a minimum credit quality rating of AAA.
- Corporate bonds must meet high standards in terms of credit quality (a minimum of single A or equivalent) and are limited to the financial services sector, specifically banks and financial institutions, as well as industrial companies.
- Sovereigns and supranational securities are limited to AAA markets/entities only.
- Money market instruments (short-term funds with maturities ranging from overnight to 1 year, e.g. certificates of deposit, time deposits, as well as treasury bills) must have a minimum credit rating of A-1 or P-1 or F1.

The CBA investment portfolio has three (3) components which are categorized by a duration position that consists of

- one (1) liquid portfolio managed internally, and
- two (2) medium-term portfolios with an average duration of 1-3 years managed by two (2) external asset management investment companies.

The banker of the GOA

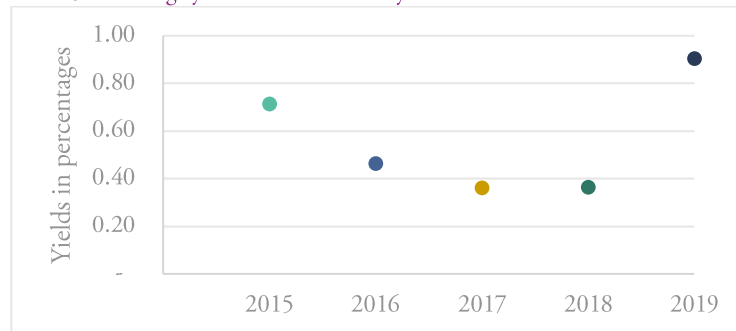
Pursuant to the CBO, the CBA functions as the banker for the GOA and advisor to the Minister of Finance on financial and economic matters. The CBA also accepts deposits from the GOA and carries out a portion of its foreign and local payment instructions as part of its free treasury services to the GOA. The CBA does not charge any fee to the GOA on the domestic and foreign payments executed on its behalf. These domestic and foreign payments are cleared through the accounts of the Department of Finance (DOF) and the Departamento di Impuesto (DIMP). In addition, the CBA provides services involving the issuance and settlement of local government securities on behalf of the GOA.

GOA Treasury Bills and Cash Loan certificates

In 2019, the CBA assisted the GOA with the renewal of two (2) 3-month Treasury Bills issuances for a total amount of Afl. 100 million. As depicted in Chart 5.1, the declining trend in the average yield on the 3-month Treasury Bills during the period of 2015 up to and including 2017, was reversed in 2018 and reached 0.90 percent in 2019. The 2019 yield reflects the reduction in liquidity in the domestic market and the increasing interest rates on the international money markets.

No Cash Loan certificates were issued in 2019.

Chart 5.1: Average yield of GOA Treasury Bills



GOA bonds

Since the establishment of the electronic registry for the electronic registered GOA bonds in 2016, the CBA no longer issues bearer bonds on behalf of the GOA. All new GOA bonds are electronically issued and registered at the CBA. In addition, the CBA has been converting previously issued GOA bearer bonds into electronic registered bonds on a voluntary basis. As of December 31, 2019, 67.2 percent of the outstanding GOA bearer bonds have been converted into electronic registered bonds. The CBA expects to fully complete this conversion process in 2020.

In 2019, the CBA assisted the GOA with four (4) electronic bond issuances through a tender system on the domestic market for a total amount of Afl. 268.3 million, with yearly coupon rates of 5.25 percent, 5.50 percent, 5.75 percent, and 6.00 percent, respectively, and maturities of 12 years, 13 years, 14 years, and 15 years, respectively. The proceeds of these issuances were used to cover the GOA's financing needs ensuing from the execution of its 2019 budget. The average yield on the GOA electronic bonds issued in 2019 fluctuated between 4.97 percent and 5.25 percent, which is higher than the fluctuations between 3.09 percent and 3.43 percent in 2018.

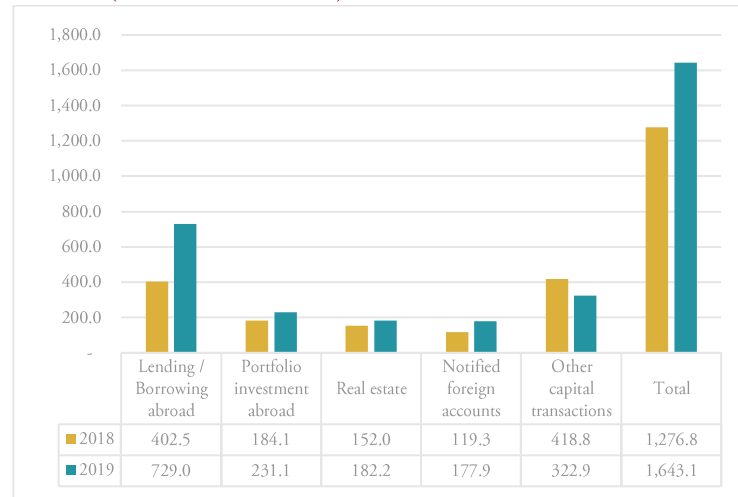
Foreign exchange regulations

Payments related to current account transactions can be executed without administrative restrictions in accordance with the State Ordinance on Foreign Exchange Transactions (SOFET), except for some specific types of transactions. For the mentioned exempted transactions, reference is made to the Foreign Exchange Regulations section on the CBA's website.

As illustrated in Chart 5.2, the volume as well as the value of the transactions for which licenses were granted by the CBA increased from Afl. 1,276.8 million in 2018 to Afl. 1,643.1 million in 2019. In 2019,

licenses were issued for transactions related to large lending/borrowing activities from abroad that included refinancing of infrastructure projects.

Chart 5.2: Value of foreign exchange licenses issued (amounts in Afl. million)



Foreign exchange rates

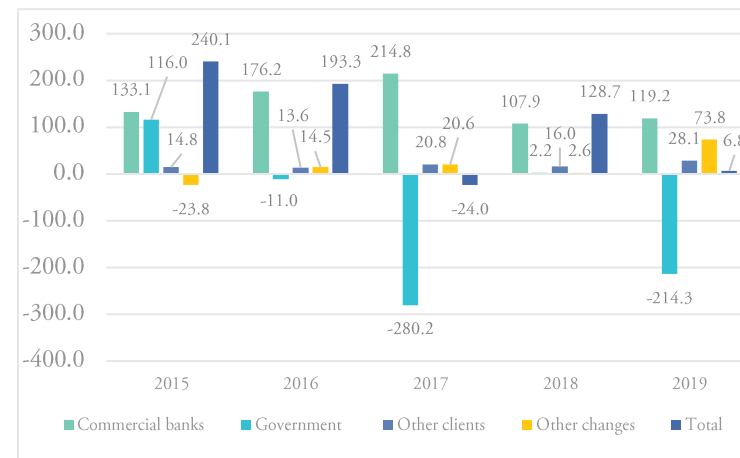
The CBA's official buying and selling rates for the US dollar from and to the commercial banks remained fixed at Afl. 1.7895 and Afl. 1.7905, respectively. Besides the daily exchange rate of the florin vis-à-vis the US dollar, the CBA also published daily quotations on its website for eight other foreign currencies based on data published by Bloomberg Finance L.P.

Foreign exchange transactions

The foreign exchange transactions, largely of the commercial banks and the GOA, effectuated through the CBA led to a net foreign exchange outflow of Afl. 67.0 million in 2019, compared to a net foreign exchange inflow of Afl. 126.2 million in 2018 are shown in Chart 5.3. The net

foreign exchange outflow in 2019 was caused mainly by foreign exchange sales to the GOA to cover its external debt repayment. The latter was financed completely by the GOA bond issues on the domestic capital market in 2019.

Chart 5.3: Foreign exchange transactions (amounts in Afl. million)

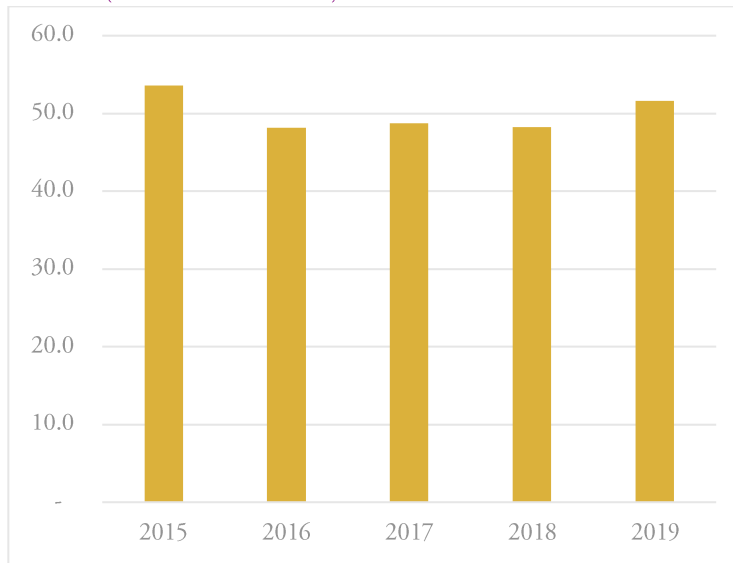


Foreign exchange commission (FEC)

Pursuant to the State Ordinance on Foreign Exchange Commission (SOFEC), the foreign exchange commission (FEC) is a 1.3 percent commission due by residents to the GOA on their payments to nonresidents.

In 2019, the CBA collected approximately Afl. 51.6 million in FEC. As illustrated in Chart 5.4, the total collected FEC during 2019 increased by Afl. 3.4 million to Afl. 51.6 million compared to 2018, which is related to the intensified collection and review activities by the CBA in 2019.

Chart 5.4: Collected FEC on behalf of the GOA
(amounts in Afl. million)

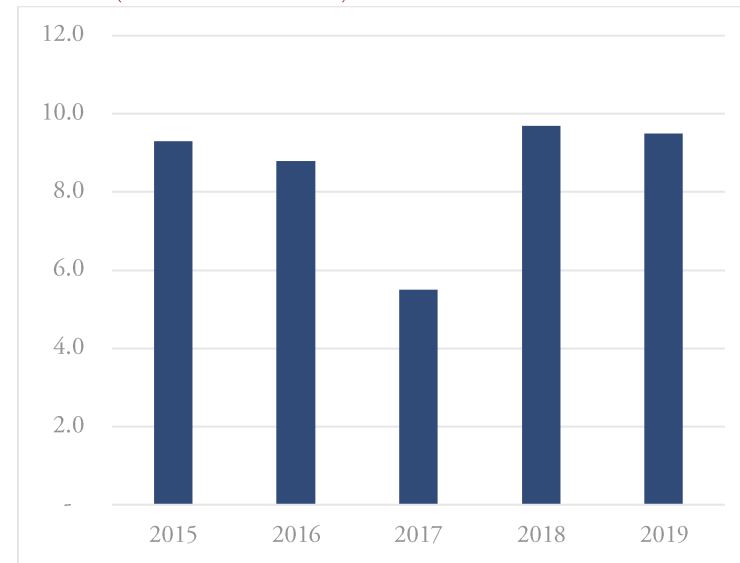


Exchange rate margin compensation (ERMC)

Pursuant to the State Ordinance on Exchange Rate Margin Compensation (SOERMC), the Exchange Rate Margin Compensation (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 (tariff of 0.375 percent) and the amount paid by the CBA to the commercial banks for the purchase of foreign currency from the public (tariff of 0.125 percent).

As shown in Chart 5.5, the net ERMC collected in the year 2019 amounted to Afl. 9.3 million, remaining more or less equal to the amount collected in 2018.

Chart 5.5: Collected ERMC
(amounts in Afl. million)



Note: The total ERMC collected in 2017 was the lowest during the period of 2015-2019. The decrease in 2017 was due to a settlement related to a dispute on the ERMC collected over the period of April 2015 up to and including December 2016.

Outlook 2020

In line with its ambitions and strategic objectives, the CBA aims to achieve the following in 2020:

- the continuation of the conversion process of the GOA bearer bonds to electronic registered bonds held at the CBA;
- the close monitoring of foreign exchange liquidity needs denominated of the GOA as well as the commercial banks, with the aim of maintaining an optimal level of foreign exchange reserves, while maximizing the income generating capacity of the CBA investment portfolio within the pre-set strict risk boundaries;
- the implementation of standardized ERMC reporting forms for the commercial banks through the Forecasting Analysis and Modeling Environment (FAME); and

- the application of standardized FEC operating processes and procedures and automated (data) systems for a close monitoring of the administration and collection of the FEC on behalf of the GOA.

6. Organizational affairs

Human Resources Management

As part of its strategic plan “Bela Yen”, the CBA invests significantly in the upgrading of the skills and competencies of its staff, and fosters knowledge sharing on a continuous basis. The CBA’s staff participated in a number of courses, seminars, and conferences held locally and abroad during 2019. The CBA also organized several training sessions for its personnel in the areas of leadership, strategic thinking, risk management, information security, project management, and effective communications.

The key successes accomplished in 2019 regarding HRM included

- the participation of the staff in more than 175 courses, conferences, and in-house trainings, including Six Sigma yellow belt, orange belt, and champion trainings;
- the completion of the job evaluation process according to the HAY method;
- the recruitment of 16 employees;
- the introduction of a help desk for inquiries regarding the collective pension arrangement of the CBA; and
- the staff participation in two (2) social projects, namely, a project of Aruba Doet and a meal packaging project of Fundacion Pa Nos Comunidad (FPNC).

Outlook 2020

Looking forward to 2020, the CBA will continue working on

- the finalization of the strategic HRM plan;
- the revision of the employee manual; and
- the further digitalizing of several HR procedures, including the digitalization of the recruitment process.

Operational and physical infrastructure and security

In line with the CBA’s ambition to perform its operational tasks in an efficient and results-oriented manner, various projects were executed successfully in 2019.

- Further development of the Information Governance (IG) framework. In cooperation with a consultancy firm, a phased approach was created to determine the vision and action plan.
- Advising on further development and implementation of the JOIN and Sharepoint softwares within the CBA.
- Installation of a new version of the JOIN software which offers enhanced functionality for the users.
- Initiation of the transition to the new proactive, supportive, and advisory role of the Archive Assistants regarding information management for the internal customers.
- Rollout of Windows 10.
- Further optimization of the current IT environment and preparation for an entire hardware revamp in 2020.
- Participation by the CBA as part of the National Cyber Security Task Force and active collaboration to raise the national cyber security posture of Aruba.

Outlook 2020

Looking forward to 2020, the CBA will continue working on

- the further development of the IG framework and the implementation of ‘paperless working environment’ through Join and Sharepoint;
- the server hardware replacement, as well as user device replacement;

- the IT process embedment according to Information Technology Infrastructure Library standards;
- the implementation of the CBA's brand strategy, as well as communication style; and
- the launch of the renewed CBA website.

7. Governance

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, while the management team of the CBA consists of the EC, Division Managers, and Department Managers.

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 Board of Supervisory Directors (BoSD) (A.B. 1992, no. GT 4).

Committees

The CBA has **nine (9)** permanent committees in place that are described in Table 7.1.

Table 7.1: Permanent committees within the CBA

Committee	Mandate
Monetary Policy Committee (MPC)	Formulates and implements measures to, inter alia, maintain the adequacy of the international reserves and the stability of the florin.
Investment Committee (IC)	Advises on matters related to investment strategy, policy, and instruments.
Project Committee	Advises on the feasibility, priority, planning, and implementation of projects.
Budget Committee	Prepares the CBA's draft budget for submission to the BoSD for approval.
Risk Management Committee (RMC)	Ensures that sound policies, procedures, and practices are in place for the management of material enterprise-wide risks.
Strategic Committee	Provides effective strategic guidance to the CBA when implementing the Bela Yen.
Payment System Committee	Advises on the CBA's mission of contributing to financial stability and economic prosperity for the Aruban community by promoting an efficient, reliable, and secure payment system.
Corporate Information Security Committee	Ensures effective monitoring and implementation of the strategic corporate information security objectives.
Foreign Exchange Policy Committee	Monitors the foreign exchange reserves, the levy and collection of the FEC and the ERMC, and advises on related policies.

Board of Supervisory Directors (BoSD)

At the end of 2019, the BoSD consisted of four appointed members (including the Chairman). The GOA Commissioner is the Chairman of the BoSD and is appointed and dismissed by the Governor of Aruba. The Chairman of the BoSD is appointed for an undefined period, while the other members are appointed for a term of 5 years. Their remuneration is determined by the Minister of Finance after consulting with the members of said Board and the President.

The BoSD supervises the CBA's operations and oversees the management of its property as well as the funds entrusted to it. Upon request of the BoSD, the EC reports on policies implemented as well as administrative and management issues.

The BoSD meets with the EC at least four times a year and exercises its duties according to CBO and 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. The approved budget is sent to the Minister of Finance and the President of the Aruban Parliament, while the approved financial statements are sent to the Minister of Finance. The adoption of the financial statements by the BoSD also serves to discharge the President and the Executive Directors from liability. In addition, the BoSD is responsible for appointing the external auditor of the CBA.

In 2019, the BoSD and the EC held several scheduled meetings to discuss a number of matters, including but not limited to the CBA's financial statements 2018, the 2019 mid-year review of the CBA's financial figures, the 2020 budget, economic and financial developments, as well as matters related to judicial, prudential and integrity issues. In addition, the Chairman of the BoSD held weekly meetings with the President to discuss matters related to the CBA.

Outlook 2020

- The CBA aims to strengthen its corporate governance in accordance with 'best practices'.
- The CBA plans to start with the implementation of a new procurement policy.

8. Risk management

The CBA faces a number of risks in performing its tasks. Some of these risks are general, while others are unique to central banks.

Risk management is an integral part of the CBA's daily operations, with management's actions directed towards ensuring that, amongst others, 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 Risk Management Committee (RMC) is responsible for establishing a standardized risk management framework for the CBA. This committee monitors and provides advice on all material risks and recommends the steps needed to mitigate these risks.

Figure 8.1: Standardized risk management framework for the CBA



The most important risks for the CBA are the following:

- **Financial risk** relates to incurring financial losses when credit, market, and liquidity risks are not sufficiently contained. These risks are monitored strictly by the IC, which is chaired by the Executive Director responsible for the operations of the CBA.
- **Reputational risk** relates to the potential damage to the CBA caused by negative publicity or external reaction, leading to deterioration or loss of confidence in the CBA. More specifically, reputational risk could arise when 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. Among other things, reputational risks entail the risks associated with the dissemination of confidential information and the risk of publishing inaccurate data.
- **Compliance risk** includes the threat posed to the CBA's financial, organizational, or reputational standing from violations of the prevailing laws, regulations, code of conduct, or organizational standards of practice. The CBA has an incident-reporting policy in place to document, assess, and take appropriate actions with respect to compliance risk, among other things.
- **Operational risk** refers to a negative impact on the CBA's assets, resources, or operational requirements induced by people, processes, systems/infrastructure, or external sources.

The CBA views risk management as an integral part of the day-to-day responsibility of the President, Executive Directors, Division Managers, Department Managers, and CBA staff members. The CBA has a Risk and Compliance Department, which is responsible for the risk

management within the CBA. The main objective of the department is to coordinate the implementation and to conduct oversight of the Enterprise Risk Management (“ERM”) framework for the CBA, which comprises a comprehensive approach to anticipate, identify, prioritize, and manage material risks to CBA’s mandate.

In addition, the CBA has an Internal Audit Department (IAD) that supports the EC and the BoSD independently in matters related to the evaluation of the effectiveness of internal controls, risk management, and governance processes. The internal audit plan for the year 2019 provided assurance over the control frameworks that manage key financial risks and was undertaken as planned. Additionally, the IAD assisted the external accountants during the bi-annual review and year-end audit.

Financial risk

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** refers to the risk of incurring a loss if the counterparty fails to meet its financial obligations in accordance with agreed-upon terms. Credit risk is the most important source of financial risk for the CBA associated with its holdings of foreign currency assets for investment and liquidity purposes. Credit risks includes four types of risk: default risk, bankruptcy risk, downgrade risk, and settlement risk. The CBA is most exposed to the downgrade risk. Due to the aforementioned, the CBA has set high standards in terms of credit quality in its investment guidelines to partially mitigate this risk.
- **Interest rate risk and commodity price risk** are the largest sources of market risk for the CBA with respect to its financial assets when compared to foreign exchange risk. In the case of the CBA, this

foreign exchange risk relates mainly to other foreign currency exposures besides the US dollar. 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 revaluation account. According to the CBA’s investment guidelines, all its financial assets must be denominated in US dollars only, thereby containing the foreign exchange risks for the CBA with respect to its financial assets, as the florin is pegged to the US dollar at a fixed rate of Afl. 1.79.

- **Liquidity risk** refers to the risk that the 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 florin liquidity, liquidity risk is considered very low. The CBA’s ability to provide ample florin liquidity is exercised with due regard to its policy objective of maintaining the trust in the florin. With respect to the role of the CBA in providing foreign currency to commercial banks and the GOA for transactional purposes, liquidity risk is classified as high since the CBA needs to keep a proper level of liquid foreign assets constantly at hand to be able to comply with the demand.

To minimize the mentioned financial risk, the CBA implements a prudent investment policy strategy, which is fully US dollar fixed-income based. Any deviation from the investment guidelines requires prior written approval of the President. The IC closely monitors that investments are executed according to the stipulated guidelines.

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 the CBA’s official reserve, as well as investment performance and related financial risks. The IC discusses the monthly performance report with each asset manager on a regular basis

and advises the President on any strategic or tactical changes in the investment policy and/or guidelines deemed necessary.

Outlook 2020

Due to the severe economic and financial impact of the COVID-19 pandemic, early April of 2020 the EC stress tested different scenarios to assess the impact on the financial results, cash flows, and financial position of the CBA for the year 2020, reckoning with a high level of uncertainty and limited information available.

Overall, based on this important exercise, and taking into account the uncertainties that exist as per the date of issuance of the operational report 2019, the EC concludes that the effects of the COVID-19 pandemic do not cast significant doubt upon the CBA's ability to continue as a going concern.

9. Financial highlights for 2019

In line with CBA's strategic plan "Bela Yen 2016-2020", a framework for multi-year budget for 2016-2020 was finalized in 2016, that provides the necessary guidance with regard to anticipated costs and revenues in the upcoming five years, and to manage the associated risks for the CBA. The resulting multi-year budget data is monitored on a periodic basis and amended if necessary.

Financial highlights

The CBA's total assets increased to Afl. 1,822.2 million at year-end 2019, up from Afl. 1,806.4 million at year-end 2018. This increase was attributed mainly to rises of Afl. 48.1 million (+ 18.8 percent) in 'gold' and Afl. 7.3 million (+ 28.2 percent) in 'other assets'. The surge in 'other assets' was due mostly to capitalization of the printing cost of the new 2019 series of Aruban florin banknotes in June 2019. The mentioned rises were offset partially by a drop of Afl. 39.5 million (- 2.6 percent) in 'foreign currency assets'. The decline in 'foreign currency assets' was largely the result of a contraction of Afl. 44.7 million (- 3.3 percent) in 'government and other papers'. This decrease was in part negated by an increase of Afl. 5.1 million (+ 3.4 percent) in 'due from banks and other financial institutions' in 2019 compared to December 31, 2018 (see Table 9.1)

- Gold holdings of the CBA.** At December 31, 2019, the market price of gold was USD 1,523.00 per fine troy ounce, compared to USD 1,281.65 per fine troy ounce as of December 31, 2018. This USD 241.35 increase pushed up the value of the CBA's gold holdings by Afl. 48.1 million in 2019, compared to 2018.

Table 9.1: Assets of the condensed balance sheet (before allocation of net result)
(amounts in Afl.)

	As of December 31, 2019	As of December 31, 2018
Assets		
1. Gold	303,406,814	255,325,898
2. Foreign currency assets	1,485,736,084	1,525,228,393
2.1 Due from banks and other financial institutions	154,307,941	149,239,605
2.2 Government and other papers	1,324,872,959	1,369,551,885
2.3 Other	6,555,184	6,436,903
3. Other assets	33,094,943	25,818,771
3.1 Receivables	9,100,953	8,384,859
3.2 Stock of coins and printing cost banknotes	5,403,816	1,859,168
3.3 Fixed assets	13,438,975	13,436,898
3.4 Project in progress	5,151,199	2,137,846
Total assets	1,822,237,841	1,806,373,062

- Government and other papers.** The drop in the CBA's government and other papers was attributed mainly to cash transfers in the amount of Afl. 240.8 million in the last four months of 2019 to the CBA's current account held at a financial institution in the United States to meet certain liquidity needs of both the GOA and the commercial banks. However, this cash outflow denominated in foreign currency was offset in part by a replenishment of the CBA investment portfolio in the amount of Afl. 134.3 million during the first quarter of 2019. This replenishment was invested at higher coupons in order to capture the higher yielding environment at that moment. As a result, during 2019 the value of the CBA's government and other papers was impacted positively by the interest income received (+ Afl. 36.3 million), as well as the change in the market value of the CBA's investment portfolio (+ Afl. 25.7 million). The latter increase resulted from an unrealized net capital gain, attributed mainly from a drop in both the yield on the 3-year and the 2-year US Treasury Notes during 2019. The aforementioned unrealized net capital gain was recorded in the revaluation account in accordance with article 31 paragraph 2 of the CBO.
- Due from banks and other financial institutions.** The net rise of Afl. 5.1 million in the CBA's 'due from banks and other financial institutions' was related mainly to net inflow of foreign currency resulting from the transactions effectuated between the CBA, the commercial banks, and other central banks in 2019, as well as net cash transfers received from the CBA investment portfolios. However, these inflows were offset largely by foreign currency outflows to cover the GOA's interest and capital payments on its external debt and operational expenses denominated in foreign currency.

Table 9.2: Liabilities and equity of the condensed balance sheet (before allocation of net result)
(amounts in Afl.)

	As of December 31, 2019	As of December 31, 2018
Liabilities and equity		
1. Banknotes in circulation	258,880,440	297,914,470
2. Deposits of residents	1,215,913,294	1,254,895,029
2.1 Government	17,313,303	49,199,982
2.2 Commercial banks	1,197,304,630	1,204,581,445
2.3 Other	1,295,361	1,113,602
3. Deposits of nonresidents	4,333,008	2,559,834
4. Money in custody	1,813,360	1,812,815
5. Payables and accrued expenses	5,731,964	6,392,500
6. Revaluation account	215,526,336	141,694,882
7. Capital and reserves	94,103,532	91,609,840
7.1 Capital	10,000,000	10,000,000
7.2 General reserve	84,103,532	81,609,840
Net result for the year	25,935,907	9,493,692
Total liabilities and equity	1,822,237,841	1,806,373,062

On the other hand, the growth in the liabilities and equity of the CBA at year-end 2019, compared to year-end 2018, was attributed mainly at to surges in the 'revaluation account' (+ Afl. 73.8 million or 52.1 percent), and the 'net result for the year' (+ Afl. 16.4 million or 173.2 percent). These increases were offset in large part by drops in the 'banknotes in circulation' (- Afl. 39.0 million or 13.1 percent) and 'deposits of residents' (- Afl. 39.0 million or 3.1 percent) (see Table 9.2).

- **Revaluation account.** The revaluation account was impacted positively in 2019 by the increase in the market price of gold by USD 241.35 per fine troy ounce or 18.8 percent compared to end-2018. In addition, the decreases in the yield on the 3-year US Treasury Notes (84 basis points compared to December 31, 2018) and the yield on the 2-year US Treasury Notes (90 basis points compared to December 31, 2018) resulted in unrealized net capital gains, thereby also contributing positively to the surge in the value of the CBA's revaluation account as of December 31, 2019. Overall, the mentioned developments produced an increase in the revaluation account equivalent to Afl. 73.8 million (+ 52.1 percent) during the year 2019.
- **Banknotes in circulation.** The contraction in the item 'banknotes in circulation' stemmed largely from higher Aruban florin cash deposits made by the commercial banks during the year 2019 compared to 2018.
- **Deposits of residents.** The decrease in the deposits of residents was due mainly to drops in the deposits of the government of Afl. 31.9 million (- 64.8 percent), as well as lower deposits of the commercial banks of Afl. 7.3 million (- 0.6 percent). The decline in the deposits of the government resulted mostly because of the local and international payments made by the CBA on behalf of the GOA. The contraction in the commercial banks' deposits was

predominantly related to the purchase by these commercial banks of government bonds issued on the local capital market, as well as (net) foreign currency transactions effectuated between these banks and the CBA.

The net result for the year 2019 surged by Afl. 16.4 million or 173.2 percent compared to 2018. This rise was mainly caused by an increase in the item 'net interest revenues' (+ Afl. 17.0 million or + 78.5 percent). In addition, the CBA's 'amortization of stock of banknotes' grew by Afl. 0.4 million (+ 208.7 percent), and the 'depreciation' expenses increased by Afl. 0.3 million (+ 20.0 percent), slightly offsetting the mentioned increase in the CBA's 'net interest revenues'(see Table 9.3).

Table 9.3: Condensed profit and loss account
(amounts in Afl.)

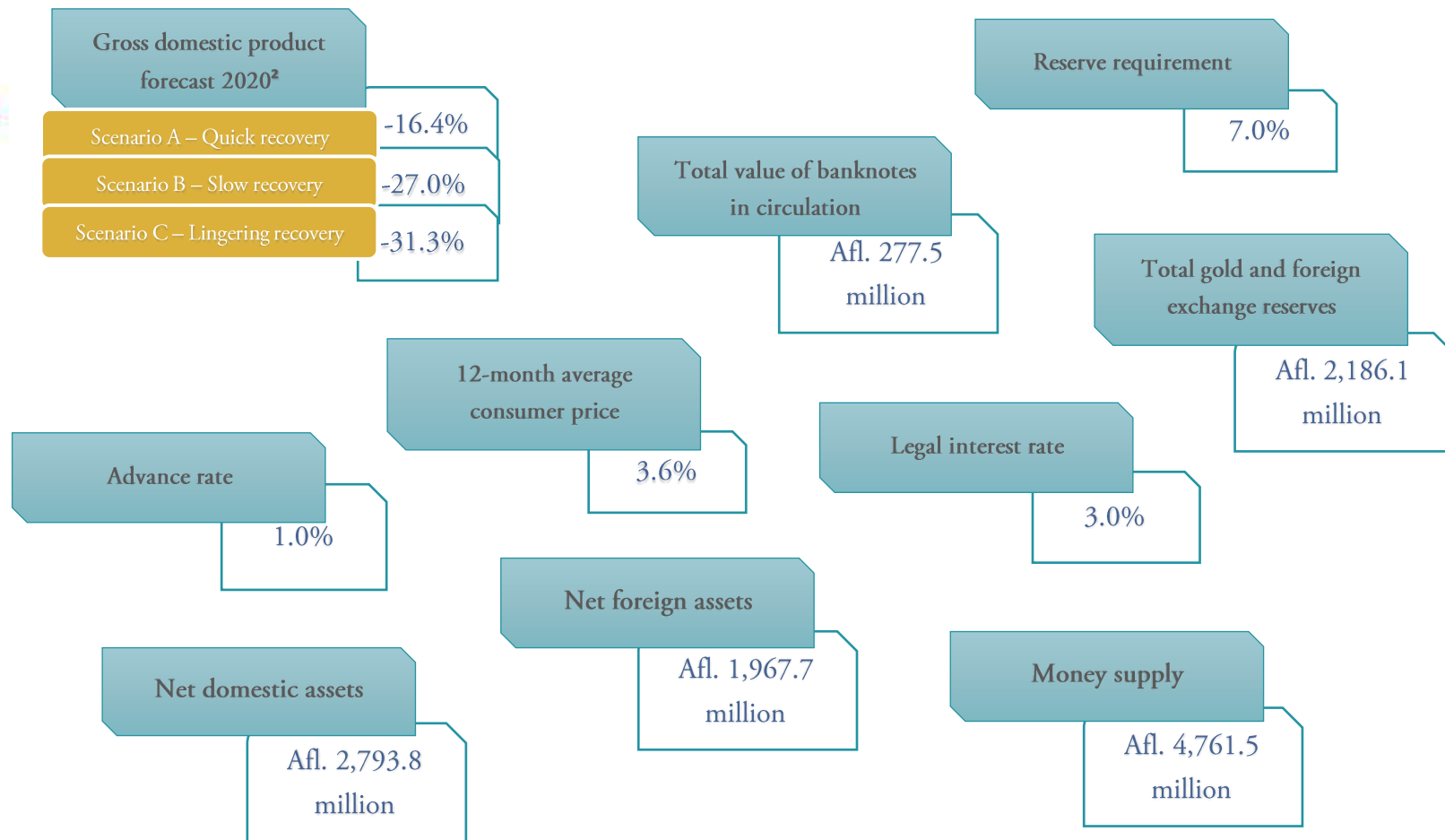
	2019	2018
1. Net interest revenues	38,542,553	21,589,601
2. Other revenues	15,347,878	15,143,720
Total income	53,890,431	36,733,321
3. Amortization of stock of banknotes	642,395	208,107
4. Personnel expenses	18,611,798	18,585,962
5. Operating expenses	6,729,380	6,803,171
6. Depreciation expenses	1,970,951	1,642,389
Total expenses	27,954,524	27,239,629
Net result	25,935,907	9,493,692

- **Net interest revenues.** The CBA's net interest revenues consisting primarily of earned interest on the CBA's investment portfolio and realized gains & losses showed a significant increase in 2019

compared to 2018 (Afl. 17.0 million or 78.5 percent). The latter was due mainly to higher invested capital in the investment portfolio and higher rates of return on the investment portfolio in the year 2019, when compared to the previous year.

- **Other revenues.** The rise in this category in 2019 was attributed primarily to foreign exchange revenues realized. During 2019, the CBA obtained higher foreign exchange revenues from financial transactions carried out on behalf of the GOA compared to the previous year.
- **Personnel expenses.** The rise in this category in 2019 was owed mostly to more courses, seminars, and meetings attended by the CBA employees, as well as more recruitment expenses paid by the CBA, compared to 2018. These increases were countered in large part by a drop in the salary expenses in 2019, compared to 2018 when severance payments were made.
- **Operating expenses.** The drop in this category in 2019, compared to the previous year, was caused mainly by decreases in the items 'legal' (- Afl. 0.4 million), 'consultancy' (- Afl. 0.3 million), and 'transportation and storage of banknotes' (- Afl. 0.3 million). In 2019, the CBA incurred less legal, consulting, and banknote transport and storage fees compared to 2018.

10. Key indicators up to June 30, 2020



² - In scenario A – Quick recovery there is no significant tourism activity for a period of 3 months, followed by a relatively quick recovery of hotel occupancy rates and tourism employment in the third and fourth quarters of 2020.

- In scenario B – Slow recovery there is no significant tourism activity for a period of 6 months with an increase in the number of job losses in the second and third quarter, and a slower recovery in hotel occupancy and tourism-related employment levels in the fourth quarter of 2020.

- In scenario C – there is no significant tourism activity for the remainder of 2020, with the job loss just slightly more severe than in scenario B as the assumption is that most direct jobs will be lost during the second and third quarters of 2020, and the recovery is limited in the fourth quarter under scenario B.



CENTRALE BANK VAN ARUBA

J.E. Irausquin Blvd 8, Oranjestad, Aruba
Phone: +297 525 2100
www.cbaruba.org