Financial Sector Supervision Report 2014

CENTRALE BANK VAN ARUBA

June 30, 2015

The Minister of Finance and Government organization
Mr. A.R. Bermudez
L.G. Smith Boulevard 76
Oranjestad
Aruba

LMG/lcw/2.4/SUP/21464

Re: 2014 Report on Financial Sector Supervision

Dear Minister,

Pursuant to article 50 of the State Ordinance on the Supervision of the Credit System, article 28 of the State Ordinance on the Supervision of the Insurance Business, article 23 of the State Ordinance Company Pension Funds, article 30 of the State Ordinance on the Supervision of Money Transfer Companies, article 29 of the State Ordinance on the Supervision of Trust Service Providers, article 52 of the AML/CFT State Ordinance and article 16, paragraph 2, of the Sanction State Ordinance 2006, I hereby submit "The Financial Sector Supervision Report 2014". This report provides an broad review of the supervisory tasks, strategy and related activities carried out by the Centrale Bank van Aruba (CBA) for the year ended December 31, 2014, as well as a sectoral analysis.

This report will also be published on the CBA's website soon.

Sincerely yours,

Jeanette R. Semeleer
President

c.c. Board of Supervisory Directors CBA

J.E. Irausquin Boulevard 8 P.O. Box 18 Oranjestad Aruba Tel. nr.: (297) 5252-100 Fax nr.: (297) 5252-101
E-mail: cbaua@setarnet.aw Website: www.cbaruba.org

Preface

Pursuant to the sectoral supervisory state ordinances, the State Ordinance for the prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT State Ordinance), and the Sanction State Ordinance 2006,[1] the Centrale Bank van Aruba (CBA) must submit a report each year to the Minister of Finance on the implementation of the different supervisory state ordinances including the ordinances in the areas of Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) and sanction regulations. The CBA complies with this requirement via these yearly publications. Concurrently, these reports inform the public of recent developments in the financial sector and in the regulatory and supervisory landscape as well as activities the CBA has undertaken in the areas of prudential and integrity supervision in the year under review.

Up to and including the reporting year 2009, the CBA included this mandated report in its Annual Report. For the years 2010 and 2011, this report formed part of the respective annual reports on Economic and Financial Developments. As of the reporting year 2012, the CBA publishes separate annual reports on financial sector supervision.

[1] Namely, article 50 of the SOSCS, article 28 of the SOSIB, article 23 of the SOCPF, article 30 of the SOSMTC, article 29 of the SOSTSP, article 52 of the AML/CFT State Ordinance, and article 16, paragraph 2, of the Sanction State Ordinance 2006.

List of abbreviations

ABA	Aruban Bankers' Association
Afl.	Aruban florin
AFM	Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets)
ALLP	Allocated loan loss provision
Amending State Ordinance	State Ordinance Amending the Sectoral Supervisory State Ordinances
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
AML/CFT State Ordinance	State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing
APFA	Stichting Algemeen Pensioenfonds Aruba (the Civil Servants Pension Fund)
ASBA	Association of Supervisors of Banks of the Americas
AZV	Algemene Ziektekostenverzekering (the General Health Insurance)
Basel Committee	Basel Committee on Banking Supervision
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en St. Maarten (Central Bank of Curaçao and St. Maarten)
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group of Banking Supervisors
CoA	Chart of Account
DNB	De Nederlandsche Bank N.V. (the Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
Enactment State Ordinance	Enactment State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit (*Meldpunt Ongebruikelijke Transacties*)
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSI	Financial Stability Institute
GDP	Gross Domestic Product
GIICS	Group of International Insurance Centre Supervisors
G-SIB	Global Systemically Important Bank
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
ICBS	International Conference of Banking Supervisors
ICT	Information and Communication Technology
ICRG	International Cooperation and Review Group
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISD	Integrity Supervision Department
ML/FT	Money Laundering/ Financing of Terrorism
MoU	Memorandum of Understanding
MS	Monthly Statement and appendices

NRA	National Risk Assessment
NSFR	Net Stable Funding Ratio
PLR	Prudential Liquidity Ratio
PPO	Public Prosecutor's Office (*Openbaar Ministerie*)
PSD	Prudential Supervision Department
PVL	Pensioenverordening Landsdienaren
SDCIC	State Decree Captive Insurance Companies
SDSIB	State Decree on the Supervision of Insurance Brokers
SOCPF	State Ordinance on Company Pension Funds
SOSCS	State Ordinance on the Supervision of the Credit System
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of Money Transfer Companies
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
Stichting IFEA	Stichting Financiële Educatie Aruba (Institute for Financial Education Aruba)
SVB	Sociale Verzekeringsbank (the Social Security Bank)
UBOs	Ultimate Beneficial Owners
UN	United Nations

NRA	National Risk Assessment
NSFR	Net Stable Funding Ratio
PLR	Prudential Liquidity Ratio
PPO	Public Prosecutor’s Office (*Openbaar Ministerie*)
PSD	Prudential Supervision Department
PVL	Pensioenverordening Landsdienaren
SDCIC	State Decree Captive Insurance Companies
SDSIB	State Decree on the Supervision of Insurance Brokers
SOCPF	State Ordinance on Company Pension Funds
SOSCS	State Ordinance on the Supervision of the Credit System
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of Money Transfer Companies
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
Stichting IFEA	Stichting Financiële Educatie Aruba (Institute for Financial Education Aruba)
SVB	Sociale Verzekeringsbank (the Social Security Bank)
UBOs	Ultimate Beneficial Owners
UN	United Nations

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Introduction

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1 Introduction

The CBA is the sole supervisory authority in Aruba with respect to the financial sector. The CBA's supervision seeks to safeguard confidence in the financial system of Aruba by promoting (financial) soundness and integrity of the supervised sectors and institutions.

To this end, the CBA, pursuant to the sectoral supervisory state ordinances, is responsible for the regulation and supervision of the credit system, insurance companies, company pension funds, money transfer companies, and trust service providers (see also annex 1).

In addition, the CBA is entrusted with the execution of the AML/CFT State Ordinance and the Sanction State Ordinance 2006. Subsequently, it also has AML/CFT oversight responsibility over all institutions that fall under the scope of the AML/CFT State Ordinance and the Sanction Decree Combat Terrorism and Financing Terrorism, which includes, besides the financial institutions, the so-called Designated Non-Financial Businesses and Professions (DNFBPs), i.e., lawyers, civil notaries, tax advisors, accountants, jewelers, car dealers, real estate brokers, and casinos.

Significant resources were dedicated to complete the remediation plan that was developed to correct the deficiencies identified during the mutual evaluation of the Aruban AML/CFT system conducted by the Financial Action Task Force (FATF) in 2008/2009. In February 2014, the FATF Plenary concluded that Aruba was largely compliant with the FATF Core and Key Recommendations and was, therefore, also to exit the FATF follow-up process. On May 28, 2014, the Caribbean Financial Action Task Force (CFATF) also decided to remove Aruba from its follow-up process. These major achievements clearly demonstrate the commitment of Aruba and its financial sector to comply with international standards, thereby maintaining its excellent international reputation. The robust AML/CFT framework put in place not only complies with the FATF Recommendations on a technical level, but is also well-balanced and effectively meets the overriding objective of preventing and combating money laundering and terrorist financing, with due regard to the specific characteristics of Aruba and the associated risks. Moreover, the National Risk Assessment (NRA) conducted enables Aruba to further strengthen its AML/CFT defenses.

The prime focus of the Prudential Supervision Department (PSD) is overseeing compliance with the stipulations of and pursuant to the sectoral state ordinances, especially with respect to the prudential requirements in the areas of solvency and liquidity, as well as with the existence and proper implementation of sound corporate governance and risk management policies, procedures, and practices. In general, the institutions remained in compliance with the CBA's prudential requirements during 2014.

The PSD doubled the number of on-site examinations conducted in 2014 compared to 2013. These examinations focused mainly on assessing the admissibility of assets and the correctness of the regulatory reports filed by the insurance companies at the CBA. The CBA also issued revised guidelines regarding Appendix 8 "Liquidity Testing Sheet" of the monthly statement that the banks have to fill out and also with respect to the calculation of the coverage ratio that insurance companies must submit on a quarterly basis. Furthermore, in 2014, the CBA continued with preparations for the introduction of a fully revised Chart of Account (CoA) for credit institutions replacing the current Monthly Statement and appendices (MS).

In the area of AML/CFT supervision, emphasis was placed on assessing the adequacy of the transaction-monitoring procedures and compliance with the customer due-diligence requirements by banks and trust service providers. In general, the Integrity Supervision Department (ISD) concentrated on monitoring compliance with the transitional provisions regarding the Customer Due Diligence (CDD) to be carried out on existing clients as stipulated in article 2 of the Enactment State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing (AB 2011 no. 29) (Enactment State Ordinance). Furthermore, in 2014 the ISD continued to conduct AML/CFT on-site examinations at the DNFBPs.

The CBA continuously strives to maintain a high level of compliance with international standards and international best practices in the area of supervision and AML/CFT. The expansion of the supervisory mandate, resulting from the various legislative changes over the years, requires that the CBA executes the supervisory tasks assigned to it as effectively and efficiently as possible. Also to this end, the risk-based supervisory approach, that started some years ago, was continued in 2014.

This report is structured as follows. Chapter 2 focuses on the CBA's supervisory strategy and approach. Chapter 3 presents the major changes in the legislative and regulatory framework. Chapter 4 outlines the international supervisory developments, while national and international cooperation is discussed in Chapter 5. Chapters 6 and 7 describe the major activities undertaken in 2014 in the areas of prudential supervision and integrity supervision. Finally, in Chapter 8, the sectoral financial developments are covered.

Supervisory strategy and supervisory approach

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2 Supervisory strategy and supervisory approach

2.1 Supervisory strategy

In view of the ongoing changes in the international and domestic supervisory landscape, the CBA re-evaluated and, where deemed necessary, updated and revised its supervisory strategy for the next five years. The CBA's supervisory strategy for 2014-2019 underscores the importance of maintaining confidence in the financial system. The ambitions set by the CBA vary from the reduction of identified prudential and integrity risks within the financial system to continued compliance with the changing international regulatory standards. Core strategic principles were identified to achieve the stated ambitions. These core strategic principles are aimed mainly at strengthening supervision. One of these principles is the implementation of a risk-based supervisory approach, thereby allocating the scarce available resources where the risks are the highest. Furthermore, the CBA strives to intensify its macroprudential oversight by more explicitly considering sector-wide risks and the possible impact of the failure of a systemically important bank or insurer and the inter-linkages with macroeconomic developments. The strategic plan also notes that the availability of sufficient resources to carry out the extended mandate is essential to achieve the plan's strategic objectives. Periodic meetings are held within the CBA to discuss the progress with respect to the implementation of the supervisory strategy.

2.2 Supervisory approach

As part of the risk-based supervisory framework, the CBA applies an automated tool (Risk Tracker) to identify, analyze, and weigh the risks associated with the institutions under its supervision and then to use this information as the basis for its yearly supervisory planning cycle.

The CBA focuses on the main risks and, based on a "root cause" analysis, continues to strive to address the "root cause" of problems rather than treat the symptoms. By using this approach, the CBA aims towards persistent and intrusive supervision conducted in an effective and efficient way.

With the objective of achieving compliant behavior of the institutions under its supervision, in 2014 the CBA also actively applied the enforcement tools at its disposal with due regard to the enforcement policy issued in September 2011.

Major changes in the legislative and regulatory framework

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3 Major changes in the legislative and regulatory framework

3.1 Legislative framework

3.1.1 Supervision of insurance brokers

With the enactment of the State Ordinance Amending the Sectoral Supervisory State Ordinances (*Landsverordening herziening sectorale toezichtwetgeving*, AB 2012 no. 55) (Amending State Ordinance) on January 1, 2013, the possibility of placing insurance brokers under the CBA's supervision was introduced in article 27a of the SOSIB. In October 2013, the CBA submitted a proposal on the supervision of insurance brokers to the Minister of Finance, which was approved. On January 30, 2014, the State Decree regulating insurance brokers (AB 2014 no. 6) went into effect. As of that date, insurance brokers fall under the CBA's supervision. Under this state decree, all insurance brokers, including those already existing, are required to obtain a license from the CBA. Insurance companies and credit institutions licensed by the CBA are exempted from this provision. Travel agencies also are exempted insofar as they intermediate for travel insurance. Insurance brokers already active in Aruba on January 30, 2014, were granted a transition period of six months (ending on July 30, 2014) to amend their processes and systems to meet the licensing requirements and to submit a license request. The CBA designed a license application form to this end and organized a well-attended information session for insurance brokers in March 2014. By year-end 2014, eighteen license applications had been filed by existing insurance brokers. However, in all cases the information submitted was incomplete and additional information had to be requested. The CBA expects to be able to complete the evaluation of most of the license applications received before year-end 2015.

3.1.2 Insurance sales agents

Pursuant to article 4, paragraph 2, of the SOSIB, the CBA may grant a dispensation from regulations laid down by or pursuant to the SOSIB, provided the dispensation is not in conflict with the interests the SOSIB seeks to protect.

In this regard, the CBA issued a dispensation policy for a specific category of insurance brokers, the so-called "insurance sales agents", on June 4, 2014. Insurance sales agents are eligible for a dispensation under the above-mentioned policy if they meet the following conditions:

1. The activities of the insurance sales agent are restricted to sales activities.
2. The insurance sales agent sells insurance policies for only one insurance company or insurance group.

3. The insurance sales agent's office is located at the premises of the insurance company or insurance group.
4. The insurance sales agent does not write insurance contracts.
5. The insurance sales agent does not collect premiums on behalf of the insurance company or insurance group.
6. There is a written insurance sales agent agreement in place between the sales agent and the insurance company or insurance group that meets the conditions mentioned in points 1 to 5 above.

The rationale behind the dispensation policy is that the situation of these insurance sales agents is highly similar to the situation of an employee of an insurance company selling insurance products. By year-end 2014, the CBA had received twenty-two dispensation requests. One request was rejected because the applicant did not meet the conditions set out in the dispensation policy. At the time of the writing of this report, fourteen dispensations have already been granted.

3.1.3 Enactment of sanction state decrees

The United Nations (UN) applies sanctions in response to breaches of international law and human rights, or to effect change when legal or democratic principles are not being adhered to.

Pursuant to the Sanction State Ordinance 2006 (AB 2007 no. 24), rules may be laid down by State Decree containing general administrative orders for the implementation of a convention or an international resolution that Aruba is obligated to comply with, and which entail a restriction, prohibition, or the imposition of an obligation for residents. In connection herewith, the following sanction state decrees were enacted in 2014: Sanction State Decree Ukraine (AB 2014 no. 26); Sanction State Decree Sudan (AB 2014 no. 46); and Sanction State Decree South Sudan (AB 2014 no. 47).

Pursuant to the Sanction State Decree Ukraine, all funds or other assets present in Aruba that belong directly or indirectly to, are owned by, are in possession of, or are under the control of a natural person, legal entity, or other entity, mentioned in Annex I of Regulation No 208/2014 and Annex I of Regulation No 269/2014 of the Council of the European Union (EU), are frozen. This freeze also applies to representatives of the mentioned natural person, legal entity, or other entity. Furthermore, the Sanction State Decree Sudan and Sanction State Decree South Sudan provide for the freezing of funds or other assets present in Aruba that belong directly or indirectly to, are owned by, are in possession of, or are under the control of a natural person, legal entity, or other entity or body mentioned in Annex I of Regulation No 747/2014 and Annex I of Regulation No 748/2014 of the Council of the EU, respectively.

3.1.4 Draft State Ordinance on the Supervision of the Securities Business

In June 2013, the CBA submitted a draft State Ordinance on the Supervision of the Securities Business to the Minister of Finance and Government Organization for his approval. This draft state ordinance introduces a licensing obligation for securities brokers, portfolio managers, investment schemes, and operators of a stock exchange and places these entities or persons under supervision. Furthermore, provisions are included that impose a prospectus obligation for the issuance of securities and prohibit and punish market abuse (insider trading and market manipulation). In 2014, this draft state ordinance was approved by the Minister of Finance and Government Organization and, subsequent to this, sent to the Advisory Council.

3.1.5 Amendment of the State Decree Captive Insurance Companies

Pursuant to section 12 of the State Decree Captive Insurance Companies (AB 2002 no. 50) (SDCIC), the CBA may annually charge (part of) the supervisory costs it incurred to the captive insurance companies under its supervision. According to section 12 of the SDCIC, these charges shall not exceed Afl. 3,000 per captive insurer. However, the CBA noted that since the implementation of the SDCIC, it has been spending more hours each year monitoring this sector than initially envisaged. For this reason, it is considered necessary to increase the maximum annual supervisory costs that can be charged to the captive insurers. In view hereof, the CBA proposed to the sector an increase of the maximum from Afl. 3,000 to Afl. 7,500. As no comments were received from the captive insurers, the CBA submitted its proposal to the Minister of Finance and Government Organization.

3.1.6 Deposit insurance scheme

In 2011, a joint working group, consisting of representatives of both the Aruban Bankers' Association (ABA) and the CBA, was established to provide advice on the introduction of a deposit insurance scheme for the domestic commercial banking sector in Aruba. The joint working group met several times to discuss the modalities of such a scheme. Moreover, on January 16, 2014, the Parliament of Aruba passed a motion in which the Minister of Finance and Government Organization was asked to present swiftly a legislative proposal for the introduction of a deposit insurance scheme to the Parliament of Aruba. Upon request of the Minister of Finance and Government Organization, the CBA is in the process of drafting a legislative proposal.

3.2 Regulatory framework

3.2.1 Directive on sound business operations

The enactment of the Amending State Ordinance on January 1, 2013, resulted in several amendments of the SOSCS, SOSIB, SOSMTC, and SOSTSP, including the revision and harmonization of the provisions regarding integrity and suitability testing and the introduction of a uniform requirement to ensure sound business operations. Financial institutions are required to implement adequate policies, procedures, and measures, and to organize their activities in a way that ensures sound business operations.

Sound business operations include, among other things,:

- preventing conflicts of interest;
- preventing money laundering and financing of terrorism;
- complying with the AML/CFT State Ordinance and other AML/CFT laws and regulations;
- preventing any direct or indirect involvement in criminal offences or other violations of the law by the institution or its employees;
- preventing involvement with clients or other business relationships that may negatively affect confidence in the supervised institution; and
- preventing any acts contrary to generally accepted standards that might affect confidence in the supervised institution.

Thus, a supervised institution must ensure an ethical business culture and promote ethical behavior within the organization. On the basis of an integrity risk assessment, each institution must establish adequate policies and implement such policies in its business processes via procedures and measures to control integrity risks to which it is exposed. Furthermore, the CBA drafted a Directive on Sound Business Operations and sent it to the supervised institutions in June 2014 for consultation purposes. The received comments resulted in some adjustments to the directive, which went into effect on March 1, 2015, but with a six month grace period.

3.2.2 Draft Chart of Account (CoA) manual

In close cooperation with the CBCS, the CBA drafted a new set of regulatory returns, known as the Chart of Account or CoA, for the supervised credit institutions. The CoA will eventually replace the current Monthly Statement and appendices that credit institutions have to fill out monthly. The CoA is based on the basic concepts and principles of the IMF's Monetary and Financial Statistics Manual 2000, IFRS, and Basel II. In October 2013, the draft CoA manual was sent to the credit institutions for consultation purposes. A second information session was held with the credit institutions on April 16, 2014. The implementation date of the new CoA will be determined in consultation with the CBCS.

3.2.3 Revision of Appendix 8 "Liquidity Testing Sheet" of the monthly statement

The CBA revised its guidelines regarding Appendix 8 "Liquidity Testing Sheet" of the Monthly Statement and appendices. The revised guidelines broaden the possibilities for compensation of a resident liquidity deficit with a non-resident liquidity surplus by allowing a resident liquidity deficit to be fully compensated by a non-resident liquidity surplus. The revised guidelines on Appendix 8 were issued in October 2014.

3.2.4 Revision coverage test report insurance companies

In December 2014, the CBA informed all insurance companies that, pursuant to section 13, paragraph 2, of the SOSIB, and effective January 1, 2015, claims on affiliated companies would no longer be considered admissible assets. The aforementioned implies that as of January 1, 2015, these claims must be excluded from the calculation of the coverage ratio. A transitional period of six months was granted to the insurance companies to comply with the required minimum coverage ratio of 100 percent under the revised rules.

3.2.5 Dispensation policy for pawnshops

In 2011, the CBA decided to reintroduce the regulation of pawnshops. In accordance with article 48, paragraph 1, of the SOSCS, the granting of credits or other forms of financing to the public in the course of a business is prohibited. Pursuant to article 48, paragraph 1, of the SOSCS, the CBA may grant a dispensation from this prohibition if, in its opinion, the interests that the SOSCS seeks to protect are adequately safeguarded by other means. In 2012, the CBA implemented a dispensation policy for pawnshops and issued guidelines on the conduct of the business of pawnshops. The pawnshops already active in Aruba on April 1, 2012, were granted a transitional period of one year (ending on March 31, 2013) to implement policies, processes, and systems to meet the conditions of the dispensation policy and to submit a dispensation request. Pawnshops that did not file a dispensation request before March 31, 2013, had to cease their pawn activities.

In 2013, five pawnshops submitted dispensation requests to the CBA; two of these requests were later withdrawn. The CBA granted three (conditional) dispensations as described in article 48, paragraph 3, of the SOSCS to the remaining three pawn shops that had submitted dispensation requests:

1. Compra y Venta El Triunfo N.V.
2. ‘t Juwelenhuisje N.V.
3. Estrella America N.V.

3.2.6 Guidance circulars to the trust and banking sector

The CBA issued a circular on transaction monitoring for trust service providers. The objective of this circular is to provide trust service providers with practical guidance and tools on how to effectively conduct transaction monitoring and how to design, tailor, and implement their own AML/CFT policies, procedures, and measures. This circular presents ways of complying with the statutory requirements set out in the AML/CFT State Ordinance and the regulatory requirements of the AML/CFT Handbook in the area of transaction monitoring.

Also, the CBA issued a circular to the commercial banks in connection with nonregistered DNFBPs. The objective of this circular is to provide banks with practical guidance in the area of customer due diligence in identifying and dealing with DNFBPs (e.g., lawyers, accountants, jewelers, car dealers, real estate agents) that might be operating without being registered at the CBA. DNFBPs are required, pursuant to article 50, paragraph 1, of the AML/CFT State Ordinance to register at the CBA. At the time of the writing of this report, 328 DNFBPs have registered at the CBA via the registration form designated for this purpose.

International developments

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4.2 Basel: 'Sound management of risks related to money laundering and financing of terrorism' 10

4.3 Basel: 'Corporate governance principles for banks' 10

4.4 IAIS: 'Approaches to group corporate governance; impact on control functions' 11

4.5 FATF: 'Guidance for a risk-based approach for the banking sector' 11

4.1 Basel: ‘A sound capital planning process: fundamental elements’

In January 2014, the Basel Committee on Banking Supervision issued a paper on the fundamental elements fostering sound capital planning processes of banks required to implement Basel III. The paper underwrites the importance of effective and sound capital planning and longer-term capital maintenance and emphasizes, among other, the importance of a “forward looking view”.

4.2 Basel: ’Sound management of risks related to money laundering and financing of terrorism’

In January 2014, the Basel Committee issued guidelines on ‘Sound management of risks related to money laundering and financing of terrorism’. These guidelines describe how banks should include the management of risks related to money laundering (ML) and financing of terrorism (FT) within their overall risk management framework. Sound ML/FT management helps protect the reputation of both banks and national banking systems by preventing and deterring banks from laundering illicit proceeds or raising or moving funds in support of terrorism. It also preserves the integrity of the international financial system as well as the work of governments in addressing corruption and combating ML/FT. The inadequacy or absence of sound ML/FT risk management exposes banks to serious reputational, operational, compliance, and other risks.

4.3 Basel: ‘Corporate governance principles for banks’

According to the Financial Stability Board (FSB), which conducted a thematic review on risk governance in February 2013, both national authorities and banks should give more consideration to the establishment of effective risk governance frameworks. Also, the FSB recommends that national authorities strengthen their ability to assess the effectiveness of a bank’s risk governance and its risk culture and engage more frequently with a bank’s Board and its Risk and Audit committees. In light of that recommendation, the Basel Committee revisited the 2010 ‘Principles for enhancing corporate governance’ and issued a consultative document titled ‘Corporate governance principles for banks’ in October 2014. The main objectives are to reinforce the collective oversight and risk governance responsibilities of a bank’s Board, to emphasize key components of risk governance such as risk culture and risk appetite, and their relationship to a bank’s risk capacity, and to strengthen a bank’s overall checks and balances. The CBA is currently revisiting the existing policy papers in the area of corporate governance and will include the papers issued by the Basel Committee and the IAIS on this topic (see also paragraph 4.4) in its evaluation.

4.4 IAIS: 'Approaches to group corporate governance; impact on control functions'

In October 2014, IAIS published a paper on 'Approaches to group corporate governance; impact on control functions', illustrating the different approaches to governance structures of insurance groups and analyzing the various challenges surrounding these structures, as well as possible ways to address these challenges. Irrespective of the governance approach chosen, sound management and oversight of a group through its corporate governance framework is a fundamental requirement for all insurance groups.

4.5 FATF: 'Guidance for a risk-based approach for the banking sector'

In October 2014, the FATF issued guidance for a risk-based approach for the banking sector. The risk-based approach is central to the effective implementation of the FATF Recommendations. A risk-based approach means that countries, competent authorities, and banks identify, assess, and understand the money laundering and terrorist financing risks to which they are exposed and take the mitigation measures appropriate to their level of risk. This approach allows for a more efficient use of resources, as banks, countries, and competent authorities can choose the most effective way to mitigate the money laundering/terrorist financing risks they have identified. It also enables them to allocate their resources in an effective and efficient way and take enhanced measures in situations where the risks are higher, apply simplified measures where the risks are lower, and disregard low-risk activities. The CBA is considering issuing further guidance in this area for the banking sector.

National and international cooperation

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5.1 National cooperation

In 2014, the CBA met regularly with government agencies, as well as with sectoral and occupational organizations. Its most important partners, particularly with respect to integrity supervision and enforcement, are the Financial Intelligence Unit (*"Meldpunt Ongebruikelijke Transacties"*) (FIU), the Public Prosecutor's Office (*"Openbaar Ministerie"*) (PPO), and other law enforcement agencies. In 2014, three periodic bilateral meetings were held between the ISD and the FIU, while two periodic bilateral meetings were held between the ISD and the PPO. The basis for these periodic meetings are the Memoranda of Understanding (MoUs) with the FIU (signed in 2011) and the PPO (signed in 2012). In addition to setting procedures for information exchange, the MoU with the PPO contains guidelines in the event of a concurrence of administrative and criminal offences. With due regard to the universal "ne bis in idem-principle," i.e., a person cannot be punished twice for the same act, it is therefore necessary that in these cases, the parties decide which enforcement route to follow. In addition to the mentioned periodic meetings, two know-how sessions with the FIU and the PPO were organized.

In 2014, the CBA held meetings with the Aruban Bankers' Association (ABA) and the Insurance Association of Aruba (IAA) to discuss various supervisory matters. The topics discussed during these meetings included an update on FATF-related matters, the introduction and revision of the supervisory legislation (i.e., the laws and regulations regarding the supervision of insurance brokers, investment business, and sound & controlled business operations), the CoA project, tight-selling (*"koppelverkoop"*), liquidity management, and relevant local and international developments.

Furthermore, the CBA met separately with the management of each commercial bank during the bilateral meetings organized by the CBA to discuss matters related to market and liquidity developments, credit growth, nonperforming loans, and annual budgets.

Finally, as project leader, the CBA continued its active participation in Aruba's NRA (started in 2012) in the area of money laundering and terrorist financing. The NRA process consisted of three phases, namely the preparatory phase, the implementation phase, and the reporting phase. The preparatory phase consisted mainly of identifying and analyzing the potential risks of money laundering and terrorist financing specific to Aruba. A comprehensive list of risks was drawn up by the project team[1] based on participant and

[1] The project team consisted of representatives of the CBA (project leader), the Directorate of

financial sector input. During the implementation phase, the CBA hosted two plenary sessions with all participating agencies. The five most important risks were selected from the list of identified risks for further analysis. After the plenary sessions, the reporting phase commenced, which produced the NRA report. This report was adopted by the AML/CFT Strategy Group Aruba on May 30, 2013. On August 26, 2013, an abridged public version of the report was issued to inform all stakeholders, including the general public, about (the results of) the NRA. This version is available on the CBA's website. The report explains the background and objectives of the NRA, as well as the approach followed in executing the NRA. The Dutch Central Bank (DNB) provided technical support for the execution of the NRA. The NRA report also contains a general analysis of the inherent money laundering and terrorist financing risks Aruba is exposed to. These risks are related to, inter alia, its geographical location, its financial infrastructure, its open economy and investment climate, its political situation, and the simultaneous circulation of the U.S. dollar alongside the Aruban florin.

5.2 International cooperation

The sectoral supervisory laws provide the CBA, subject to certain conditions, with the possibility of exchanging information with other (foreign) supervisory authorities. Also, in 2013 the possibility was introduced in the supervisory laws to start an investigation at a supervised institution at the request of a foreign supervisory authority. When conducting such investigation, the CBA may allow officers of the foreign supervisory authority to participate in the investigation.

In 2014, the CBA received four information requests from foreign supervisory authorities. The CBA responded to three of these requests; the fourth request is pending the receipt of further information from the relevant foreign supervisor. Furthermore, the CBA requested and received information from foreign supervisors on two occasions.

In November 2014, the CBA signed an MoU with the DNB for the sharing of supervisory information and for carrying out on-site inspections to facilitate the performance of their respective duties and to promote the safe and sound functioning of financial institutions in the respective countries.

The CBA attended the meetings of the Group of International Insurance Centre Supervisors (GIICS) as an "observer" for many years. In 2014, the CBA applied for full membership and was admitted as a full member during the Annual General Meeting held in June 2014.

During 2014, the CBA met regularly with its counterparts within the Kingdom of the Netherlands, namely, the DNB, the Netherlands Authority for the Financial Markets ("*Autoriteit Financiële Markten*" or AFM), and the CBCS.

Legislation and Legal Affairs/Secretariat AML/CFT Strategy Group Aruba, the PPO and the FIU.

In October 2014, the CBA attended a seminar hosted by the CBCS in which the supervisory authorities in the Kingdom of the Netherlands participated. The main subjects discussed during the seminar were the conduct of business supervision and integrity-related matters (i.e., dealing with corruption and conflicts of interest), cybercrime, and the supervision of Information and Communication Technology (ICT). During this seminar, the CBA also held a presentation on the AML/CFT National Risk Assessment conducted by Aruba. The supervisory authorities in the Kingdom of the Netherlands also held their fourth supervisory college in 2014. The purpose of these supervisory colleges is to ensure effective and efficient supervision through information sharing on financial institutions that operate in more than one of the respective jurisdictions within the Dutch Kingdom.

The Technical Committee of the Supervisory authorities of the Kingdom of the Netherlands met three times in 2014. Furthermore, the CBA participated in three meetings of the Joint Working Group on Integrity Issues, consisting of representatives of the supervisory authorities within the Kingdom of the Netherlands. The objective of this joint working group, established in 2011, is to enhance and harmonize, as far as possible, laws, regulations, and the supervisory practices in the area of integrity supervision. In October 2012, the group presented its mutual recommendations on the laws and regulations concerning, among other things, sound conduct of business, AML/CFT, and integrity and suitability testing. The group will continue to monitor progress and exchange knowledge regarding the broad area of integrity supervision.

The CBA also is a member of the Joint Working Group on Market Conduct, installed in 2012 by the supervisory authorities within the Dutch Kingdom to enhance and harmonize, as far as possible, laws, regulations, and the supervisory approaches in the area of market conduct. Conduct of business supervision aims at orderly and transparent financial market processes, integrity of relations between market players, and due care in the provision of services to clients. This working group finalized its analysis of the legal and regulatory frameworks in place in the different jurisdictions within the Kingdom of the Netherlands and prepared a report early 2013 with recommendations to upgrade the existing frameworks in the Dutch Caribbean. In Aruba, market conduct supervision is still in the initial stages. A solid legal framework for market conduct oversight still needs to be designed.

The third Joint Working Group on Corporate Governance, which was installed in 2013 by the supervisory authorities within the Dutch Kingdom, met for the first time in 2014. The group's aim is, among others, to identify for each jurisdiction within the Dutch Caribbean, the existing legal framework and to review these frameworks against international standards and best practices, and based hereon, come up with recommendations to enhance the regulatory framework in this area.

The CBA continued providing assistance to the CFATF with regard to assessing Suriname's progress in addressing the deficiencies found during the CFATF's last mutual evaluation vis-à-vis the FATF recommendations. Based on the outcome of the High Level Mission conducted by the CFATF International Cooperation and Review Group (ICRG) in February 2012, it was deemed important to have a Dutch-speaking member aboard to assist the CFATF in its review process of Suriname, particularly with respect to its laws. Aruba was approached and agreed to offer its assistance. This assistance consists of reviewing the follow-up on the implementation of Suriname's Action Plan, including the review of new and revised Surinamese legislation to meet the Key and Core FATF Recommendations. In the May and November 2014 CFATF Plenaries, Aruba submitted its fourth and fifth reports to the CFATF regarding Suriname's progress.

With a view toward strengthening financial stability surveillance within the Caribbean region, the CBA participated in a regional survey to develop a Regional Financial Interconnectedness Map, initiated by the IMF and facilitated by the Central Bank of Trinidad and Tobago. The Interconnectedness Map aims to identify the common linkages and areas of vulnerabilities for the banking and insurance industry, particularly at the regional level.

5.3 Conferences/ trainings/ seminars

The CBA attended several meetings and conferences of the regional and international supervisory groups. In June 2014, it participated in the Annual Working Group and Annual General Meeting of the Group of International Insurance Centre Supervisors (GIICS) held in London. During the GIICS meetings, discussions were held on, among other topics, the Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS), AML/CFT, and business ethics. In June 2014, the CBA was also present at the Annual General Meeting and XXXII Annual Conference "The Changing Face of Supervision" of the Caribbean Group of Banking Supervisors (CGBS) held in Trinidad & Tobago. The CGBS conference covered, among other subjects, the revised Basel Core Principles, the Financial Sector Assessment Program (FSAP) conducted by the IMF and the World Bank, mobile banking, and financial stability. In September 2014, the CBA partook in the 18th International Conference of Banking Supervisors (ICBS) that took place in Tianjin, China. During this meeting, also the final details of Basel III's net stable funding ratio (NSFR) were endorsed. The NSFR limits the extent to which illiquid assets can be funded by volatile short-term borrowing and encourages banks to maintain more stable sources of funding. Also, the Basel Committee updated its list of global systemically important banks (G-SIBs). A bank designated as a G-SIB is required to hold additional Common Equity Tier I capital ranking between 1 percent and 2.5 percent of its risk-weighted assets. In October 2014, the CBA attended the Annual General Meeting and the 21st Annual Conference of the IAIS held in Amsterdam, the Netherlands. The panel discussions held during this conference covered developments and challenges in insurance supervision (including the challenges emanating from the international low interest rate environment), the insurance capital standards, financial inclusion, governance, and recovery and resolution. In November 2014, the CBA participated in the IX High Level Meeting on Global Banking Standards and Regulatory and Supervisory Priorities in the Americas, which was held in Panama City, jointly organized by the Association of Supervisors of Banks of the Americas (ASBA), the Basel Committee on Banking Supervision (Basel Committee), and the Financial Stability Institute (FSI). Participants discussed, among other topics, the co-existence of the risk-based capital standards and the leverage ratio requirements in Basel III, shadow banking and non-bank regulation and supervision, and the integration of macroprudential and microprudential supervision.

Furthermore, all supervisory staff of the CBA received ongoing training in 2014, including a 2-day securities training provided by the AFM. Staff members also participated in the AML/CFT training organized by "*Stichting IFEA*" as well as the 3-day Dutch Caribbean Gaming Forum on Improving Compliance, Regulation, and Cooperation organized by the CBA together with the Faculty of the International Governance and Risk Institute. Furthermore, DNB delivered, for the third time in a row, a seminar on topics related to prudential supervision of pension funds. Finally, in the area of integrity supervision, the CBA continued to attend regular webinar sessions on AML/CFT related topics.

Prudential supervision

6

6 Prudential Supervision

The focus of prudential supervision remained overseeing compliance with the stipulations of and pursuant to the sectoral state ordinances, especially with respect to the prudential requirements in the areas of solvency and liquidity, as well as with the different prudential regulations issued by the CBA including, but not limited to, the corporate governance policy paper.

In general, the institutions supervised remained in compliance with the CBA's prudential requirements during the course of 2014. As at year-end 2013, besides APFA, only one company pension fund reported a coverage ratio below the minimum requirement of 100 percent at year-end 2014. The CBA continues to closely monitor these two institutions' financial developments and their progress vis-à-vis their recovery plans. Reference is also made to Chapter 8 for an overview of the sectoral financial developments.

The PSD conducted eight targeted on-site examinations to assess, among other things, compliance with the CBA's policy paper on liquidity risk management at one credit institution, and the admissibility of assets and the prudential reporting at one company pension fund and five insurance companies. At two of the five insurance companies also an assessment was made of the adequacy of the reinsurance policies and procedures in place. Lastly, the PSD conducted a special on-site examination at one company pension fund in the pension fund governance area. Table 6.1 provides an overview of the on-site examinations conducted by the PSD.

As part of its off-site surveillance, the PSD undertook several activities including, among other things, the analysis of the financial and regulatory reports submitted by the supervised institutions, and the processing of different requests for approval pursuant to the various sectoral supervisory laws. It also

Table 6.1: On-site examinations PSD 2012-2014
(End of period)

	2012	2013	2014
Sector:			
• Credit institutions	3	3	1
• Life insurers	1	-	1
• General insurers	-	-	4
• Company pension funds	2	1	2
Total onsite examinations	**6**	**4**	**8**

provided advice related to foreign exchange license requests of financial institutions supervised by the CBA.

In 2014, the CBA received nineteen requests related to the appointment of a key person from the credit institutions, thirteen requests from the insurance companies, and eight from the company pension funds. Refer also to annex 5.

The results of the 2014 stress testing exercise conducted by the CBA were communicated to the commercial banks during the bilateral meetings held at the beginning of 2015. The results show that the domestic commercial banking sector is highly resilient to potential adverse developments in credit conditions and, albeit to a lesser degree, liquidity levels.

On four occasions, formal enforcement measures were taken against financial institutions for noncompliance with the supervisory requirements. One administrative fine was levied on a credit institution for failing to adequately comply with the regulatory reporting requirements pursuant to article 22, paragraph 2, and article 30 of the SOSCS. The CBA held a normative conversation with a life insurance company for noncompliance with the guidelines on the calculation of the coverage test and the solvency margin issued by the CBA pursuant to, respectively, articles 13 and 14 of the SOSIB. A life insurance company was also fined for noncompliance with article 17 of the SOSIB, which prohibits the appointment of key persons without prior approval of the CBA. Finally, the CBA issued a formal directive, pursuant to article 15 of the SOSIB, to a general insurance company. Reference is made to Table 6.2 and annex 8.

Table 6.2: Enforcement actions PSD 2012-2014
(End of period)

	2012				2013				2014			
Enforcement actions:	1)	2)	3)	4)	1)	2)	3)	4)	1)	2)	3)	4)
Sector:												
• Credit institutions	1	-	-	-	-	-	-	2	-	-	-	1
• Life insurers	-	-	-	-	-	-	-	-	1	-	-	1
• General insurers	-	-	-	-	-	-	-	-	-	1	-	-
• Company pension funds	-	-	-	-	-	-	-	-	-	-	-	-
Total enforcement actions	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**1**	**1**	**-**	**2**

1) Normative conversations
2) Formal directions
3) Penalty charge orders
4) Administrative fines

Annex 6 to this report contains a broad overview of the supervisory activities carried out by the PSD in 2014.

Finally, annex 7 contains a break-down of the supervision costs passed on to the different sectors supervised by the CBA.

Integrity supervision

7

7 Integrity Supervision

The integrity of the supervised sectors and institutions is essential to maintaining confidence in the financial system of Aruba. Integrity supervision is, therefore, a key pillar of the CBA's supervision. Breaches of the law, (unwillingly) facilitating unlawful activity, and other unethical behavior can result in enforcement action(s) including monetary penalties, civil liability claims, and reputational damage. Failing integrity risk management also may negatively impact the financial soundness of supervised institutions.

In view of the expanded supervisory mandate in the area of integrity supervision, ISD's focus in 2014 remained on further enhancing the supervised institutions' compliance with the integrity-related requirements, including but not limited to drafting directives and guidance documents, organizing information and consultation sessions, and on-site visits and off-site surveillance (also through sector-wide surveys).

In 2014, the ISD carried out nine focused on-site examinations: three examinations at banks, two at life insurers, one at a general insurer, two at trust service providers, and one at a notary. Reference is also made to Table 7.1.

The on-site examinations at the selected banks and insurance companies focused mainly on the following topics: (1) compliance with transitional provisions regarding existing clients laid down in article 2 of the Enactment State Ordinance, and (2) sound business operations and (3) corporate governance.

In 2014 the CBA intensified its efforts, inter alia by placing newspaper announcements to encourage DNFBPs to register at the CBA. This publicity led to a noticeable increase in registrations.

Table 7.1: On-site examinations ISD 2012-2014
(End of period)

	2012	2013	2014
Sector:			
• Credit institutions	4	2	3
• Life insurers	1	-	2
• General insurers	-	-	1
• Money transfer companies	3	-	-
• Trust service providers	4	2	2
• DNFBPs	1	4	1
Total onsite examinations	**13**	**8**	**9**

In 2014, the CBA received two requests related to the appointment of a key person from trust service providers, three requests from money transfer companies, and thirty-three from insurance brokers in relation to their license applications. Refer to annex 5.

Furthermore, in 2014, a significant part of the ISD's resources was allocated to the insurance brokers and the insurance sales agents (see sections 3.1.1 and 3.1.2 above). In 2014, further work was undertaken to oversee compliance by the DNFBPs with the AML/CFT legislation. The ISD continued and, where necessary, intensified its contacts with representatives from the various supervised sectors. Particularly, it co-organized and gave a presentation during the Dutch Caribbean Gaming Forum-Aruba organized by the Faculty of the International Governance and Risk Institute. Furthermore, the ISD held a presentation on AML/CFT matters for the accountants during an information session organized together with the FIU on September 12, 2014.

On six occasions during 2014, the ISD held a normative conversation with a supervised institution. In six cases, an administrative fine was imposed as a result of deficiencies noted and three penalty charge orders were issued. The enforcement actions taken over the last three years in the area of integrity supervision are shown in Table 7.2.

Annex 6 to this report contains a broad overview of the supervisory activities carried out by the ISD in 2014.

Finally, annex 7 contains a break-down of the supervision costs passed on to the different sectors supervised by the CBA.

Table 7.2: Enforcement actions ISD 2012-2014
(End of period)

	2012				2013				2014			
Enforcement actions:	1)	2)	3)	4)	1)	2)	3)	4)	1)	2)	3)	4)
Sector:												
• Credit institutions	3	-	1	-	-	-	-	-	1	-	2	1
• Life insurers	1	-	2	-	3	-	-	-	-	-	1	-
• Money transfer companies	3	-	1	-	3	-	-	1	1	-	-	-
• Trust service providers	8	-	-	-	1	-	-	-	3	-	-	4
• DNFBPs	-	-	-	-	-	-	-	-	1	-	-	1
Total enforcement actions	15	-	4	-	7	-	-	1	6	-	3	6

1) Normative conversations
2) Formal directions
3) Penalty charge orders
4) Administrative fines

Sectoral developments

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8 Sectoral Developments

The following sections briefly describe the main financial developments in the various sectors supervised by the CBA. Section 8.1 covers the banking sector, section 8.2 comprises the money transfer companies, while section 8.3 discusses the trust service providers. Section 8.4 relates to the insurance sector, which is composed of insurance companies, company pension funds, the Civil Servants Pension Fund (APFA), the Social Security Bank (SVB), and the General Health Insurance (AZV). Although the SVB and AZV do not fall under the CBA's supervision, their financials also are briefly discussed in view of their important role in the Aruban economy. A list of the financial institutions supervised by the CBA at the end of December 2014 is provided in annex 2, while in annex 3 an overview of the institutions with a dispensation as meant in section 48, parapraph 3, of the SOSCS and section 10, paragraph 1,of the SOSMTC. Annex 4 contains an overview of the changes in the registers of the supervised institutions and shareholding for the year 2014. Annex 5 describes the supervisory activities carried out in 2014 by the PSD and the ISD.

The number of credit institutions supervised by the CBA expanded to 12 at the end of 2014.

8.1 Banking sector

8.1.1 Supervised banking institutions

As shown in Table 8.1, the number of banking institutions supervised by the CBA expanded to 12 at the end of 2014. On September 19, 2014, the CBA granted FirstCaribbean International Bank (FCIB) (Cayman) Limited a license to pursue the business of a credit institution through a branch office in Aruba. This branch office is expected to become fully operational in the course of 2016.

Table 8.1: Number of supervised institutions within the banking sector
(End of period)

	2010	2011	2012	2013	2014
1. Total	**11**	**11**	**11**	**11**	**12**
2. Commercial banks	4	4	4	4	5
3. International banks	2	2	2	2	2
4. Bank-like institutions	3	3	3	3	3
a. Mortgage banks	1	1	1	1	1
b. Other specialized financial institutions	2	2	2	2	2
5. Credit unions	2	2	2	2	2

Source: CBA.

The commercial banks' aggregated balance sheet total at year-end 2014 equals 102.1 percent of the nominal estimated GDP for 2014.

8.1.2 Commercial banks

Table 8.2 shows that with the exception of the year 2011, the aggregated balance sheet total of the commercial banks expanded over the past five years. The aggregated balance sheet total of Afl. 4,866.0 at year-end 2014 was equivalent to 102.1 percent of the estimated nominal Gross Domestic Product (GDP), clearly indicating the importance of the commercial banking sector in the Aruban economy.

Assets

During the years 2010 to 2012, the aggregated investment portfolio showed an increase, rising from Afl. 274.7 million at the end of 2010 to Afl. 346.1 million at the end of 2012, associated largely with increases in government bond holdings and an expansion in short-term securities in 2011. In the period 2013-2014, the combined investment portfolio declined by Afl. 10.1 million, reaching Afl. 323.1 million at year-end 2014. This was caused largely by decreases in other marketable securities and in

Table 8.2: Balance sheet of the commercial banks

(End of period in Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total assets	**4,388.7**	**4,324.7**	**4,639.0**	**4,720.2**	**4,866.0**
a. Cash and due from banks	1,391.6	1,218.3	1,357.9	1,248.8	1,289.1
b. Investments	274.7	304.8	346.1	333.2	323.1
c. Loans	2,527.1	2,600.9	2,708.0	2,880.9	2,993.4
- Commercial [2]	1,042.7	1,071.4	1,151.2	1,246.9	1,288.6
- Individuals [3]	1,484.4	1,529.5	1,556.8	1,634.0	1,704.8
- Government	0.0	0.0	0.0	0.0	0.0
d. Other assets	195.3	200.7	227.0	257.3	260.4
2. Total capital and liabilities	**4,388.7**	**4,324.7**	**4,639.0**	**4,720.2**	**4,866.0**
a. Deposits	3,664.7	3,519.6	3,812.3	3,804.3	3,883.5
- Demand	1,474.0	1,588.6	1,834.2	1,729.0	1,749.4
- Time	1,216.3	930.7	957.8	1,031.4	1,093.6
- Savings	974.4	1,000.3	1,020.3	1,043.9	1,040.5
b. Other liabilities	170.7	243.9	250.1	259.0	258.9
c. Capital and reserves [4]	553.3	561.2	576.6	656.9	723.6

Source: CBA; commercial banks.

1 Preliminary figures.
2 Corrected for allocated loan loss provisions.
3 Corrected for unearned income.
4 Including unallocated loan loss provisions.

government bond holdings of, respectively, Afl. 23.5 million (100 percent) and Afl. 7.5 million (3.0 percent), which was partially offset by an increase of Afl. 8.0 million (12.3 percent) in short-term securities.

The aggregated loans outstanding showed an upward trend, rising from Afl. 2,527.1 million in 2010 to Afl. 2,993.4 million in 2014. This growth was the result of expansions in commercial loans and loans to individuals of, respectively, Afl. 245.9 million (23.6 percent) and Afl. 220.4 million (14.8 percent). In 2014, the aggregated loans increased by Afl. 112.5 million (3.9 percent) compared to 2013. This was caused by a rise in the loans to individuals and commercial loans of, respectively, Afl. 70.8 million and Afl. 41.7 million. The balance sheet item other assets also showed an upward trend over the past five years, growing from Afl. 195.3 million at the end of 2010 to Afl. 260.4 million in 2014, due mainly to rises in accounts receivable and prepayments of Afl. 35.5 million and in premises and equipment of Afl. 30.2 million.

Liabilities

The aggregated deposits fluctuated over the last five years, peaking at Afl. 3,883.5 million at year-end 2014. In 2014, the aggregated deposits increased by Afl. 79.2 million (2.1 percent) compared to year-end 2013, due to upsurges in time deposits and demand deposits of, respectively, Afl. 62.2 million (6.0 percent) and Afl. 20.4 million (1.2 percent). Capital and reserves expanded over the five years under review, amounting to Afl. 723.6 million at the end of 2014. Capital and reserves continued its upward trend and rose from Afl. 656.9 million in 2013 to Afl. 723.6 million in 2014, associated largely with additions from net income to the reserves.

Table 8.3: Income statement of the commercial banks

(In Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total income	**300.5**	**317.2**	**341.9**	**352.7**	**359.4**
a. Net interest income	195.6	202.1	218.1	220.5	218.1
b. Operating income	104.9	115.1	123.8	132.2	141.3
2. Total expenses	**200.6**	**207.0**	**215.8**	**218.0**	**229.3**
a. Salaries & employee benefits	87.6	94.0	98.4	102.0	109.8
b. Additions to the loan loss provisions	22.2	13.6	9.6	4.3	4.6
c. Other expenses	90.8	99.4	107.8	111.7	114.9
3. Net income before extraordinary items and taxes	**99.9**	**110.2**	**126.1**	**134.7**	**130.1**
4. Net income before taxes	**102.5**	**115.7**	**135.5**	**138.8**	**133.6**
5. Taxes	**27.4**	**27.8**	**34.6**	**38.2**	**28.7**
6. Net income	**75.1**	**87.9**	**100.9**	**100.6**	**104.9**

Source: CBA; commercial banks.

1 Preliminary figures.

Income Statement

Table 8.3 shows that the total income of the banking sector grew from Afl. 300.5 million in 2010 to Afl. 359.4 million in 2014, due to expansions predominantly in operating income. The total expenses saw an increasing trend in the past five years, rising from Afl. 200.6 million in 2010 to Afl. 229.3 million in 2014, mainly related to increases in other expenses and higher salaries and employee benefits. On the other hand, the additions to the loan loss provisions decreased substantially from Afl. 22.2 million end-2010 to Afl. 4.6 million in 2014. From 2010 to 2013, the net income before taxes exhibited an increasing trend, rising from Afl. 102.5 million to Afl. 138.8 million, and then dropping marginally by Afl. 5.2 million (3.7 percent) to Afl. 133.6 million in 2014.

Financial Soundness Indicators

Table 8.4 shows that the various macro-prudential ratios of the commercial banking sector remained sound and profitable over the past five years.

The commercial banks' aggregated risk-weighted capital ratio moved up to 24.2 percent at the end of December 2014.

Capital Asset Ratio

The commercial banks' aggregated risk-weighted capital asset ratio stayed well above the required minimum of 14 percent. This ratio moved up from 18.5 percent at the end of December 2010 to 24.2 percent at the end of December 2014, due mainly to the increase in the capital and reserves held by the commercial banks.

The outcome of the annual stress tests show that the commercial banks can absorb significant external shocks.

Asset Quality

The quality of the commercial banks' loan portfolios improved substantially during 2010-2014. This improvement is evidenced by a decrease of 4.6 percentage points in the nonperforming loans to gross loans ratio in the period 2010-2014. The decrease of Afl. 93.3 million in the nonperforming loans during the period 2010-2014 resulted mainly from debt restructuring. The development of the nonperforming loans ratio since 2010 is depicted in Charts 1 and 2.

On aggregate, the commercial banks created sufficient provisions against the non-performing loans, while maintaining adequate buffers to absorb additional (unforeseen) losses.

The commercial banks' resilience is also stress-tested annually by the CBA. The outcome of these stress tests shows that the commercial banks can absorb significant external shocks.

Table 8.4: Financial soundness indicators of the commercial banks

(End of period in percentages)

	2010	2011	2012	2013	2014 [1]
1. Capital adequacy					
a. Regulatory capital (Tier I + II) to risk-weighted assets (minimum 14 percent)	18.5	17.7	19.4	22.7	24.2
b. Regulatory Tier I capital to risk-weighted assets	11.3	11.3	11.8	14.7	15.8
2. Asset quality					
a. Nonperforming loans to gross loans	10.7	8.2	7.0	7.0	6.1
b. Nonperforming loans (net of ALLP) to gross loans [2]	6.9	4.1	3.4	3.7	2.9
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	40.9	25.9	19.2	18.3	13.2
d. Large loans to regulatory capital [3]	68.7	68.3	86.4	67.6	68.8
3. Earnings and profitability					
a. Return on assets (before taxes)	2.4	2.7	3.1	3.1	2.9
b. Return on equity (before taxes)	23.0	26.1	30.4	28.0	23.6
c. Return on assets (after taxes)	1.8	2.1	2.3	2.2	2.3
d. Return on equity (after taxes)	16.8	19.8	22.7	20.3	18.5
e. Net interest income to gross income	64.5	62.7	62.1	61.8	60.1
f. Noninterest expenses to gross income	75.2	72.7	71.3	71.8	71.1
g. Interest rate margin [4]	8.4	7.4	7.0	5.3	5.0
4. Liquidity					
a. Loans to deposits ratio (maximum 80 percent)	66.5	71.0	68.2	72.9	73.9
b. Liquid assets to total assets (minimum 15 percent) [5]	28.6	26.1	27.6	24.3	24.1
c. Liquid assets to short-term liabilities	75.6	61.4	61.2	57.5	58.9
5. Sensitivity to market risk					
a. Net foreign assets [6] to regulatory capital	45.2	63.8	44.8	25.3	26.5

Source: CBA; commercial banks.

1 Preliminary figures.

2 ALLP: allocated loan loss provision.

3 Large loans: all loans or lines of credit in excess of 15 percent of the institution's test capital.

4 Weighted averages related to new loans granted and new deposits during the indicated period.

5 This ratio is the Prudential Liquidity Ratio (PLR).

6 Denominated in foreign currencies only.

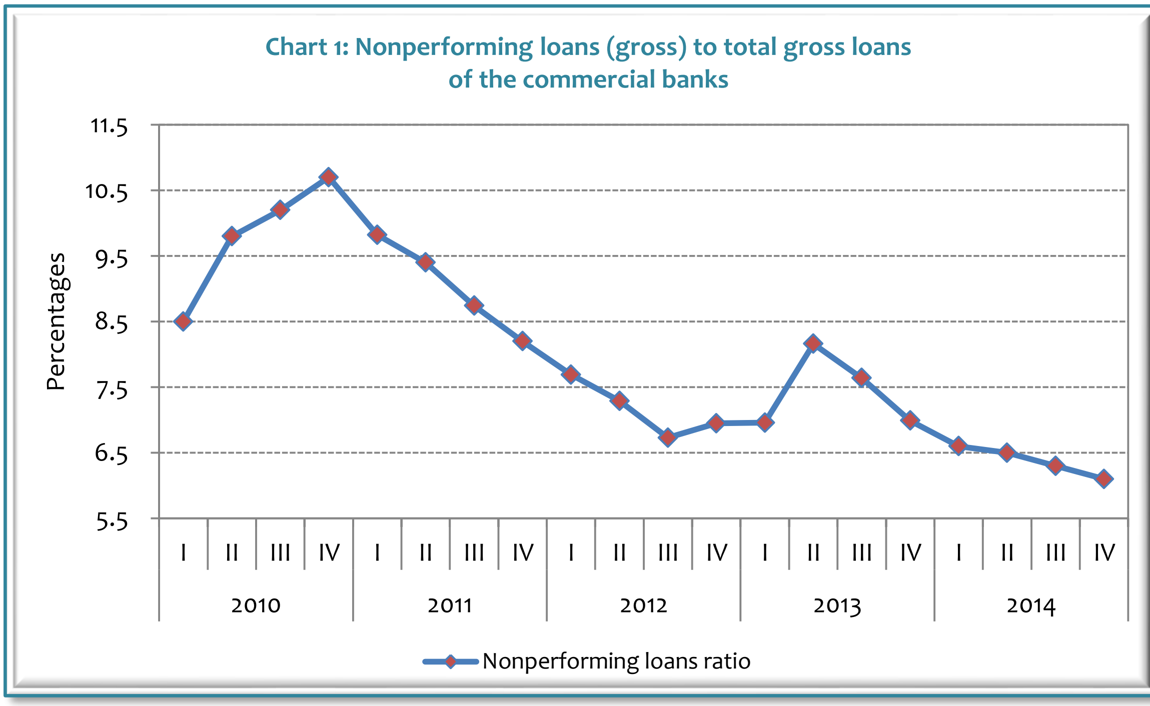


Chart 1: The nonperforming loan ratio shows a decreasing trend during 2010 to

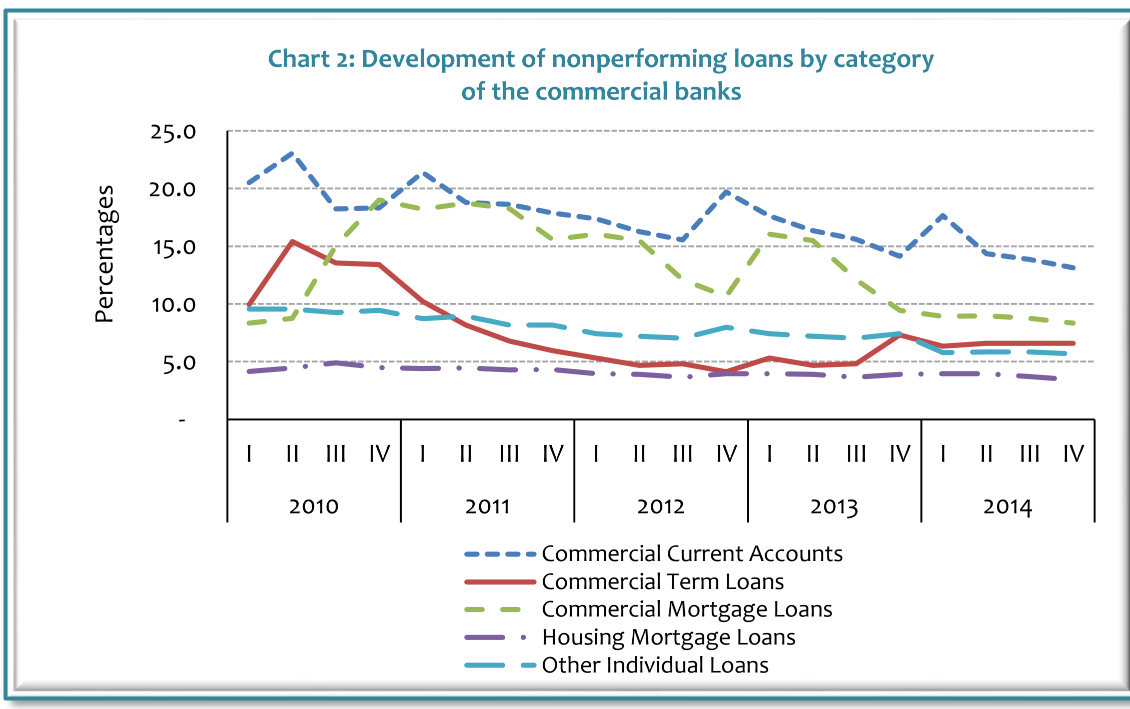


Chart 2: As shown in Chart 2, the decrease in nonperforming loans occurred largely in the commercial current account and commercial mortgage loan categories.

Profitability Indicators

Return on Assets

During the period 2010-2013, the return on assets (before taxes) showed an upward trend, rising from 2.4 percent in 2010 to 3.1 percent in 2013, then decreasing slightly by 0.2 percentage points to 2.9 percent in 2014.

Return on Equity

During the period of 2012-2014, the return on equity (before taxes) decreased by 6.9 percentage points to 23.5 percent. This was caused mainly by the higher capital buffers held by the commercial banks.

Net Interest Income

During 2010-2014, the net interest income to gross income ratio contracted, decreasing from 64.5 percent in 2010 to 60.1 in 2014, due mainly to increases in gross income during the past five years.

The weighted average interest rate margin continued to decrease in 2014.

Interest Rate Margin

Despite the oligopolistic market structure in Aruba as well as the small scale of the domestic banking sector, interest rates in Aruba declined sharply in line with international developments. From 2010 to 2014, the weighted average interest rate margin of the commercial banks decreased from 8.4 percent in 2010 to 5.0 percent in 2014. Notwithstanding this sharp decrease, interest rates have remained relatively high when compared to the interest rates in more advanced countries.

Prudential Liquidity Ratio

The commercial banks' aggregated prudential liquidity ratio (PLR) contracted during the period 2010-2014, with the exception of 2012. The decrease is associated mostly with the falling overall liquidity surplus in the commercial banking sector, partially the result of the placement of debt paper issued by the country of Aruba on the domestic market. Overall, the banks' aggregated PLR dropped from 28.6 percent at the end of 2010 to 24.1 percent at the end of December 2014, but remained far above the required minimum of 15 percent. The loans to deposits ratio fluctuated between 66.5 percent and 73.9 percent during the five-year period under review, topping at 73.9 percent end-2014, but still well below the maximum of 80 percent.

Sensitivity to Market Risk

In 2012 and 2013, the net foreign assets to regulatory capital decreased from 63.8 percent end-2011 to 25.3 percent end-2013, due to an increase in the regulatory capital (denominator) of Afl. 177.1 million (40.8 percent) and a drop of Afl. 122.2 million (44.2 percent) in the net foreign assets (numerator).

8.1.3 International banks

In 2014, the number of international banks registered in Aruba remained unchanged at two. One of the international banks is a local entity affiliated with Citigroup Inc. and, as such, also falls under the consolidated supervision of the U.S. supervisory authorities.

Assets

As can be seen in Table 8.5, the aggregated balance sheet total of the international banks dropped significantly by Afl. 183.7 million (45.6 percent) in 2011, reflecting reduced activities of the international banking sector. During the period 2012-2014, the aggregated balance sheet total of the international banks showed an upward movement, rising from Afl. 219.1 million at the end of 2011 to Afl. 327.0 million in 2014. The upsurge of Afl. 107.9 million (49.2 percent) in the aggregated balance sheet total from 2011 to 2014 was mostly the result of expansions in both cash and due from banks and loans outstanding of, respectively, Afl. 181.2 million (953.7 percent) and Afl. 44.7 million (73.8 percent), partially offset by a decline in other assets of Afl. 78.0 million (89.0 percent) and in investments of Afl. 40.0 million (77.1 percent). The notable growth in cash and due from banks over the past five years, rising from Afl. 19.1 million in 2010 to Afl. 200.2 million at the end of

Table 8.5: Balance sheet of the international banks
(End of period in Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total assets	**402.8**	**219.1**	**254.8**	**290.2**	**327.0**
a. Cash and due from banks	19.1	19.0	78.2	36.8	200.2
b. Investments	69.3	51.9	27.8	27.5	11.9
c. Loans [2]	102.3	60.6	120.5	171.2	105.3
d. Other assets	212.1	87.6	28.3	54.7	9.6
2. Capital and liabilities	**402.8**	**219.1**	**254.8**	**290.2**	**327.0**
a. Deposits	210.8	57.9	59.8	75.3	183.4
- Demand	3.8	12.5	25.9	28.7	27.1
- Time	207.0	45.4	33.9	46.6	156.3
b. Other liabilities	27.9	27.3	35.6	121.1	41.3
c. Capital and reserves [3]	164.1	133.9	159.4	93.8	102.3
3. Risk-weighted capital asset ratio (percentage) [4]	**24.9**	**46.6**	**70.4**	**34.4**	**60.4**
Regulatory capital to risk-weighted assets					

Source: CBA; international banks.

1 Preliminary figures.
2 Corrected for allocated loan loss provisions.
3 Including unallocated loan loss provisions.
4 The calculation of the risk-weighted capital asset ratio cannot be derived from Table 8.5.

2014, was predominantly associated with an increase in demand deposits held at foreign banks. On the other hand, the investments shrank from Afl. 69.3 million in 2010 to Afl. 11.9 million in 2014. In the five years under review, loans outstanding were quite volatile, peaking at Afl. 171.2 million at the end of 2013. The marked decrease in other assets during the period 2010-2014 reflected for the most part drops in accounts receivable and prepayments related to adjustments in cross-currency swaps and foreign exchange transactions.

In 2014, the aggregate balance sheet total grew by Afl. 36.8 million (12.7 percent) compared to 2013, due to an increase in cash and due from banks of Afl. 163.4 million (444.0 percent), partially offset by decreases in loans outstanding, other assets and investments of, respectively, Afl. 65.9 million (38.5 percent), Afl. 45.1 million (82.4 percent) and Afl. 15.6 million (56.7 percent). The significant upsurge in cash and due from banks at the end of 2014 is associated with the earlier mentioned increase in demand deposits held at foreign banks.

Liabilities

After the significant drop of Afl. 161.6 million (78.1 percent) in time deposits in 2011, the total deposits rose during the period 2012-2014. In 2014, total deposits increased by Afl. 108.1 million (143.6 percent) compared to end-2013, associated with a sharp rise in time deposits of Afl. 109.7 million (235.4 percent) compared to end-2013. The capital and reserves contracted by Afl. 61.8 million (37.7 percent) from 2010 to 2014, predominantly associated with dividend payments over the years. In 2014, capital and reserves rose by Afl. 8.5 million (9.1 percent) to Afl. 102.3 million compared to 2013. This growth was caused mainly by additions from net income to the reserves.

The risk-weighted capital asset ratio of the international banking sector remained very high.

Risk-weighted Capital Asset Ratio

The aggregated risk-weighted capital asset ratio of the international banks varied significantly over the period 2010-2014, peaking at 70.4 percent in 2012 and then after a sharp decline in 2013, rebounding to 60.4 percent in 2014. The marked upsurges in 2012 and 2014 were due primarily to larger declines in the risk-weighted assets (denominator) compared to the increases in the regulatory capital (numerator). The fall in the risk-weighted assets was caused mostly by contractions in other off-balance sheet items related mostly to cross currency swaps transactions and a decrease in commercial term loans outstanding, while the expansions in the regulatory capital were mainly the results of additions of the net income to the reserves and capital injections.

Income Statement

As shown in Table 8.6, the profitability of the international banking sector was quite volatile over the past five years; they reported a net income (before taxes) of Afl. 12.8 million in 2014 compared to a significant loss of Afl. 179.2 million in 2010, related to restatements of foreign exchange transactions and mark-to-market adjustments on cross-currency swap transactions. The combined total expenses showed an inconsistent pattern over the past five years, peaking in 2011 at Afl. 18.9 million and in 2013 at Afl. 18.4 million. At end-2014, total operating income had dropped by Afl. 10.2 million (83.6 percent) to Afl. 2.0 million compared to Afl 12.2 million in 2013, associated with fewer foreign exchange transactions and lower fees and commissions. The net income (before taxes) increased however from Afl. 5.6 million in 2013 to Afl. 12.8 million end-2014, primarily related to higher realized gains from the sale of investment securities.

Table 8.6: Income statement of the international banks
(In Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total income	**-200.1**	**21.5**	**15.6**	**20.1**	**11.7**
a. Net interest margin	17.4	11.8	9.7	7.9	9.7
b. Operating income	-217.5	9.7	5.9	12.2	2.0
2. Total expenses	**3.9**	**18.9**	**7.9**	**18.4**	**14.1**
a. General expenses	4.7	21.0	9.1	13.5	12.7
b. Additions to (release of) the loan provision	-0.8	-2.1	-1.2	4.9	1.4
3. Net income before extraordinary items and taxes	**-204.0**	**2.6**	**7.7**	**1.7**	**-2.4**
4. Net income before taxes	**-179.2**	**42.0**	**80.2**	**5.6**	**12.8**
5. Taxes	**0.0**	**-0.8**	**0.4**	**1.2**	**0.0**
6. Net income	**-179.2**	**42.8**	**79.8**	**4.4**	**12.8**

Source: CBA; international banks.

1 Preliminary figures.

8.1.4 Bank-like institutions

This subsector consists of three institutions: Fundacion Cas pa Comunidad Arubano, AIB Bank N.V., and Island Finance Aruba N.V. These institutions are engaged predominantly in, respectively, mortgage lending to individuals and financing of social housing projects, long-term project financing, and the granting of personal loans for consumptive and home improvement purposes. Their activities are financed mostly by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors.

Assets

Table 8.7 provides an overview of the movement of the aggregated balance sheet total of the bank-like institutions over the past five years. In 2011, the total assets of the bank-like institutions increased by Afl. 20.7 million (3.0 percent) compared to 2010, largely due to a rise in the combined investment portfolio of Afl. 31.0 million (128.6 percent), partially offset by a decrease in cash and due from banks of Afl. 7.9 million. The growth in the combined investment portfolio in 2011 was attributed

Table 8.7: Balance sheet of the bank-like institutions
(End of period in Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total assets	**689.7**	**710.4**	**683.3**	**669.5**	**670.7**
a. Cash & due from banks	47.0	39.1	68.3	64.3	56.5
b. Investments	24.1	55.1	21.9	21.9	25.6
c. Loans	469.2	469.2	431.1	412.5	419.9
- Commercial [2]	150.1	151.0	112.5	100.5	99.3
- Individuals [3]	319.1	318.2	318.6	312.0	317.9
- Government	0.0	0.0	0.0	0.0	2.7
d. Other assets	149.4	147.0	162.0	170.8	168.7
2. Total capital and liabilities	**689.7**	**710.4**	**683.3**	**669.5**	**670.7**
a. Deposits	0.0	0.0	0.0	0.0	0.0
b. Borrowings	371.2	377.1	325.7	277.1	257.4
- Commercial	282.7	257.5	236.1	206.8	192.5
- Individuals	6.9	7.0	7.0	5.5	0.1
- Government	81.6	112.6	82.6	64.8	64.8
c. Other liabilities	31.4	32.5	35.3	42.3	48.2
d. Capital and reserves [4]	287.1	300.8	322.3	350.1	365.1

Source: CBA; bank-like institutions.

1 Preliminary figures
2 Corrected for allocated loan loss provisions.
3 Corrected for unearned income
4 Including unallocated loan loss provisions

largely to an increase in government bonds holdings of Afl. 32.2 million, marginally offset by a decline in non-marketable securities of Afl. 1.2 million. After peaking in 2011, the aggregated balance sheet total fell to Afl. 670.7 million at the end of 2014. The contraction of Afl. 33.2 million (60.3 percent) in the combined investment portfolio in 2012 was largely attributed to a decrease of Afl. 30.0 million (57.8 percent) in government bond holdings.

The outstanding loans exhibited contractions, declining from Afl. 469.2 million in 2010 to Afl. 412.5 million in 2013. At the end of 2014, the bank-like institutions reported total assets of Afl. 670.7 million, a slight increase of Afl. 1.2 million (0.2 percent) compared to 2013, which reflected increases in loans outstanding and investments of, respectively, Afl. 7.4 million (1.8 percent) and Afl. 3.7 million (16.9 percent). The growth in loans outstanding in 2014 was particularly related to upsurges of Afl. 5.9 million and Afl. 2.7 million in, respectively, loans to individuals and the government.

Liabilities

On the liability side, capital and reserves showed a consistent upward trend, rising from Afl. 287.1 million in 2010 to Afl. 365.1 million in 2014, associated mostly with additions from net income to the reserves. The balance sheet item borrowings shrank, dropping from Afl. 371.2 million in 2010 to Afl. 257.4 million at the end of 2014. The drop of Afl. 113.8 million (30.7 percent) in total borrowings over the five-year period was due mostly to reductions of Afl. 90.2 million (31.9 percent) in commercial borrowings and Afl. 16.8 million (20.6 percent) in government borrowings.

Table 8.8: Income statement of the bank-like institutions
(In Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total income	**59.5**	**60.3**	**77.5**	**64.5**	**66.0**
a. Net interest income	39.6	41.3	50.4	42.7	44.9
b. Operating income	19.9	19.0	27.1	21.8	21.1
2. Total expenses	**45.2**	**46.7**	**61.4**	**37.6**	**43.2**
a. Salaries & employee benefits	15.3	17.9	19.4	17.9	18.9
b. Additions to the loan loss provisions	11.7	5.6	20.6	-2.0	3.0
c. Other expenses	18.2	23.2	21.4	21.7	21.3
3. Net income before extraordinary items and taxes	**14.3**	**13.5**	**16.1**	**26.9**	**22.8**
4. Net income before taxes	**16.6**	**14.8**	**20.9**	**31.6**	**22.8**
5. Taxes	**0.5**	**0.5**	**2.3**	**3.7**	**2.5**
6. Net income	**16.1**	**14.3**	**18.6**	**27.9**	**20.3**

Source: CBA; bank-like institutions.

1 Preliminary figures.

Income Statement

As shown in Table 8.8, over the years 2010-2014, total income fluctuated between Afl. 59.5 million and Afl. 77.5 million. The 2012 growth in total expenses was caused mostly by an Afl. 15.0 million (267.9 percent) upsurge in loan loss provisions compared to 2011, while the drop in 2013 was mainly the result of loan loss provision releases. At the end of 2014, total income increased slightly by Afl. 1.5 million (2.3 percent) to Afl. 66.0 million compared to 2013.This increase was attributed largely to an upsurge in net interest income of Afl. 2.2 million (5.2 percent). The total expenses also rose from Afl. 37.6 million in 2013 to Afl. 43.2 million at the end of 2014. This was related mainly to an increase in the loan loss provisions.

Financial Soundness Indicators

The various macroprudential indicators depicted on Table 8.9 show that, on aggregate, the bank-like institutions' sector was sound and profitable during the period 2010-2014.

Capital Asset Ratio

The aggregated risk-weighted capital asset adequacy applicable for these institutions exhibited an increasing trend, rising from 51.5 percent in 2010 to 64.4 percent in 2014, remaining far above the minimum requirement of 14 percent (applicable as of April 1, 2010). This increase can be attributed mainly to a growth of Afl. 80.2 million in the aggregate regulatory capital (numerator), stemming from additions of net income to the reserves.

The asset quality of the bank-like institutions' sector showed a significant improvement over the years under review.

Asset Quality

The asset quality of the bank-like institutions' sector showed a significant improvement during the past five years. The remarkable drop of 6.2 percentage points in the nonperforming loans to gross loans ratio at year-end 2013 compared to year-end 2012 was related in particular to the restructuring of the loan portfolio at one of these supervised institutions. The development in the nonperforming loans ratio of the bank-like institutions is depicted in Charts 3 and 4.

Profitability Indicators

Return on Assets

During the period 2010-2014, the return on assets (before taxes) increased from 2.4 percent end-2010 to 4.8 percent in 2013.

Table 8.9: Core set of macroprudential indicators of the bank-like institutions

(End of period in percentages)

	2010	2011	2012	2013	2014 [1]
1. Capital adequacy					
a. Regulatory capital (Tier I + II) to risk-weighted (minimum 14 percent)	51.5	55.3	60.2	60.5	64.4
b. Regulatory Tier I capital to risk-weighted assets	44.9	49.0	53.2	52.4	57.6
2. Asset quality					
a. Nonperforming loans to gross loans	19.2	15.8	14.9	8.7	8.5
b. Nonperforming loans (net of ALLP) to gross loans [2]	15.2	11.3	9.9	6.6	6.9
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	27.1	18.8	14.5	8.3	8.2
3. Earnings and profitability					
a. Return on assets (before taxes)	2.4	2.2	3.1	4.8	3.5
b. Return on equity (before taxes)	6.4	5.4	7.1	9.9	6.7
c. Return on assets (after taxes)	2.4	2.1	2.7	4.2	3.1
d. Return on equity (after taxes)	6.2	5.2	6.3	8.8	6.0
e. Interest margin to gross income	64.1	67.1	61.3	61.7	68.0
f. Non-interest expenses to gross income	74.0	76.7	77.5	59.7	69.3

Source: CBA; bank-like institutions.

1 Preliminary figures.

2 ALLP: allocated loan loss provision.

Return on Equity

As outlined in Table 8.9, the bank-like institutions historically reported low return on equity ratios, substantially lower than the ratios of the commercial banking sector. However, maximization of shareholders' value, generally speaking, is not the prime objective of all the institutions operating in this market segment. Also, some institutions in this segment maintain very high equity levels, thereby depressing the return on equity ratio. After peaking in 2013 at 9.9 percent, the return on equity (before taxes) declined by 3.2 percentage points to 6.7 percent in 2014.

Net Interest Income

The net interest income to gross income ratio increased from 61.7 percent in 2013 to 68.0 percent in 2014, due to an Afl. 2.2 million increase in the interest margin and an Afl. 3.2 million decline in gross income. The latter was mostly due to a decline in results from subsidiaries.

Non-interest Expenses

The non-interest expenses to gross income ratio hovered between a low of 59.7 percent and a high of 77.5 percent during the period under review, associated largely with the sharp fluctuations in loan loss provisions during these years.

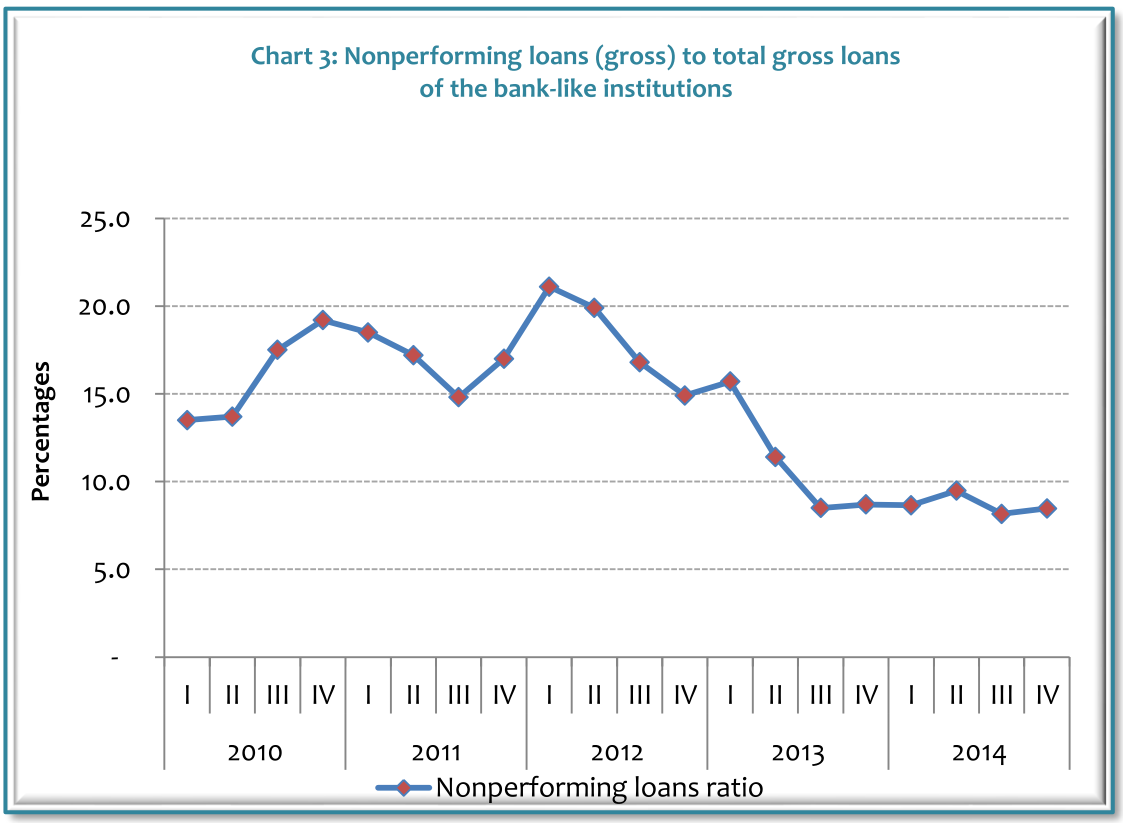


Chart 3: The nonperforming loans (gross) to gross loans ratio dropped from 19.2 percent in 2010 to 8.5 percent at the end of 2014 as a result of a significant decline in nonperforming loans.

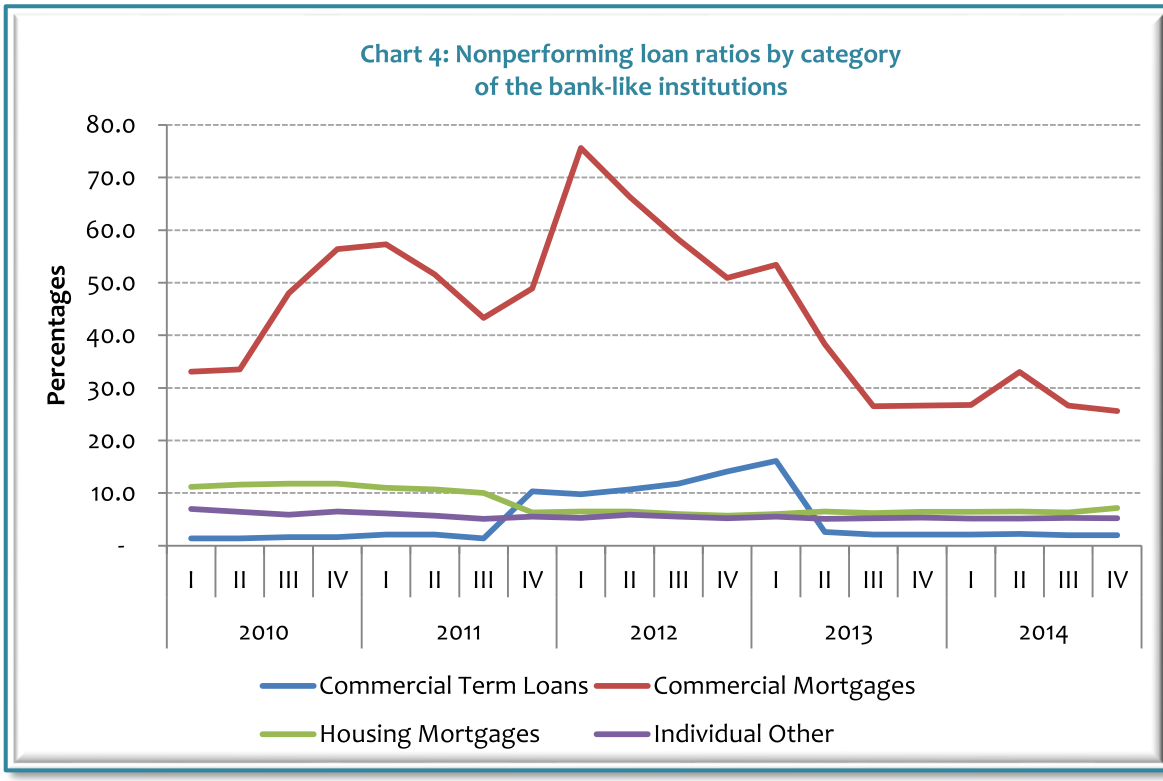


Chart 4: The improvement in the nonperforming loans (gross) to gross loans ratio of the bank-like institutions during 2013-2014 was due mainly to sharp decreases in the nonperforming loans in the commercial mortgages category.

8.2 Money transfer companies

Three registered money transfer companies are registered in Aruba, two of them operational and one ceased its operations. Furthermore, MoneyGram possesses a dispensation under section 10 of the SOSMTC to conduct money transfer activities via Union Caribe N.V., while Western Union is exempted to conduct money transfer activities via Post Aruba N.V. under the same provision.

Table 8.10 shows that the amount of outgoing transfers executed by the money transfer companies fell by Afl. 2.3 million (2.1 percent) to Afl. 106.8 million during the period 2010-2011, thereafter rising by Afl. 3.0 million (2.8 percent) to Afl. 109.8 million in 2014. The main reason for these transfers to abroad is to provide financial support to relatives in the countries of origin of the foreign workers residing in Aruba. A substantial part of Aruba's labor force consists of foreign workers, predominantly from Latin America. Over the period 2010-2011, the number of outgoing transfers dropped by roughly 3,800, from approximately 263,700 in 2010 to about 259,900 in 2011. The number of outgoing transfers rose thereafter by roughly 6,300, to approximately 266,200 in 2014. Colombia remained the main destination to which the funds are transferred via money transfer companies, although its share declined from 50 percent in 2010 to 48.1 percent in 2014 (Chart 5).

The total amount of outgoing money transfers executed through the money transfer sector increased slightly to Afl. 109.8 million in 2014.

The amount of the incoming money transfers grew slightly by Afl. 2.2 million (25.6 percent) to Afl. 20.6 million during the period 2010-2011, subsequently receding by Afl. 4.7 million to Afl. 15.9 million in 2014 as shown in Table 8.11.

Table 8.10: Outgoing money transfers by countries of destination

(End of period in Afl. thousands)

	2010	2011	2012	2013	2014 [1]
1. Total	**109,080**	**106,827**	**107,887**	**109,000**	**109,823**
2. Colombia	54,304	52,157	52,937	52,290	52,201
3. Dominican Republic	16,458	17,058	16,755	18,497	19,994
4. Philippines	6,695	6,671	6,973	7,636	7,963
5. Peru	4,818	4,813	4,509	4,088	3,659
6. Haiti	4,867	4,603	4,660	5,222	5,506
7. Other	21,938	21,525	22,053	21,267	20,500

Source: CBA; money transfer companies.

1 Preliminary figures.

On the other hand, the corresponding number of transfers also decreased from approximately 22,500 in 2010 to around 20,700 in 2014. The incoming transfers originated mainly from the Netherlands and the United States (Chart 6).

Table 8.11: Incoming money transfers by countries of origin

(End of period in Afl. thousands)

	2010	2011	2012	2013	2014 [1]
1. Total	**18,400**	**20,583**	**18,472**	**17,092**	**15,858**
2. Netherlands	6,226	8,169	5,806	4,402	3,833
3. United States	3,880	3,586	3,573	3,966	3,614
4. Colombia	1,720	1,821	1,800	1,872	1,606
5. Netherlands Antilles [2]	989	1,225	1,270	992	908
6. Spain	534	510	379	315	349
7. Other	5,051	5,272	5,644	5,545	5,548

Source: CBA; money transfers companies.

1 Preliminary figures.

2 Since October 2010, the Netherlands Antilles has ceased to exist. As of 2011 onwards, this item comprises Curaçao, Sint Maarten, and the BES islands.

Chart 5: Money transfer outflows by destination

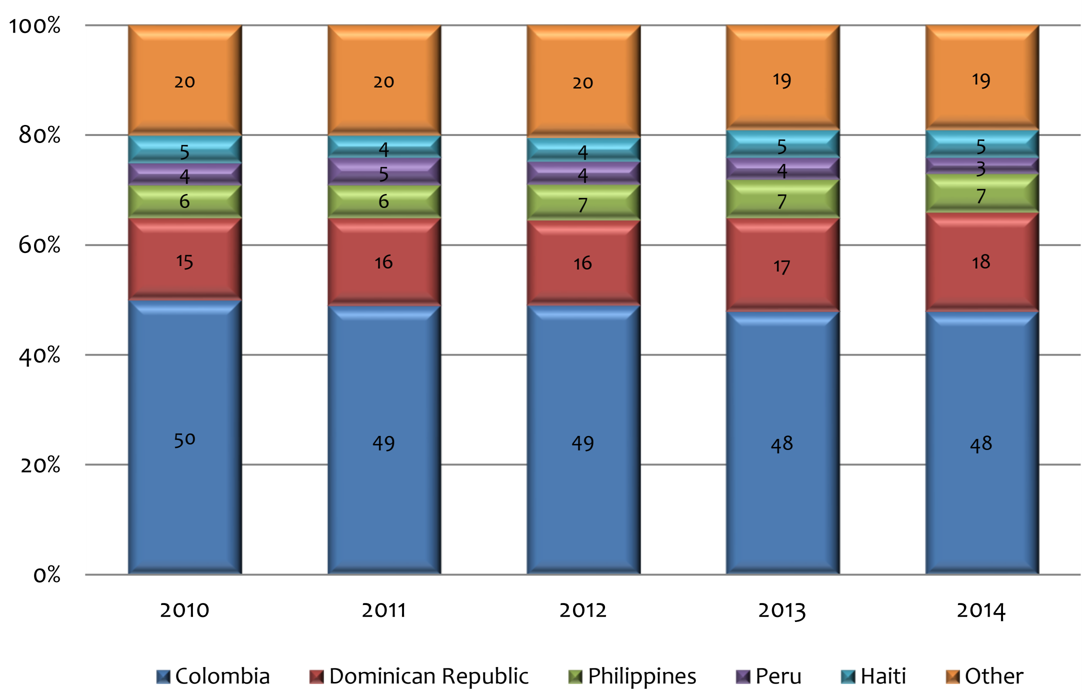


Chart 5: Illustrates the percentage of money transfer outflows from 2010-2014 by destination.

Chart 6: Money transfer inflow by destination

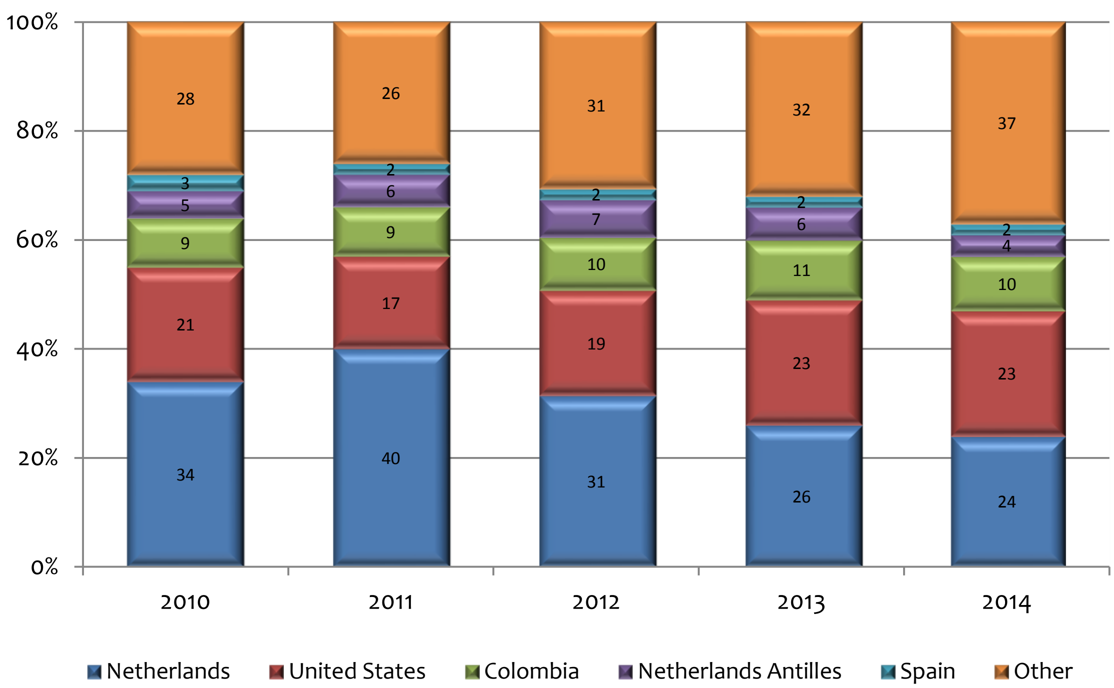


Chart 6: Illustrates the percentage of incoming money transfers by country of origin during 2010-2014.

8.3 Trust service providers

8.3.1 Licensed trust service providers

At the beginning of 2014, 13 trust service providers were included in the CBA's register of licensed trust service providers. In 2014, the licenses of two trust service providers were revoked at their own request, while one new license was issued. At the end of 2014, the number of licensed trust service providers totaled 12. Note that one license application is still under review. This application was submitted in connection with the enactment of the Amending State Ordinance that brought the companies providing trust services domestically under the scope of the State Ordinance on the Supervision of Trust Services Providers under the CBA's supervision.

8.3.2 Trust services provided

The trust service providers give management services to their clients and also often act as registered agents providing domicile to their clients.

8.3.3 Client portfolio

During the period June 2013 through June 2014, the trust sector experienced a slight decrease in the number of clients serviced from 793 in 2013 to 750 in 2014.

8.3.4 Lines of business serviced

The activities of the companies serviced by the trust service providers are mainly in the area of aircraft ownership and registration, investment business, and real estate. The aircraft ownership and registration business remains one of the most common lines of business in which the client companies of the TSP operate. Subject client companies choose to domicile in Aruba due to its excellent standing in aircraft registration.

8.3.5 Ultimate beneficial owners ("UBOs")

The majority of the UBOs of the client companies serviced by the trust service providers reside in Venezuela, Colombia, Europe, and the United States.

8.4 Insurance sector

8.4.1 Supervised institutions

The global financial crisis had only a limited impact on the financial position of the supervised insurance companies in Aruba. This was associated with the relatively low levels of foreign investments held by these institutions, related in part to the 40-60 percent investment rule established by the CBA. This rule sets limits on the foreign investments that institutional investors (including insurance companies and company pension funds) may hold. Nevertheless, some company pension funds incurred significant losses on their foreign investment portfolio due to the global financial crisis.

Table 8.12: Number of supervised institutions within the insurance sector
(End of period)

	2010	2011	2012	2013	2014
1. Total	**34**	**33**	**34**	**35**	**33**
2. Nonlife insurance companies	13	12	12	13	12
3. Life insurance companies	7	6	7	7	7
4. Captive insurance companies	4	4	4	4	4
5. Company pension funds [1]	10	11	11	11	10

Source: CBA.

1 As of January 1, 2011, also including APFA.

At the end of 2014, the coverage ratios of one company pension fund and APFA were still below the minimum requirement of 100 percent. These two pension funds submitted recovery plans to the CBA to restore the coverage ratio up to the 100 percent minimum. The CBA strictly monitors the execution of the recovery plans. Table 8.12 shows the number of supervised nonlife and life insurance companies, captive insurance companies, and company pension funds.

8.4.2 The nonlife insurance sector

Assets

As shown in Table 8.13, the aggregated balance sheet total of the nonlife insurance companies expanded over the period 2009-2013, resulting in total assets of Afl. 297.2 million at the end of 2013. The total assets of this sector are equivalent to 6.4 percent of the nominal GDP. From the end of 2009 to end-2013, total assets grew by Afl. 60.4 million (25.5 percent). This growth can be attributed primarily to increases in the investment portfolio and current assets of, respectively, Afl. 42.8 million (31.2 percent) and Afl. 18.9 million (30.2 percent). In 2013, the total assets of the nonlife insurers increased by Afl. 5.8 million (2.0 percent) compared to 2012, largely due to rises in current assets and intangible assets of, respectively, Afl. 12.8 million (18.6 percent) and Afl. 3.3 million (825.0 percent), partially offset by an Afl. 9.0 million (4.8 percent) decline in investments. The marked rise of Afl. 12.8 million in current assets from 2012 to 2013 was due mainly to an increase in cash and due from banks, while the upsurge in intangible assets was related to an acquisition of the shares of an insurance company by a non-life insurer operating in the Aruban market.

The total combined assets of the nonlife insurance sector almost reached Afl. 300 million as at year-end 2013.

Table 8.13: Balance sheet of the nonlife insurance companies

(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total assets	**236.8**	**247.7**	**271.2**	**291.4**	**297.2**
a. Investments	137.1	158.6	179.0	188.9	179.9
b. Fixed assets	3.0	3.5	3.8	3.6	3.2
c. Due from affiliated companies	34.1	30.0	30.4	29.8	28.9
d. Current assets	62.6	55.6	57.5	68.7	81.5
e. Intangible assets	0.0	0.0	0.5	0.4	3.7
2. Total capital and liabilities	**236.8**	**247.7**	**271.2**	**291.4**	**297.2**
a. Technical provisions	68.2	59.4	56.3	61.8	58.5
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	99.3	113.1	120.1	129.7	133.8
d. Current liabilities	11.3	12.1	16.6	20.2	20.8
e. Capital and reserves	58.0	63.1	78.2	79.7	84.1

Source: CBA; nonlife insurance companies.

Liabilities

On the liability side, amounts due to affiliated companies and current liabilities grew by, respectively, Afl. 34.5 million (34.7 percent) and Afl. 9.5 million (84.1 percent), over the period 2009-2013. On the other hand, when compared to 2009, technical provisions decreased by Afl. 9.7 million (14.2 percent) to Afl. 58.5 million in 2013. Capital and reserves rose from Afl. 79.7 million end-2012 to Afl. 84.1 million in 2013, mainly the result of larger additions from net income to the general reserves.

Investments

Table 8.14 shows that the combined investment portfolio increased during 2009-2012, due largely to rises in bond holdings and time deposits. In 2013, the combined investments declined by Afl. 9.0 million to Afl.

Table 8.14: Investments of the nonlife insurance companies

(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total	**137.1**	**158.6**	**179.0**	**188.9**	**179.9**
2. Shares	0.4	0.4	0.4	0.4	0.5
3. Bonds	62.4	72.1	99.7	101.3	101.4
4. Time deposits	69.8	78.0	70.4	80.2	71.7
5. Loans	4.5	8.1	8.5	7.0	6.3
6. Other investments	0.0	0.0	0.0	0.0	0.0

Source: CBA; nonlife insurance companies.

179.9 million compared to 2012, associated mainly with a drop in time deposits of Afl. 8.5 million (10.6 percent). At the end of 2013, local investments amounted to Afl. 176.7 million (98.2 percent) of the combined investment portfolio of the nonlife insurance sector (end-2012: Afl. 185.2 million or 98.0 percent).

Income Statement

As displayed in Table 8.15, the aggregated net income (before taxes) was quite volatile over the past five years, reporting a record profit of Afl. 16.7 million in 2011 and a low in profits of Afl. 5.9 million in 2012. Over the years 2009-2013, the total income of the nonlife insurance companies fluctuated marginally, reaching Afl. 81.3 million in 2013.

The sector's total expenses fluctuated during the period 2009-2013. From 2012 to end-2013, they decreased from Afl. 75.3 million to Afl. 66.6 million. This drop was caused mainly by a decline in net claims (including changes in technical provisions) of Afl. 9.8 million (27.1 percent). The 2012 peak in net claims reflected primarily a higher claim incidence, mostly in the motor vehicle category.

Net Earned Premium by Indemnity Line

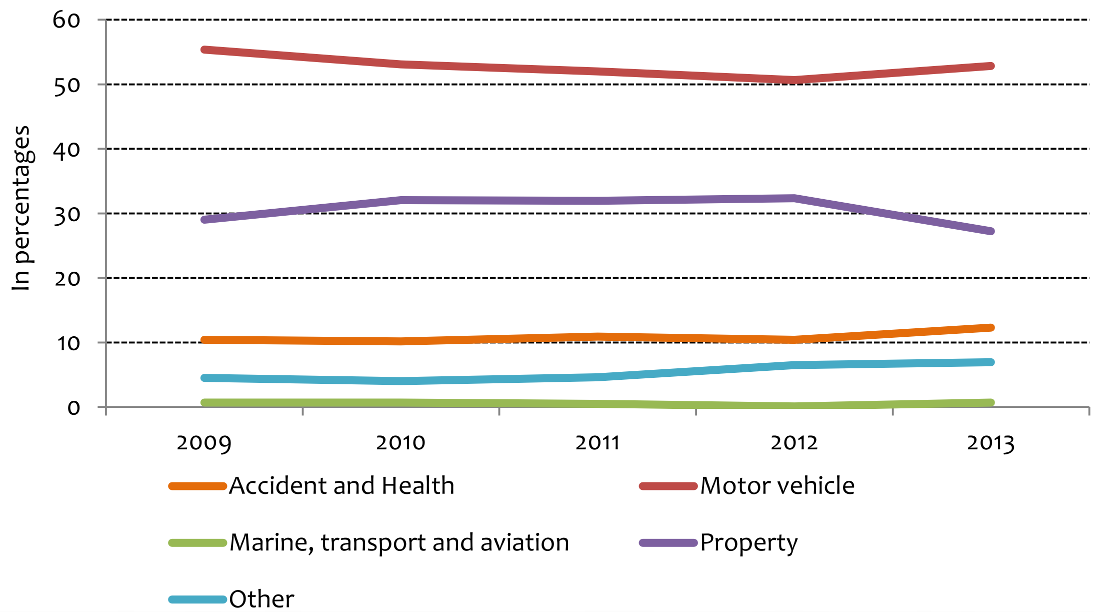
As displayed in Chart 7, the net premiums received in the area of motor vehicle insurance (53 percent) and property insurance (27 percent) remained the main source of income of the nonlife insurance companies in 2013.

Table 8.15: Income statement of the nonlife insurance companies
(In Afl. million)

	2009	2010	2011	2012	2013
1. Total income	**75.6**	**77.2**	**75.6**	**81.2**	**81.3**
a. Net premiums	68.4	70.6	69.8	74.6	74.4
b. Investment income	9.0	7.8	7.5	8.1	8.1
c. Other income	-1.8	-1.2	-1.7	-1.5	-1.2
2. Total expenses	**66.7**	**63.8**	**58.9**	**75.3**	**66.6**
a. Net claims (including changes in technical provisions)	29.4	25.2	22.6	36.1	26.3
b. Commissions	14.0	15.3	15.1	15.5	16.2
c. Management expenses	23.4	23.3	21.2	24.4	24.2
d. Extraordinary items	0.0	0.0	0.0	-0.6	0.0
e. Policyholders' dividends	0.0	0.0	0.0	0.0	0.0
f. Other expenses	-0.1	0.0	0.0	-0.1	-0.1
3. Net income before taxes	**8.9**	**13.4**	**16.7**	**5.9**	**14.7**
4. Taxes	**0.9**	**1.6**	**3.0**	**3.0**	**3.2**
5. Net income	**8.0**	**11.8**	**13.7**	**2.9**	**11.5**

Source: CBA; nonlife insurance companies.

Chart 7: Net earned premium by indemnity line



Prudential Indicators

Liquidity Ratio

As shown in Table 8.16, the liquidity ratio of the nonlife insurance companies decreased during the period 2009-2011, but started to increase thereafter to 23.6 percent in 2012 and 27.4 percent in 2013.

Return on Investment Ratio

The return on investment ratio topped at 6.9 percent in 2009 and stayed unchanged at 4.4 percent during 2011-2013.

Table 8.16: Financial ratios of the nonlife insurance companies

(End of period in percentages)

	2009	2010	2011	2012	2013
1. Liquidity ratio	**26.4**	**22.4**	**21.2**	**23.6**	**27.4**
Current assets to total assets					
2. Return on investments ratio	**6.9**	**5.3**	**4.4**	**4.4**	**4.4**
Investment income to average invested assets					
3. Coverage ratio [1]	**294.6**	**387.5**	**417.1**	**424.1**	**455.3**
Weighted assets less borrowings to technical provisions					

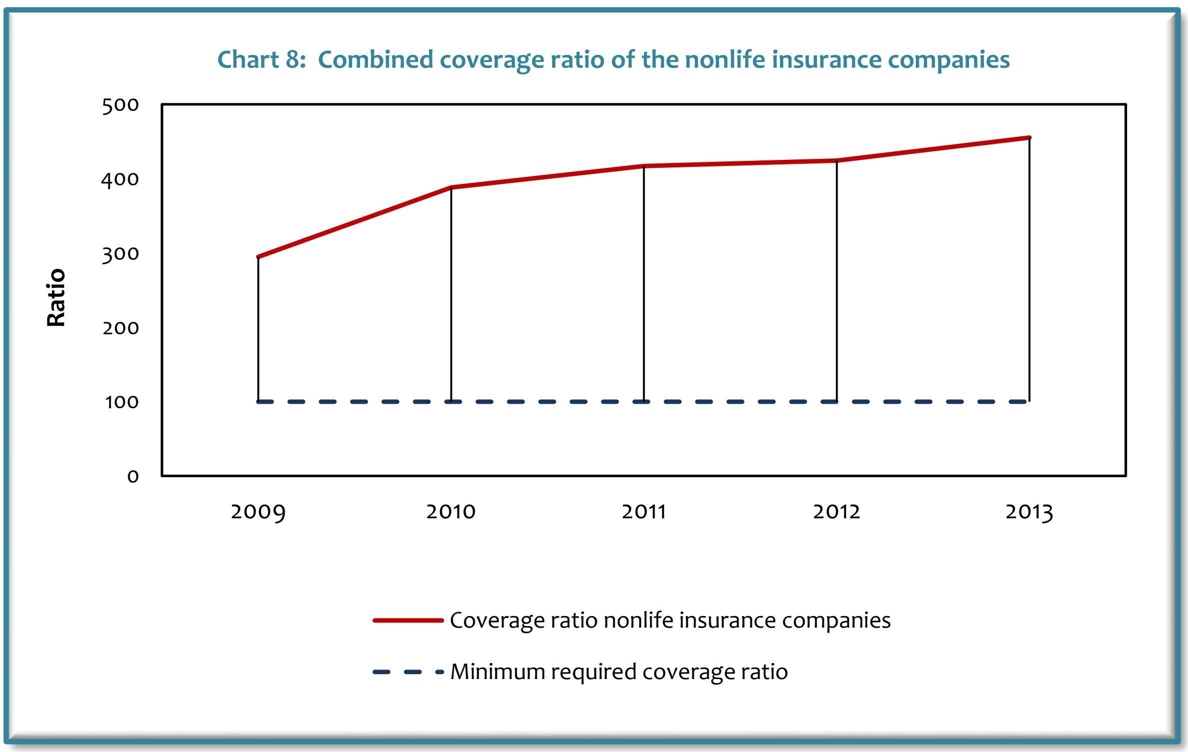
Source: CBA; nonlife insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 8.13.

The coverage ratio of the nonlife insurance sectors showed a consistent upward trend over the years under review.

Coverage Ratio

Over the past five years, the coverage ratio of the nonlife insurance sector showed a consistent upward trend, rising from 294.6 percent in 2009 to a record of 455.3 percent in 2013 (Chart 8). The increase of 160.7 percentage points in the coverage ratio over the past five years was mainly the result of the consistent growth in weighted assets to cover technical provisions. At the end of 2013, the combined coverage ratio of the nonlife insurance companies increased by 31.2 percentage points, mainly the result of a decrease in the aggregated technical provisions (denominator) of Afl. 3.3 million (5.3 percent), compounded by a growth in the weighted assets to cover technical provisions (numerator) of Afl. 4.4 million (1.7 percent). All in all, during the years 2009-2013, the combined coverage ratio of the nonlife insurance companies remained increasingly above the minimum requirement of 100 percent.



8.4.3 The life insurance sector

Assets

As illustrated in Table 8.17, following a consistent rising trend during the period 2009-2013, the aggregated balance sheet total of the life insurance companies in 2013 amounted to Afl. 1,024.1 million (equivalent to 22.1 percent of the nominal GDP). The expansion in total assets of Afl. 315.9 million (44.6 percent) over the past five years was mainly the result of upsurges in current assets, investments, and due from affiliated companies of, respectively, Afl. 161.7 million (343.3 percent), Afl. 113.7 million (19.5 percent), and Afl. 36.3 million (49.9 percent). The upsurges in current assets during the period under review were the result of increases in cash on hand and at banks.

The total assets of the life insurance sector surpassed one billion florin in 2013.

Liabilities

On the liability side, technical provisions, capital and reserves, and amounts due to affiliated companies rose by, respectively, Afl. 232.6 million (43.8 percent), Afl. 65.1 million (57.0 percent), and Afl. 31.6 million (178.5 percent) over the period 2009-2013. The growth in capital and reserves in 2009-2013 was related mainly to increases in paid-in capital as well as additions from net income to the general reserves. The expansion in the amounts due to affiliated companies over the past five years, with the exception of 2011, was the result of intercompany transactions concluded.

Table 8.17: Balance sheet of the life insurance companies
(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total assets	**708.2**	**789.8**	**842.5**	**978.1**	**1,024.1**
a. Investments	583.2	619.3	661.3	696.1	696.9
b. Fixed assets	5.2	4.6	4.9	4.2	9.4
c. Due from affiliated companies	72.7	49.9	54.3	106.1	109.0
d. Current assets	47.1	116.0	122.0	171.7	208.8
2. Total capital and liabilities	**708.2**	**789.8**	**842.5**	**978.1**	**1,024.1**
a. Technical provisions	531.4	586.6	632.6	713.3	764.0
b. Long-term liabilities	1.0	1.0	1.0	1.0	0.9
c. Due to affiliated companies	17.7	38.1	36.3	79.9	49.3
d. Current liabilities	43.8	39.3	38.1	32.1	30.5
e. Capital and reserves	114.3	124.8	134.5	151.8	179.4

Source: CBA; life insurance companies.

Table 8.18: Investments of the life insurance companies
(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total	**583.2**	**619.3**	**661.3**	**696.1**	**696.9**
2. Shares	5.0	22.6	22.9	23.9	26.5
3. Bonds	316.1	327.1	371.0	394.5	438.7
4. Real estate	0.1	0.1	0.2	0.2	0.8
5. Time deposits	119.2	115.1	99.0	100.7	52.6
6. Mortgage loans	97.7	102.8	110.3	114.3	117.4
7. Other loans	45.1	51.6	57.9	62.5	60.9

Source: CBA; life insurance companies.

Investments

The aggregated investments of the life insurance companies showed an upward trend over the period 2009-2013 as shown in Table 8.18. The combined investment portfolio increased in the years under review by Afl. 113.7 million (19.5 percent), mostly due to expansions in bond holdings, shares, and mortgage loans of, respectively, Afl. 122.6 million, Afl. 21.5 million, and Afl. 19.7 million, partially offset by a decline of Afl. 66.6 million in time deposits. The aggregated investments only moved slightly upwards by Afl. 0.8 million

Table 8.19: Income statement of the life insurance companies
(In Afl. million)

	2009	2010	2011	2012	2013
1. Total income	**117.9**	**133.4**	**128.8**	**161.0**	**155.3**
a. Net premiums	75.3	91.1	83.1	114.7	110.9
b. Investment income	37.4	39.7	43.3	44.2	40.3
c. Other income	5.2	2.6	2.4	2.1	4.1
2. Total expenses	**91.0**	**120.6**	**105.8**	**139.3**	**125.0**
a. Net claims	39.9	38.8	37.2	34.1	48.5
b. Change in technical provisions	25.9	52.6	44.8	80.3	47.6
c. Commissions	4.5	4.0	3.7	4.5	4.7
d. Management expenses	17.8	17.9	15.6	17.1	21.9
e. Extraordinary items	0.0	-0.3	0.2	0.0	0.0
f. Policyholders' dividends	2.0	1.4	2.1	1.6	1.3
g. Other expenses	0.9	6.2	2.2	1.7	1.0
3. Net income before taxes	**29.6**	**12.8**	**23.0**	**21.7**	**30.3**
4. Taxes	**1.0**	**2.0**	**0.6**	**1.9**	**0.2**
5. Net income	**25.9**	**10.8**	**22.4**	**19.8**	**30.1**

Source: CBA; life insurance companies.

to Afl. 696.9 million from 2012 to 2013. The composition of the investments changed however. Bond holdings, mortgage loans, and shares rose by respectively, Afl. 44.2 million (11.2 percent), Afl. 3.1 million (2.7 percent), and Afl. 2.6 million (10.9 percent), while time deposits dropped by Afl. 48.1 million (47.8 percent). At the end of 2013, local investments amounted to Afl. 577.8 million (82.9 percent) of the life insurance sector's combined investment portfolio (end 2012: Afl. 586.7 million, or 84.3 percent).

Income Statement

From 2009 to end-2013, the aggregated net premiums went up by Afl. 35.6 million (47.3 percent). The aggregated net income (before taxes) of the life insurance companies fluctuated between Afl. 12.8 million and Afl. 30.3 million in the period 2009-2013, mostly because of highly volatile net premiums earned and changes in technical provisions. The total expenses of the life insurance companies had also been quite volatile, peaking at Afl. 139.3 million in 2012. At the end of 2013, the total expenses of the life insurance companies were Afl. 14.3 million (10.3 percent) lower compared to 2012, associated predominantly with lower additions to the technical provisions of Afl. 32.7 million (40.7 percent), offset in part by expansions in net claims and management expenses of, respectively, Afl. 14.4 million (42.2 percent) and Afl. 4.8 million (28.1 percent).

Prudential Indicators

Liquidity Ratio

Table 8.20 shows that with the exception of the year 2011, the life insurance companies reported an increasing aggregate liquidity ratio over the past five years, reporting a high of 20.4 percent in 2013.

Return on Investments Ratio

The return on investments ratio fluctuated between 6.5 percent and 7.0 percent during 2009-2012, and declined by 0.7 percentage point to 5.8 percent in 2013 compared to 2012.

Table 8.20: Financial ratios of the life insurance companies

(End of period in percentages)

	2009	2010	2011	2012	2013
1. Liquidity ratio	**6.7**	**14.7**	**14.5**	**17.6**	**20.4**
Current assets to total assets					
2. Return on investments ratio	**7.0**	**6.6**	**6.8**	**6.5**	**5.8**
Investment income to average invested assets					
3. Coverage ratio [1]	**117.5**	**129.8**	**123.9**	**120.7**	**123.5**
Weighted assets less borrowings to technical provisions					

Source: CBA; life insurance companies.

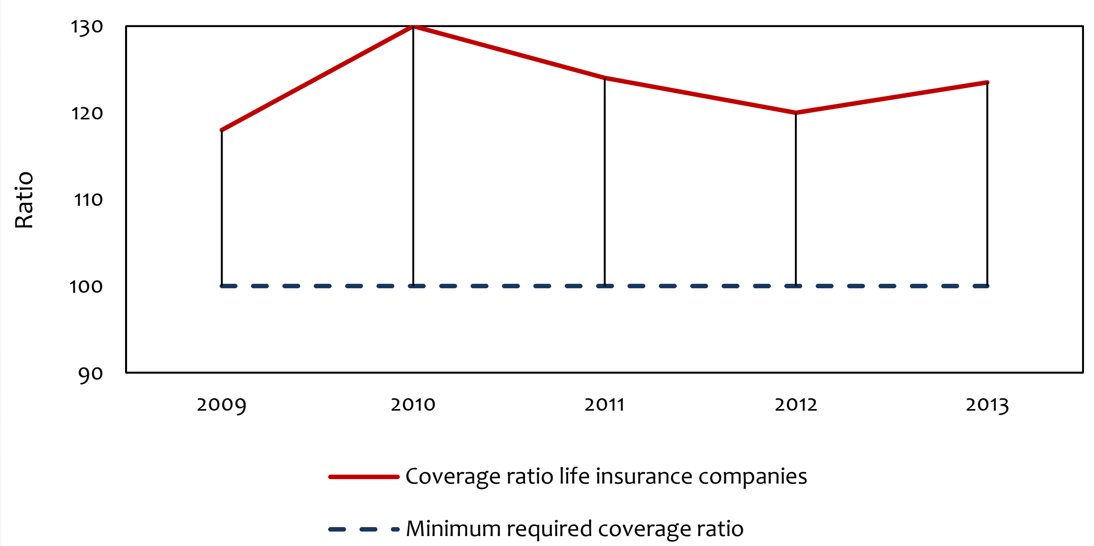
1 The calculation of the coverage ratio cannot be derived from Table 8.17.

Coverage ratio of the life insurance sector increased slightly in 2013.

Coverage Ratio

The coverage ratio contracted from 129.8 percent in 2010 to 120.7 percent 2012 and rose by 2.8 percentage points to 123.5 percent in 2013. The latter increase was primarily the result of a larger growth of Afl. 82.8 million in weighted assets to cover technical provisions (numerator) compared to the increase of Afl. 51.1 million in aggregated technical provisions (denominator). Overall, the combined coverage ratio of the life insurers remained above the minimum requirement of 100 percent during the years 2009-2013 as shown in Chart 9.

Chart 9: Combined coverage ratio of the life insurance companies



8.4.4 The captive insurance sector

The captive insurance sector of Aruba consists of Bancarib Real Insurance Aruba N.V. (Bancarib), Fides Rae Insurance Company N.V. (Fides Rae), MCB Risk Insurance N.V. (MCB Risk), and Mondis Manufacturers Insurance Company N.V. (Mondis).

Bancarib was granted a license to operate as a pure captive life insurance company for Banco di Caribe N.V. and underwrites the life risk of consumer loans for Banco di Caribe N.V. and its subsidiaries.

Fides Rae started its activities as an associative nonlife captive. As of January 1, 2008, Fides Rae changed from an association captive into a rent-a-captive providing disability income coverage (group sickness benefit insurance) to the clients of the Interfisc Group in The Netherlands.

MCB Risk has a license to operate as a pure captive life insurance company in Aruba. MCB Risk underwrites the life risk of consumer loans as well as bankcard debts of Maduro & Curiels Bank N.V. and its subsidiaries.

Mondis has a license to conduct the nonlife pure captive insurance business from Aruba. Mondis provides Property Damage and Transfer coverage to the Sun Chemical Group, which specializes in the manufacture and sale of high quality ink and pigment products.

Table 8.21: Balance sheet of the captive insurance companies

(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total assets	**52.3**	**59.3**	**65.4**	**74.3**	**89.4**
a. Investments	28.2	28.8	31.0	32.1	34.3
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Due from affiliated companies	12.2	14.5	16.8	16.3	20.2
d. Current assets	11.7	15.9	17.6	25.9	34.9
2. Total capital and liabilities	**52.3**	**59.3**	**65.4**	**74.3**	**89.4**
a. Technical provisions	6.0	6.2	6.8	7.6	7.8
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	0.2	0.4	0.2	0.3	4.3
d. Current liabilities	6.8	9.3	9.5	10.3	9.6
e. Capital and reserves	39.3	43.4	48.9	56.1	67.7

Source: CBA; captive insurance companies.

Table 8.22: Investments of the captive insurance companies
(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total	**28.2**	**28.9**	**31.0**	**32.1**	**34.3**
2. Shares	0.0	0.0	0.0	0.0	0.0
3. Bonds	0.0	0.7	2.7	2.7	2.7
4. Time deposits	28.2	28.2	28.3	29.4	31.6

Source: CBA; captive insurance companies.

Assets

As shown in Table 8.21, the aggregated balance sheet total of the captive insurance companies continued to expand during the years under review, representing an increase of Afl. 37.1 million (70.9 percent) from 2009 to end-2013. Total assets grew by Afl. 15.1 million (20.3 percent) from 2012 to the end of 2013, associated mainly with rises in current assets, due from affiliated companies, and investments of, respectively, Afl. 9.0 million (34.7 percent), Afl. 3.9 million (23.9 percent), and Afl. 2.2 million (6.9 percent).

Liabilities

On the liability side, capital and reserves and due to affiliated companies and current liabilities rose by, respectively, Afl. 28.4 million (72.3 percent), Afl. 4.1 million (2,050.0 percent), and Afl. 2.8 million (41.2 percent) over the period 2009-2013. The growth in capital and reserves was related mainly to additions from net income to the reserves.

Investments

As shown in Table 8.22, the increase of Afl. 6.1 million in the combined investment portfolio from 2009 to 2013 was due to expansions in time deposits and bond holdings of, respectively, Afl. 3.4 million and Afl. 2.7 million.

At the end of 2013, the combined investment portfolio of the captive insurance companies increased by Afl. 2.2 million due to a rise in time deposits compared to 2012. At the end of 2013, local investments amounted to Afl. 20.5 million (59.8 percent) of the captive insurance sector's investment portfolio (end 2012: Afl. 26.9 million or 83.8 percent).

Income Statement

As shown in Table 8.23, on an aggregate level, the captive insurance companies operated with positive net results from 2009 to 2013. A total net income (before taxes) of Afl. 18.7 million was reported for 2013 compared to a net income (before taxes) of Afl. 15.8 million in 2009.

Table 8.23: Income statement of the captive insurance companies

(In Afl. million)

	2009	2010	2011	2012	2013
1. Total income	**24.7**	**24.5**	**24.4**	**26.0**	**27.6**
a. Net premiums	23.1	23.1	22.9	24.3	25.5
b. Investment income	1.6	1.4	1.5	1.7	1.7
c. Other income	0.0	0.0	0.0	0.0	0.4
2. Total expenses	**8.9**	**8.5**	**9.3**	**8.7**	**8.9**
a. Net claims	4.0	4.2	5.2	3.7	4.1
b. Change in technical provisions	0.8	0.5	0.4	1.0	0.1
c. Commissions	2.1	1.9	1.8	1.4	1.9
d. Management expenses	2.0	1.9	1.9	2.6	2.8
e. Extraordinary items	0.0	0.0	0.0	0.0	0.0
f. Policyholders' dividends	0.0	0.0	0.0	0.0	0.0
g. Other expenses	0.0	0.0	0.0	0.0	0.0
3. Net income before taxes	**15.8**	**16.0**	**15.1**	**17.3**	**18.7**
4. Taxes	**2.1**	**2.5**	**1.8**	**2.3**	**2.0**
5. Net income	**13.7**	**13.5**	**13.3**	**15.0**	**16.7**

Source: CBA; captive insurance companies.

Prudential Indicators

Liquidity Ratio

The liquidity ratio of the captive insurance companies shown in Table 8.24 illustrates a consistent improvement during the period 2009-2013, rising from 22.6 percent in 2009 to 39.0 percent in 2013.

Return on Investments Ratio

Following a peak of 5.9 percent in 2009, the return on investments ratio fluctuated around 5.0 percent during 2009-2013.

Coverage Ratio

The coverage ratio of the captive insurance companies increased from 854.1 percent in 2009 to 1,125.2 percent in 2013, remaining far above the minimum requirement of 100 percent (Chart 10).

Coverage ratio of the captives remained far above the minimum requirement of 100 percent.

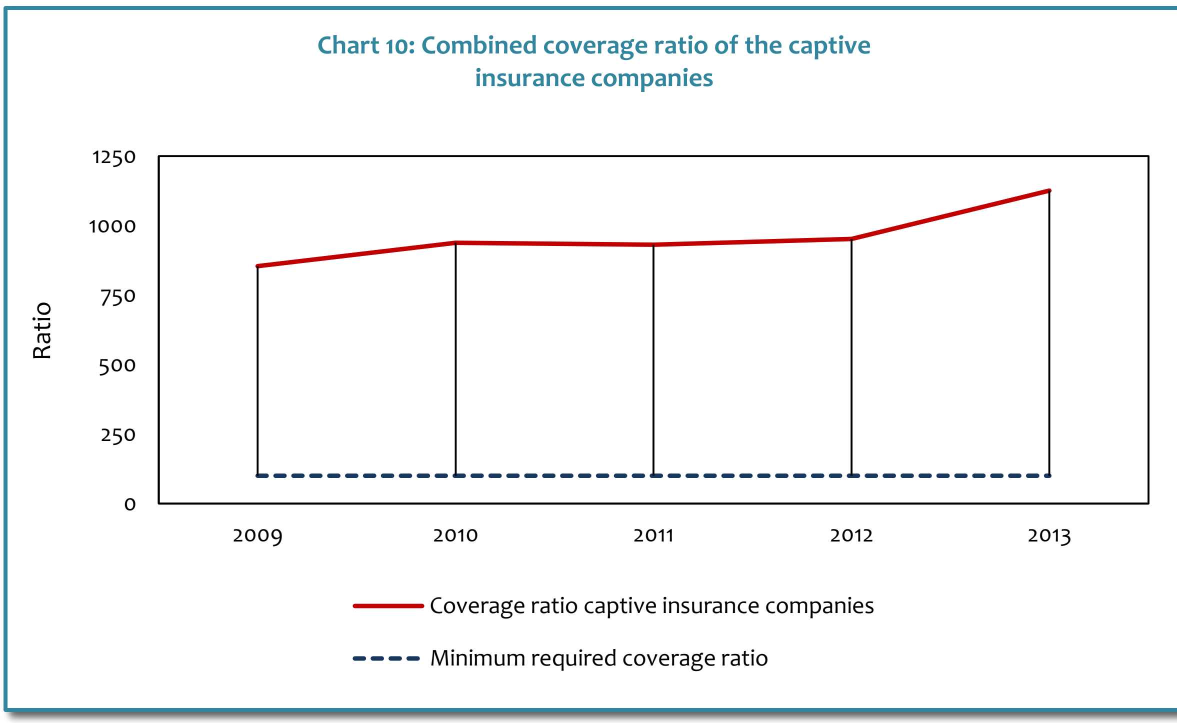
Table 8.24: Financial ratios of the captive insurance companies

(End of period in percentages)

	2009	2010	2011	2012	2013
1. Liquidity ratio	22.6	26.8	26.9	34.9	39.0
Current assets to total assets					
2. Return on investments ratio	5.9	4.9	5.0	5.4	5.1
Investment income to average invested assets					
3. Coverage ratio [1]	854.1	936.5	930.8	950.7	1,125.2
Weighted assets less borrowings to technical provisions					

Source: CBA; captive insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 8.21.



8.4.5 The company pension funds

Assets

Table 8.25 indicates that, in the period 2009-2013, the total assets of the company pension funds (excluding the Lago Annuity Foundation whose pension obligations are covered by a guarantee from the Exxon Mobil Corporation) showed an increasing trend. The balance sheet total of the company pension funds rose from Afl. 240.9 million in 2009 to Afl. 332.0 million at the end of 2013, reflecting a steady growth in the combined investments portfolio of Afl. 76.5 million (34.6 percent). At the end of 2013, total investments were Afl. 41.8 million (16.3 percent) larger than in 2012, partially offset by a decrease of Afl. 11.7 million (25.5 percent) in current assets.

The combined assets of the company pension funds' sector continued its upward trend.

Liabilities

On the liability side, technical provisions and capital and reserves rose by Afl. 87.9 million (42.1 percent) and Afl. 3.1 million (10.4 percent), respectively, over the period 2009-2013. Compared to 2012, technical provisions grew by Afl. 27.5 million (10.2 percent) to Afl. 296.9 million, and capital and reserves expanded slightly by Afl. 2.1 million to Afl. 32.8 million by end-2013. The latter increase is associated with additions from net income to the reserves.

Investments

As shown in Table 8.26, the growth of Afl. 76.5 million (34.6 percent) in investments during the period 2009-2013 was attributed mainly to increases in shares, bond holdings, and other investments of, respectively, Afl. 33.2 million (60.4 percent), Afl. 31.2 million (34.7 percent), and Afl. 17.3 million (63.6 percent). These were, however offset in part by a decrease of Afl. 11.6 million (63.4 percent) in time deposits. After a

Table 8.25: Balance sheet of the company pension funds
(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total assets	**240.9**	**263.4**	**273.8**	**301.9**	**332.0**
a. Investments	221.3	230.6	257.6	256.0	297.8
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Current assets	19.6	32.8	16.2	45.9	34.2
2. Total capital and liabilities	**240.9**	**263.4**	**273.8**	**301.9**	**332.0**
a. Technical provisions	209.0	224.2	247.4	269.4	296.9
b. Long-term liabilities	0.2	0.1	0.1	0.2	0.2
c. Current liabilities	2.0	1.6	2.0	1.6	2.1
d. Capital and reserves	29.7	37.5	24.3	30.7	32.8

Source: CBA; company pension funds.

Table 8.26: Investments of the company pension funds
(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total	**221.3**	**230.6**	**257.6**	**256.0**	**297.8**
2. Shares	55.0	65.3	61.4	73.0	88.2
3. Bonds	89.9	97.7	116.3	99.9	121.1
4. Real estate	13.0	13.3	13.2	13.1	13.8
5. Time deposits	18.3	15.7	8.0	10.9	6.7
6. Mortgage loans	17.9	18.4	21.9	23.0	23.5
7. Other investments	27.2	20.2	36.8	36.1	44.5

Source: CBA; company pension funds.

slight drop in 2012, the investment portfolio continued its rising trend, by Afl. 41.8 million (16.3 percent) to Afl. 297.8 million at the end of 2013. This rise occurred primarily because of upsurges in bond holdings and shares of, respectively, Afl. 21.2 million (21.2 percent) and Afl. 15.2 million (20.8 percent). At the end of 2013, local investments amounted to Afl. 178.0 million (59.8 percent) of the pension sector's investment portfolio (end-2012: Afl. 158.4 million or 61.9 percent).

Income Statement

Table 8.27 shows that the two principal income sources of the company pension funds are premium income and investment income. The aggregated net result of the company pension funds was rather volatile over the past five years, reporting a significant loss of Afl. 13.1 million in 2011. The notable loss incurred in 2011 was due largely to a drop in investment income, originated mainly by the persisting low interest

Table 8.27: Income statement of the company pension funds
(In Afl. million)

	2009	2010	2011	2012	2013
1. Total income	**37.2**	**34.0**	**21.4**	**40.3**	**43.8**
a. Premium income	13.5	14.6	15.9	18.5	20.5
b. Investment income	23.7	19.4	5.5	21.8	23.3
c. Other income	0.0	0.0	0.0	0.0	0.0
2. Total expenses	**25.3**	**26.3**	**34.5**	**33.9**	**41.6**
a. Change in technical provisions	15.4	15.3	23.1	22.1	27.5
b. Pension benefits paid	7.2	7.8	8.5	9.3	10.5
c. Reinsurance net	0.7	0.3	0.3	0.2	0.4
d. Management expenses	1.8	2.0	2.4	2.7	3.2
e. Other expenses	0.2	0.9	0.2	-0.4	0.0
3. Net result	**11.9**	**7.7**	**-13.1**	**6.4**	**2.2**

Source: CBA; company pension funds.

rate environment, in particular in the United States. As of December 2012, the company pension funds reported a total income of Afl. 40.3 million due to a large increase of Afl. 16.3 million (296.4 percent) in investment income in 2012 compared to 2011. With the exception of 2012, the total expenses of the company pension funds grew consistently from 2009 to 2013, associated with upsurges in changes in technical provisions.

Prudential Indicators

Liquidity Ratio

The liquidity ratio of the company pension funds shown in Table 8.28 was quite volatile over the years 2009-2013. The fall in the liquidity ratio of 4.9 percentage points in 2013 compared to 2012 was mainly the result of an Afl. 11.7 million decrease in current assets.

Return on Investments Ratio

After the notable plunge in 2011, the return on investments increased by 6.2 percentage point in 2012 due to the rise of Afl. 16.3 million (296.4 percent) in the investment income. The return on investments declined slightly by 0.1 percentage points to 8.4 percent in 2013 when compared to 2012.

The coverage ratio of the company pension funds' sector decreased slightly, but still remained on aggregate above the minimum of 100 percent.

Coverage Ratio

Chart 11 shows the development of the combined coverage ratio of the company pension funds over the period 2009-2013. After the significant drop in 2011, due mainly to the additions to technical provisions of Afl. 7.8 million (51.0 percent), the combined coverage ratio started to improve, reaching 104.2 percent in 2012, and then decreasing slightly by 0.8 percentage point to 103.4 percent in 2013. In aggregate, the combined coverage ratio remained above the minimum of 100 percent. Note, however, that one company pension

Table 8.28: Financial ratios of the company pension funds

(End of period in percentages)

	2009	2010	2011	2012	2013
1. Liquidity ratio	8.1	12.5	5.9	15.2	10.3
Current assets to total assets					
2. Return on investments ratio	11.3	8.6	2.3	8.5	8.4
Investment income to average invested assets					
3. Coverage ratio [1]	107.0	109.0	101.5	104.2	103.4
Investments & cash minus volatility cushion to technical provisions					

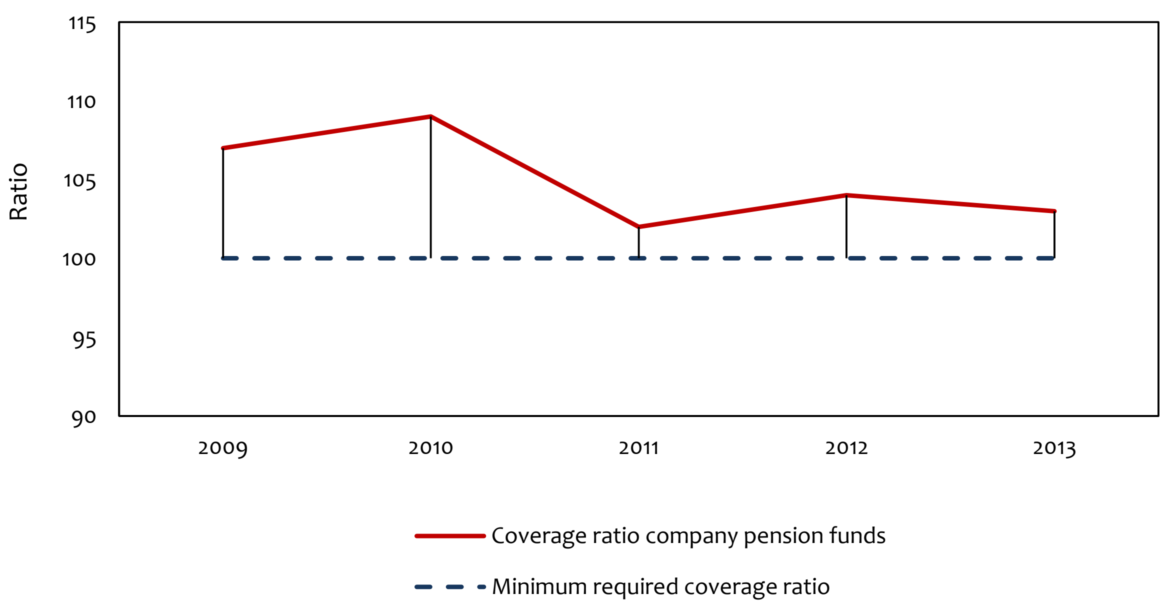
Source: CBA; company pension funds.

1 The calculation of the coverage ratio cannot be derived from Table 8.25.

fund operated with a coverage ratio in 2013 below the required minimum of 100 percent, and was required to design a recovery plan to restore this ratio.

The Stichting Pensioenfonds RBTT Bank Aruba II is in liquidation and transferred its pension obligations to a life insurance company in Aruba. Until the liquidation process has been finalized completely, this pension fund remains under the CBA's supervision.

Chart 11: Development coverage ratio of the company pension funds



8.5 The Civil Servants Pension Fund (APFA)

The State Ordinance on the Privatization of the Civil Servants Pension Fund (AB 2005 No. 2) was enacted in January 2005 and became effective on May 1, 2005. As part of the privatization process, APFA was converted into a foundation on April 29, 2005. In addition, a new pension scheme (the so-called NPR 2005 pension scheme) based on average income was introduced for all new participants in May 2005, while the existing participants remained in the so-called "Pensioenverordening Landsdienaren" (PVL) pension scheme. In August 2010, the Aruban government entered into a series of social dialogues with the relevant stakeholders to discuss, among other things, reforms to the PVL pension scheme to restore its financial viability. After reaching a consensus, the PVL pension scheme was abolished by State Decree of December 27, 2010. Effective January 1, 2011, the participants in the PVL pension scheme were transferred to a more sober pension scheme (the NPR 2011 pension scheme). Participants in the NPR 2005 pension scheme with no relationship to the PVL pension scheme were allowed to remain in the NPR 2005 pension scheme and were not transferred to the NPR 2011 pension scheme. Consequently, although most participants in the NPR 2005 pension scheme were transferred to the NPR 2011 pension scheme, the NPR 2005 pension remains active.

As of January 1, 2011, APFA falls under the supervision of the CBA. Prior to this date, APFA was under the supervision of the Minister of Finance. In view of its significant negative equity position, APFA had to submit a recovery plan to the CBA delineating how the shortfall would be addressed within the agreed-upon timeframe. On July 20, 2012, this proposed recovery plan was approved by the CBA.

In 2013, the Aruban government initiated meetings with relevant stakeholders to further discuss the retrenchment of the NPR 2011. In May 2014, the Aruban government reached an agreement with the relevant stakeholders that the NPR 2011 would be retrospectively revoked as of January 1, 2014, and be replaced with a new pension scheme (NPR 2014). Subsequently, the participants in the NPR 2011 pension scheme were transferred to the NPR 2014 pension scheme, while the NPR 2005 pension remains active. With the introduction of the NPR 2014 pension scheme, the retirement age will gradually increase from 60 years to 65 years. Following the rise of the retirement age and a one-time additional contribution from the employers, APFA's gross coverage ratio reached 100 percent. The net coverage ratio (including a buffer for possible losses on the investment portfolio) as at end-2014 was 92.3 percent, and thus still below the required minimum of 100 percent.

Table 8.29: Balance sheet of APFA
(End of period in Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total assets	**1,946.6**	**1,939.4**	**2,091.3**	**2,242.4**	**2,513.3**
a. Investments	1,746.4	1,820.9	2,005.4	2,138.6	2,408.3
b. Fixed assets	18.1	14.6	13.7	13.0	12.2
c. Current assets	182.1	103.9	72.2	90.8	92.8
2. Total capital and liabilities	**1,946.6**	**1,939.4**	**2,091.3**	**2,242.4**	**2,513.3**
a. Technical provisions	2,379.2	2,421.1	2,547.0	2,698.5	2,453.0
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Current liabilities	6.7	7.3	8.3	6.2	7.3
d. Capital and reserves	-439.3	-489.0	-464.0	-462.3	53.0

Source: CBA; APFA.

1 Preliminary figures.

Total assets of APFA as at year-end 2014 equivalent to 52.7 percent of the estimated nominal GDP for 2014.

Assets

As shown in Table 8.29, in the period 2010-2014, the balance sheet total of APFA displayed an upward trend, with the exception of the year 2011, when it shrank by Afl. 7.2 million to Afl. 1,939.4 million compared to 2010. Total assets rose from Afl. 1,946.6 million in 2010 to Afl. 2,513.3 million in 2014 (equivalent to 52.7 percent of the estimated nominal GDP for 2014), reflecting upsurges primarily in investments of Afl. 661.9 million (37.9 percent), partially offset by a decrease in current assets of Afl. 89.3 million (49.0 percent). In 2014, APFA's total assets expanded substantially by Afl. 270.9 million (12.1 percent) compared to 2013, originating mainly from a significant rise of Afl. 269.7 million (12.6 percent) in investments.

Liabilities

On the liability side, technical provisions rose by Afl. 73.8 million (3.1 percent) to Afl. 2,453.0 million at the end of 2014 compared to year-end 2010. The negative equity recorded during the period 2010-2013 was caused by a substantial loss incurred in 2008 due to the substantial lowering of the actuarial discount rate from 7.0 percent to 5.5 percent and the substantial losses APFA incurred on its foreign investment portfolio as a result of the global financial crisis. The fund's equity improved significantly by end-2014 to a positive Afl. 53.0 million, up from a negative Afl. 462.3 million in 2013. This improvement occurred mostly because of the release in the technical provisions of Afl. 245.5 million (9.1 percent), a receivable on the Aruban government in the amount of Afl. 217.0 million

Table 8.30: Investments of APFA
(End of period in Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total	**1,746.4**	**1,820.9**	**2,005.4**	**2,138.6**	**2,408.3**
2. Shares and convertible bonds	547.0	435.8	143.7	283.2	306.0
3. Bonds and treasury bills	236.1	437.5	826.2	842.2	880.5
4. Real estate	24.1	28.4	50.0	50.0	71.1
5. Time deposits	353.8	235.5	225.5	234.8	167.7
6. Mortgage loans	200.7	231.1	241.3	237.7	229.0
7. Other investments	384.7	452.6	518.7	490.7	754.0

Source: CBA; APFA.

1 Preliminary figures.

that was converted into a long-term loan, and additions from net income to the reserves.

Investments

Table 8.30 shows that the growth in investments during the period 2010-2014 was attributable to increases in the holdings of bonds and treasury bills and other investments of, respectively, Afl. 644.4 million (272.9 percent) and Afl. 369.3 million (96.0 percent). These increases were partially offset by declines in shares and convertible bonds and time deposits of, respectively Afl. 241.0 (44.1 percent) and Afl. 186.1 (52.6 percent). In 2014, investments rose by Afl. 269.7 million (12.6 percent) to Afl. 2,408.3 million compared to

Table 8.31: Income statement of APFA
(In Afl. million)

	2010	2011	2012	2013	2014 [1]
1. Total income	**322.4**	**82.4**	**248.8**	**236.7**	**206.4**
a. Premium income	189.4	43.4	124.6	133.2	73.3
b. Investment income	133.0	39.0	124.2	103.5	133.1
2. Total expenses	**176.0**	**132.4**	**223.7**	**235.0**	**154.4**
a. Change in technical provisions	93.7	42.1	125.9	151.5	42.2
b. Pension benefits paid	73.4	81.9	86.9	92.3	98.4
c. Management expenses	8.9	8.4	10.9	-8.8	13.8
3. Net result	**146.4**	**-50.0**	**25.1**	**1.7**	**52.0**

Source: CBA; APFA.

1 Preliminary figures.

2013, mostly due to increases in other investments of Afl. 263.3 million (53.7 percent). At the end of 2014, foreign investment amounted to Afl. 791.0 million or 32.8 percent of APFA's total investment portfolio (end-2013: Afl. 697.2 million or 32.6 percent).

Income Statement

The profitability of APFA was highly volatile during the period 2010-2014 as shown in Table 8.31. After peaking at Afl. 146.4 million in 2010, APFA recorded a net loss of Afl. 50.0 million in 2011. This loss was associated primarily with contractions in premiums and investment income of, respectively, Afl. 146.0 million (77.1 percent) and Afl. 94.0 million (70.7 percent) compared to 2010.

In 2014, APFA recorded a net profit of Afl. 52.0 million, an increase of Afl. 50.3 million compared to the previous year. This increased profit was associated mostly with lower additions to the technical provisions of Afl. 109.3 million (72.1 percent) and a growth in investment income of Afl. 29.6 million (28.6 percent), offset in part by a decrease in premium income of Afl. 59.9 million (45.0 percent). In 2011 and 2014, the additions to technical provisions were significantly lower because of transitions to the NPR 2011 and NPR 2014 pension schemes.

Prudential Indicators

Liquidity Ratio

As shown in Table 8.32, APFA's liquidity ratio declined from 9.4 percent in 2010 to 3.7 percent in 2014, due to a decrease in current assets, predominantly associated with declines in receivables and prepayments during the past years.

Return on Investments Ratio

The return on the investments ratio varied significantly during the period 2010-2014 mainly because of the volatility in investment income. The ratio hovered between a high of 8.1 percent in 2010 and a low of 2.2 percent in 2011.

Table 8.32: Financial ratios of APFA

(End of period in percentages)

	2010	2011	2012	2013	2014 [1]
1. Liquidity ratio	9.4	5.4	3.5	4.1	3.7
Current assets to total assets					
2. Return on investments ratio	8.1	2.2	6.5	5.0	5.9
Investment income to average invested assets					
3. Coverage ratio [2]	69.5	70.7	76.0	75.6	92.3
Investments & cash minus volatility cushion to technical provisions					

Source: CBA; APFA.

1 Preliminary figures.

2 The calculation of the coverage ratio cannot be derived from Table 8.29.

Coverage Ratio

The net coverage ratio improved in the five years under review, rising from 69.5 percent in 2010 to a record of 92.3 percent in 2014, but still below the minimum required coverage ratio of 100 percent (Chart 12).

APFA's net coverage ratio reached 92.3 percent in 2014, but remained still below the required minimum of 100 percent.

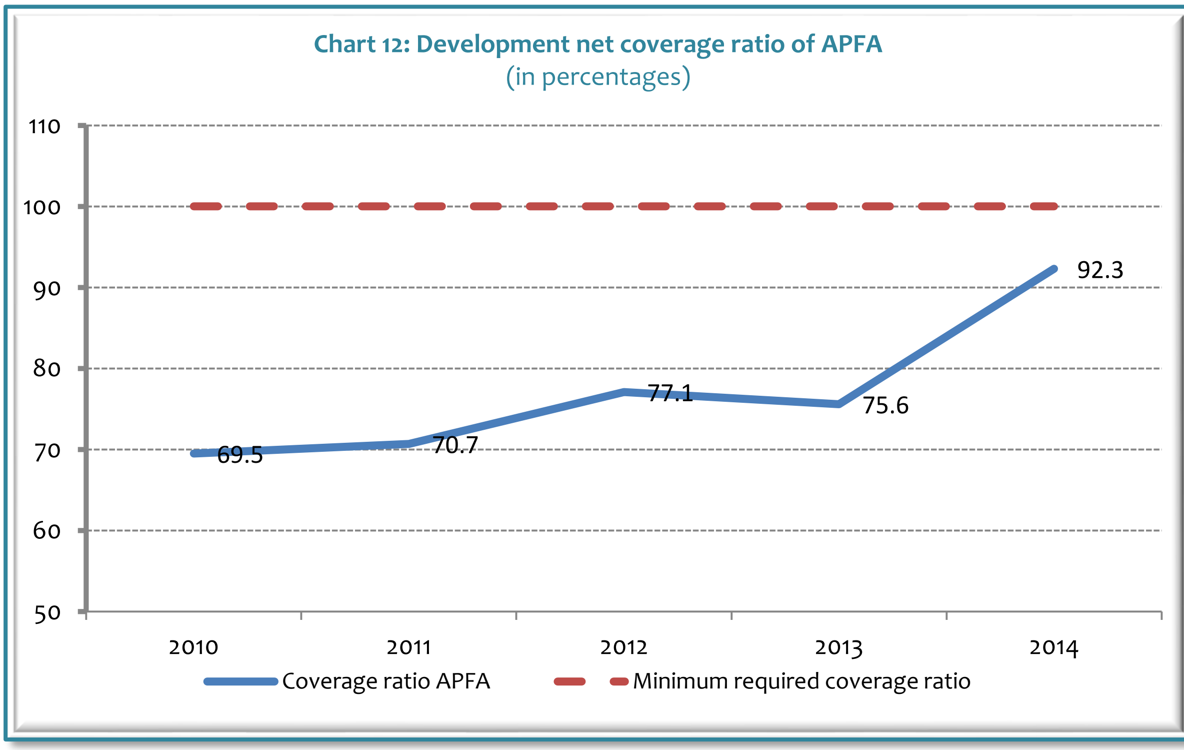


Chart 12: Development of the net coverage ratio of the APFA over the five-year period 2010-2014.

8.6 The Social Security Bank (SVB)

SVB is responsible for the execution of the following state ordinances:

- State Ordinance on Sickness Insurance (ZV);
- State Ordinance on Accident Insurance (OV);
- State Ordinance on Cessantia (Cessantia);
- State Ordinance on the General Old Age Pension Fund (AOV);
- State Ordinance on the General Widowers and Orphans Insurance (AWW).

The ZV, OV, and Cessantia are employee insurance schemes, while the AOV and the AWW are general pension schemes. Furthermore, SVB is entrusted with the management of the so-called "Schommelfonds ZV/OV" and the "Schommelfonds AOV/AWW". In addition, as of July 1, 2007, the SVB took over the tasks of the occupational health services (BGD).

Assets

The consolidated balance sheet of the SVB is provided in Table 8.33. Total assets amounted to Afl. 165.5 million (equivalent to 3.6 percent of the nominal 2013 GDP) in 2013, a decrease of Afl. 115.3 million (41.1 percent) compared to 2009. This notable contraction in total assets in 2013 was mainly the result of a significant decline of Afl. 153.9 million (84.9 percent) in investments compared to the end of 2009, partially offset by increases in current assets and fixed assets of, respectively, Afl. 29.1 million (63.1 percent) and Afl. 9.5 million (17.8 percent). In 2013, SVB reported total assets of Afl. 165.5 million, an Afl. 24.4 million (12.8 percent) decrease in its assets compared to 2012, predominantly associated with a decline of Afl. 31.4 million (29.5 percent) in current assets.

Liabilities

On the liability side, capital and reserves declined by Afl. 122.6 million (46.4 percent) from 2009 to 2013, mainly as a result of net losses incurred. The downturn in capital and reserves at the end of 2013 is attributable to the net loss of Afl. 26.2 million incurred in 2013.

Table 8.33: Aggregated balance sheet of SVB
(End of period in Afl. million)

	2009	2010	2011	2012	2013
1. Total assets	**280.8**	**232.6**	**194.6**	**189.9**	**165.5**
a. Investments	181.2	147.0	98.3	23.2	27.3
b. Fixed assets	53.5	55.8	57.8	60.1	63.0
c. Current assets	46.1	29.8	38.5	106.6	75.2
2. Total capital and liabilities	**280.8**	**232.6**	**194.6**	**189.9**	**165.5**
a. Current liabilities	16.7	14.5	14.7	22.2	24.0
b. Capital and reserves	264.1	218.1	179.9	167.7	141.5

Source: CBA; SVB.

Table 8.34: Investments of SVB (End of period in Afl. million)	2009	2010	2011	2012	2013
1. Total	**181.2**	**147.0**	**98.3**	**23.2**	**27.3**
2. Loans	38.1	25.6	22.0	17.4	17.0
3. Shares	0.1	0.1	0.1	0.1	0.1
4. Bonds	50.5	49.6	47.7	5.2	5.2
5. Time deposits	92.5	71.7	28.5	0.5	5.0

Source: CBA; SVB.

Investments

As can be derived from Table 8.34, total investments trended downward during 2010-2012, amounting to Afl. 23.2 million at the end of 2012, but increasing marginally to Afl. 27.3 million in 2013. The Afl. 4.1 million (17.7 percent) rise in the 2013 investment portfolio compared to 2012 reflects chiefly an increase of Afl. 4.5 million in time deposits.

Income Statement

As seen in Table 8.35, SVB's total income improved over the period 2011-2012; however,

SVB's net financial situation further deteriorated to an Afl. 26.5 million (115.4 percent) loss in 2013 compared to 2012. This higher net loss occurred mainly because expenses, more specifically the claims paid by

Table 8.35: Aggregated income statement of SVB[1] (In Afl. million)	2009	2010	2011	2012	2013
1. Total income	**241.9**	**215.2**	**240.4**	**265.1**	**286.0**
a. Premium income	222.2	197.4	224.5	247.7	276.3
b. Other income	19.7	17.8	15.9	17.4	9.7
2. Total expenses	**250.2**	**261.2**	**278.3**	**277.4**	**312.5**
a. Claims paid	233.6	242.4	259.5	258.5	292.3
b. Interest expenses	4.3	4.5	4.6	4.9	4.9
c. Administrative expenses	12.3	14.3	14.2	14.0	15.3
3. Net result	**-8.3**	**-46.0**	**-37.9**	**-12.3**	**-26.5**

Source: CBA; SVB.

1 Prepared on a cash-basis.

Afl. 35.1 million (12.7 percent), increased more than total income, which grew by Afl. 20.9 million (7.9 percent). All in all, SVB's financial position remains vulnerable. In the Social Dialogue of 2013 a consensus was reached with the social partners on a reform to alleviate the financial position of the AOV-fund.

The reform in the old age pension consists of the following measures:

- A gradual annual increase of the pension age of 0.5 year from 60 to 65.
- An increase of the premium percentage by 2 percent over a two year period from 12.5 percent to 14.5 percent.
- An increase of the premium ceiling from Afl. 65.052 to Afl 85.000.

It is expected that these measures will significantly reduce the pressure on the AOV fund.

8.7 The General Health Insurance (AZV)

The AZV is an obligatory insurance introduced as per January 1, 2001. Everyone registered as a resident at the Census Office is insured with the AZV. The AZV premium is 11.5 percent of one's annual income: employers pay 8.9 percent and employees contribute 2.6 percent of their salary up to a maximum annual income of Afl. 85,000. Each month, the premium must be withheld from the salary of employed person and transferred by the employer to the Tax Collector's Office.

As of December 1, 2014, the National Ordinance Health Levy, the so-called "Bestemmingsheffing AZV" went into effect. Based on this Ordinance, a one (1) percent Health Levy is levied on business turnover realized by entrepreneurs within the framework of their business or profession related to the supply of goods and services in Aruba.

Assets

As depicted in Table 8.36, over the five-year period from 2010 to 2014, the AZV's balance sheet total showed an overall growth of Afl. 12.8 million (24.6 percent) totaling Afl. 64.8 million at the end of 2014. The balance sheet total at year-end 2014 was equivalent to 1.4 percent of the estimated nominal GDP for 2014. The expansion in the total assets during 2010-2014 was associated mainly with higher current assets.

Liabilities

In 2014, the (current) liabilities were Afl. 12.8 million (24.6 percent) higher than in 2010. AZV does not maintain capital and reserves because its financial deficits must be covered by the Aruban government.

Table 8.36: Balance sheet of AZV
(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total assets	**52.0**	**56.9**	**60.2**	**63.3**	**64.8**
a. Fixed assets	2.2	2.3	1.8	1.4	1.0
b. Current assets	49.8	54.6	58.4	61.9	63.8
2. Total capital and liabilities	**52.0**	**56.9**	**60.2**	**63.3**	**64.8**
a. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
b. Current liabilities	52.0	56.9	60.2	63.3	64.8

Source: CBA; AZV.

Table 8.37: Income statement of AZV
(In Afl. million)

	2010	2011	2012	2013	2014
1. Total income	**332.6**	**351.7**	**367.2**	**366.4**	**385.7**
a. Premium income	186.4	235.9	250.1	248.7	258.8
b. Other income	146.2	115.8	117.1	117.7	126.9
2. Total expenses	**348.7**	**359.4**	**369.9**	**370.9**	**385.9**
a. Health care expenses	330.6	342.7	353.3	354.8	368.3
b. Interest expenses	0.0	0.0	-0.1	-0.3	-0.1
c. Administrative expenses	18.1	16.7	16.7	16.4	17.7
3. Net result	**-16.1**	**-7.7**	**-2.7**	**-4.5**	**-0.2**

Source: CBA; AZV.

Income Statement

AZV consistently recorded negative results over the past five years mainly because of healthcare expenses exceeded total income (the latter also includes the yearly government contribution). These results are shown in Table 8.37. Total income rose from Afl. 332.6 million in 2010 to Afl. 385.7 million in 2014 due largely to an increase of Afl. 72.4 million (38.8 percent) in premium income.

On a positive note, AZV almost broke even at year-end 2014, reporting a net loss of only Afl. 0.2 million in 2014, an improvement of Afl. 4.3 million (95.6 percent), compared to 2013.

Considering the expected continuing aging of the Aruban population, the AZV scheme needs further reform to improve its sustainability. Introducing consumer co-payments should be considered as part of a package of measures to further reduce or at least to slow down the growth in the healthcare costs.

Annexes

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Annex 1: Overview of the supervisory and AML/CFT laws whose execution is entrusted to the CBA[2]

State Ordinance on the Supervision of the Credit System (SOSCS)	AB 1998 no. 16
State Ordinance on Company Pension Funds (SOCPF)	AB 1998 no. GT 17
State Ordinance on the Supervision of the Insurance Business (SOSIB)	AB 2000 no. 82
State Decree Captive Insurance Companies (SDCIC)	AB 2002 no. 50
State Ordinance on the Supervision of Money Transfer Companies (SOSMTC)	AB 2003 no. 60
Sanction State Ordinance 2006	AB 2007 no. 27
State Ordinance on the Supervision of Trust Service Providers (SOSTSP)	AB 2009 no. 13
State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AML/CFT State Ordinance)	AB 2011 no. 28
State Decree on the Supervision of Insurance Brokers (SDSIB)	AB 2014 no. 6

Source: CBA.

[2] Excluding the subsidiary legislation giving effect to certain provisions contained in these ordinances.

Annex 2: Financial institutions supervised by the CBA (December 31, 2014)

1. Banking sector[3]

1.1 Commercial banks

Aruba Bank N.V.

Banco di Caribe (Aruba) N.V.

Caribbean Mercantile Bank N.V.

RBC Royal Bank (Aruba) N.V.

FirstCaribbean International Bank (Cayman) Limited – Aruba Branch

1.2 International banks

Citibank Aruba N.V.

BBA Bank N.V.

1.3 Mortgage banks

Fundacion Cas pa Comunidad Arubano (FCCA)

1.4 Credit unions

Coöperatieve Spaar- en Kredietvereniging Douane Aruba

Cooperativa di Ahorro y Prestamo Aruba (CAPA)

1.5 Other financial institutions

AIB Bank N.V.

Island Finance Aruba N.V.

[3] Supervision by virtue of the State Ordinance on the Supervision of the Credit System (AB 1998 no. 16).

2. Money transfer sector[4]

2.1 Money transfer companies

Global Access Corporation N.V.

Post Aruba N.V.

Union Caribe N.V.

3.Trust sector[5]

3.1 Trust service providers

AMTR N.V.

SGG Management (Aruba) N.V.

Aruba International Trust Company N.V.

Arulex Trust Services N.V.

Ascor Trust (Aruba) N.V.

C.T.F. (Aruba) N.V.

Curado Trust (Aruba) N.V.

Euro Trust International N.V.

IMC International Management & Trust Company N.V.

Orangefield Trust (Aruba) N.V.

United Trust Management (Aruba) UTM N.V.

Standard Trust Company N.V.

[4] Supervision by virtue of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003 no. 60).

[5] Supervision by virtue of the State Ordinance on the Supervision of Trust Service Providers (AB 2009 no. 13).

4. Institutional investors' sector

4.1 Company Pension Funds[6]

Lago Annuity Foundation
Stichting Algemeen Pensioenfonds Aruba (APFA)
Stichting Bedrijfspensioenfonds Aruba
Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico
Stichting Pensioenfonds Caribbean Mercantile Bank N.V.
Stichting Pensioenfonds Havenwerkers Aruba
Stichting Pensioenfonds META Bedrijven Aruba
Sitchting Pensioenfonds RBTT Bank Aruba I
Stichting Pensioenfonds RBTT Bank Aruba II
Stichting Pensioenfonds Tourist Sector Aruba

5. Insurance Companies[7]

5.1 Life insurance companies

American Bankers Life Assurance Company of Florida Limited, Agency
American Life Insurance Company, Aruba Branch[8]
British-American Insurance Company (Aruba) N.V.
Ennia Caribe Leven (Aruba) N.V.
Fatum Life Aruba N.V.
Pan-American Life Insurance Company of Aruba V.B.A.
Sagicor Life Aruba N.V.

5.2 Captive insurance companies

Bancarib Real Insurance Aruba N.V.
Fides Rae Insurance Company N.V.
MCB Risk Insurance N.V.
Mondis Manufacturers Insurance Company N.V.

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[6] Supervision by virtue of the State Ordinance on Company Pension Funds (AB 1998 no. GT 17).
[7] Supervision by virtue of the State Ordinance on the Supervision of the Insurance Business (AB 2000 no. 82).
[8] Pursuant to Section IX of the Implementation Ordinance on the State Ordinance on the Supervision of the Insurance Business (AB 2001 no. 91). Subject insurance companies also are allowed to conduct nonlife insurance business in the indemnity group accident and health insurance.

5.3 Nonlife (general) insurance companies

	Accident & health	Motor vehicle	Maritime, transport, & aviation	Fire & other property	Other indemnity
Aruba AIG Insurance Company N.V.	X	X	X	X	X
Best Doctors Insurance V.B.A.	X				
Bupa Insurance Company, Agency	X				
Elvira Verzekeringen N.V.					X
Ennia Caribe Schade (Aruba) N.V.	X	X	X	X	X
Fatum General Insurance Aruba N.V.	X	X	X	X	X
NAGICO Aruba N.V.	X	X	X	X	X
Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	X	X	X	X	X
Stichting Fondo Nacional di Garantia pa Vivienda					X
The New India Assurance Co. Ltd.; Aruba Branch	X	X	X	X	X
TRESTON Insurance Company (Aruba) N.V.[9]	X	X	X	X	X
United Insurance Company N.V.[10]	X	X	X	X	X

Source: CBA.

[9] Said company is in the process of running off its insurance portfolio.
[10] As of April 23, 2015, United Insurance Company N.V. changed its name into Massy United Insurance Aruba N.V.

Annex 3: Financial institutions in possession of an exemption as meant in section 48, paragraph 3, of the SOSCS and section 10, paragraph 1, of the SOSMTC[11]

1.1 Pawnshops

't Juwelenhuisje N.V.

Estrella America N.V.

Compra y Venta El Triunfo N.V.

1.2 Finance companies

H.J. Ruiz N.V.

Volkskredietbank

1.3 Money transfer companies

MoneyGram International Inc.

Western Union Financial Services International Inc.

[11] The CBA's oversight is limited to overseeing compliance with the conditions under which these institutions were exempted.

Annex 4: Changes in the registers of supervised institutions and shareholding

Banking sector

- On September 19, 2014, and in accordance with section 24, paragraph 1, of the SOSCS, the CBA granted a license to FirstCaribbean International Bank (Cayman) Limited to pursue the business of a credit institution through a branch in Aruba pursuant to section 24, paragraph 1, of the SOSCS.

Insurance sector

- On November 4, 2014, and in accordance with section 8, paragraph 1, subsection b of the SOSIB, the CBA revoked, on request, the license of Royal & Sun Alliance Insurance (Antilles) N.V. issued by the CBA on May 3, 2002 to conduct the non-life insurance business via a branch in Aruba.

Pension funds

- On July 10, 2014, and in accordance with the judicial decision of the Court of First Instance of Aruba with regard to the liquidation of the Stichting Pensioenfonds N.V. Aruba Bank, the CBA removed the foundation from its list of supervised company pension funds.

Money transfer sector

- As of December 31, 2013, Global Access Corporation N.V. ceased its operations.

Trust sector

- In accordance with section 18, paragraph 1, of the SOSTSP, the CBA revoked upon request, the licenses of C.M.S Corporate Management Services N.V. and Nazca Services N.V. to conduct the business of a trust service provider as referred to in section 4, paragraph 1, of the SOSTSP, on March 19, 2014 and August 14, 2014.

Annex 5: Integrity and suitability testing

Integrity and suitability testing 2014						
Sector	Banking	Insurance companies	Company pension funds	Money transfer companies	Trust service providers	Insurance brokers
Pending as of January 1, 2014	**16**	**22**	**4**	**-**	**-**	**-**
New requests	19	13	8	3	2	33[12]
Reassessments	-	-	-	-	-	-
Withdrawn requests	3	1	1	-	-	-
Rejected requests	-	-	-	-	-	-
Approved	6	6	2	-	1	-
Conditionally approved	1	2	3	-	-	-
Assessment ceased	5	1	-			-
Pending as of December 31, 2014	**20**	**25**	**6**	**3**	**1**	**33**

Source: CBA.

[12] The integrity and suitability testing forms part of the assessment of the license applications.

Annex 6: Supervisory activities

As of January 1, 2011, the former *Integrity Unit* became a separate department within the CBA. The decision to split the Supervision Department into a Prudential Supervision Department (PSD) and an Integrity Supervision Department (ISD) was motivated by the increasing size and complexity of the CBA's oversight in the broad area of integrity supervision, including the prevention and combating of money laundering and financing of terrorism, thereby requiring specialized personnel.

Tasks

The main tasks of the PSD are (1) to monitor the financial soundness of the institutions that attract funds from the public through on-site visits and ongoing offsite surveillance; (2) to evaluate requests for approval emanating from the different supervisory laws, such as changes in group structure, changes in business plans, and new banking or insurance license requests; (3) to conduct integrity and suitability testing on an ongoing basis of managing and supervising directors as well as individual shareholders that fall under the scope of the SOSCS, SOSIB and SOCPF; (4) to conduct regular on-site examinations in the areas of corporate governance risk management, asset quality, and prudential requirements (including compliance with the minimum prudential solvency and liquidity ratios) ; (5) to conduct periodic stress tests on the commercial banking sector; and (6) to monitor international developments in the area of prudential supervision and to translate these into supervisory policy directives and policy papers, and to incorporate them in the CBA's supervisory practices. Reference is made to Box 3 for an overview of the main supervisory activities of the PSD in 2014.

The main tasks of the ISD are (1) to oversee compliance with the laws and regulations in the area of AML/CFT; (2) to foster the integrity of the sectors supervised via periodic risk-based on-site visits and off-site surveillance; (3) to conduct on an ongoing basis integrity and suitability testing of managing and supervisory directors, as well as individual shareholders that fall under the scope of the SOSTSP, SOSMTC; (4) to identify and take action against parties that operate on the Aruban financial market without a license, registration, or dispensation from the CBA; and (5) to closely monitor international developments in the area of AML/CFT and translating these developments into supervisory directives and practices. In addition, the ISD is entrusted with the execution of the state ordinances that are primarily focused on maintaining a high level of integrity of the company service providers and money transfer business (SOSTSP, SOSMTC), the regulation of pawn shops/ compra y benta companies (requiring a dispensation in accordance with article 48 of the SOSCS), as well as the supervision of insurance brokers (SDSIB). In the ordinances with dual objectives, the PSD has the lead, but works closely with ISD if the issues are related to integrity including but not limited to AML/CFT matters. Reference is made to Box 4 for an overview of the main supervisory activities of the ISD in 2014.

Box 3: Overview of the main supervisory activities of the PSD in 2014

In 2014, the PSD, which consisted at year-end 2014 of ten full-time staff members, undertook among other things the following activities:

a. On-site examinations

The PSD conducted eight targeted on-site examinations to assess, among other, compliance with the CBA's policy paper on liquidity risk management at one credit institution, and the admissibility of assets and the prudential reporting at one company pension fund and five insurance companies. At two of the five insurance companies also an assessment was made of the adequacy of the reinsurance policies and procedures in place. Lastly, the PSD conducted a special on-site examination at one company pension fund in the pension fund governance area.

b. Off-site surveillance

The off-site surveillance encompassed, inter alia, the following activities:

- Holding of Bilateral meetings with the supervised institutions and the representative organizations on various supervisory matters.
- Analyzing of and where necessary, following-up on the periodic filings from the banking sector, insurance companies, and company pension funds and the reporting to the management of the CBA on the findings.
- Stress testing of the domestic commercial banking sector.
- Processing of various requests for approval pursuant to the sectoral supervisory laws as well as providing advice related to foreign exchange license requests of financial institutions supervised by the CBA.
- Processing of a license application to pursue the business of a credit institution through a branch in Aruba pursuant to section 24, paragraph 1, of the SOSCS.
- Reviewing of several requests for an exemption pursuant to article 27b of the SOSIB.
- Reviewing of several requests for an exemption pursuant to article 48 of the SOSCS.
- Filling out of questionnaires, surveys, and other information requests in the area of prudential supervision received mostly from international and regional multilateral organizations and supervisory bodies.
- Involvement in the preparatory work and discussions in connection with the assessments of Aruba by international rating agencies.
- Participating in technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

c. Administrative sanctions and other (formal) measures

The PSD held one normative conversation with a supervised institution and imposed on two occasions an administrative fine. Finally, a formal directive was issued based on article 15 of the SOSIB. Reference is made to annex 8.

Box 4: Overview of the main supervisory activities of the ISD in 2014

In 2014, ISD, which consisted at year-end 2014 of six dedicated AML/CFT specialists, undertook among other things the following activities:

a. On-site examinations

ISD carried out nine focused on-site examinations: three examinations at banks, one examination at a general insurance company, two examinations at life insurance companies, two examinations at trust service providers, and one examination at a notary.

b. Off-site activities

- Processing of dispensation requests of pawn shops/ compra y benta companies.
- Processing of license applications for insurance brokers.
- Processing of dispensation requests for sales agents.
- Processing of license applications of trust service providers servicing on-shore companies.
- Bilateral meetings with the supervised institutions and the representative organizations to discuss various supervisory matters.
- Analyzing of and, if and where necessary, following up on periodic filings from money transfer companies and trust service providers.
- Processing of various requests for approval pursuant to the sectoral supervisory laws (including, but not limited to changes in shareholding structure).
- Involvement in the preparatory work and discussions i.c.w. the assessments of Aruba by international rating agencies.
- Participating in the technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

c. Administrative sanctions and other (formal) measures

On six occasions, normative conversations were held with supervised institutions followed by a warning letter. In six cases an administrative fine was imposed while in three cases penalty charge orders were issued. Reference is made to annex 8.

d. Legislation

The following laws and regulations were drafted in consultation with the Directorate of Legislation and Legal Affairs of the Government of Aruba:

- State Decree on the Supervision of Insurance Brokers *(Landsbesluit toezicht assurantiebemiddelaars*) (AB 2014 no. 6). Effective date: January 30, 2014.
- Draft State Ordinance on the Supervision of the Securities Business (*Landsverordening toezicht effectenverkeer*). On June 7, 2013, the CBA submitted the final draft to the Minister of Finance. Meanwhile, the Advisory Council (*Raad van Advies*) has provided its advice on the draft legislative proposal. It is expected that the state ordinance will come into effect in the last quarter of 2015.

Annex 7: Supervisory costs passed on in 2014

Pursuant to the respective state decrees[13], the CBA charges the sectors supervised for part of the supervision costs incurred. The supervisory costs passed on in 2014 to the different sectors are as follows:

Sector:	**Supervisory costs passed on**	
Banks	Afl.	800,000
Insurers	Afl.	300,000
Captives	Afl.	12,000
Company pension funds	Afl.	155,000
Money transfer companies	Afl.	150,000
Trust service providers	Afl.	100,000
Total	**Afl.**	**1,517,000**

[13] Pursuant to, respectively, the State Decree on the charging of supervision costs to the credit institutions (AB 2011 no. 4), the State Decree on the charging of supervision costs to the insurance companies (AB 2006 no. 3), the State Decree Captive Insurance Companies (AB 2002 no. 50), the State Decree on the charging of supervision costs to the trust service providers (AB 2012 no. 60), the Ministerial Regulation on the charging of supervision costs to the company pension funds (AB 2010 no. 86), and the State Decree on the charging of supervision costs to the money transfer companies (AB 2007 no. 18).

Annex 8: Overview administrative sanctions imposed per sector in 2014

Enforcement actions PSD:	Penalty charge orders	Administrative fines	Legal/ regulatory breaches
- Credit institutions	-	Afl. 200,000	Article 22, paragraph 2, and article 30 of the SOSCS
- Life insurers	-	Afl. 100,000	Article 17 of the SOSIB
- General insurers	-	-	-
- Company pension funds	-	-	-
Total	-	**Afl. 300,000**	

Enforcement actions ISD:	Penalty charge orders	Administrative fines	Legal/ regulatory breaches
- Credit institutions	*Afl. 50,000	**Afl. 100,000	*Article 52, paragraph 6, of the SOSCS **Article 48, paragraph 1, and article 11 of the AML/CFT State Ordinance[14]
- Life insurers	Afl. 300,000	-	Article 3, paragraph 1, of the AML/CFT State Ordinance[15]
- Money transfer companies	-	-	
- Trust service providers	-	Afl. 162,500	Article 6, paragraph 3, and articles 11 and 46 of the AML/CFT State Ordinance and article 2, paragraphs 1 and 2, of the SOSTSP
- DNFBPs	-	Afl. 100,000	Articles 25 and 26 of the AML/CFT State Ordinance and article 2 of the Regulation MOT indicators
Total	**Afl. 350,000**	**Afl. 362,500**	

[14] In conjunction with section 193 of the AML/CFT Handbook.
[15] In conjunction with article 2, paragraphs 2, 3 and 5 of the Enactment State Ordinance.