OPERATIONAL REPORT 2016

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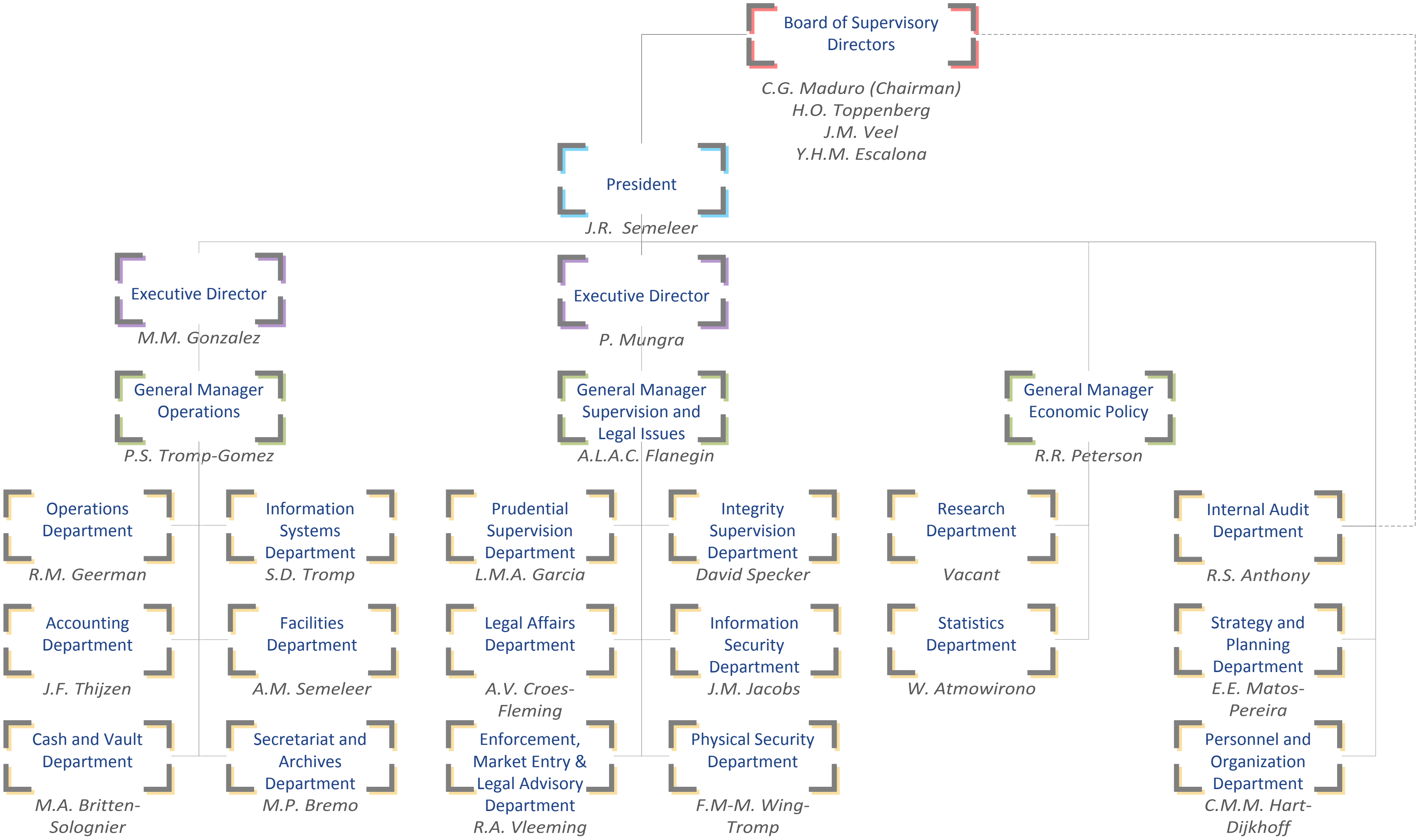
Organizational Chart

As of September 29, 2017



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2016

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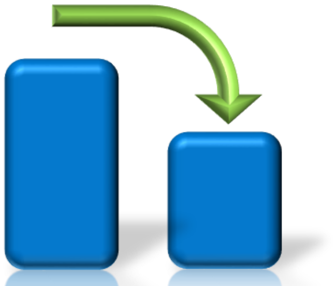
List of abbreviations

AFM	Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets)
AML/CFT	Anti-money laundering and combating financing of terrorism
APFA	Stichting Algemeen Pensioenfonds Aruba (the civil servants pension fund)
BoSD	Board of Supervisory Directors
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBO	Central Bank Ordinance
CBCS	Centrale Bank van Curaçao en Sint Maarten (the Central Bank of Curaçao and Sint Maarten)
DIA	Departamento di Impuesto (the Aruban Tax Authority)
DOF	Department of Finance
DNB	De Nederlandsche Bank (the Dutch Central Bank)
ECB	European Central Bank
ELMAR	N.V. ELMAR (the government-owned electricity provider)
ERMC	Exchange Rate Margin Compensation
Fed	Federal Reserve System
FDA	Stichting Fondo Desaroyo Aruba (Foundation Development Fund Aruba)
GDP	Gross Domestic Product
GOA	Government of Aruba
HRM	Human Resources Management
ONCS	OnNet Clearing System
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
USA	United States of America
WEB	Water en Energie Bedrijf Aruba N.V. (the government-owned water and energy production company)

A Glimpse at 2016

-0.2 percent



Economic contraction

3.0 percent

Legal interest rate

4.4 million

Number of bank notes in circulation

Afl.8.3 billion

Value of funds transferred through the CBA clearing system

11.0 percent

Reserve requirement rate

1.0 percent

Advance rate

-0.9 percent

12-month average consumer price index

94.0 million

Number of coins in circulation

68 entities

Total number of entities under the CBA's supervision

57 publications

Total number of CBA's publications relating to the economy and financial sector

Afl.1,587.9 million

Value of foreign exchange licenses issued

Afl. 10.6 million

CBA's 2016 net income

Afl. 1,696.3 million

Total assets and liabilities of the CBA

Afl. 1,446.3 million

Market value of the foreign exchange reserves

91

Employees at the CBA

1 CBA's mandate

The Centrale Bank van Aruba (CBA) has a sui generis legal status and is assigned a number of statutory tasks as laid down in the Central Bank Ordinance (CBO) (AB 1991, no. GT 32) and other legislation. The CBA determines the monetary policy to protect the stability of the value of the Aruban florin (florin), supervises the financial system to promote soundness and integrity in the supervised sectors and institutions, and issues florin banknotes, as well as florin coins on behalf of the Government of Aruba. In addition, it regulates the flow of international payments, manages the available foreign exchange reserves of Aruba, and supervises the spending thereof. Furthermore, the CBA acts as a banker to the Government, and gives the Minister of Finance both solicited and unsolicited advice on financial and economic matters.

The CBA has adopted 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 Aruban florin vis-à-vis the US dollar,
- promoting financial soundness and integrity of the financial system, and
- promoting an efficient and reliable payment system.

This mission is based in part on the CBA's current statutory tasks, as well as further expansion in its mandate.

Vision

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

Core values

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

Figure 1.1: CBA's core values

To achieve its vision for 2020, the CBA has set the following three main ambitions along with eleven strategic objectives to help realize these ambitions.

Main ambition #1: The CBA is a prominent central bank in the region.

Strategic objectives:

I. Trust in the florin is maintained.

II. Confidence in the financial system is retained.

III. The safety, reliability, and efficiency of the payment system are at a level in accordance with best practices.

IV. Economic intelligence is of high quality, timely, independent, and reliable.

V. A knowledge institute for financial stability and economic resilience is created.

Main ambition #2: The CBA executes its tasks in an efficient and results-oriented manner.

Strategic objectives:

VI. The CBA's financial position is strengthened.

VII. Effective internal and external communication is accomplished.

VIII. The provision of information, including the management information system, is strengthened through digital transformation.

IX. The CBA operates optimally by applying an adequate governance model.

X. CBA's other services are strengthened (both internally and externally).

Main ambition #3: The CBA is an attractive organization for top talent.

Strategic objective:

XI. A (strategic) human resource management (HRM) policy is implemented and embedded across the organization in an effective and innovative manner.

2 Monetary policy

The CBA conducts monetary policy to protect the stability of the value of the Aruban florin by preserving its fixed exchange rate vis-à-vis the US dollar. To this end, the CBA strives to maintain an adequate level of international reserves at all times. In conducting monetary policy, the CBA applies the reserve requirement as its main instrument.

In 2016, several initiatives were undertaken to strengthen the monetary policy framework and related statistical framework. The most important achievements were:

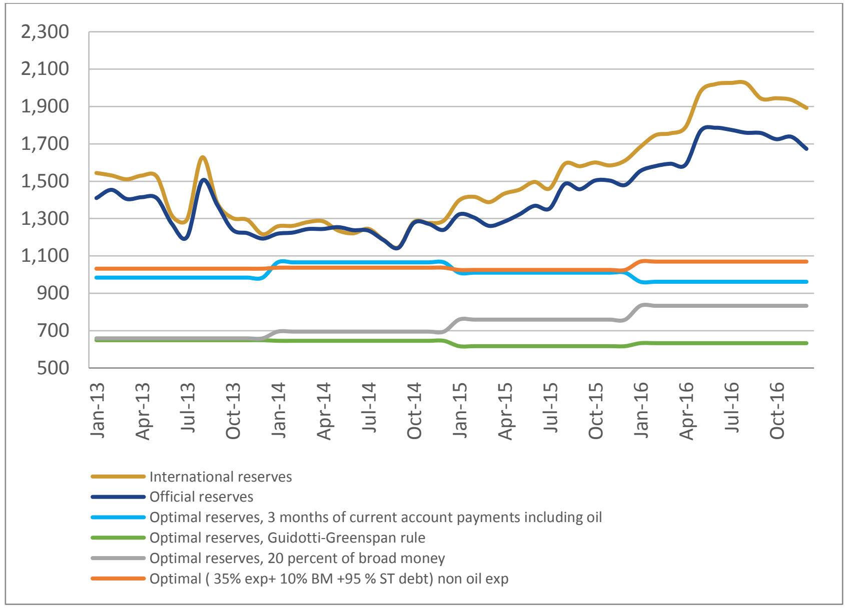
- Progress was made on preparing the assessment of the current monetary policy framework. In this review, the monetary policy framework will be benchmarked against international best practices, and recommendations will be provided on how to further strengthen the framework.
- Advances were made on several projects aimed at strengthening and modernizing the statistical framework and enhancing (statistical) analyses. The projects related herewith included the adoption of the latest IMF guidelines regarding the balance of payments, the monetary statistics, and the enhancement of forecasting, analytical and modelling instruments
- A tourism stakeholder platform was introduced consisting of several institutions. The aim of this platform is threefold: (a) to provide a structured organization for stakeholder cooperation and (regular) information exchange, (b) to monitor strategic tourism trends and markets, and (c) to contribute to a more comprehensive and integrated understanding of tourism developments and future scenarios.

The Monetary Policy Committee (MPC) of the CBA met eight times during 2016 to review relevant monetary developments, discuss the economic outlook, and assess whether a change in monetary policy is required. The 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 2016. Consequently, the MPC decided to uphold the reserve requirement at 11.0 percent and the advance rate at 1.0 percent throughout 2016.

According to CBA estimates, Aruba's economy contracted by 0.2 percent in real terms during 2016, mainly because of a weak performance in the tourism sector along with a decline in consumption. During 2016, the 12-month inflation rate stood at a negative 0.9 percent. Domestic credit increased by 2.5 percent, driven chiefly by a rise in the net claims on the public sector, an upturn in housing mortgages (+4.6 percent), and higher business loans (+1.2 percent). Net claims on the public sector rose by Afl. 91.4 million (46.7 percent) in 2016 compared to 2015, due to the purchase of government bonds by the commercial banks and declines in government deposits (-Afl. 36.4 million or -38.6 percent) and development funds (-Afl. 30.6 million or -38.5 percent). Consumer credit, on the other hand, decreased by 4.8 percent signaling that consumers were cautious about borrowing, as consumer confidence remained negative throughout 2016.

In terms of developments in the international reserves, net foreign assets (excluding revaluation differences of gold and foreign exchange holdings) surged in 2016 by Afl. 261.8 million (+17.3 percent) compared to 2015. This improvement resulted from surpluses in both the current and the capital and financial accounts of the balance of payments in 2016. More specifically, the surplus in the current account was caused mainly by higher inflows related to tourism receipts (+Afl. 2,902.1 million) and other services (Afl. 528.0 million) (both registered in the service account of the balance of payments). These inflows were partially offset by outflows on the goods account, the income account, and current transfers of, respectively, Afl. 1,536.9 million, Afl. 241.3 million, and Afl. 109.8 million. The mentioned surplus in the capital and financial account was caused mainly by the incoming funds related to government bonds issued on the international capital market. The direct investment and other investment accounts recorded inbound receipts as well. These inflows were in part mitigated by the outward payments related to the hedging contracts entered into by the Water en Energie Bedrijf Aruba N.V. (WEB). Consequently, 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 exchange reserve adequacy continues to support the fixed exchange rate regime of the Aruban florin with the US dollar (Chart 2.1).

Chart 2.1: Net foreign assets (incl. revaluation differences)
(Amounts in Afl. million)

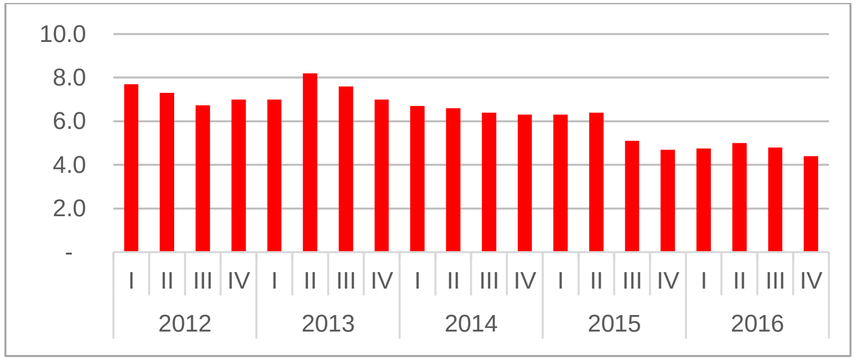


3 Financial sector supervision

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, the CBA 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 relevant 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 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 2016, reaching 4.4 percent at year-end 2016 (see Chart 3.1).

Chart 3.1: Nonperforming loans (gross) to total gross loans of the commercial banks
(in percentages)



The strengthening of the regulatory framework continued in 2016 through the issuance of new and/or revised guidelines. The main achievements were:

- Self-assessments of the supervisory framework for the different sectors under supervision compared to international standards were initiated or completed.
- The development of a macroprudential framework moved forward.
- (Amended) draft laws were prepared and submitted to the Minister of Finance, including a new draft of the State Ordinance Consumer Credit, and an amended draft of the State Ordinance Money Transfer Companies.
- The mentioned legislative proposal to regulate consumer credit aims 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.

- The broadening of the supervisory mandate continued during 2016 with the enactment of the State Ordinance on the Supervision of the Securities Business.

Supervision is executed mainly through periodic onsite examinations, as well as ongoing offsite surveillance, which includes analysis of the regulatory reports submitted by each supervised institution on a periodic basis (monthly, quarterly, and annual), and the bilateral meetings held with these institutions. The CBA applies a risk-based approach, thereby allocating the largest part of its supervisory resources to the institutions with the highest risk profile (based on the CBA's risk assessment). This 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.

The CBA increased the minimum risk-weighted solvency ratio from 14 percent to 16 percent effective January 1, 2017. This action was taken in line with the Basel III standards issued by the Basel Committee on Banking Supervision, the global standard-setter in the area of banking supervision, which imposed higher capital and liquidity standards globally. Furthermore, enhanced reporting requirements were introduced for insurance companies and pension funds.

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 to institute a deposit insurance scheme. This proposal was presented to the Minister of Finance and Government Organization on August 27, 2015. In May 2017, pursuant to the comments received from the Department of Legislation and Legal Affairs of the Government of Aruba (GOA), a completely revised proposal was submitted to the Minister of Finance and Government Organization, now also including a draft state decree covering the modalities of the deposit insurance scheme.

The final draft of the State Ordinance to regulate consumer credit was presented to the Minister of Finance and Government Organization in June 2016. Important objectives of this law initiative are to (a) ensure that consumers receive sufficient information before entering into a consumer loan agreement, (b) place a cap on the lending rates on consumer loans, and (c) prevent overcrediting.

In July 2016, the CBA submitted a proposal to the Minister of Finance and Government Organization to extend the scope of the State Ordinance on Money Transaction Companies to money exchange offices ("geldwisselkantoren"). At present, these activities are regulated under the State Ordinance on Foreign Exchange Transactions which does not provide sufficient tools to effectively regulate money exchange businesses. For that reason, the CBA, over the years, has applied a very restrictive admission policy allowing only the commercial banks to undertake money exchange activities.

In October 2016, the CBA, in close cooperation with the Netherlands Authority for the Financial Markets ("Autoriteit Financiële Markten", AFM), the Dutch Central Bank ("De Nederlandsche Bank N.V.", DNB), and the Central Bank of Curaçao and Sint Maarten ("Centrale Bank van Curaçao en Sint Maarten", CBCS), organized a seminar for financial institutions operating in the Dutch Caribbean. The theme of the seminar was "Promoting the integrity of financial institutions operating in the

Caribbean part of the Kingdom of the Netherlands". More than 150 participants attended this seminar.

The State Ordinance on the Supervision of the Securities Business entered into force on January 1, 2017. This ordinance introduces a licensing obligation for securities brokers, portfolio managers, collective investment schemes, and operators of a stock exchange, along with ongoing supervision of the mentioned parties. Furthermore, provisions are included in the ordinance that impose a prospectus obligation for the issuance of securities, as well as prohibit and punish market abuse (insider trading and market manipulation).

For further details on the supervision of the financial sector, please refer to the "Financial Sector Supervision Report 2016" on the CBA's website.

4 Payment system

The CBA brings safe and secure bank notes and coins into circulation to meet the public needs, and also operates a clearing system between the CBA, commercial banks, and a number of government-related institutions.

In line with the CBA's ambition to promote a safe, efficient, and reliable payment system, the following actions were undertaken in 2016:

- An assessment of the payments system was carried out, in close cooperation with the DNB. The results of this assessment will be made public during 2017.
- The project related to the introduction of a new series of florin bank notes proceeded as planned.
- In November 2016, the CBA organized the conference "FinTech and the Future of Money" to commemorate its 30th anniversary. Participants from leading international, regional, and local financial organizations explored new market developments and financial technologies (FinTech) in mobile payments, digital currencies, blockchain, big data analytics, cybersecurity, P2P/investment platforms, and the transformation of financial institutions.

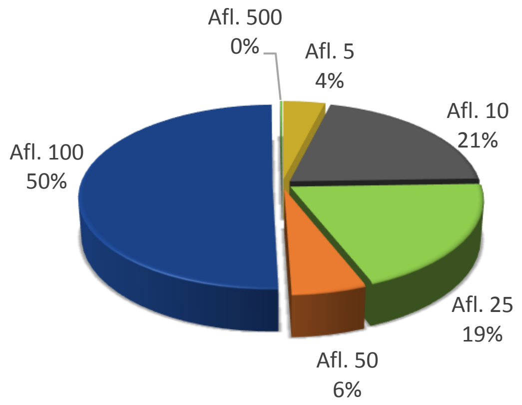
4.1 Currency operations

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 with regard to the coins, which are on the GOA's balance sheet. Florin bank notes and coins are distributed 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 if necessary for quality control purposes. 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.

Florin bank notes in circulation

The Afl. 100 denomination continues to represent the largest share of all bank notes issued, comprising 50.3 percent of the total number of bank notes in circulation at end-2016, while the Afl. 500 bank note remains underused (see Chart 4.1).

Chart 4.1: Bank notes in circulation by denomination in 2016 (percentage share in total number of all bank notes in circulation)



The total number of bank notes as well as the value brought into circulation fell slightly in 2016 by, respectively, 0.99 percent and 0.3 percent compared to 2015. These reductions are in part related to a growth in electronic payments through online banking and the use of payment cards, including debit and credit cards.

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 bank notes or coins at the CBA until January 31, 2034.

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 verify the authenticity of the florin bank notes. Nonetheless, a few cases of counterfeit florin bank notes were registered in 2016.

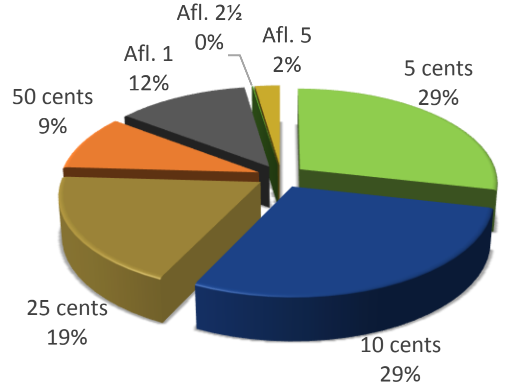
Coins in circulation

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

In contrast to the florin bank notes, the total value of coins in circulation in 2016, excluding commemorative coins, grew by Afl. 2.2 million to Afl. 35.4 million (2015: Afl. 33.2 million).

The two smallest coin denominations, the 5 cent and 10 cent coins, remained the most used coins in circulation, followed by the 25 cent coin, as illustrated in Chart 4.2.

Chart 4.2: Coins in circulation by denomination in 2016 (percentage share in total number of all coins in circulation)



Commemorative coin

To commemorate the 30th anniversary of the Status Aparte of Aruba and the 40th anniversary of the national flag and anthem of Aruba, which were officially introduced on January 1, 1986, and March 18, 1976, respectively, the CBA issued, on behalf of the government, 1 silver commemorative proof quality coin with a nominal face value of Afl. 5. This coin reflects the cultural treasures of Aruba.

Coin set

Since the inception of the CBA in 1986, the CBA issues annually a set of circulation coins. Each coin set provides a small flavor of the culture, fauna, flora, and historical buildings of Aruba.

The 2016 coin set carried the theme 'Crabs of Aruba' to illustrate the different kinds of crabs that inhabit Aruba, including the land crabs. Most crabs live in the sea, though some species have adapted to life in fresh water and on land.

4.2 Clearing system

The CBA operates a network clearing system called the OnNet Clearing System (ONCS) (previously known as the Goldnet Clearing System), which contributes to a secure and efficient payment system that allows the public to complete transactions smoothly via the commercial banks.

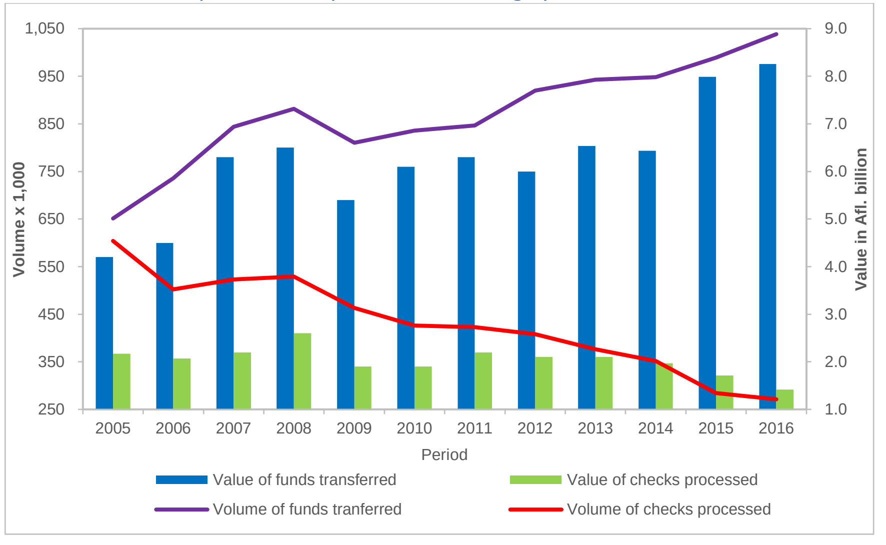
This batch-clearing electronic payment system processes payments between the members that participate in this system (see Figure 4.1), and is based on a secured web-client solution through which local interbank checks and fund transfers are settled on behalf of the public.

Figure 4.1: CBA clearing participants

The volume and value of funds transferred through the ONCS continued their upward trend in 2016 compared to the previous years, while the volume as well as the value of checks processed continued to drop in 2016 (see Chart 4.3).

The expansion in electronic transfers together with the contraction in checks used are due predominantly to a growth in electronic payments through online banking and payments through debit and credit cards.

Chart 4.3: Checks processed by the CBA clearing system



5 Treasury management

The CBA provides treasury management services for the GOA by executing payment orders and intermediating in the issuance of government 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 these reserves, thus fostering confidence in the peg of the Aruban florin with the US dollar.

The CBA started the process of officially converting the already issued GOA bearer bonds to electronic registered bonds[1] on a voluntary basis in 2016. This voluntary conversion is expected to be completed by the end of the third quarter of 2017.

Besides the conversion process, the CBA also was able to successfully accomplish the first issuance of government bonds in electronic form in September 2016.

5.1 Managing the foreign exchange reserves

The CBA manages Aruba's net foreign assets as stipulated 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 amount 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 monitors and anticipates the funding needs of the banking sector and the government to manage its foreign exchange reserve holdings effectively, and evaluates its investment strategy to execute external payments accurately and in a timely way.

The CBA's policy regarding the management of the official foreign exchange reserves remained unchanged in 2016. It continues to pursue a prudent investment policy primarily to preserve its capital. The CBA seeks diversification and optimizing its return by investing the foreign exchange reserves within the following strict parameters:

- Fixed income securities denominated solely in US dollars with short-term duration (1-3 years);
- US government and US agency securities (including mortgage-backed securities) limited to AA credit quality ratings;
- Asset-backed securities with a minimum credit quality rating of AAA;
- Corporate bonds that meet high standards in terms of credit quality (a minimum of single A or equivalent) and are limited to the financial

[1] As stipulated in the State Decree regarding government securities (AB 1988 no. 6), as amended by AB 2014 no. 64.

services sector, specifically banks and financial institutions, as well as industrial companies;
- Sovereigns and supranational securities limited to AAA markets/entities only; and
- 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) with a minimum credit rating of A-1 or P-1 or F1.

The foreign exchange reserve of the CBA investment portfolio is categorized by a duration position, which consists of a liquid portfolio managed internally, and two medium-term portfolios with an average duration of 1-3 years managed by two external asset management investment companies.

5.2 Government banker

The CBA also functions as the banker for the GOA and advisor to the Minister of Finance, pursuant to the CBO. As part of its treasury services to the government, the CBA accepts deposits from the government and carries out its foreign payment instructions as well as a portion of its local payments. The CBA does not charge any fee on the domestic and foreign payments executed on behalf of the GOA. The mentioned domestic and foreign 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. In addition, the CBA provides services involving the issuance and settlement of local government securities on behalf of the GOA.

In 2016, the CBA assisted the government with the renewal of four 3-month treasury bills in tranches of Afl. 45 million and Afl. 20 million at each issuance, while the cash loan certificates in the amount of Afl. 8 million were paid out upon maturity in 2016. The yield on the 3-month treasury bills fluctuated between 0.38 percent and 0.57 percent during 2016, which is significantly lower than the fluctuations between 0.59 percent and 0.81 percent in 2015. The weighted average yield on the 3-month treasury bills dropped to 0.46 percent in 2016 from 0.71 percent in 2015, reflecting the temporary excess liquidity in the domestic market and the low interest rates on the international money markets.

As mentioned earlier, in 2016 the CBA assisted the government with its first registered electronic bonds issuance on the domestic market up to a maximum amount of Afl. 132.2 million, with a yearly coupon rate of 4.75 percent and a maturity of 10 years. The proceeds of this issuance were used to cover the government's financing needs ensuing from the execution of its 2016 budget. The remainder of its financing needs for the year 2016 was covered through loans secured on the international capital market.

5.3 Foreign exchange regulations

Payments related to current account transactions can be transferred without administrative restrictions in accordance with the State Ordinance Foreign Exchange Transactions (SOFET), except for the following transactions:

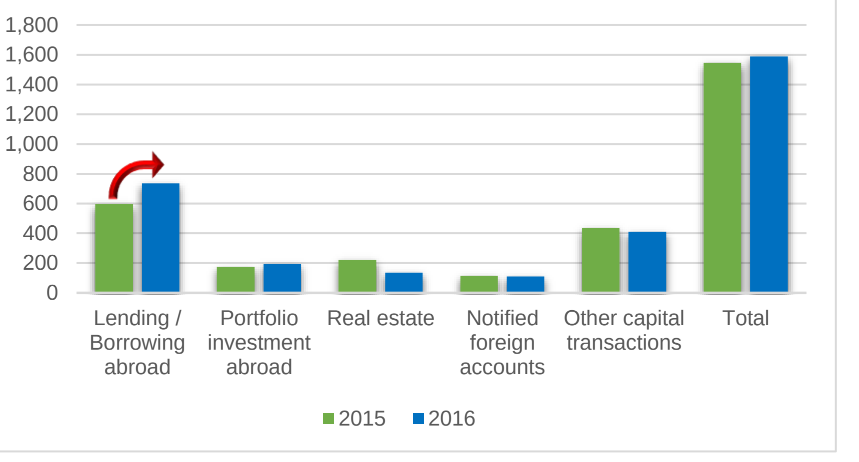
- Capital transactions greater than Afl. 300,000 for resident natural persons and Afl. 750,000 for resident legal entities (excluding commercial banks) require a special foreign exchange license from the CBA.

- Transactions related to dividend distributions to and dividend receipts from nonresident shareholders need a declaration from the CBA before the dividend amount can be transferred.
- Commercial banks also should have 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, based on the Decree concerning Foreign Exchange Transactions, AW 2014/1.

In 2016, no changes were made to the foreign exchange regulations. However, an amended draft SOFET was prepared during 2016, and submitted to the Minister of Finance in January 2017.

The volume as well as the value of the transactions for which licenses were granted by the CBA expanded to Afl. 1,587.9 million in 2016 compared to 2015, caused mainly by an increase of Afl. 138.3 million in the value of transactions related to lending/borrowing abroad. These transactions included two infrastructure projects (see Chart 5.1).

Chart 5.1: Value of foreign exchange licenses issued
(Amounts in Afl. million)



Foreign exchange rates

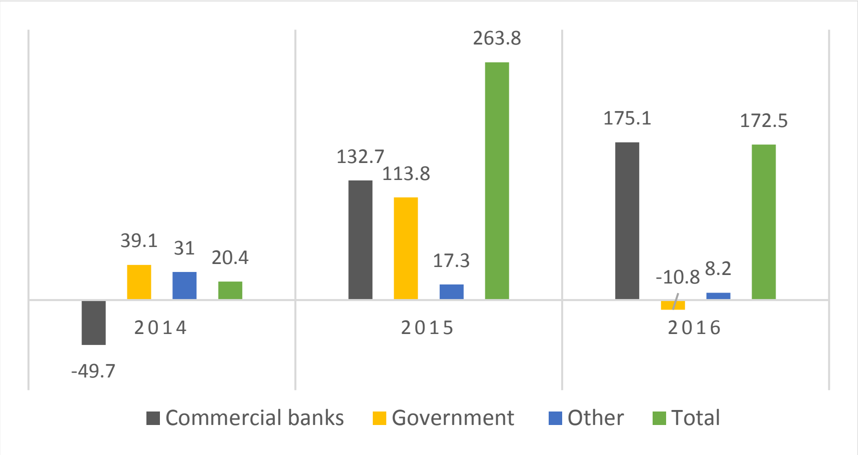
The CBA's official buying and selling rates for the US dollar from and to the commercial banks remained fixed at Afl. 1.7895 and Afl. 1.7905, respectively. Besides the daily exchange of florin vis-à-vis rates for the US dollar, the CBA also publishes daily quotations on its website for eight other foreign currencies based on data provided by the European Central Bank (ECB). These exchange rates are valid for amounts up to and including Afl. 100,000. For transactions above Afl. 100,000, the commercial banks are free to set other exchange rates.

Foreign exchange transactions

The foreign exchange transactions of the commercial banks and GOA effectuated through the CBA led to a net purchase of foreign exchange of Afl. 172.5 million in 2016, Afl. 91.4 million lower than in 2015 (see Chart 5.2).

This contraction was mainly the result of net foreign exchange sold to the government (Afl. 10.8 million) in 2016, while the CBA bought foreign exchange from the government (Afl. 116.0 million) in 2015. This turnaround was associated mainly with lower receipts of funds from bond issuances on the international capital markets and higher foreign debt service payments and transfers to notified foreign accounts during 2016 when compared to 2015. In contrast, the net purchase of foreign exchange from the commercial banks increased by Afl. 42.0 million in 2016 when compared to 2015.

Chart 5.2: Foreign exchange transactions
(Amounts in Afl. million)



Foreign exchange commission

The CBA is entrusted with the levy and collection of the foreign exchange commission on behalf of the GOA and also is responsible for determining the policy concerning the foreign exchange commission, pursuant to the State Ordinance Foreign Exchange Commission (SOFEC). Residents must pay a 1.3 percent foreign exchange commission on their payments to nonresidents.

The total amount of foreign exchange commission collected dropped by Afl. 5.4 million (-10.1 percent) in 2016 to Afl. 48.2 million compared to the previous year, predominantly because of a drop in payments to abroad executed via foreign bank accounts following the transfer of refinery operations in mid-2016. Also, the higher collected foreign exchange commission in 2015 was related to the intensified activities by the CBA during 2015 to eliminate a partial backlog in the review process for the submitted reports. In 2016, the CBA was up to date with the review process.

Exchange Rate Margin Compensation

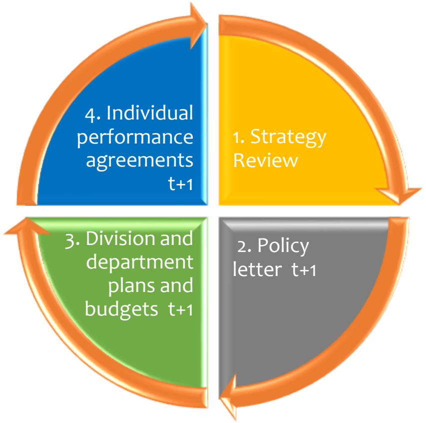
All institutions that have been granted an authorization by the CBA to act as a foreign exchange bank should pay the net Exchange Rate Margin Compensation (ERMC), pursuant to the State Ordinance Exchange Rate Margin Compensation (SOERMC) effective April 1, 2015. The ERMC is a compensation resulting from 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 of the commercial banks from the public. The amount of net ERMC recorded for the year 2016 by the CBA amounted to Afl. 8.8 million.

6 Organizational affairs

The Executive Committee (EC) of the CBA, consisting of the President and two Executive Directors, approved the CBA's strategic plan "Bela Yen: Nos Plan Strategico 2016-2020" (Bela Yen[2]) in 2016. Bela Yen comprises the mission, vision, and strategic objectives of the CBA as discussed in chapter 1. Through the execution of this plan, the CBA has set its strategic course for the period up to 2020.

Figure 6.1: Strategic planning framework



The CBA has a strategic planning framework in place to implement Bela Yen (see Figure 6.1). In the first quarter of each year, the Executive Committee evaluates Bela Yen to determine whether it should be adapted considering the CBA's constantly changing internal and external environments. Following the strategy review, the Executive Committee issues a policy letter indicating its priorities for the next year. Thereafter, the division and department plans and budgets for the following year are prepared, taking into account these priorities. Finally, the individual performance agreements for the upcoming year are drawn up taking into account the division and department plans. This planning framework ensures the necessary alignment with Bela Yen. Besides this strategic planning framework, management reports are regularly furnished to adequately monitor the implementation of Bela Yen.

HRM

As part of the CBA's commitment to continuously upgrade the skills of its staff and foster knowledge sharing, the CBA staff participated in a number of courses, seminars, and conferences held locally and abroad during 2016.

The CBA consists of
91 staff members

With regard to educational development of the personnel, six employees started or continued a Master's Program or specialization training in a certain area. Moreover, the CBA organized several training sessions for its personnel in the areas of leadership, strategic thinking, risk management, information security, project management and effective communication.

[2] "Bela Yen" is a saying in Papiamento meaning "full steam ahead".

The following are key successes accomplished in 2016 regarding HRM.

- An enhanced performance management system was introduced.
- Significant progress on the development of a strategic HRM plan was made.
- Advances were made on the new organization structure, job structure, and job descriptions project.
- The e-HRM pertaining to the employee self-service portal and digital personnel records was implemented.

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 successfully executed in 2016.

- Initial steps were taken on the upgrading of the current Electronic Document Management System (EDMS) to a new version called JOIN, which will allow users throughout the CBA to manage their own document registration and 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.
- The second phase of a multi-year project was implemented to upgrade the core components of the IT infrastructure by expanding its hardware and software capabilities, specifically by adding additional storage and processing capacity.
- Significant progress was made in the business continuity environment by implementing dedicated hardware that will allow for a more robust information security framework and enable faster recovery times in the coming years.
- To increase the maturity level of the CBA's information security posture, new antivirus and anti-malware tooling have been installed, providing the CBA with increased protection against today's threats.
- Furthermore, the security protection system has been enhanced by using the iCLASS Technology, which has read/write contactless smart card technology capability for high speed, reliable communications, and high data integrity.
- What started in 2016 and will come into fruition in 2017 is a new network design for the CBA's environment, where security is integrated at each level.

Aiming towards energy efficiency

The year 2016 started with several system upgrade projects and green projects to help the CBA reduce its utilities expenses and become more energy efficient, and also to implement new ways to use its recycled water in a more sustainable manner.

Against this background, a new water tank was constructed on the CBA premises to capture the rainwater and building air-conditioning (A/C) condensation water. The captured water is reused for non-potable consumption such as irrigation, hereby reducing the water consumption significantly in 2016 compared to previous years (see Chart 6.1).

Chart 6.1 CBA's water consumption
(in m^3)

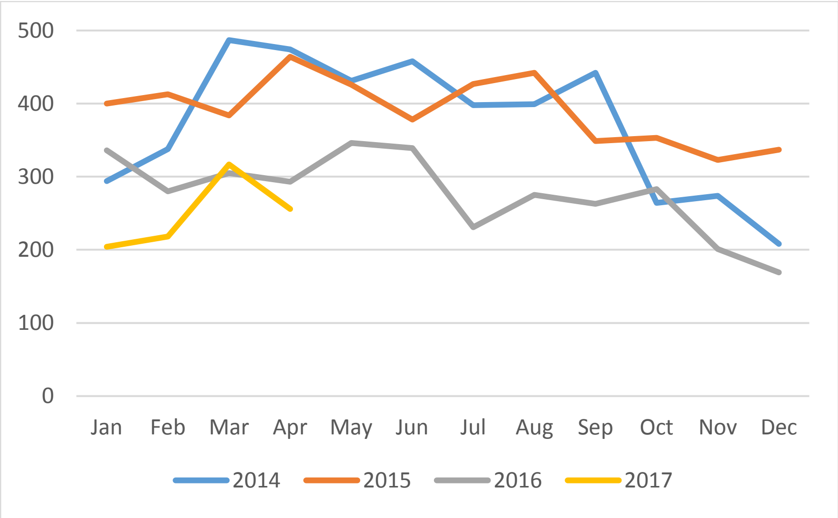
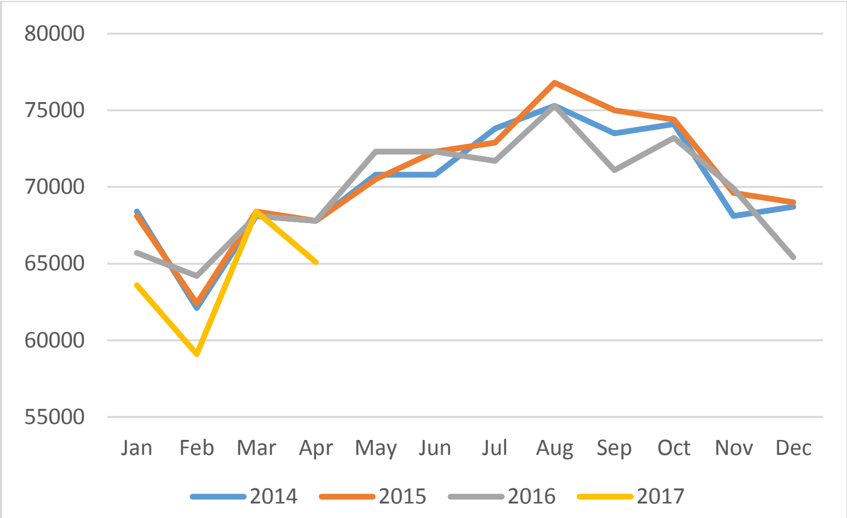


Chart 6.2 CBA's energy consumption
(in KWh)



Another green project, being the "Optimization of the Chilled Water System", was successfully completed during 2016. The original air-conditioning (A/C) system design was inefficient leaving the chilled water pumps working at 100 percent capacity even after business hours. The adapted design increased the A/C system efficiency and is currently saving between 6 and 10 percent of energy during business hours and between 15 and 20 percent after business hours (see Chart 6.2), contributing toward minimizing the CBA's impact on our environment.

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 Executive Committee (EC), while the management team of the CBA consists of the EC, General 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).

In addition, the CBA has seven committees in place, i.e., the Audit Committee, the Monetary Policy Committee (MPC), the Investment Committee (IC), the Project Committee, the Budget Committee, the Risk Management Committee (RMC), and the Strategic Committee as described in Table 7.1.

Table 7.1: Committees of the CBA

Committee	Mandate
Audit Committee	Monitors compliance with BoSD's policies, applicable laws and regulations, and reviews financial and auditing matters.
Monetary Policy Committee	Formulates and implements measures to, inter alia, maintain the adequacy of the international reserves.
Investment Committee	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	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.

BoSD

At the end of 2016, the BoSD consisted of four appointed members (including the Chairman). The Government 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. The other members of the BoSD are appointed for a term of 5 years, and 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 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 and the financial statements are sent to the Minister of Finance and 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 2016, the BoSD and the EC held seven scheduled meetings to discuss several matters, including but not limited to the 2015 annual report, the 2016 mid-year review, and the 2017 budget. In addition, the Chairman of the BoSD held weekly meetings with the President to discuss matters related to the CBA.

8 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 an integral part of 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.

Figure 8.1: CBA's risk management cycle

The 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 (see Figure 8.1). Based on its analysis of the identified risks, the risk matrix will be updated in 2017.

The most important risks for the CBA are the following:

- Financial risk relating to incurring financial losses when credit, market, and liquidity risks are not sufficiently contained. Financial risk is monitored strictly by the IC, which is chaired by the Executive Director responsible for the operations of the CBA.
- Reputational risk relating 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 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 entail, among other things, the risk associated with the dissemination of confidential information and the risk of publishing inaccurate data.
- Compliance risk, which 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. In this regard, the CBA has an incident-reporting policy in place to document, assess, and take appropriate actions with respect to, among other things, compliance risk.
- Operational risk referring 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, General Managers, and Department Managers. The CBA has an Internal Audit Department

(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. The internal audit plan of the year 2016 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 audit.

With the focus to further enhance and strengthen its risk management and internal audit tasks and activities, the CBA acquired an audit software solution to be rolled out during 2017.

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, which refers to the risk of incurring a loss if the counterparty fails to meet its financial obligations in accordance with agreed-upon terms, 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. In this regard, the CBA has set high standards in terms of credit quality in its investment policy to partially mitigate this risk, as indicated in section 5.1.
- 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, which relates mainly to other foreign currency exposures besides the US dollars in the case of the CBA. 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 the 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 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, although within regulatory limits, liquidity risk is considered very 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 the trust in the Aruban florin. With respect to the role of the CBA in providing foreign currency to commercial banks and the GOA for transactional payments, this 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 risks, the CBA implements a prudent investment policy strategy, which is fully U.S. dollar fixed-income based. Any deviation from the investment guidelines requires prior written approval of the President. The IC verifies 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 periodically discusses the monthly performance report of each asset manager and advises the President on strategic or tactical changes in the investment policy and/or guidelines, if deemed necessary.

9 Financial highlights for 2016

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

Financial highlights

The CBA's total assets expanded to Afl. 1,696.3 million at year-end 2016 from Afl. 1,504.4 million at year-end 2015. This expansion was predominantly related to an increase in the value of its gold holdings, in addition to a growth of the CBA's foreign currency assets (see Table 9.1). The latter growth was caused mainly by a net inflow of foreign currency, higher earned interest on the CBA investment portfolio, as well as an upward valuation of the CBA investment portfolio due to positive developments in yields.

- Gold holdings of the CBA. Gold price ended the year 2016 on a positive note closing at USD 1,159.10 per troy ounce (year-end 2015: USD 1,062.25 per troy ounce). This increase occurred despite the short-term interest rate hike by the Federal Reserve System (Fed) in December 2016, which caused an increase in the value of the CBA's gold holdings. Gold demonstrated its value as a safe haven asset following the aftermath of the United Kingdom's vote to leave the European Union. Consequently, the value of gold holdings are expected to remain strong.
- Net inflow of foreign currency assets. The net inflow of foreign currency assets was related to the proceeds of the GOA bonds issued on the international capital market, which were sold to the CBA, as well as a net inflow of foreign currency sold by the commercial banks to the CBA in 2016. However, these inflows were partially offset by foreign currency outflows to cover the GOA's interest payments of its external debt and operational expenses denominated in foreign currency.
- Earned interest on the CBA investment portfolio. The value of the CBA's government and other papers was positively impacted by the interest received as the securities held in its investment portfolio outperformed similar duration U.S. Treasury Notes during 2016.
- Revaluation of the CBA investment portfolio. The positive development in the market value of the CBA investment portfolio (revaluation) was brought about by lower unrealized capital losses resulting from the restructuring of the CBA's investment portfolio effectuated during the year 2016. The mentioned restructuring was essential to reposition the CBA investment portfolio in a well-balanced manner to be more resilient to expected volatilities in the international money and capital markets.

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

	As of December 31, 2016	*As of December 31, 2015*
Assets		
1. Gold	**230,911,909**	**211,617,786**
2. Foreign currency assets	**1,446,250,066**	**1,270,543,040**
2.1 Due from banks	107,589,017	273,170,085
2.2 Government and other papers	1,334,532,021	994,684,182
2.3 Bank notes	197,683	135,912
2.4 Interest receivables	3,931,345	2,552,861
3. Other assets	**19,103,125**	**22,195,076**
3.1 Receivables	6,067,459	8,609,554
3.2 Stock of coins	530,812	545,259
3.3 Printing cost bank notes	404,133	714,777
3.4 Other fixed assets	3,576,628	3,717,978
3.5 Premises	7,636,309	7,746,580
3.6 Projects in progress	887,784	860,928
Total assets	**1,696,265,100**	**1,504,355,902**

On the other hand, the growth in the liabilities and equity of the CBA at year-end 2016 compared to the previous year-end represent increases in the revaluation account and deposits of residents, more specifically, the deposits held by the commercial banks at the CBA (see Table 9.2).

Table 9.2: Liabilities of the condensed balance sheet (before allocation of net result)
(Amounts in Afl. million)

	As of December 31, 2016	*As of December 31, 2015*
Liabilities and equity		
1. Bank notes in circulation	**270,420,150**	**271,278,795**
2. Deposits	**1,203,805,030**	**1,039,738,758**
2.1 Government	36,072,118	73,709,343
2.2 Development funds	48,771,953	34,153,405
2.3 Commercial banks	1,115,853,165	930,716,054
2.4 Other	3,107,794	1,159,956
3. Deposits of nonresidents	**3,921,202**	**2,211,935**
4. Money in supply	**1,812,355**	**1,811,810**
5. Payables and accrued expenses	**4,454,183**	**4,352,575**
6. Revaluation account	**114,945,382**	**95,338,921**
7. Capital and reserves	**86,312,882**	**86,312,882**
7.1 Capital	10,000,000	10,000,000
7.2 General reserve	76,312,882	76,312,882
Net result for the year	**10,593,916**	**3,310,226**
Total liabilities and equity	**1,696,265,100**	**1,504,355,902**

- **Revaluation account.** The revaluation account was positively impacted by the upward change in the market value of the CBA investment portfolio during the year 2016 resulting from the restructuring of the CBA's investment portfolio in 2016.
- **Deposits held by the commercial banks.** The mentioned increases in deposits held by the commercial banks at the CBA, which contributed to the temporary excess liquidity in the domestic market as highlighted in section 5.2, reflect the drop in consumer credit in 2016 due to the low borrowing appetite of consumers, as already depicted in section 2 of this report.

The net result for 2016 improved significantly compared to 2015 (see Table 9.3). This resulted from a substantial growth in revenues, which was partially offset by a fall in various other revenues together with a rise in salaries and social security expenses.

- **Revenues.** The CBA's revenues consisting primarily of earned interest on the CBA investment portfolio and realized gains & losses showed a significant increase in 2016 compared to the previous year. This rise reflected mostly the realized losses (Afl. 9.4 million) incurred in 2015 from the restructuring of the CBA's internally managed long-term investment portfolio and its medium-term investment portfolio managed by an external asset manager. The restructuring was crucial to reduce the CBA's exposure to both the unrealized losses and the risk of premium losses in its investment portfolio.

Table 9.3: Profit and loss account
(Amounts in Afl. million)

	As of December 31, 2016	*As of December 31, 2015*
1. Revenues	**16,915,544**	**6,134,593**
2. Interest expense	**275,551**	**83,830**
2.1 Current account	33,231	4,945
2.2 Time deposits	242,320	78,885
Net interest revenues	**16,639,993**	**6,050,763**
3. Other revenues	**14,629,406**	**16,694,838**
3.1 Foreign exchange	2,423,064	2,757,660
3.2 Coins	1,103,794	1,298,349
3.3 ERMC	8,831,816	9,311,422
3.4 Various	2,270,732	3,327,407
Total net income	**31,269,399**	**22,745,601**
4. Other expenses	**20,675,483**	**19,435,375**
4.1 Amortization stock of bank notes	310,644	310,644
4.2 Salaries and social security	13,683,983	12,582,127
4.3 Other personnel expenses	561,125	403,640
4.4 Operating expenses	4,954,684	5,026,681
4.5 Depreciation	1,165,047	1,112,283
Net result	**10,593,916**	**3,310,226**

- **Various other revenues.** The drop in this category in 2016 was attributed mainly to lower amounts received as incidental revenues stemming from administrative fines imposed by the CBA on supervised financial institutions, when compared to the year 2015.
- **Salaries and social security expenses.** The CBA employed 92 persons full-time by year-end 2016, a net increase of 3 compared to the end of the previous year. The increased staffing to further support the CBA's team along with salary adjustments contributed to the rise in personnel expenses in 2016.

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