Financial Sector Supervision Report

CENTRALE BANK VAN ARUBA

2013

CENTRALE BANK VAN ARUBA

June 27, 2014

The Minister of Finance and Government organization
Mr. J.D.E. Yrausquin
L.G. Smith Boulevard 76
Oranjestad
Aruba

LMG/cr/1.832.2/SUP/18330

Re: 2013 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 2013", which provides an outline of the supervisory tasks carried out by the Centrale Bank van Aruba (CBA) for the year ended December 31, 2013.

Subject report will also be available on CBA's website.

Sincerely yours,

Jeanette R. Semeleer
President

c.c. Chairman Board of Supervisory Directors CBA

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Preface

Pursuant to the sectoral supervisory state ordinances, the State Ordinance for the prevention and Combating of Money Laundering and Terrorst 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
AFM	Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets)
Afl.	Aruban florin
ALLP	Allocated loan loss provision
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
BCPs	Core Principles for Effective Banking Supervision (Basel Core Principles)
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)
CoA	Chart of Accounts
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
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FED	Federal Reserve System
CFATF	Caribbean Financial Action Task Force
FIU	Financial Intelligence Unit (*Meldpunt Ongebruikelijke Transacties*)
GDP	Gross Domestic Products
GHOS	Group of Governors and Heads of Supervision
HIRE	Hiring Incentives to Restore Employment
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISD	Integrity Supervision Department
LCR	Liquidity Coverage Ratio
MER	Mutual Evaluation Report
MLCO	Money Laundering Compliance Officer
MLRO	Money Laundering Reporting Officer
MoU	Memorandum of Understanding
NRA	National Risk Assessment
OM	Openbaar Ministerie (the Public Prosecutor's Office)
PLR	Prudential Liquidity Ratio
PQ	Personal Questionnaire
PSD	Prudential Supervision Department

SDQHIC	State Decree Qualifying Holding 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

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1 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 the confidence in the financial system of Aruba by promoting the (financial) soundness and integrity of the supervised sectors and institutions. In this respect, the CBA, pursuant to the sectoral supervisory state ordinances, is responsible for the regulation and supervision of the credit system, insurance sector, company pension funds, money transfer companies, and trust service providers.

In addition, the CBA is entrusted with the execution of the AML/CFT State Ordinance and the Sanction State Ordinance 2006. Subsequently, the CBA also has AML/CFT oversight responsibility over all sectors subject to the AML/CFT State Ordinance and Sanction Decree Combat Terrorism and Financing Terrorism. Besides the financial institutions, the CBA supervises the Designated Non-Financial Businesses and Professions (DNFBPs), i.e., lawyers, civil notaries, tax advisors, accountants, jewelers, car dealers, real estate brokers, and casinos, for compliance with the AML/CFT laws and regulations.

Significant resources were allocated to complete the remediation project that was developed to correct the deficiencies identified during the FATF-conducted mutual evaluation of the Aruban AML/CFT system in 2008/2009. In February 2014, the FATF Plenary concluded that Aruba is now largely compliant with the FATF Core and Key Recommendations and thus can exit the FATF follow-up process. This major achievement is of significant importance for the international reputation of Aruba and its financial sector. 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 taking into account the specific characteristics of Aruba. Moreover, the recently conducted National Risk Assessment (NRA) enables Aruba to strengthen its defenses even further.

In 2013, the Prudential Supervision Department (PSD) continued to focus on overseeing compliance with the prudential requirements in the areas of solvency and liquidity, as well as with the existence and proper implementation of sound corporate governance policies, procedures, and practices. Also, the CBA noted improvements in the financial position of the company pension funds that reported a deficit on their coverage test report in 2012. Furthermore, the CBA issued – for consultation purposes – drafts of the fully revised Chart of Accounts (CoA) for credit institutions and revised actuarial guidelines for company pension funds. In the area of AML/CFT supervision, emphasis was placed on the transaction, monitoring, and reporting procedures of banks and trust service providers. In general, the Integrity Supervision Department (ISD) concentrated on monitoring compliance with the transitional provisions regarding existing clients laid down 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 2013 the ISD started on-site examinations at the DNFBPs (casinos and notaries).

In view of the significant changes in recent years and the expected challenges ahead, the CBA evaluated and revised its supervisory strategy accordingly. It strives to maintain a high level of compliance with international supervisory standards and international best practices. Also, the expansion of the supervisory mandate, resulting from the various legislative changes over the years, requires effective and efficient execution of the supervisory tasks assigned to the CBA.

This report is structured as follows. Chapter 2 focuses on supervisory strategy and supervisory approach, while in chapter 3 the major changes in the legislative and regulatory framework are presented. Chapter 4 outlines the international developments relevant for the institutions supervised by the CBA. National and international cooperation are discussed on in Chapter 5. Chapters 6 and 7 describe the major activities undertaken in 2013 in the areas of prudential supervision and integrity supervision, while the sectoral financial developments are covered in Chapter 8.

2 SUPERVISORY STRATEGY AND SUPERVISORY APPROACH

2013

2 Supervisory strategy and supervisory approach

2.1 Supervisory strategy

In view of the swift developments in the international and domestic supervisory landscapes, the CBA re-evaluated and, where 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 the confidence in the financial system as a starting point when defining ambitions from a supervisory point of view. 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 international standards and best practices. Core strategic principles were identified to achieve the ambitions set. These core strategic principles are aimed mainly at strengthening the supervisory approach. One such principle is the further implementation of risk-based supervision, thereby allocating the scarce available resources where the risks are considered the highest. Furthermore, the CBA intensifies its focus on macro-prudential supervision, i.e., more explicitly consider sector-wide risks and the possible impact of a failure of systemically important banks or insurers and macroeconomic developments. Moreover, attention is to be paid to adequate interaction and communication with all stakeholders (inter alia: the supervised institutions, (inter)national regulatory and supervisory bodies, and also the public). Adequate resources are imperative to achieve the strategic objectives. Therefore, it was determined what resources will be needed to achieve the ambitions, broken down into organization (including personnel), processes, working methods, and instruments. Periodic meetings are held within the CBA to discuss the progress with respect to the implementation of the supervisory strategy. Although the strategic goals are set for a 5 year period, strategy setting is a dynamic process. In other words, the strategy will be periodically evaluated and then adjusted if necessary.

2.2 Supervisory approach

One of the steps taken to address the increased supervisory challenges over the years is the implementation of a risk-based supervisory framework. To this end, the CBA is executing a methodology to identify, analyze, and weigh the risks associated with the institutions under its supervision and to use this information as the basis for its yearly supervisory planning cycle. In 2013 the CBA made significant effort in this area, and has now established the foundation for a structured risk-based supervisory approach through the use of an automated risk tool. Mid-2013, the CBA gathered AML/CFT-related information from the banks, life insurers, money transfer companies, and trust service providers for the initial AML/CFT risk assessment of the mentioned sectors and institutions. The risk-based approach also will be rolled out for prudential supervision purposes with respect to credit institutions, insurance companies, and company pension funds, as well as for AML/CFT supervision with respect to DNFBPs.

The CBA also took further steps in 2013 to strengthen its supervisory "toolkit". It introduced and implemented a comprehensive integrity and suitability testing policies and procedures manual (for internal use). This manual includes procedures to ensure independent validation of the quality of the information provided by the applicant. Also, the Personal Questionnaire (PQ) was revised to capture the amendments of the sectoral supervisory state ordinances on January 1, 2013 (reference is made to paragraph 3.2 below). Furthermore, the CBA continued to effectively apply tailored supervisory techniques, bearing in mind that one size does not fit all. The CBA will maintain its focus on the main risks and, on the basis of a "root cause" analysis, will continue to strive to address the "root cause" of problems found rather than treating the symptoms. By doing so, the CBA strives to steer towards persistent and intrusive supervision conducted efficiently and effectively.

Aiming to achieve compliant behavior of institutions under its supervision, the CBA also in 2013 applied the enforcement instruments at its disposal, taking into account the enforcement policy implemented in September 2011.

3 MAJOR CHANGES IN THE LEGISLATIVE AND REGULATORY FRAMEWORK

2013

3 Major changes in the legislative and regulatory framework

3.1 Central Bank Ordinance

On February 13, 2013, the Minister of Finance, Communication, Utilities and Energy and the Minister of Justice and Education submitted a draft state ordinance to the Parliament for approval. The ordinance amended the Central Bank Ordinance ("*Centrale Bankverordening*", AB 1991 no. GT 32) to the Parliament for approval.

The amendments to the Central Bank Ordinance concern:

a. Inclusion of the supervisory scope expansion of the CBA under article 11 and, herewith, the formalization of the expanded supervisory mandate of the CBA over the years; and
b. Limitation of the liability under civil law of the CBA, its President, Executive Directors, Board of Supervisory Directors, and staff as well as third parties that perform activities on behalf of the CBA. Note though that CBA and its organs as well as third parties can be held liable in case of gross negligence or intentional wrongdoing.

The latter amendment is also in line with the core principles issued by the Basel Committee on Banking Supervision (the Basel Committee)[2] and the International Association of Insurance Supervisors (IAIS)[3] requiring that supervisors cannot be held liable when acting in good faith. Subject amendments were discussed and approved in Parliament on January 15, 2014.

3.2 Amending State Ordinance

On January 1, 2013, the State Ordinance Amending the Sectoral Supervisory State Ordinances (*Landsverordening herziening sectorale toezichtwetgeving*, AB 2012 no. 55) (Amending State Ordinance) was enacted. Consequently, the SOSCS, the SOSIB, the SOSMTC, and the SOSTSP were amended with the purpose of strengthening and harmonizing these state ordinances and also extending the scope of the SOSCS to electronic money institutions and the scope of

[2] Principle 2, essential criteria 9, of the Basel Core Principles: "Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith".

[3] Principle 2.10 of the Insurance Core Principles: "The supervisor and its staff have the necessary legal protection against lawsuits for actions taken in good faith while discharging their duties, provided they have not acted illegally. They are adequately protected against the costs of defending their ctions while discharging their duties.".

the SOSTSP to trust service providers that provide trust services to companies active on the Aruban market.

The most important modifications included in the Amending State Ordinance are summarized below.

a. Strengthening the integrity and suitability criteria

The Amending State Ordinance harmonizes and strengthens the integrity and suitability criteria for executive and supervisory directors of supervised institutions and the integrity criteria for holders of qualifying holdings in supervised institutions. The integrity of executive and supervisory directors of supervised institutions and persons or institutions with qualifying holdings in a supervised institution must be beyond doubt, while the suitability of executive and supervisory directors must be sufficient, individually and collectively, to fulfill these functions.

In connection with the enactment of the Amending State Ordinance, the CBA also issued a revised PQ to be completed by a prospective candidate and submitted by the applicant, the latter being the supervised institution or the (intended) holder of a qualifying holding. Subsequently, additional information must be provided with the PQ, particularly on the supervised institution's decision-making process regarding the selection of the candidate, including support for the conclusion that the candidate meets the function profile.

Reference is made to Box 1 for an overview of the criteria applied by the CBA in the evaluation of the integrity and suitability of a person.

Box 1: Overview of integrity and suitability criteria

The integrity and suitability requirements must be complied with on an ongoing basis. The CBA can conduct a re-assessment if deemed necessary. A person's integrity is tested by the CBA on the basis of facts, circumstances, and antecedents evidencing whether or a person's behavior is in accordance with the sound fulfillment and execution of the function concerned. When evaluating the integrity of a person, the CBA takes the following antecedents, among others, into account: criminal, financial (personal and business-related), supervisory, and tax-related antecedents. When evaluating a person's suitability, the CBA assesses a person's knowledge, skills, and professional conduct. Suitability testing takes into account (i) the position that the person will fulfill or fulfills at the supervised institution, (ii) the nature, scope, complexity, and risk profile of the financial institution; and (iii) the composition and functioning of the respective executive or supervisory body as a whole. The latter item means that the knowledge and skills of the applicant are reviewed in conjunction with those of the other members of the respective executive or supervisory body.

b. Sound business operations

A uniform requirement to ensure sound business operations has been introduced In the SOSCS, SOSIB, SOSMTC, and SOSTSP. Financial institutions must implement adequate policies, procedures, and measures, as well as organize their activities to ensure 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 affect trust in the supervised institution; and
- preventing any acts contrary to generally accepted standards that might affect trust 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, the 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. In 2014, the CBA intends to issue further instructions to supervised institutions with regard to the sound conduct of the business and integrity and suitability testing.

c. Administrative sanctions

The enforcement stipulations in the SOSCS, SOSIB, SOSMTC, and SOSTSP also were enhanced and brought in line with the AML/CFT State Ordinance. The maximum administrative fine was increased from Afl. 250,000 to Afl. 1,000,000 per violation. On June 1, 2013, the State Decree regarding the principles for administrative enforcement of the sectoral supervisory state ordinances ("*Landsbesluit grondslagen bestuurlijke handhaving sectorale toezichtwetgeving*", AB 2013 no. 31) took effect. This state decree sets rules with regard to the basis for determining the amount of the penalty charge order and administrative fine. The provisions of the sectoral supervisory state ordinances (including the SOCPF) are arranged in two categories with the corresponding base amounts (minimum and maximum amounts). Furthermore, the Amending State Ordinance requires the CBA to issue a policy document containing guidelines for the imposing of administrative sanctions (i.e., a penalty charge order or administrative fine). In compliance herewith, on February 18, 2013, the CBA issued a revised enforcement policy. Finally, the Amending State Ordinance introduced the possibility of imposing administrative sanctions on individuals who can be held responsible for violating the legislative or regulatory requirements. In other words, an administrative sanction also can be imposed on, among others, an executive or supervisory director. To hold such person liable, it may be sufficient that the person was aware of the violation and in a position to intervene but failed to do so.

d. International cooperation and exchanging information

With the enactment of the Amending State Ordinance, the possibilities for cooperation and information exchange with foreign supervisors were enhanced, inter alia, by introducing the possibility of starting an investigation at a supervised institution at the request of a foreign supervisor. Moreover, when conducting such an investigation, the CBA may be accompanied by officers of the requesting foreign supervisory institution.

e. Article 48 of the SOSCS

With the enactment of the Amending State Ordinance, article 48 of the SOSCS also was revised. According to article 48, paragraph 1 of the SOSCS, the following activities are prohibited in the course of conducting a business:

i. attracting, obtaining, or disposing of, whether or not on the due date, repayable funds from the public, which funds are, in total or for each individual attraction, below an amount determined by Ministerial regulation (currently Afl. 1,000,000);
ii. granting credits or other forms of financing to the public; and
iii. acting as an intermediary in these cases.

With a view to protecting the interests of consumers, the legislators confirmed that the prohibition under article 48, paragraph 1, of the SOSCS deserve a broad interpretation. In accordance with the CBA's existing policy, the prohibition to grant credits also includes pawn activities or similar services. The phrase "other forms of financing" was added to clarify that the prohibition also covers activities such as financial leasing, operational leasing (excluding consumer-related leasing), and factoring with right of recourse.[4] 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. The CBA can attach restrictions, stipulations, and conditions to a dispensation.

3.3 Pawnshops/ compra y benta companies

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 operating in Aruba and issued guidelines on the conduct of the business of pawnshops/ compra y benta companies. Pawnshops already active in Aruba on April 1, 2012, were granted a transition period of one year (ending on March 31, 2013) to implement policies, processes, and systems that would enable them 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. Pawnshops that did file a dispensation request received an extension of the transition period until the CBA has decided on their request.

Pawnshops also must comply with the CBA's Directive on the publication of effective interest rates on consumer loans. This directive sets requirements in the area of consumer loan advertisements, as well as in the information included in the loan agreement with the client. The AML/CFT State Ordinance and the Sanction State Ordinance 2006 also apply to pawnshops.

During 2013, the CBA has received five dispensation requests, two of which were withdrawn by the respective applicants in a later stage. With regard to the remaining three dispensation requests, the CBA requested and received additional information relevant for its assessment process. Meanwhile, the CBA has granted three (conditional) dispensations as described in article 48, paragraph 3 of the SOSCS to pawn shops.

[4] With the exception of consumer-related leasing or financing.

3.4 Trust service providers servicing on-shore companies

With the enactment of the Amending State Ordinance on January 1, 2013 (see paragraph 3.2 above), the scope of the SOSTSP was extended to trust service providers that supply trust services to companies active on the Aruban market. These trust service providers also are required to obtain a license from the CBA, and they fall under the CBA's supervision.

Trust service providers already active in Aruba on January 1, 2013, were granted a transition period of six months (ending on June 30, 2013) to submit a license application. Trust service companies that did not apply for a license had to cease their trust activities by June 30, 2013, at the latest. Trust service providers that did submit a license application received an extension of the transition period until the CBA decided on their request.

The CBA sent information letters to more than 50 companies potentially falling within the extended scope of the SOSTSP. At the end, the CBA received only four license applications. The processing of two applications was discontinued because not all of the required information was submitted. These companies are in the process of winding up their trust activities. The remaining two applications are still being processed. With regard to the companies that did not submit a license application, the CBA monitors whether the trust activities (if any) have been terminated. If they have not, the CBA will take (corrective) measures against the companies or persons that are in violation of article 2, paragraph 1 of the SOSTSP.

3.5 Supervision of insurance brokers

With the enactment of the Amending State Ordinance on January 1, 2013 (see paragraph 3.2 above), the possibility of placing insurance brokers under the CBA's supervision was introduced in article 27a of the SOSIB. After intensive discussions with the FATF Secretariat, it was decided in the fall of 2013 to draft a state decree to give effect to this article. In October 2013, the CBA submitted a draft State Decree on the Supervision of Insurance Brokers (AB 2014 no. 6) to the Minister of Finance. This state decree went into effect on January 30, 2014. As of this date, insurance brokers fall under the CBA's supervision. This change means that insurance brokers (including authorized agents) are required to obtain a license from the CBA. Insurance companies and credit institutions licensed by the CBA are exempted from this prohibition. Travel agencies also are exempted insofar as it concerns intermediation for travel insurance contracts. 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. Insurance brokers that do not file a license request will have to cease their activities by July

30, 2014, at the latest. Meanwhile, the CBA has published an application form and organized a well-attended information session for insurance brokers in March 2014.

3.6 Draft State Ordinance on the Supervision of the Securities Business

In June of 2013, the CBA submitted a draft State Ordinance on the Supervision of the Securities Business to the Minister of Finance 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 ongoing supervision on the same. Furthermore, provisions are included that impose a prospectus obligation for the issuance of securities and that prohibit market abuse (insider trading and market manipulation). This state ordinance likely will be discussed in Parliament soon.

3.7 Draft Chart of Accounts manual

The CBA has drafted, in close cooperation with the CBCS, a new regulatory reporting format for the supervised credit institutions. This manual, also known as the CoA, will replace the current regulatory reporting forms for credit institutions.

The CoA is based on the basic concepts and principles of the IMF's Monetary and Financial Statistics Manual 2000, the International Financial Reporting Standards (IFRS), and the Basel II principles. The main objectives of the CoA are to enhance the quality of the regulatory reporting by credit institutions in accordance with the indicated international standards and to harmonize, as much as possible, the reporting framework implemented by the CBA and the Centrale Bank van Curaçao en St. Maarten (CBCS).

In October 2013, the CBA issued a draft CoA manual to the credit institutions for consultation purposes. The deadline for the submission of comments was April 30, 2014. The CBA also held its first information session with the credit institutions in November 2013.

3.8 Draft revised actuarial guidelines for company pension funds

Following local and international developments, the CBA issued on August 7, 2013, a draft of the revised actuarial guidelines for company pension funds for consultation. The most important revisions concern the maximization of the discount rate ("rekenrente") and the mortality tables to apply for the calculation of the technical provisions, as well as requirements regarding the recovery plans to be submitted by company pension funds with a coverage ratio below the CBA's minimum requirement of 100 percent. The CBA is preparing a revised version of the guidelines based on the comments received.

4 INTERNATIONAL DEVELOPMENTS

2013

4 International developments

4.1 Basel III: Liquidity Coverage Ratio

The Group of Governors and Heads of Supervision (GHOS), the governing body of the Basel Committee on Banking Supervision (the Basel Committee), endorsed the revisions to the Liquidity Coverage Ratio (LCR) on January 6, 2013. The LCR, first published in December 2010, is an essential component of the Basel III reforms. The ratio was developed to promote the short-term resilience of a bank's liquidity risk profile by ensuring that a bank has an adequate stock of unencumbered high-quality liquid assets that can be converted into cash easily and immediately (at little or no loss of value) in private markets to meet its liquidity needs for a 30 calendar day liquidity stress scenario. Furthermore, it is envisaged that the LCR will improve the banking sector's ability to absorb shocks arising from financial and economic stress, thereby reducing the risk of spillover from the financial sector to the real economy.

The LCR is calculated by dividing the stock of high-quality liquid assets by the total net cash outflows over the next 30 calendar days. Absent a situation of financial stress, banks must meet the LCR's minimum requirement of 100 percent on an ongoing basis and hold a stock of unencumbered high-quality liquid assets as a defense against the potential onset of liquidity stress. However, banks may use their stock of high-quality liquid assets (thereby temporarily falling below the minimum requirement) during a period of financial stress.

The revisions to the LCR endorsed in January 2013 entail (1) expansion in the range of assets eligible as high-quality liquid assets; (2) refinements to the assumed inflow and cash outflow rates to better reflect actual experience in times of stress; (3) reaffirmation of the usability of the stock of liquid assets in periods of stress (including during the transition period); and (4) a commitment of the Basel Committee to conduct further work on the interaction between the LCR and the provision of the central bank facilities considering that deposits with central banks are the most, and in some cases, the only reliable form of liquidity.

Similar to the Basel III capital adequacy requirements, the LCR is subject to the so-called "phase-in arrangements", which imply a gradual introduction, starting on January 1, 2015, at a minimum requirement of 60 percent, rising in equal steps of 10 percentage points to reach 100 percent on January 1, 2019, to minimize any possible disruption to the orderly strengthening of banking systems or the ongoing financing of economic activity.

The CBA is currently reviewing the liquidity requirements for banks, also against the LCR Guidelines of the Basel Committee.

4.2 Supervisory framework for measuring and controlling large exposures

The Basel Committee issued its initial standard on measuring and controlling large credit exposures in 1991. Following changes to the financial system, on March 26, 2013, the Basel Committee proposed a revised supervisory framework for measuring and controlling large exposures with the aim of ensuring greater consistency in the way banks and supervisors measure, aggregate, and control exposures to single counterparties. The framework would supplement the risk-based capital framework by protecting banks from substantive losses caused by the sudden default of a counterparty or group of connected counterparties. The revised framework was designed so that in the event of such a default, the maximum possible loss a bank could incur would not endanger the bank's survival as a going concern.

The framework includes a general limit of 25 percent of a bank's Tier 1 capital, applicable to all of a bank's exposures to a single counterparty or a group of connected counterparties, and a tighter limit of 15 percent of a bank's Tier 1 capital for exposures between banks that have been designated as global systemically important banks.

The framework was finalized in April 2014 and will take effect on January 1, 2019. The CBA will consider revising its large exposure rules accordingly.

4.3 Supervisory guidance on external audits of banks

In 2002 and 2008, the Basel Committee issued guidance papers on, respectively, 'The relationship between banking supervisors and bank's external auditors' and 'External audit quality and banking supervision'. Both papers provide guidance on how to strengthen the relationship between bank auditors and supervisors. Meanwhile, the evolution of bank practices, the introduction of new standards and regulations, as well as the financial crisis, underscored the need to improve the quality of external audits of banks. On March 21, 2013, the Basel Committee published the supervisory guidance paper 'External audit of banks' for consultation. In contrast to the previous guidance papers on this matter, this paper focuses on factors that contribute to enhancing audit quality at banks.

The new supervisory framework elaborates on Basel Core Principle (BCP) 27[5] by setting out guidelines regarding:

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[5] Basel Core Principle 27: the supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.

- the audit committee’s responsibilities in overseeing the external audit function; and
- the prudential supervisor’s engagement with the external auditors of banks.

In addition, it includes the Basel Committee’s expectations and recommendations relevant to external audits of banks to enhance the quality of these audits.

The guidance paper was finalized in March 2014 and replaced the papers issued on this matter in 2002 and 2008. The CBA will consider revising its directives on the external audit of banks (and other financial institutions) accordingly.

4.4 Foreign Account Tax Compliance Act

On March 18, 2010, the final version of the U.S. Foreign Account Tax Compliance Act of 2009 (FATCA) became law as part of the Hiring Incentives to Restore Employment (HIRE) Act. The CBA continued with the steps taken in 2012 to closely monitor the developments in this area. The CBA is part of a commission installed by the Minister of Finance to advise on the implementation of the FATCA in Aruba. In addition, starting from February 2014, all commercial banks were requested to provide the CBA with a monthly update on the efforts undertaken to comply with the FATCA regulations, including information on whether the deadlines to comply with the FATCA regulations will be met. Although the CBA monitors the developments closely, it remains each institution’s individual responsibility to comply with the FATCA regulations.

5 NATIONAL AND INTERNATIONAL COOPERATION

2013

5 National and international cooperation

5.1 National cooperation

During 2013, the CBA had regular consultations with government agencies and 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*" or *OM*), and various law enforcement agencies. In 2013, five periodic bilateral meetings were held between the ISD and the FIU, and four periodic bilateral meetings were held between the ISD and the OM. The basis for these periodic meeting are the Memorandum of Understandings (MoU)s with the FIU (signed in 2011) and the OM (signed in 2012). In addition to setting procedures for information exchange, the MoU with the OM establishes guidelines in the event of a concurrence of administrative and criminal enforcement possibilities. 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 necessary for parties to decide which enforcement route to follow in these cases. In addition to the mentioned periodic meetings, one know-how session with the FIU and two know-how sessions with the OM were organized.

Furthermore, 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: the preparation phase, the implementation phase, and the reporting phase. The preparation phase consisted mainly of identification and analysis of the potential risks of money laundering and terrorist financing for Aruba. A comprehensive list of risks was drawn up by the project team based on participant input. During the implementation phase, the CBA hosted two plenary sessions with all participating agencies.[6] The five most important risks were selected from the long list for further analysis. After the plenary sessions, the reporting phase commenced, resulting in the NRA report. The NRA 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 public version is available on the CBA website. The report explains the background and objectives of the NRA, as well as the approach taken to execute the NRA. The Dutch Central Bank (DNB) provided technical

[6] The project team consisted of representatives of the CBA (project leader), Directorate of Legislation and Legal Affairs/Secretariat AML/CFT Strategy Group Aruba, OM, and the FIU. In addition, the following agencies participated in the NRA: Criminal Investigation Cooperation Team (RST), Police Force Aruba/Financial Research Office (KPA/BFO), Tax and Customs Department (SIAD/Douane), Chamber of Commerce and Industry Aruba, Casino Industry Department, Security Service Aruba (VDA), High Commissioner/Aruba Financial Center, and Free Zone Aruba N.V.

support during the execution of the NRA. The NRA report contains a general analysis of the inherent money laundering and terrorist financing risks for Aruba. These risks are related to, inter alia, Aruba's:

- geographical location;
- professional (financial) infrastructure;
- open economy and investment climate;
- relatively stable political and financial situation;
- cash-based economy; and
- simultaneous circulation of U.S. dollars.

The NRA report also contains an initial analysis of the following five most important money laundering and terrorist financing risks:

1. Investment of illegal assets in companies
2. Misuse of legal entities
3. Illegal cross-border money transfers and money transports
4. Real estate transactions
5. The absence of a future-oriented integral AML/CFT strategy.

With regard to the fifth risk, it was concluded that the AML/CFT strategy needs to be revised. So far, the main focus of the strategy has been to remedy the shortcomings identified in the Mutual Evaluation Report (MER). The time is ripe for adopting a comprehensive AML/CFT strategy to streamline the responsibilities and actions of the different stakeholders and to promote an efficient and effective mid- and long-term strategy. Subsequently, five project teams were established. These project teams will draw up concrete action plans with clear and feasible results that remediate the mentioned risks. The CBA hosted a kick-off meeting for all project teams on December 11, 2012. The CBA is represented in project teams 3 (team leader), 4 (member), and 5 (member). The project plans are expected to be discussed in the AML/CFT Strategy Group Aruba mid-2014, after which their implementation will commence. Finally, the intention was expressed to conduct an NRA once every five years, followed by an adjustment of the AML/CFT strategy (if necessary), considering that risks are dynamic and that risk assessment is an ongoing process.

In 2013, the CBA also 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 the FATF-related matters, introduction and revision of the supervisory legislation (i.e., the Amending State Ordinance and the laws and regulations regarding the supervision of insurance intermediaries and investment business), and revised regulations (for example: revised PQ, draft CoA manual, and the directive on sound and controlled business operations), training opportunities in the financial sector, as well as relevant local and international developments (inter alia, the introduction of a deposit insurance scheme for the commercial banking sector and the FATCA). Furthermore, the CBA met separately with the managements of the four commercial banks and three bank-like institutions in the so-called bilateral meetings to discuss matters related to credit development, nonperforming loans, and annual budgets. During the bilateral meetings with the commercial banks at the end of the year, the CBA also presented the results of the stress tests performed on each commercial bank. In 2011, a joint working group consisting of representatives of both the 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 has met several times to discuss the modalities of such a scheme. The CBA will now proceed to draft a legislative proposal to implement such a scheme in Aruba.

5.2 International cooperation

With respect to international cooperation, subject to certain conditions, the sectoral supervisory laws provide the CBA with the possibility of supplying data or information to foreign supervisory authorities. In 2013, the CBA received two formal information requests from foreign supervisory authorities. The CBA responded to both requests. Furthermore, the CBA sent out two information requests to foreign supervisors, both of which received a response.

As of January 1, 2013, the possibilities for cooperation and information exchange with foreign supervisors were enhanced with the enactment of the Amending State Ordinance, inter alia, by introducing the possibility of starting an investigation at a supervised institution at the request of a foreign supervisory authority. When conducting such investigations, the CBA may allow officers of the foreign supervisory authority to participate in the investigation.

In 2013, the CBA continued its intensive cooperation with the supervisory authorities in the Kingdom of the Netherlands. Specifically, the CBA met regularly with its overseas counterparts within the Kingdom of the Netherlands. The CBA hosted a seminar for the DNB, the Netherlands Authority for the Financial Markets ("Authoriteit Financiel Markten" or AFM), the CBCS, and the CBA. The main subjects discussed during the seminar were integrity and suitability testing, enforcement and intervention strategies, and financial stability. Also, in 2013 the supervisory authorities in the Kingdom of The Netherlands conducted their third supervisory college. The purpose of supervisory colleges is to ensure effective and efficient supervision through information-sharing on financial institutions for which there is a joint responsibility. Finally, during the Technical Committee meeting in October 2013, the parties agreed to install a Joint Working Group on Corporate Governance. The group's initial aim is to prepare for each jurisdiction, an inventory of the legal framework and the existing (supervisory) regulations on this matter, including the identification of the most obsolete requirements for good corporate governance.

In 2013, one meeting between the Presidents of the DNB, the CBCS, and the CBA, and the Chairman of the AFM took place, while the Technical Committee of the Supervisory authorities of the Kingdom of the Netherlands met three times.

Furthermore, in 2013 the CBA participated in two 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, inter alia, 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 goal of the Joint Working Group on Conduct of Business Supervision, consisting of representatives of the supervisory authorities within the Kingdom of The Netherlands and installed in 2012, is to enhance and harmonize, as far as possible, laws, regulations, and the supervisory approaches in the area of conduct of business supervision. 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. In early 2013, 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 with recommendations to upgrade the respective existing frameworks.

Finally, the CBA continued providing assistance to the Caribbean Financial Action Task Force (CFATF) in its assessment of Suriname's progress toward correcting the deficiencies found during the CFAFT's last mutual evaluation with respect to the FATF recommendations. Based on the outcomes of the High Level Mission conducted by the CFATF International Cooperation and Review Group (ICRG) to Suriname in February 2012, it was considered important to have a Dutch-speaking member assist the CFATF in its review process of Suriname, particularly with respect to its laws. Aruba was approached and agreed to offer its assistance, which consisted of reviewing and following up on the implementation of Suriname's Action Plan, including review of new and revised legislation with regard to the

Key and Core FATF Recommendations pertaining to the preventive measures. In the May and November 2013 CFATF Plenaries, Aruba submitted its second and third reports to the CFATF regarding Suriname's progress.

6 PRUDENTIAL SUPERVISION

2013

6 Prudential supervision

In 2013, the focus of CBA's prudential supervision remained overseeing compliance with the prudential ratios and sound corporate governance practices, which on two occasions resulted in formal enforcement measures against the respective supervised institutions. In general, however, the supervised institutions complied with the CBA's prudential requirements. Compared to 2012, only one of the two company pension funds that reported a coverage ratio below the minimum requirement of 100 percent and APFA remained with a deficit on their coverage ratios at year-end 2013. The CBA continues closely monitoring their financial developments and their compliance with the recovery plans.

As mentioned above, on two occasions in 2013, the PSD advised imposing formal enforcement measures against supervised institutions. In both instances, the PSD recommended an administrative fine pursuant to the SOSCS. The CBA imposed an administrative fine of Afl. 50,000 on a credit institution for non-compliance with article 16, paragraph 1 of the SOSCS. This article prohibits, among other things, the reduction of an institution's own funds through the distribution of reserves without having obtained prior written permission from the CBA. An administrative fine in the amount of Afl. 250,000 was imposed on a second credit institution for failing to adequately apply the regulatory reporting requirements issued pursuant to article 30, paragraph 1, article 31, and article 13, paragraph 1 of the SOSCS. Refer to Table 6.1 below.

Table 6.1. Enforcement actions PSD 2011-2013

Enforcement actions PSD												
Year	**2011**				**2012**				**2013**			
Enforcement actions / **Sector**	1)	2)	3)	4)	1)	2)	3)	4)	1)	2)	3)	4)
Credit institutions	-	-	-	1	-	1	-	-	-	-	-	2
Life insurers	-	-	-	1	-	-	-	-	-	-	-	-
General insurers	-	-	-	-	-	-	-	-	-	-	-	-
Company pension funds	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**2**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**2**

1) Normative conversations

2) Formal directions

3) Penalty charge orders

4) Administrative fines

* Which was not upheld in court.

The PSD conducted four targeted on-site examinations to assess the quality of the loan portfolio at three credit institutions and the admissibility of assets and the financial reporting at one company pension fund. Refer to Table 6.2 below.

Table 6.2. On-site examinations PSD 2011-2013

On-site examinations PSD			
Sector	**2011**	**2012**	**2013**
Credit institutions	4	3	3
Life insurers	2	1	-
General insurers	-	-	-
Company pension funds	1	2	1
Total	**7**	**6**	**4**

As part of its off-site surveillance, the PSD undertook several activities including, among other things, analysis of the financial reports submitted by the supervised institutions, the fit and proper testing of key persons at the supervised institutions, and the processing of various requests for approval pursuant to the sectoral supervisory laws. It also provided advice related to foreign exchange license requests of financial institutions supervised by the CBA. In addition, the PSD held bilateral meetings with the supervised institutions and the representative organizations on various supervisory matters.

The PSD participated in technical meetings of the College of Supervisors of the Kingdom of the Netherlands and attended several trainings related to the CoA working group. The CBA held its first information session following the issuance of the CoA manual in October 2013.

The stress testing results up to 2012 concluded that the domestic commercial banking sector is less vulnerable to interest rate risk and foreign exchange shocks. Therefore, the CBA limited its stress testing exercise in 2013 to assessing the sector's resilience to various potential shocks emanating from credit risk and liquidity risk. The CBA intensified the shocks applied in each scenario. The results of the stress testing exercise were communicated to the commercial banks during the bilateral meetings held at the end of 2013. The results of these tests indicate that the domestic commercial banking sector is quite resilient to potential adverse developments in credit conditions and liquidity levels, but highlighted the need to revisit the CBA's current prudential liquidity requirements. The CBA is contemplating revising these requirements during 2014.

At year-end 2013, the PSD staff consisted of eight dedicated members, while two vacancies remained unfilled. In 2013, staff members of the PSD attended several trainings and seminars provided by the Aruban Foundation for financial education, being the Stichting IFEA, DNB, the CBCS, the Nederlandse Beroepsorganisatie van Accountants (NBA), the National Association of Insurance Commissioners, and the Federal Reserve System (FED) in the areas of financial reporting, pension supervision, and liquidity risk management.

Annex 5 to this report contains a broad overview of the supervisory activities carried out by the PSD in 2013.

7 INTEGRITY SUPERVISION

2013

7 Integrity supervision

The integrity of the supervised sectors and institutions is essential to maintaining confidence in the financial system of Aruba. Breaches of the law, (unwillingly) facilitating unlawful activity, and other unethical behavior can result in enforcement action, including monetary penalties, civil liability claims, and reputational damage. Failing integrity risk management also may negatively impact the financial soundness of supervised institutions. Therefore, in addition to prudential supervision, integrity supervision is a key pillar of the CBA's supervision. This supervisory task is based on the sectoral supervisory state ordinances,[7] as well as the AML/CFT State Ordinance and the Sanction State Ordinance 2006.

Integrity supervision is geared towards controlling the integrity risks at the financial institutions. With the enactment of the Amending State Ordinance on January 1, 2013, an uniform requirement to ensure sound business operations was introduced in the SOSCS, SOSIB, SOSMTC, and SOSTSP (see paragraph 3.2 above). A similar requirement had already been introduced in the SOCPF on January 1, 2012. In summary, integrity risk management comprises prevention of involvement in criminal activities (including but not limited to money laundering and terrorist financing) and other breaches of the law or acting contrary to the generally accepted standards. In addition, integrity risk management promotes ethical behavior, an ethical corporate culture, and the prevention of conflicts of interests. Credit institutions, life insurance companies, money transfer companies, and trust service providers also must comply with the specific requirements of the AML/CFT State Ordinance and the financial sanctions regulations. Furthermore, the CBA supervises DNFBPs, including lawyers, civil notaries, tax advisors, accountants, jewelers, high value dealers, and casinos, for their compliance with the provisions laid down in the AML/CFT State Ordinance.

In view of the expanded supervisory mandate in the area of integrity supervision, ISD's focus remained on further enhancing the supervised institutions' compliance with the integrity-related requirements, including but not limited to initiating and drafting legislation, issuing and drafting directives and guidance documents, organizing information and consultation sessions, and executing its supervisory tasks (both on- and off-site). In addition to these core activities, one of the ISD's priorities for 2013 was contributing to the NRA project, and starting off the follow-up projects emanating from the NRA (see paragraph 5.1 above). Finally, 2013 was dominated by Aruba's dedication to exiting the FATF follow-up process, which it ultimately succeeded in doing on February 12, 2014. For this purpose, the ISD put

[7] The SOSCS, the SOSIB, the SOCPF, the SOSMTC, and the SOSTSP.

major efforts and resources into place to contribute to the implementation of the FATF recommendations in connection with the MER adopted on October 14, 2009 (see Box 2).

Box 2: Overview of the main achievements in 2013 regarding implementation of the recommendations laid down in the MER of the FATF regarding the AML/CFT framework.

In 2013 the CBA continued to contribute to the implementation of the FATF recommendations that fell within the scope of its mandate in connection with the MER adopted on October 14, 2009. The CBA took the following actions in 2013 :

1. ***Legislation:***
   - State Ordinance amending the sectoral Supervisory State Ordinances (Landsverordening herziening sectorale toezichtwetgeving, AB 2012 no. 55) (Amending State Ordinance). Effective date: January 1, 2013.
   - State Decree Principles Administrative Enforcement sectoral supervisory laws (Landsbesluit grondslagen bestuurlijke handhaving sectorale toezichtwetgeving) (AB 2013 no. 31). Effective date: June 1, 2013.
   - State Decree Supervision Insurance Brokers (Landsbesluit toezicht assurantie-bemiddelaars) (AB 2014 no. 6). Effective date: January 30, 2014.

2. ***Pending legislation:***
   - 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. This ordinance is expected to go into effect in the second half of 2014.

3. ***AML/CFT regulation/policy papers/guidance issued by the CBA:***
   - Revised PQ (in connection with the strengthening of the integrity and suitability criteria as a result of the enactment of the Amending State Ordinance on January 1, 2013).
   - Transaction monitoring circular for money transfer companies.

Aruba's current status at the FATF:

On February 12, 2014, the FATF Plenary acknowledged that Aruba had made significant progress in addressing the deficiencies identified in the MER. It concluded that Aruba is now largely compliant with the FATF Core and Key Recommendations and, thus, can exit the regular follow-up process. The report prepared by the FATF, based on Aruba's 8th follow-up report, contains a detailed description and analysis of the actions taken by Aruba since the MER of October 2009 (http://www.fatf-gafi.org/topics/mutualevaluations/documents/fur-aruba-2014.html).

The ISD staff consisted of eight dedicated AML/CFT specialists at year-end, while one vacancy remained unfilled. Further enhancing the knowledge, expertise, and skills within the ISD is an important task. In this respect, all supervisory staff received ongoing training, including a 5-day investment business workshop organized by the CBCS, an AML/CFT seminar organized by the Association of Supervisors of Banks of the Americas (ASBA) under the technical instruction of the Board of Governors of the FED in Ecuador, a gaming conference in the Bahamas, and a training on trade-based money laundering organized by the FIU. Moreover, ISD staff continued to attend regular webinar sessions on AML/CFT topics.

In 2013, the ISD carried out eight focused on-site examinations: two examinations at banks, two examinations at trust service providers, two examinations at casinos, and two examinations at notaries. Refer to Table 7.1 on the next page.

The on-site examinations at banks and trust service providers focused mainly on the following topics: (1) the adequacy of the monitoring systems to identify unusual and higher risk activities and transactions, (2) the adequacy of the reporting procedures, and (3) compliance with transitional provisions regarding existing clients laid down in article 2 of the Enactment State Ordinance. While the ISD initially focused its attention with respect to the DNFBP on increasing awareness, encouraging registration, and promoting compliant behavior, in 2013 it conducted on-site examinations at casinos and notaries. These on-site examinations were primarily aimed at (1) the effective implementation of AML/CFT policies, procedures and measures, (2) the appointment and adequate fulfillment of the Money Laundering Compliance Officer (MLCO) and Money Laundering Reporting Officer (MLRO) functions, and (3) the efforts to effectively update and upgrade the quality of the information on existing customers, in accordance with article 2 of the Enactment State Ordinance. In line with the MoU with the FIU, the CBA received information on the reporting behavior of the supervised entities concerned to facilitate efficient and effective on-site examinations. During 2011 up to and including 2013, AML/CFT on-site examinations were carried out at all banks (some more than once), all money transfer companies (some more than once), nearly all trust service providers, and the largest life insurance companies. In 2013, on seven occasions, a normative conversation was held with a supervised institution. In one case an administrative fine was imposed as a result of deficiencies noted. The ISD also completed two extensive reassessments (initiated in 2012) of a key person's suitability and integrity; its efforts were also required to monitor and enforce banks' and life insurers' efforts to upgrade their existing client files. Enforcement actions are shown in Table 7.2.

Table 7.1. AML/CFT on-site examinations 2011-2013

AML/CFT on-site examinations			
Sector	**2011**	**2012**	**2013**
Banks	3	4	2
Life insurers	1	1	-
Money transfer companies	1	3	-
Trust service providers	5	4	2
DNFBPs	-	1	4
Total	**10**	**13**	**8**

Table 7.2. AML/CFT enforcement actions 2011-2013

AML/CFT enforcement actions												
Year	**2011**				**2012**				**2013**			
Enforcement actions / **Sector**	1)	2)	3)	4)	1)	2)	3)	4)	1)	2)	3)	4)
Banks	-	-	-	1*	3	-	1	-	-	-	-	-
Life insurers	-	-	-	-	1	-	2	-	3	-	-	-
Money transfer companies	-	1	-	1	3	-	1	-	3	-	-	1
Trust service providers	-	1	-	-	8	-	-	-	1	-	-	-
DNFBPs	-	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**2**	**-**	**2**	**15**	**-**	**4**	**-**	**7**	**-**	**-**	**1**

1) Normative conversations
2) Formal directions
3) Penalty charge orders
4) Administrative fines
* Not upheld in court.

Furthermore, the ISD's resources were allocated to process the special projects in the area of market access regarding pawnshops (the so-called "compra y benta" companies) and trust services providers servicing on-shore companies (see paragraphs 3.3 and 3.4 above). These new categories of supervised institutions fall primarily under the ISD's responsibility.

In 2013, more preparatory work was undertaken to conduct AML/CFT supervision of the DNFBPs. The ISD continued and enhanced its contacts with representatives from the various supervised sectors (e.g., Casinos Association, Aruba Bar Association, and Association of Aruban Realtors). More particularly, it held meetings with the Association of Aruban Realtors, organized an information session for its members, and gave a presentation during the real estate conference ("*Dag van het vastgoed*") organized by the FIU. Also, discussions with the Aruba Bar Association were held on the agreement of a supervisory protocol for onsite visits.

Annex 5 to this report contains a broad overview of the supervisory activities carried out by the ISD in 2013.

8 SECTORAL DEVELOPMENTS

2013

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 2013 is provided in Annex 2. Annex 3 contains an overview of the changes in the registers of the supervised institutions and shareholding for the year 2013. Annex 4 describes the supervisory activities carried out in 2013 by the PSD and the ISD.

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 remained at 11 at the end of 2013.

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

	2009	2010	2011	2012	2013
1. Total	11	11	11	11	11
2. Commercial banks	4	4	4	4	4
3. Offshore 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.

8.1.2 Commercial banks

The four commercial banks currently operating in Aruba are subsidiaries of, respectively, Maduro & Curiel's Bank N.V., Orco Bank International N.V., RBC Royal Bank N.V., and Banco di Caribe N.V. These (parent) banks are all located in Curaçao. Therefore, all four commercial banks operating in Aruba also are supervised on a consolidated basis by the CBCS.

Table 8.2 shows that, with the exception of the year 2011, the aggregated balance sheet total of the four commercial banks expanded over the past five years. The aggregated balance sheet total of Afl. 4,720.3 at year-end 2013 is equivalent to 101.9 percent of the estimated nominal Gross Domestic Products (GDP) for 2013, clearly indicating the importance of the commercial banking sector in the Aruban economy.

Table 8.2: Balance sheet of the commercial banks
(End of period in Afl. million)

	2009	2010	2011	2012	2013 [1]
1. Total assets	4,305.6	4,388.7	4,324.7	4,639.0	4,720.3
a. Cash and due from banks	1,469.8	1,391.6	1,218.3	1,357.9	1,248.4
b. Investments	154.0	274.7	304.8	346.1	333.2
c. Loans	2,502.0	2,527.1	2,600.9	2,708.0	2,879.6
- Commercial [2]	1,045.2	1,042.7	1,071.4	1,151.2	1,236.4
- Individuals [3]	1,456.8	1,484.4	1,529.5	1,556.8	1,643.2
- Government	0.0	0.0	0.0	0.0	0.0
d. Other assets	179.8	195.3	200.7	227.0	259.1
2. Total capital and liabilities	4,305.6	4,388.7	4,324.7	4,639.0	4,720.3
a. Deposits	3,595.3	3,664.7	3,519.6	3,812.3	3,806.0
- Demand	1,619.7	1,474.0	1,588.6	1,834.2	1,730.1
- Time	1,059.8	1,216.3	930.7	957.8	1,032.0
- Savings	915.8	974.4	1,000.3	1,020.3	1,043.9
b. Other liabilities	154.7	170.7	243.9	250.1	257.5
c. Capital and reserves [4]	555.6	553.3	561.2	576.6	656.8

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.

Assets

The aggregated amount of cash and due from banks decreased significantly from Afl. 1,357.9 million in 2012 to Afl. 1,248.4 million in 2013. This decrease of Afl. 109.5 million (8.1 percent) in 2013 was due mainly to lower amounts held by the commercial banks in time deposits at the CBA. The aggregated amount of loans outstanding exhibited an increasing trend, rising from Afl. 2,502.0 million in 2009 to Afl. 2,879.6 million in 2013. This growth was the result of expansions of Afl. 191.2 million (18.3 percent) and Afl. 186.4 million (12.8 percent) in, respectively, commercial loans and loans to individuals.

During the years 2009-2012, the aggregated investment portfolio showed an increasing trend, rising from Afl. 154.0 million in 2009 to Afl. 346.1 million in 2012, associated largely with increases in government bond holdings and a one-time expansion in short-term securities in 2011. In 2013, the combined investment portfolio dropped slightly by Afl. 12.9 million (3.7 percent) to Afl. 333.2 million compared to end-2012. This was caused largely by decreases in other marketable securities and in government bond holdings of, respectively, Afl. 16.6 million (70.6 percent) and Afl. 2.3 million (0.9 percent), partially offset by an increase of Afl. 6.0 million (9.2 percent) in short-term securities.

Liabilities

The aggregated deposits have been quite volatile over the last five years, declining to Afl. 3,519.6 million in 2011 and peaking at Afl. 3,812.3 million in 2012. In 2013, the aggregated deposits decreased slightly by Afl. 6.3 million (0.2 percent) compared to end-2012. The balance sheet item "other liabilities" expanded by Afl. 102.8 million (66.5 percent) from Afl. 154.7 million as per the end of 2009 to Afl. 257.5 million as per end-2013, due mainly to increases in borrowings from deposit money banks (Afl. 26.0 million), accounts payable (Afl. 24.9 million) and other liabilities (Afl. 45.6 million). Capital and reserves have trended upwards in recent years and amounted to Afl. 656.8 million at the end of 2013. The rise in capital and reserves of Afl. 80.2 million (13.9 percent) in 2013 was associated largely with additions from net income to the reserves.

Income Statement

Table 8.3 shows that the total income of the banking sector moved upwards from Afl. 295.3 million in 2009 to Afl. 323.9 million in 2013, due to expansions predominantly in net interest income. Furthermore, total expenses remained fairly stable during the period 2009-2013. During the past 5 years, higher salaries and employee benefits were recorded. The additions to the loan loss provisions showed a decreasing trend since 2011, commensurate with the decline in the non-performing loans ratio.

Table 8.3: Income statement of the commercial banks

(In Afl. million)

	2009	2010	2011	2012	2013 [1]
1. Total income	295.3	300.5	304.1	316.3	323.9
a. Net interest income	187.2	195.6	202.1	218.1	220.5
b. Operating income	108.1	104.9	102.0	98.2	103.4
2. Total expenses	194.7	200.6	193.9	190.2	191.0
a. Salaries & employee benefits	83.0	87.6	94.0	98.4	101.9
b. Additions to the loan loss provisions	22.9	22.2	13.6	9.6	6.2
c. Other expenses	88.8	90.8	86.3	82.2	82.9
3. Net income before extraordinary items and taxes	100.6	99.9	110.2	126.1	132.9
4. Net income before taxes	103.3	102.5	115.7	135.5	137.1
5. Taxes	28.9	27.4	27.8	34.6	37.4
6. Net income	74.4	75.1	87.9	100.9	99.7

Source: CBA; commercial banks.

1 Preliminary figures.

Financial Soundness Indicators

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

Table 8.4: Financial soundness indicators of the commercial banks
(End of period in percentages)

	2009	2010	2011	2012	2013 [1]
1. Capital adequacy					
a. Risk-weighted capital asset ratio = regulatory capital ratio *Regulatory capital to risk-weighted assets*	17.8	18.5	17.7	19.4	22.7
b. Tier 1 capital ratio	10.6	11.3	11.3	11.8	14.8
2. Asset quality					
a. Nonperforming loans to gross loans	7.9	10.7	8.2	7.0	7.0
b. Nonperforming loans (net of ALLP) to gross loans [2]	4.5	6.9	4.1	3.4	3.4
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	27.4	40.9	25.9	19.3	16.6
d. Large loans to regulatory capital [3]	77.1	68.7	68.3	86.4	75.6
3. Earnings and profitability					
a. Return on assets	1.8	1.8	2.1	2.3	2.2
b. Return on equity	17.4	16.8	19.8	22.7	20.1
c. Net interest income to gross income	62.8	64.5	65.3	67.0	67.2
d. Noninterest expenses to gross income	75.0	75.2	71.6	69.0	69.6
4. Liquidity					
a. Loans to deposits ratio	67.1	66.5	71.0	68.0	72.8
b. Prudential liquidity ratio	30.1	28.6	26.1	27.6	24.3
c. Liquid assets to short-term liabilities	71.5	75.6	61.4	61.2	57.4
5. Sensitivity to market risk					
a. Interest rate margin [4]	7.2	8.4	7.4	7.0	5.3

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.

Capital Asset Ratio

The commercial banks' aggregated risk-weighted capital asset ratio stayed well above the required minimum of 14 percent (applicable as of 2010). This ratio moved up from 17.8 percent at end-December 2009 to 22.7 percent at the end of December 2013, due mainly to the increase in the capital and reserves held by the commercial banks.

Asset Quality

The quality of the commercial banks' loan portfolio's improved substantially during 2011-2013. This improvement is evidenced by a decrease of 3.7 percentage points in the nonperforming loans-to-gross loans ratio in 2013 compared to the ratio in 2010.The decrease of Afl. 72.9 million in the nonperforming loans during the period 2011-2013 resulted mainly from debt restructuring.

The development of the nonperforming loans ratio since 2009 is depicted in Chart 1 and Chart 2. Overall, the commercial banks established sufficient provisions against nonperforming loans, while maintaining adequate buffers to absorb additional (unforeseen) losses. The commercial banks' resilience is also stress-tested annually. The outcome of these stress tests show that the commercial banks can absorb significant external shocks.

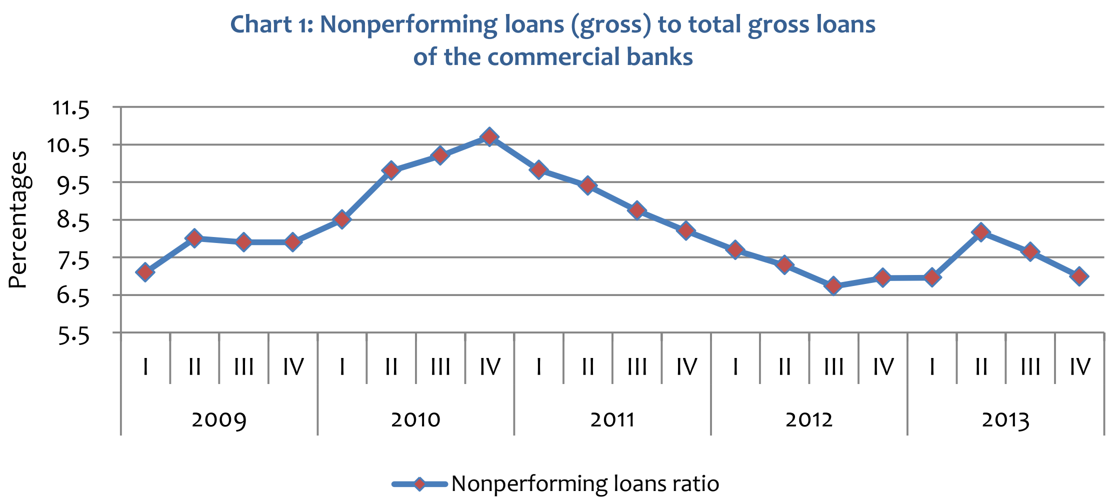


Chart 1: The nonperforming loans ratio showed an increasing trend during 2009-2010, and a sharp recovery in 2011-2013.

Chart 2: Development of nonperforming loans by category of the commercial banks

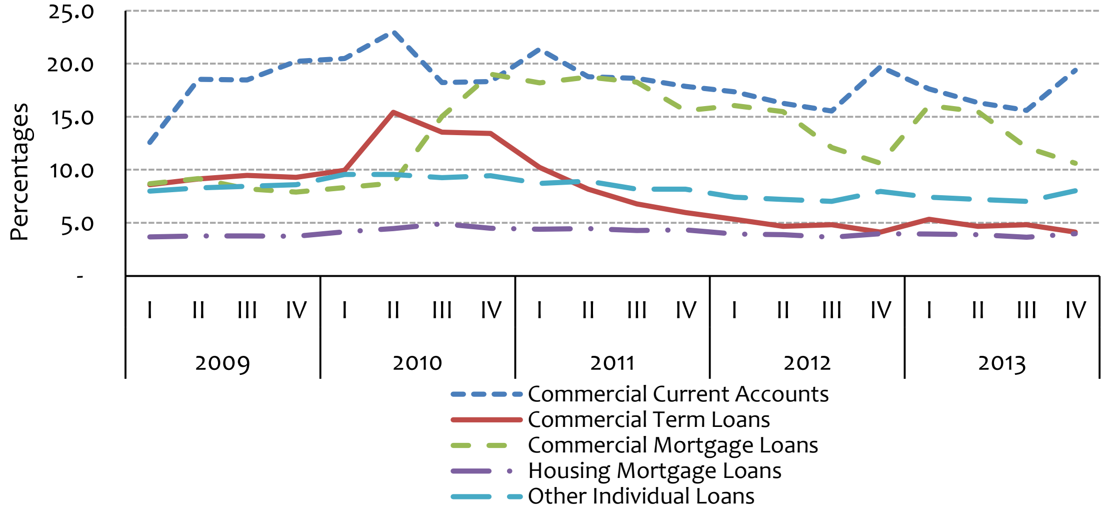


Chart 2: As shown in Chart 2, the increase in nonperforming loans occurred largely in the commercial current accounts and commercial mortgage loan categories.

Prudential Liquidity Ratio

The commercial banks' aggregated prudential liquidity ratio (PLR) indicated a decreasing trend during the period 2009-2013, with the exception of the year 2012. The decrease is associated mostly with the CBA's introduction of the Reserve Requirement (a monetary policy instrument which replaced the monetary cash reserve requirement) on July 1, 2009. As of that date, the amounts held under this arrangement at the CBA are no longer included in the calculation of the PLR. Overall, the banks' aggregated PLR dropped from 30.1 percent at the end of 2009 to 24.3 percent at the end of December 2013, but remained far above the required minimum of 15 percent. The loans-to-deposits ratio fluctuated during the five-year period, topping at 72.8 percent in 2013, but remaining below the maximum of 80 percent.

Profitability Indicators

Return on Assets

After peaking at 2.3 percent in 2012, the return on assets decreased slightly by 0.1 percentage point to 2.2 percent in 2013.

Return on Equity

The return on equity ratio declined in 2010, rebounded during 2011-2012, and then declined slightly to 20.1 percent at the end of 2013, due primarily to a growth in the average shareholders' equity of Afl. 50.4 million (11.3 percent) in 2013.

Net Interest Income

The net interest income to gross income ratio showed an upward trend, rising from 62.8 percent in 2009 to 67.2 in 2013, while the ratio of noninterest expenses to gross income increased slightly by 0.6 percentage point to 69.6 percent in 2013 when compared to 2012.

Interest Rate Margin

As a result of the oligopolistic market structure in Aruba, as well as the small scale of the domestic banking sector, interest rates in Aruba, although declining, remained relatively high compared to those in more advanced economies. From 2010 to 2013, the weighted average interest rate margin of the commercial banks decreased, recording a high of 8.4 percent in 2009 and a low of 5.3 percent at the end of 2013.

8.1.3 Offshore banks

In 2013, the number of offshore banks registered in Aruba remained unchanged at two. One of the offshore banks is a local entity affiliated with Citigroup Inc. and, as such, falls under the consolidated supervision of the U.S. supervisory authorities.

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

	2009	2010	2011	2012	2013 [1]
1. Total assets	556.2	402.8	219.1	254.9	290.1
a. Cash and due from banks	67.6	19.1	19.0	78.2	36.1
b. Investments	52.4	69.3	51.9	28.0	27.5
c. Loans [2]	97.7	102.3	60.6	120.5	171.2
d. Other assets	338.5	212.1	87.6	28.2	55.3
2. Capital and liabilities	556.2	402.8	219.1	254.9	290.1
a. Deposits	180.9	210.8	57.9	59.8	74.7
- Demand	12.1	3.8	12.4	25.9	28.1
- Time	168.8	207.0	45.5	33.9	46.6
b. Other liabilities	30.5	27.9	27.3	35.6	120.9
c. Capital and reserves [3]	344.8	164.1	133.9	159.5	94.5
3. Risk-weighted capital asset ratio (percentage) [4] *Regulatory capital to risk-weighted assets*	29.7	24.9	46.6	70.5	34.5

Source: CBA; offshore 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 5.

Assets

As shown in Table 8.5, during the five-year period covering 2009-2013, the aggregated balance sheet total of the offshore banks fell by Afl. 266.1 million or 47.8 percent, due mainly to declines in other assets and cash and due from banks of, respectively, Afl. 283.2 million (83.7 percent) and Afl. 31.5 million (46.6 percent), partially offset by a growth of Afl. 73.5 million (75.2 percent) in loans outstanding. The decrease in other assets in 2011 of Afl. 124.5 million (58.7 percent) reflected mostly drops in accounts receivable and prepayments related to adjustments in cross-currency swaps and foreign exchange transactions. Loans outstanding showed an upward movement in the last three years, rising from Afl. 60.6 million in 2011 to Afl. 171.2 million in 2013 largely because of growth in the commercial loan portfolio of the offshore banks.

Liabilities

On the liability side, capital and reserves contracted by Afl. 210.9 million or 61.2 percent from 2009 to 2011. This contraction was predominantly associated with net losses incurred in 2010 and a dividend payment of Afl. 72.0 million in 2011. At the end of 2013, capital and reserves decreased by Afl. 65.0 million (40.8 percent), due mainly to dividend payments. Deposits showed a decreasing trend during the period 2010-2011, but started to rise again in 2012 and 2013. It is worth noting that the decrease in deposits at the end of December 2011 was caused primarily by a fall off of Afl. 161.5 million (78.0 percent) in time deposits, a direct result of the discontinued activities of one of the offshore banks in 2009.

Risk-weighted Capital Asset Ratio

The aggregated risk-weighted capital asset ratio of the offshore banks varied significantly over the period 2009-2013, increasing from 24.9 percent in 2010 to a peak of 70.5 percent in 2012 and declining substantially to 34.5 percent in 2013. The notable drop in 2013 was mostly the result of an increase of Afl. 82.4 million or 43.1 percent in the risk-weighted assets and a drop of Afl. 40.3 million or 29.9 percent in the regulatory capital. The increase in risk-weighted assets was caused mostly by a growth in "loans outstanding- commercial, other" of Afl. 50.2 million, while the drop in regulatory capital was due largely to dividend payments in 2013.

Income Statement

As shown in Table 8.6, the profitability of the two offshore banks was volatile over the past five years. These banks reported a net income of Afl. 5.0 million in 2013 compared to a net income of Afl. 80.1 million in 2012, while in 2010 the offshore banks reported a net loss of Afl. 179.2 million. Over the years 2009-2013, the total income of the offshore banks also fluctuated heavily, mostly because of the highly volatile operating income related to restatements of foreign exchange transactions and market-to-market adjustments on cross-currency swap transactions. In 2013, net income decreased from Afl. 80.1 million to Afl. 5.0 million compared to 2012, primarily because of a significant drop in extraordinary income of Afl. 68.7 million or 94.6 percent related to realized gains from the sale of trading securities. The combined total expenses also showed an erratic pattern over the past five years. The spike of Afl. 98.4 million in general expenses in 2009 was due to fair value adjustments.

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

	2009	2010	2011	2012	2013 [1]
1. Total income	113.4	-200.1	21.5	17.1	20.1
a. Net interest margin	50.4	17.4	11.8	11.1	7.9
b. Operating income	63.0	-217.5	9.7	6.0	12.2
2. Total expenses	98.4	3.9	18.9	7.8	18.5
a. General expenses	97.1	4.7	21.0	9.0	13.6
b. Additions to (release of) the loan provision	1.3	-0.8	-2.1	-1.2	4.9
3. Net income before extraordinary items and taxes	15.0	-204.0	2.6	9.3	1.6
4. Net income before taxes	20.7	-179.2	42.0	80.4	5.5
5. Taxes	0.0	0.0	-0.8	0.3	0.5
6. Net income	20.7	-179.2	42.8	80.1	5.0

Source: CBA; offshore 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.

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

	2009	2010	2011	2012	2013 [1]
1. Total assets	709.0	689.7	710.4	683.3	664.7
a. Cash & due from banks	59.1	47.0	39.1	68.3	64.3
b. Investments	24.9	24.1	55.1	21.9	21.9
c. Loans	486.2	469.2	469.2	431.1	413.6
- Commercial [2]	162.3	150.1	151.0	112.5	101.6
- Individuals [3]	323.9	319.1	318.2	318.6	312.0
d. Other assets	138.8	149.4	147.0	162.0	164.9
2. Total capital and liabilities	709.0	689.7	710.4	683.3	664.7
a. Deposits	0.0	0.0	0.0	0.0	0.0
b. Borrowings	401.3	371.2	377.1	325.7	276.8
- Commercial	322.8	282.7	257.5	236.1	206.5
- Individuals	6.9	6.9	7.0	7.0	5.5
- Government	71.6	81.6	112.6	82.6	64.8
c. Other liabilities	37.2	31.4	32.5	35.3	41.2
d. Capital and reserves [4]	270.5	287.1	300.8	322.3	346.7

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.

Assets

Table 8.7 denotes a decreasing trend, with the exception of the year 2011, in the aggregated balance sheet total of the bank-like institutions over the past five years. At the end of 2013, total aggregated assets of Afl. 664.7 million were reported, representing a decline of Afl. 44.3 million (6.2 percent) compared to 2009. This decline reflects a contraction in loans outstanding of Afl. 72.6 million (14.9 percent), partially offset by expansions in other assets of Afl. 26.1 million (18.8 percent). The decrease in loans outstanding in 2012 and 2013 was particularly related to the restructuring of one institution's commercial loan portfolio. The combined investments remained unchanged at the end of 2013 compared to 2012. The significant contraction of Afl. 33.2 million (60.3 percent) in the combined investment portfolio from 2011 to 2012, was largely attributed to a decrease of Afl. 30.0 million (57.8 percent) in government bond holdings. Cash and due from banks declined by Afl. 4.0 million (5.9 percent) in 2013 compared to 2012, while the growth of Afl. 29.2 million (74.7 percent) in the combined cash and due from banks in 2012 was associated mostly with increases of Afl. 18.6 million and Afl. 10.5 million, respectively, in demand and time deposits of these bank-like institutions at the commercial banks. Over the five-year period covering 2009-2013, the expansion in other assets reflected upsurges in accounts receivable and prepayments and investments in other companies.

Liabilities

On the liability side, capital and reserves showed a consistent upward trend, rising from Afl. 270.5 million in 2009 to Afl. 346.7 million in 2013, associated mostly with additions from net income to the reserves. On the other hand, borrowings showed a downward trend, dropping from Afl. 401.3 million in 2009 to Afl. 276.8 million at the end of 2013. The drop of Afl. 124.5 million (31.0 percent) in borrowings over the five-year period was due mostly to reductions of Afl. 116.3 million (36.0 percent) in commercial borrowings and Afl. 6.8 million (9.5 percent) in government borrowings.

Income Statement

As shown in Table 8.8, the profitability of the bank-like institutions was rather volatile. Over the years 2009-2013, the total income fluctuated between Afl. 60.3 million and Afl. 77.5 million. At the end of 2013, total income had dropped by Afl. 13.1 million (16.9 percent) to Afl. 64.4 million compared to 2012. The contraction was attributed largely to decreases in both net interest income and operating income of, respectively, Afl. 7.6 million (15.1 percent) and Afl. 5.5 million (20.3 percent) .

Table 8.8: Income statement of the bank-like institutions

(In Afl. million)

	2009	2010	2011	2012	2013 [1]
1. Total income	61.3	59.5	60.3	77.5	64.4
a. Net interest income	40.1	39.6	41.3	50.4	42.8
b. Operating income	21.2	19.9	19.0	27.1	21.6
2. Total expenses	41.4	45.2	46.7	61.4	37.4
a. Salaries & employee benefits	15.7	15.3	17.9	19.4	17.7
b. Additions to the loan loss provisions	8.3	11.7	5.6	20.6	-2.0
c. Other expenses	17.4	18.2	23.2	21.4	21.7
3. Net income before extraordinary items and taxes	19.9	14.3	13.6	16.1	27.0
4. Net income before taxes	21.9	16.6	14.8	20.9	27.0
5. Taxes	1.9	0.5	0.5	2.3	2.6
6. Net income	20.0	16.1	14.3	18.6	24.4

Source: CBA; bank-like institutions.

1 Preliminary figures.

During the period 2009-2012, total aggregated expenses showed a consistent upward trend, rising from Afl. 41.4 million in 2009 to Afl. 61.4 million at the end of 2012, but dropped sharply to Afl. 37.4 million in 2013. During the period 2009-2012, the increase in total expenses was caused mainly by upswings in other expenses and salaries and employee benefits. The growth in 2012 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.

Financial Soundness Indicators

The various macroprudential indicators show that overall, the bank-like institutions' sector was sound and profitable during the period 2009-2013.

Table 8.9: Core set of macroprudential indicators of the bank-like institutions
(End of period in percentages)

	2009	2010	2011	2012	2013 [1]
1. Capital adequacy					
a. Risk-weighted capital asset ratio = regulatory capital ratio *Regulatory capital to risk-weighted assets*	47.7	51.5	55.3	60.2	61.2
b. Tier 1 capital ratio	40.2	44.9	49.0	53.2	53.7
2. Asset quality					
a. Nonperforming loans to gross loans	13.6	19.2	15.8	14.9	8.7
b. Nonperforming loans (net of ALLP) to gross loans [2]	10.9	15.2	11.3	9.9	6.9
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	21.4	27.1	18.8	14.5	8.6
3. Earnings and profitability					
a. Return on assets (after taxes)	3.0	2.4	2.1	2.7	3.7
b. Return on equity (after taxes)	8.4	6.2	5.2	6.3	7.7
c. Interest margin to gross income	63.2	64.1	67.1	61.3	66.5
d. Non-interest expenses to gross income	68.4	74.0	76.7	77.5	62.1

Source: CBA; bank-like institutions.

1 Preliminary figures.
2 ALLP: allocated loan loss provision.

Capital Asset Ratio

As noted in Table 8.9, the aggregated risk-weighted capital asset adequacy applicable for these institutions exhibited an increasing trend, rising from 47.7 percent in 2009 to 61.2 percent in 2013, remaining far above the minimum requirement of 14 percent (applicable as of April 1, 2010). This growth was attributed largely to an Afl. 75.0 million or 28.5 percent surge in the aggregate regulatory capital (numerator) stemming from additions of net income to the reserves.

Asset Quality

The asset quality of the bank-like institutions' sector showed a significant improvement in 2013, as evidenced by a remarkable drop of 6.2 percentage points in the nonperforming loans to gross loans ratio at end-December 2013 compared to end-December 2012.The development in the nonperforming loans ratio of the bank-like institutions is depicted in Chart 3 and Chart 4.

Chart 3: Nonperforming loans (gross) to total gross loans of the banklike institutions

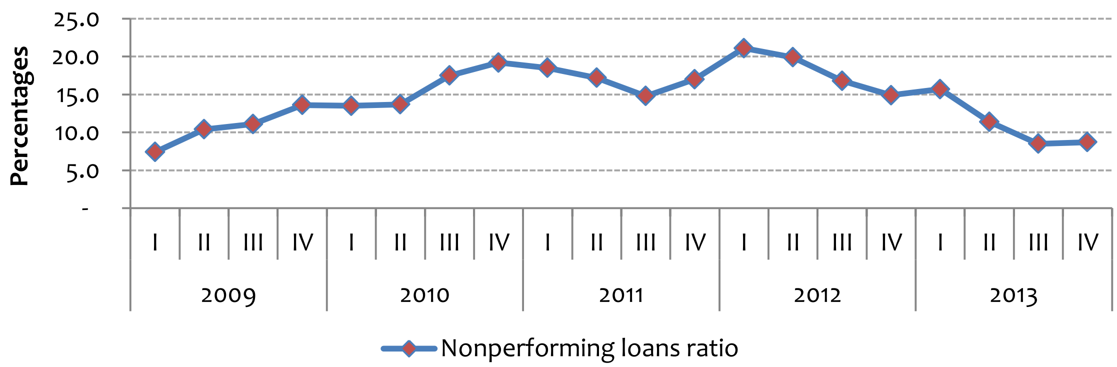


Chart 3: The nonperforming loans (gross) to gross loans ratio varied in the period 2009 from 13.6 percent to 14.9 percent and dropped to 8.7 percent at the end of 2013.

Chart 4: Nonperforming loan ratios by category of the banklike institutions

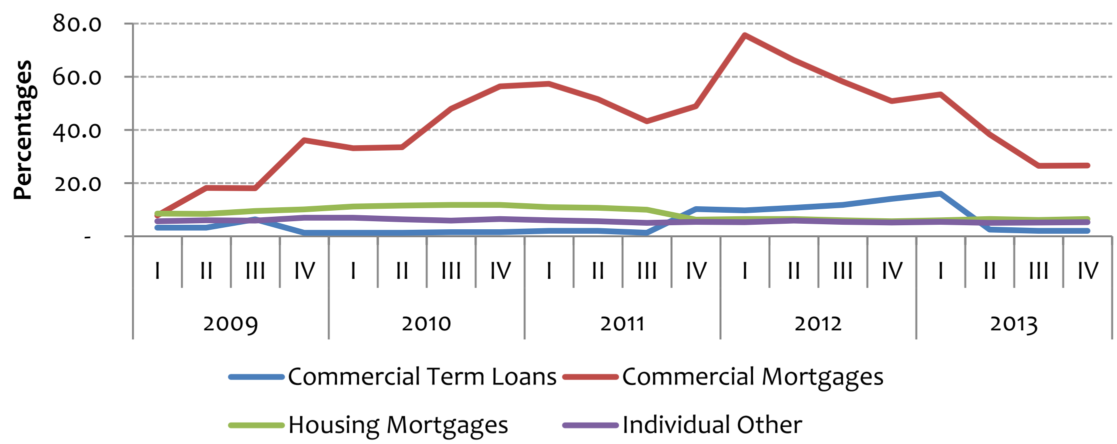


Chart 4: The growth in the nonperforming loans (gross) to gross loans ratio of the bank-like institutions sector from 2009-2012 was due mainly to sharp increases in the nonperforming loans in the commercial mortgages category.

Profitability Indicators

Return on Assets

During the period 2009-2013, the return of assets of the bank-like institutions varied between 2.1 percent and 3.7 percent.

Return on Equity

As outlined in Table 9, the bank-like institutions historically reported low return on equity (after taxes) ratios, substantially lower than the ratios of the commercial banking sector. However, maximization of shareholders' value generally is not the prime objective of 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 2009 at 8.4 percent, the return on equity declined by 0.7 percentage point to 7.7 percent in 2013.

Net Interest Income

After peaking at 67.1 percent in 2011, the net interest income to gross income ratio decreased by 0.6 percentage point to 66.5 percent in 2013.

Noninterest Expenses

The noninterest expenses to gross income ratio showed an upward trend, rising from 68.4 percent in 2009 to 77.5 percent in 2012 and abating to 62.1 percent in 2013 due to a significant drop in noninterest expenses (release of ALLP).

8.2 Money transfer companies

At the end of 2013, the number of registered money transfer companies had decreased by one. Furthermore, MoneyGram possesses an exemption under section 10 of the SOSMTC to conduct money transfer activities via Caribbean Mercantile Bank N.V. and Global Access Corporation N.V., while Western Union is exempted to conduct money transfer activities via Post Aruba N.V. under the same provision.

Table 8.10: Outgoing money transfers by countries of destination
(End of period in Afl. thousands)

	2009	2010	2011	2012	2013 [1]
1. Total	118,673.6	109,079.1	106,827.1	107,886.6	109,001.1
2. Colombia	60,271.1	54,303.6	52,157.2	52,937.2	52,289.6
3. Dominican Republic	18,253.1	16,458.4	17,057.8	16,755.1	18,497.4
4. Philippines	6,634.9	6,694.5	6,671.2	6,973.2	7,636.1
5. Peru	5,062.1	4,818.1	4,812.6	4,508.6	4,088.4
6. Haiti	4,736.4	4,867.0	4,603.2	4,659.5	5,222.4
7. Other	23,716.0	21,937.5	21,525.1	22,053.0	21,267.2

Source: CBA; money transfer companies.
1 Preliminary figures.

Table 8.10 shows that overall, the amount of outgoing transfers executed by the money transfer companies fell by Afl. 9.7 million (8.2 percent) over the past five years, dropping from Afl. 118.7 million in 2009 to Afl. 109.0 million in 2013. The main reason for these transfers to abroad is the provision of 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 2009-2013, the number of outgoing transfers dropped by roughly 15,000, from approximately 283,000 in 2009 to about 268,000 in 2013. Colombia remained the major destination of the funds transferred abroad via money transfer companies, although its share declined from 51 percent in 2009 to 48 percent in 2013 (Chart 5).

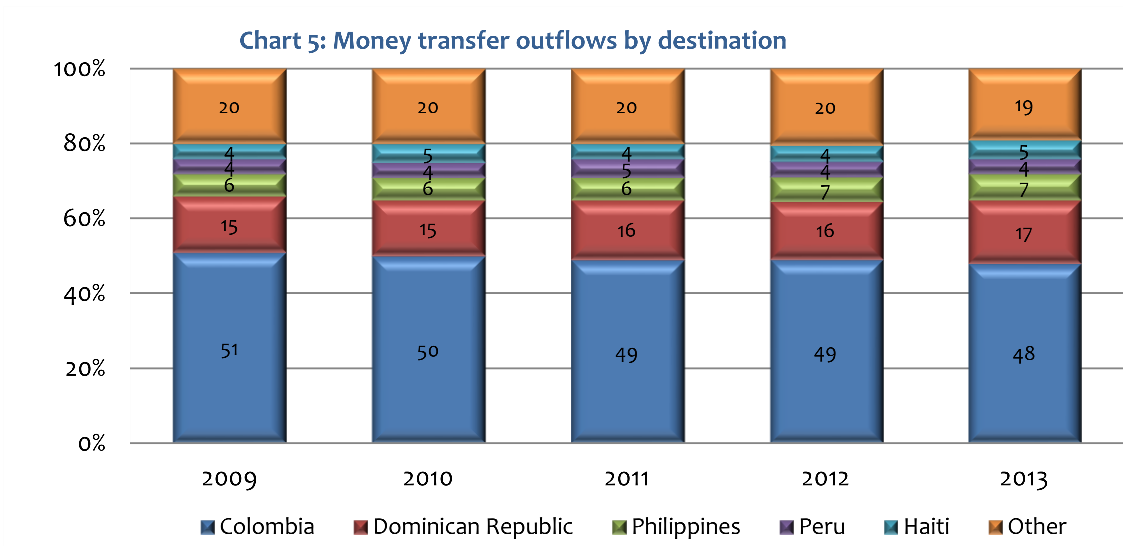


Chart 5: Illustrates the number of money transfer outflows from 2009-2013 by destination.

Table 8.11: Incoming money transfers by countries of origin
(End of period in Afl. thousands)

	2009	2010	2011	2012	2013 [1]
1. Total	16,351.2	18,398.4	20,582.2	18,472.2	17,091.2
2. Netherlands	6,187.2	6,225.7	8,168.5	5,805.9	4,402.4
3. United States	3,323.9	3,879.8	3,585.9	3,572.8	3,965.9
4. Colombia	1,040.0	1,719.5	1,821.4	1,800.3	1,871.8
5. Netherlands Antilles [2]	892.6	989.0	1,224.7	1,270.4	991.5
6. Spain	551.5	533.5	510.0	378.7	314.7
7. Other	4,356.0	5,050.9	5,271.7	5,644.1	5,544.9

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.

The amount of the incoming money transfers grew slightly by Afl. 4.2 million (25.6 percent) to Afl. 20.6 million during the period 2009-2011, subsequently receding to Afl. 17.1 million in 2013, as shown in Table 8.11). On the other hand, the corresponding number of transfers also increased from approximately 20,000 in 2009 to around 22,000 in 2013. The incoming transfers originated mainly from the Netherlands and the United States (Chart 6).

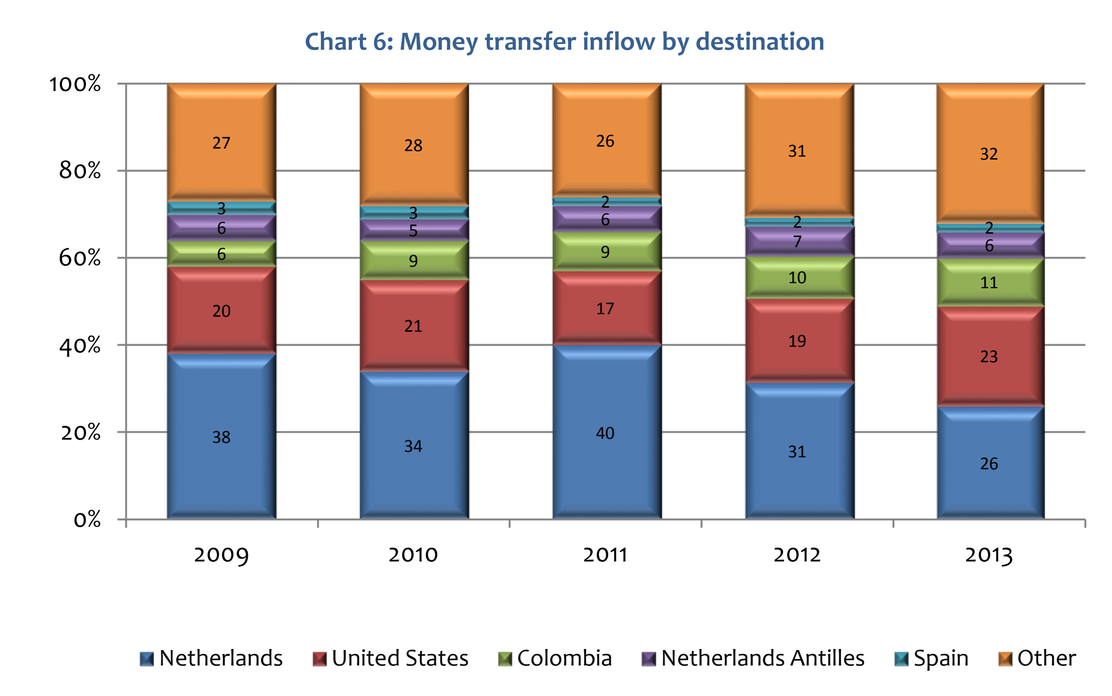


Chart 6: Illustrates the number of incoming money transfers by country of origin during 2009-2013.

8.3 Trust service providers

8.3.1 Licensed trust service providers

At the beginning of 2013, 14 trust service providers were included in the CBA's register of licensed trust service providers. In 2013, on request, the license of one trust service provider was revoked. With the enactment of the Amending State Ordinance on January 1, 2013 (see paragraph 2.1), the scope of the SOSTSP was expanded. The definition of "trust service provider" no longer excludes trust services provided to companies that participate in economic activity in Aruba. This means that the provision of trust services to on-shore companies also requires a license from the CBA. At the end of 2013, the number of licensed trust services providers totaled 13. Note that two license applications in connection with the enactment of the Amending State Ordinance are still under review. Most of the licensed trust service providers are subsidiaries of Curaçao-based trust companies.

8.3.2 Trust services provided

Next to providing management services to their clients, trust service providers also act as registered agents providing domicile to their offshore clients.

8.3.3 Client portfolio

A survey conducted by the CBA among the licensed trust service providers found that the number of clients serviced during the period 2011-2013 decreased from 1,088 clients (on January 1, 2011) to 795 clients (on June 30, 2013). The main reasons given for the decrease in customers were, among others, the termination of the business relationship with clients who have not submitted the required documentation, clients deciding to liquidate the existing company due to higher expenses related to the increased regulatory requirements, and clients not wanting to convert bearer shares into registered shares.

8.3.4 Lines of business serviced

The activities of the companies serviced by the licensed trust service providers are primarily in the area of aircraft registration and ownership, investment business, and real estate.

8.3.5 Ultimate beneficial owners ("UBOs")

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

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 and company pension funds in Aruba. This limited impact occurred mostly because of 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 crises. At the end of 2008, three of the supervised company pension funds reported a coverage ratio below the minimum requirement of 100 percent. Consequently, these pension funds had to submit recovery plans to the CBA, delineating how the shortfall would be addressed within a reasonable period of time. At the end of 2013, the coverage ratios of one company pension fund and that of APFA were below the minimum requirement of 100 percent.

Table 8.12 shows the number of supervised nonlife and life insurance companies, captive insurance companies, and company pension funds.

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

	2009	2010	2011	2012	2013
1. Total	35	34	33	34	35
2. Nonlife insurance companies	13	13	12	12	13
3. Life insurance companies	7	7	6	7	7
4. Captive insurance companies	4	4	4	4	4
5. Company pension funds [1]	11	10	11	11	11

Source: CBA.
1 As of January 1, 2011, also including APFA.

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 steadily over the period 2008-2012, resulting in total assets amounting to Afl. 290.1 million at the end of 2012. The total assets of this sector are equivalent to 6.4 percent of the GDP of 2012. Compared to the end of 2008, total assets grew by Afl. 74.9 million (34.8 percent). This growth can be predominantly attributed to increases in the investment portfolio and current assets of, respectively, Afl. 64.1 million (51.5 percent) and Afl. 12.6 million (22.9 percent).

Table 8.13: Balance sheet of the nonlife insurance companies
(End of period in Afl. million)

	2008	2009	2010	2011	2012
1. Total assets	215.2	236.8	247.7	271.2	290.1
a. Investments	124.5	137.1	158.6	179.0	188.6
b. Fixed assets	2.7	3.0	3.5	3.8	3.6
c. Due from affiliated companies	32.9	34.1	30.0	30.4	29.8
d. Current assets	55.1	62.6	55.6	57.5	67.7
e. Intangible assets	0.0	0.0	0.0	0.5	0.4
2. Total capital and liabilities	215.2	236.8	247.7	271.2	290.1
a. Technical provisions	68.1	68.2	59.4	56.3	60.8
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	81.6	99.3	113.1	120.1	129.7
d. Current liabilities	11.7	11.3	12.1	16.6	20.2
e. Capital and reserves	53.8	58.0	63.1	78.2	79.4

Source: CBA; nonlife insurance companies.

In 2012, the total assets of the nonlife insurers increased by Afl. 18.9 million (7.0 percent) compared to 2011, due largely to rises in current assets of Afl. 10.2 million (17.7 percent) and investments of Afl. 9.6 million (5.4 percent).

Liabilities

On the liability side (over the period 2008-2012), amounts due to affiliated companies and current liabilities grew by, respectively, Afl. 48.1 million (58.9 percent) and Afl. 8.5 million (72.6 percent). Capital and reserves rose slightly to Afl. 79.4 million at the end of 2012.

Investments

Table 8.14 shows that the upsurge in the combined investment portfolio in 2012 compared to 2008 was due in large part to rises in bond holdings and time deposits of, respectively, Afl. 44.2 million (77.3 percent) and Afl. 17.3 million (27.6 percent). At the end of 2012, time deposits increased by Afl. 9.5 million (13.5 percent) to Afl. 79.9 million, and bond holdings increased by Afl. 1.7 million (1.7 percent) to Afl. 101.4 million compared to 2011. On the other hand, loans dropped marginally by Afl. 1.6 million (18.8 percent) in 2012 compared to 2011. At the end of 2012, local investments amounted to Afl. 184.9 million (98 percent) of the combined investment portfolio of the nonlife insurance sector (end 2011: Afl. 175.3 million or 97.9 percent).

Table 8.14: Investments of the nonlife insurance companies

(End of period in Afl. million)

	2008	2009	2010	2011	2012
1. Total	124.5	137.1	158.6	179.0	188.6
2. Shares	0.4	0.4	0.4	0.4	0.4
3. Bonds	57.2	62.4	72.1	99.7	101.4
4. Time deposits	62.6	69.8	78.0	70.4	79.9
5. Loans	4.3	4.5	8.1	8.5	6.9
6. Other investments	0.0	0.0	0.0	0.0	0.0

Source: CBA; nonlife insurance companies.

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 high net income (before taxes) of Afl. 16.7 million in 2011 and low net incomes in 2009 and 2012 of, respectively, Afl. 8 million and Afl. 3 million. During 2008-2012, the total income of the nonlife insurance companies demonstrated an upward trend, reaching Afl. 81.2 million in 2012, mainly the result of increases in net earned premiums (Chart 7).

In 2012, the net income (before taxes) decreased by Afl. 10.7 million (64.1 percent) to Afl. 6.0 million compared to 2011, mainly due to an increase in net claims of Afl. 13.5 million (59.7 percent), partially offset by an increase of Afl. 4.8 million (6.9 percent) in net premiums.

Table 8.15: Income statement of the nonlife insurance companies

(End of period In Afl. million)

	2008	2009	2010	2011	2012
1. Total income	69.3	75.6	77.2	75.6	81.2
a. Net premiums	61.7	68.4	70.6	69.8	74.6
b. Investment income	7.8	9.0	7.8	7.5	8.1
c. Other income	-0.2	-1.8	-1.2	-1.7	-1.5
2. Total expenses	64.5	66.7	63.8	58.9	75.2
a. Net claims (including changes in technical provisions)	29.8	29.4	25.2	22.6	36.1
b. Commissions	13.6	14.0	15.3	15.1	15.5
c. Management expenses	21.0	23.4	23.3	21.2	24.3
d. Extraordinary items	0.0	0.0	0.0	0.0	-0.6
e. Policyholders' dividends	0.0	0.0	0.0	0.0	0.0
f. Other expenses	0.1	-0.1	0.0	0.0	-0.1
3. Net income before taxes	4.8	8.9	13.4	16.7	6.0
4. Taxes	2.1	0.9	1.6	3.0	3.0
5. Net income	2.7	8.0	11.8	13.7	3.0

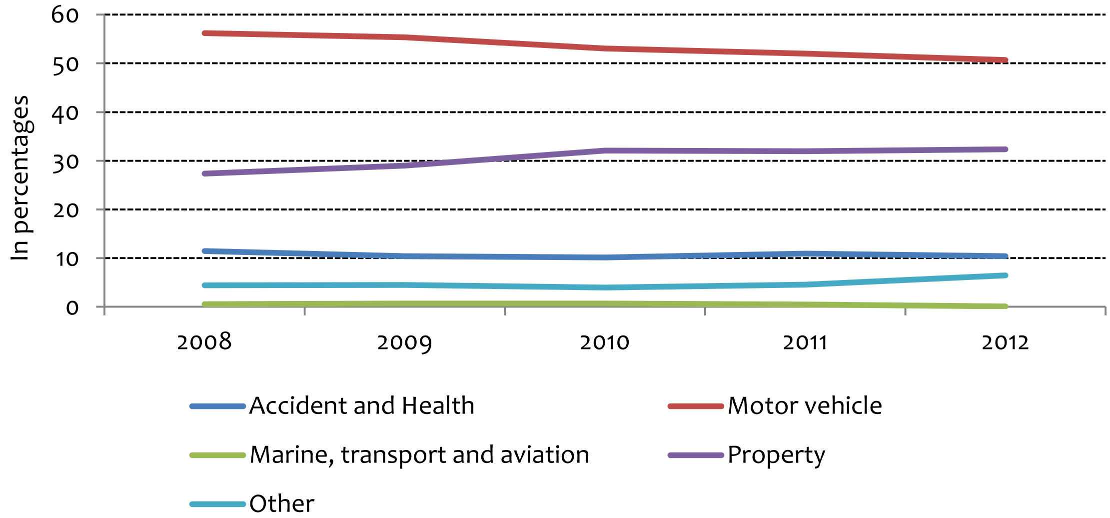
Source: CBA; nonlife insurance companies.

The total expenses increased sharply from Afl. 58.9 million to Afl. 75.2 million in 2012 compared to 2011. This rise was caused by a growth in net claims (including changes in technical provisions) and management expenses of, respectively, Afl. 13.5 million (59.7 percent) and Afl. 3.1 million (14.6 percent). The 2012 peak in net claims reflected primarily a higher claim incidence, mostly in the motor vehicle category (Chart 7). Commissions remained virtually unchanged during the period 2010-2012.

Net Earned Premium by Indemnity line

As displayed in Chart 7, the main source of income of the nonlife insurance companies in 2012 was net premiums received in the area of motor vehicle insurance (51 percent) and property insurance (32 percent).

Chart 7: Net earned premium by indemnity line



Prudential Indicators

Table 8.16: Financial ratios of the nonlife insurance companies
(End of period in percentages)

	2008	2009	2010	2011	2012
1. Liquidity ratio *Current assets to total assets*	25.6	26.4	22.4	21.2	23.3
2. Return on investments ratio *Investment income to average invested assets*	5.9	6.9	5.3	4.4	4.4
3. Coverage ratio [1] *Weighted assets less borrowings to technical provisions*	287.4	294.6	387.5	404.9	429.3

Source: CBA; nonlife insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 13.

Liquidity Ratio

As shown in Table 8.16, the liquidity ratio of the nonlife insurance companies remained quite stable over the years 2008-2012.

Return on Investment Ratio

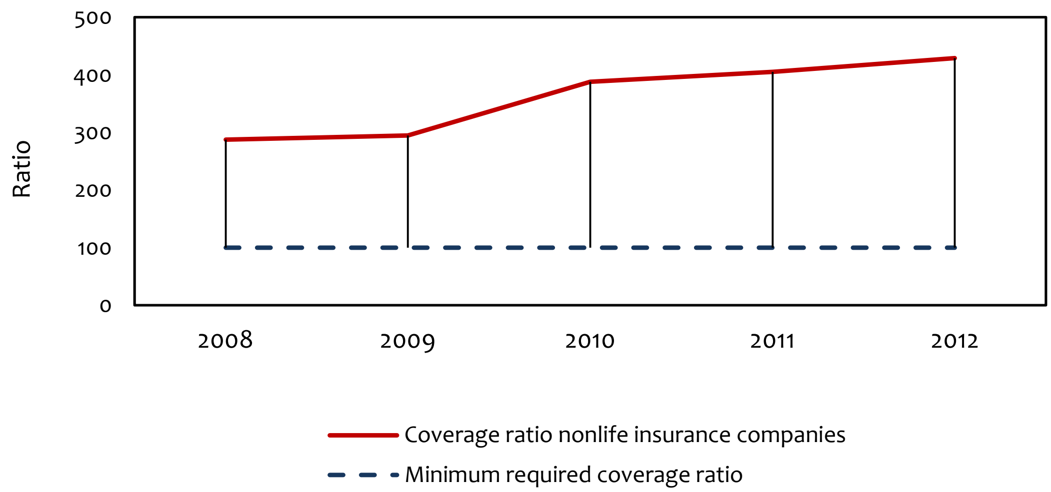
The return on investment ratio topped at 6.9 percent in 2009 and stayed unchanged during 2011-2012 at 4.4 percent.

Coverage Ratio

Over the past five years, the coverage ratio of the nonlife insurance companies showed a consistent upward trend, rising from 287.4 percent in 2008 to a record of 429.3 percent in

2012 (see Chart 8). The increase of 141.9 percentage points in the coverage ratio over the five years was mainly the result of the consistent growth in weighted assets to cover technical provisions (numerator), while the technical provisions (denominator) increased only marginally during the period.

Chart 8: Combined coverage ratio of the nonlife insurance companies



8.4.3 The life insurance sector

Assets

As illustrated in Table 8.17, the aggregated balance sheet total of the life insurance companies in 2012 amounted to Afl. 942.5 million (equivalent to 20.7 percent of the 2012 GDP), following a consistent rising trend during the period 2008-2012. The expansion in total assets of Afl. 324.4 million (52.5 percent) over the past five years was mainly the result of upsurges in investments, current assets, and due from affiliated companies of, respectively, Afl. 206.5 million (42.2 percent), Afl. 71.4 million (71.2 percent), and Afl. 48.1 million (215.7 percent). The significant drop of Afl. 53.2 million (53.0 percent) in current assets in 2009 was caused largely by changes in uncollected premiums due to a one-time single premium contract concluded in 2008. The upsurge in current assets of Afl. 68.9 million (146.3 percent) in 2010 and of Afl. 49.7 million (40.7 percent) in 2012 were the results of increases in cash on hand and at banks.

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

	2008	2009	2010	2011	2012
1. Total assets	618.1	708.2	789.8	842.5	942.5
a. Investments	489.7	583.2	619.3	661.3	696.2
b. Fixed assets	5.8	5.2	4.6	4.9	4.2
c. Due from affiliated companies	22.3	72.7	49.9	54.3	70.4
d. Current assets	100.3	47.1	116.0	122.0	171.7
2. Total capital and liabilities	618.1	708.2	789.8	842.5	942.5
a. Technical provisions	500.6	531.4	586.6	632.6	713.3
b. Long-term liabilities	1.1	1.0	1.0	1.0	1.1
c. Due to affiliated companies	16.8	17.7	38.1	36.3	44.2
d. Current liabilities	30.4	43.8	39.3	38.1	32.1
e. Capital and reserves	69.2	114.3	124.8	134.5	151.8

Source: CBA; life insurance companies.

Liabilities

On the liability side, technical provisions, capital and reserves, and amounts due to affiliated companies rose by, respectively, Afl. 212.7 million (42.5 percent), Afl. 82.6 million (119.4 percent), and Afl. 27.4 million (163.1 percent) over the period 2008-2012. The growth in capital and reserves in 2009 compared to 2008 was related mainly to increases in paid-in capital as well as additions from net income to the general reserves. The expansions in the amounts due to affiliated companies in 2010 compared to 2009 and in 2012 compared to 2011 by, respectively, Afl. 20.4 million (115.3 percent) and Afl. 7.9 million (21.8 percent) were the result of intercompany transactions concluded. At the end of 2012, technical provisions and capital and reserves rose by, respectively, Afl. 80.7 million (12.8 percent) and Afl. 17.3 million (12.9 percent).

Investments

The aggregated investments of the life insurance companies showed an increasing trend over the period 2008-2012 as shown in Table 8.18. The substantial increase in the combined investment portfolio from 2008 to 2012 was due mostly to expansions in bond holdings, mortgage loans, and shares of, respectively, Afl. 144.4 million, Afl. 24.6 million, and Afl. 21.8 million. At the end of 2012, the aggregated investments improved by Afl. 34.9 million to Afl. 696.2 million compared to 2011, associated largely with increases in bond holdings, other loans and mortgage loans of, respectively, Afl. 23.5 million (6.3 percent), Afl. 4.7 million (8.1 percent) and Afl. 4.0 million (3.6 percent). At the end of 2012, local investments amounted to Afl. 586.7 million (84.3%) of the life insurance sector's combined investment portfolio (end 2011: Afl. 548.0 million or 82.9%).

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

	2008	2009	2010	2011	2012
1. Total	489.7	583.2	619.3	661.3	696.2
2. Shares	2.1	5.0	22.6	22.9	23.9
3. Bonds	250.1	316.1	327.1	371.0	394.5
4. Real estate	10.1	0.1	0.1	0.2	0.2
5. Time deposits	93.7	119.2	115.1	99.0	100.7
6. Mortgage loans	89.7	97.7	102.8	110.3	114.3
7. Other loans	44.0	45.1	51.6	57.9	62.6

Source: CBA; life insurance companies.

Income Statement

As illustrated in Table 8.19, the two main income sources of the life insurance companies are net premiums and investment income. Over the five years from 2008-2012, the aggregated investment income and net premiums went up by, respectively, Afl. 13.0 million (41.7 percent) and Afl. 12.9 million (12.7 percent). The aggregated net income (before taxes) of the life insurance companies fluctuated between Afl. 12.0 million and Afl. 26.9 million in the period 2008-2012, mostly because of highly volatile net premiums earned and changes in technical provisions. Total expenses grew by Afl. 15.4 million (12.4 percent) over the period, with significant spikes noted in 2008, 2010, and 2012 due mainly to larger increases to technical provisions.

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

	2008	2009	2010	2011	2012
1. Total income	135.9	117.9	133.4	128.8	161.0
a. Net premiums	101.8	75.3	91.1	83.1	114.7
b. Investment income	31.2	37.4	39.7	43.3	44.2
c. Other income	2.9	5.2	2.6	2.4	2.1
2. Total expenses	123.9	91.0	120.6	105.8	139.3
a. Net claims	30.4	39.9	38.8	37.2	34.1
b. Change in technical provisions	65.5	25.9	52.6	44.8	80.3
c. Commissions	4.9	4.5	4.0	3.7	4.5
d. Management expenses	16.9	17.8	17.9	15.6	17.1
e. Extraordinary items	0.0	0.0	-0.3	0.2	0.0
f. Policyholders' dividends	3.4	2.0	1.4	2.1	1.6
g. Other expenses	2.8	0.9	6.2	2.2	1.7
3. Net income before taxes	12.0	26.9	12.8	23.0	21.7
4. Taxes	1.9	1.0	2.0	0.6	1.9
5. Net income	10.1	25.9	10.8	22.4	19.8

Source: CBA; life insurance companies.

Prudential Indicators

Liquidity Ratio

As depicted in Table 8.20, in 2012, the life insurance companies reported an aggregated liquidity ratio of 18.2 percent, showing a 2.0 percentage points increase compared to 2008. Notwithstanding this increase, the ratio was rather volatile over the years 2008-2010. The substantial fall in the liquidity ratio in 2009 was mainly the result of an Afl. 53.2 million decrease in current assets in 2009.

Table 8.20: Financial ratios of the life insurance companies
(End of period in percentages)

	2008	2009	2010	2011	2012
1. Liquidity ratio *Current assets to total assets*	16.2	6.7	14.7	14.5	18.2
2. Return on investments ratio *Investment income to average invested assets*	6.6	7.0	6.6	6.8	6.5
3. Coverage ratio [1] *Weighted assets less borrowings to technical provisions*	118.6	117.5	129.8	123.5	120.3

Source: CBA; life insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 17.

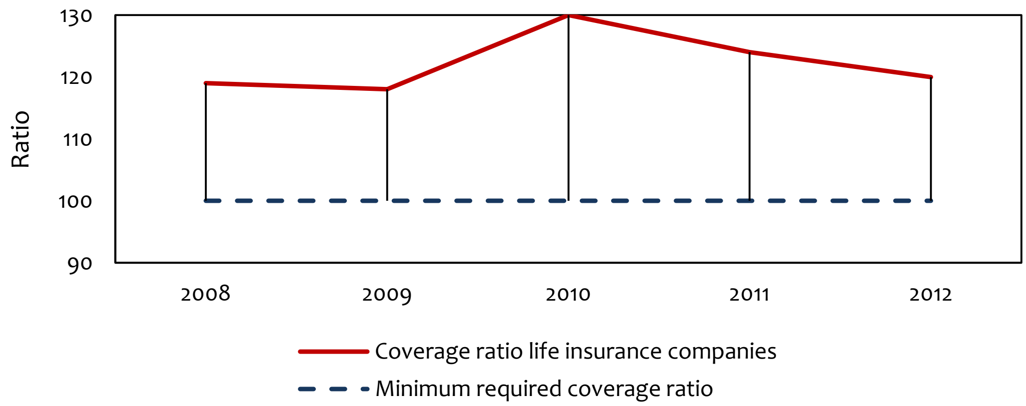
Return on Investments Ratio

The return on investments remained practically unchanged over the five-year period, declining slightly by 0.3 percentage point to 6.5 percent in 2012 compared to 2011.

Coverage Ratio

The coverage ratio contracted from 123.5 percent in 2011 to 120.3 percent in 2012. This drop was primarily the result of larger growth in aggregated technical provisions (denominator) of Afl. 81.7 million, compared to the increase of Afl. 77.3 million in weighted assets to cover technical provisions (numerator). Overall, the combined coverage ratio of the life insurers remained well above the minimum requirement of 100 percent during the years 2008-2012 as shown on 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 has been granted a license to operate as a pure captive life insurance company for Banco di Caribe N.V. Bancarib underwrites the life risk of consumer loans for the Parent.

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 been granted 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.

Assets

During the period 2008 to 2012, the aggregated balance sheet total of the captive insurance companies showed an overall increase of Afl. 28.7 million (62.8 percent) as shown on Table 8.21. The expansion in total assets was associated with rises in current assets, due to affiliated companies, and investments of, respectively, Afl. 14.6 million (128.1 percent), Afl. 8.3 million (103.8 percent), and Afl. 5.8 million (22.1 percent).

Table 8.21: Balance sheet of the captive insurance companies
(End of period in Afl. million)

	2008	2009	2010	2011	2012
1. Total assets	45.7	52.2	59.3	65.4	74.4
a. Investments	26.3	28.2	28.9	31.0	32.1
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Due from affiliated companies	8.0	12.2	14.5	16.8	16.3
d. Current assets	11.4	11.8	15.9	17.6	26.0
2. Total capital and liabilities	45.7	52.2	59.3	65.4	74.4
a. Technical provisions	4.0	6.0	6.2	6.8	7.6
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	0.3	0.2	0.4	0.2	0.3
d. Current liabilities	7.0	6.7	9.3	9.5	10.4
e. Capital and reserves	34.4	39.3	43.4	48.9	56.1

Source: CBA; captive insurance companies.

Liabilities

On the liability side, capital and reserves, technical provisions, and current liabilities rose by, respectively, Afl. 21.7 million (63.1 percent), Afl. 3.6 million (90.0 percent), and Afl. 3.4 million (48.6 percent) over the period 2008-2012. The growth in capital and reserves was related mainly to additions from net income to the retained earnings.

Investments

As seen in Table 8.22, the increase of Afl. 5.8 million in the combined investment portfolio from 2008 to 2012 was due to expansions in time deposits and bond holdings of, respectively, Afl. 3.1 million and Afl. 2.7 million. At the end of 2012, the combined investment portfolio of the captive insurance companies increased by Afl. 1.1 million, initiated by a rise in time deposits compared to 2011 deposits. At the end of 2012, local investments amounted to Afl. 26.9 million (83.8 percent) of the captive insurance sector's investment portfolio (end 2011: Afl. 26.2 million or 84.5 percent).

Table 22: Investments of the captive insurance companies
(End of period in Afl. million)

	2008	2009	2010	2011	2012
1. Total	26.3	28.2	28.9	31.0	32.1
2. Shares	0.0	0.0	0.0	0.0	0.0
3. Bonds	0.0	0.0	0.7	2.7	2.7
4. Time deposits	26.3	28.2	28.2	28.3	29.4

Source: CBA; captive insurance companies.

Income Statement

As shown on Table 8.23, on an aggregate level, the captive insurance companies operated with positive net results from 2008 to 2012. A total net income (before taxes) of Afl. 17.3 million was reported at the end of 2012 compared to a net income (before taxes) of Afl. 14.6 million in 2008. Over the years 2008-2012, total income increased from Afl. 24.7 million to Afl. 26.0 million. On the other hand, total expenses fell from Afl. 10.1 million in 2008 to Afl. 8.7 million at the end of 2012. This decrease in expenses was caused by drops of Afl. 1.9 million (48.7 percent) in management expenses and Afl. 0.5 million (11.9 percent) in net claims, partially offset by additions of Afl. 1.1 million to technical provisions.

Table 8.23: Income statement of the captive insurance companies
(End of period In Afl. million)

	2008	2009	2010	2011	2012
1. Total income	24.7	24.7	24.5	24.4	26.0
a. Net premiums	23.1	23.1	23.1	22.9	24.3
b. Investment income	1.6	1.6	1.4	1.5	1.7
c. Other income	0.0	0.0	0.0	0.0	0.0
2. Total expenses	10.1	8.9	8.5	9.3	8.7
a. Net claims	4.2	4.0	4.2	5.2	3.7
b. Change in technical provisions	-0.1	0.8	0.5	0.4	1.0
c. Commissions	2.1	2.1	1.9	1.8	2.0
d. Management expenses	3.9	2.0	1.9	1.9	2.0
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	14.6	15.8	16.0	15.1	17.3
4. Taxes	1.8	2.1	2.5	1.8	2.3
5. Net income	12.8	13.7	13.5	13.3	15.0

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 upward trend during the period 2008-2012, improving from 25.0 percent in 2008 to 35.0 percent in 2012.

Table 8.24: Financial ratios of the captive insurance companies
(End of period in percentages)

	2008	2009	2010	2011	2012
1. Liquidity ratio	25.0	22.6	26.8	26.9	35.0
Current assets to total assets					
2. Return on investments ratio	n/a[2]	5.9	4.9	5.0	5.4
Investment income to average invested assets					
3. Coverage ratio [1]	1,124.9	854.1	936.5	930.8	951.9
Weighted assets less borrowings to technical provisions					

Source: CBA; captive insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 21.
2 Return on investments ratio cannot be calculated for 2008, since aggregated figures of the captive insurance companies are not available for 2008.

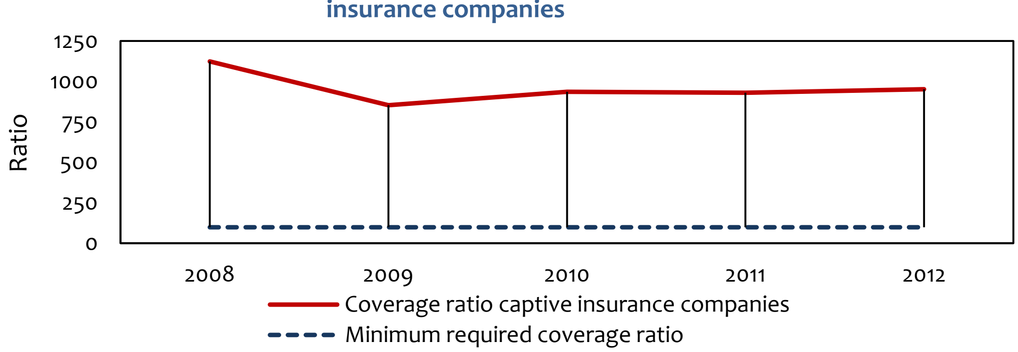
Return on Investments Ratio

Following a peak of 5.9 percent in 2009, the return on investments ratio increased slightly by 0.4 percentage point amounting to 5.4 percent in 2012 compared to 2011.

Coverage Ratio

The coverage ratio of the captive insurance companies decreased from 1,124.9 percent in 2008 to 951.9 percent in 2012, remaining far above the minimum requirement of 100 percent (Chart 10). The drop in the combined coverage ratio of 173.0 percentage points during the years 2008-2012 was mainly the result of an upsurge of Afl. 3.6 million (90.0 percent) in the aggregated technical provisions (denominator), partially offset by an increase of Afl. 28.0 million (62.3 percent) in weighted assets to cover technical provisions (denominator).

Chart 10: Combined coverage ratio of the captive insurance companies



8.5 The company pension funds

Assets

Table 8.25 indicates, in the period 2008-2012, the total assets of the supervised 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. 215.1 million in 2008 to Afl. 301.9 million at the end of 2012, reflecting an upsurge in the combined investments portfolio of Afl. 58.2 million (29.4 percent).

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

	2008	2009	2010	2011	2012
1. Total assets	215.1	240.9	263.4	273.8	301.9
a. Investments	197.8	221.3	230.6	257.6	256.0
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Current assets	17.3	19.6	32.8	16.2	45.9
2. Capital and liabilities	215.1	240.9	263.4	273.8	301.9
a. Technical provisions	193.5	209.0	224.2	247.4	269.4
b. Long-term liabilities	0.2	0.2	0.1	0.1	0.2
c. Current liabilities	3.6	2.0	1.6	2.0	1.6
d. Capital and reserves	17.8	29.7	37.5	24.3	30.7

Source: CBA; company pension funds.

Liabilities

On the liability side, technical provisions and capital and reserves rose by Afl. 75.9 million (39.2 percent) and Afl. 12.9 million (72.5 percent), respectively, over the period 2008-2012. At the end of 2012, technical provisions rose by Afl. 22.0 million to Afl. 269.4 million, and capital and reserves rose by Afl. 6.4 million to Afl. 30.7 million. The latter increase was associated largely with additions from net income to the reserves.

Investments

As shown in Table 8.26, the growth of Afl. 58.2 million (29.4 percent) in investments during the period 2008-2012 was attributed mainly to increases in bond holdings and shares of, respectively, Afl. 24.4 million (32.3 percent) and Afl. 23.3 million (46.9 percent). At the end of 2012, local investments amounted to Afl. 158.4 million (61.9 percent) of the pension sector's investment portfolio (end 2011: Afl. 153.9 million or 59.7 percent).

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

	2008	2009	2010	2011	2012
1. Total	197.8	221.3	230.6	257.6	256.0
2. Shares	49.7	55.0	65.3	61.4	73.0
3. Bonds	75.5	89.9	97.7	116.3	99.9
4. Real estate	10.3	13.0	13.3	13.2	13.1
5. Time deposits	16.8	18.3	15.7	8.0	10.9
6. Mortgage loans	16.2	17.9	18.4	21.9	23.0
7. Other investments	29.3	27.2	20.2	36.8	36.1

Source: CBA; company pension funds.

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 significant losses in 2008 and 2011 of, respectively, Afl. 18.2 million and Afl. 13.1 million. The notable losses incurred in 2008 and 2011 were due largely to drops in investment income. The decrease in 2008 was caused by the global financial crisis, while the fall in 2011 was due mostly to the persisting low interest rate environment, in particular in the U.S. financial markets. 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. On the other hand, total expenses of the company pension funds grew consistently from 2009 to 2011, associated with upsurges in increases to the technical provisions.

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

	2008	2009	2010	2011	2012
1. Total income	-5.6	37.2	34.0	21.4	40.3
a. Premium income	12.7	13.5	14.6	15.9	18.5
b. Investment income	-18.3	23.7	19.4	5.5	21.8
c. Other income	0.0	0.0	0.0	0.0	0.0
2. Total expenses	12.6	25.3	26.3	34.6	33.9
a. Change in technical provisions	3.3	15.4	15.3	23.1	22.1
b. Pension benefits paid	6.8	7.2	7.8	8.5	9.3
c. Reinsurance net	0.4	0.7	0.3	0.3	0.2
d. Management expenses	1.8	1.8	2.0	2.4	2.7
e. Other expenses	0.3	0.2	0.9	0.3	-0.4
3. Net result	-18.2	11.9	7.7	-13.2	6.4

Source: CBA; company pension funds.

Prudential Indicators

Liquidity Ratio

The liquidity ratio of the supervised company pension funds shown in Table 8.28 represents a consistent upward trend during the period 2008-2012, except for the notable plunge in 2011. This significant fall in the liquidity ratio of 6.6 percentage points in 2011 compared to 2010 was mainly the result of an Afl. 16.6 million decrease in current assets. At the end of 2012, the company pension funds reported a record high liquidity ratio of 15.2 percent.

Table 8.28: Financial ratios of the company pension funds
(End of period in percentages)

	2008	2009	2010	2011	2012
1. Liquidity ratio *Current assets to total assets*	8.0	8.1	12.5	5.9	15.2
2. Return on investments ratio *Investment income to average invested assets*	-8.4	11.3	8.6	2.3	8.5
3. Coverage ratio 1) *Investments & cash minus volatility cushion to technical provisions*	103.0	107.0	109.0	101.5	104.3

Source: CBA; company pension funds.

1) The calculation of the coverage ratio cannot be derived from Table 25.

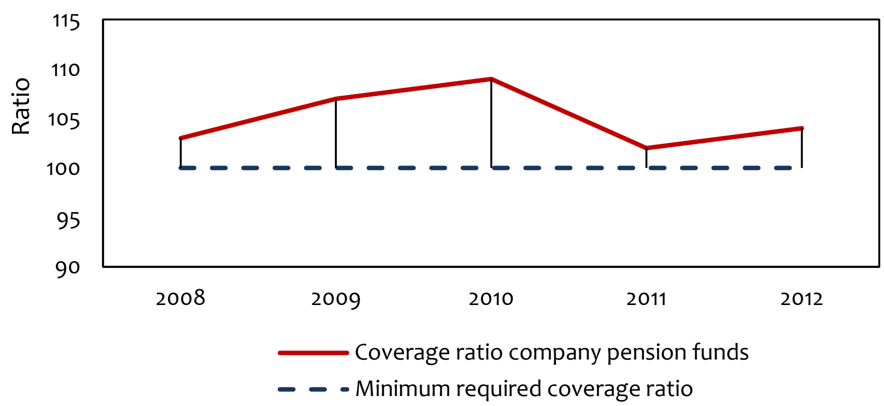
Return on Investments Ratio

The return on investments fluctuated sharply over the five years from 2008-2012, hovering between -8.4 percent and 11.3 percent primarily because of the volatility in the investment income of the company pension funds. The increase of 6.2 percentage points in the return of investments ratio in 2012 compared to the 2011 ratio was due mostly to an increase in the investment income of Afl. 16.3 million (296.4 percent).

Coverage Ratio

Chart 11 shows the development of the combined coverage ratio of the company pension funds over the period 2008-2012. Overall, the combined coverage ratio remained above the minimum of 100 percent and showed a stable pattern except for the significant plunge in 2011. This drop of 7.5 percentage points in the combined coverage ratio in 2011 compared to 2010’s ratio was due to larger additions to technical provisions of Afl. 7.8 million (51.0 percent) compared to the growth in investments and cash minus volatility cushion of Afl. 5.6 million (2.4 percent).

Chart 11: Development coverage ratio of the company pension funds



The Stichting Pensioenfonds N.V. Aruba Bank and the Stichting Pensioenfonds RBTT Bank Aruba II are in liquidation. Meanwhile, these pension funds transferred their pension obligations to life insurance companies in Aruba. Until the liquidation process has been finalized completely, these pension funds remain under the CBA's supervision.

8.6 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, which manages both the NPR 2011 and NPR 2005 pension schemes, 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.

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

	2009	2010	2011	2012	2013 [1]
1. Total assets	1,705.3	1,946.6	1,939.4	2,091.3	2,242.4
a. Investments	1,554.8	1,746.4	1,820.9	2,005.4	2,138.6
b. Fixed assets	18.0	18.1	14.6	13.7	13.0
c. Current assets	132.5	182.1	103.9	72.2	90.8
2. Capital and liabilities	1,705.3	1,946.6	1,939.4	2,091.3	2,242.4
a. Technical provisions	2,285.5	2,379.2	2,421.1	2,547.0	2,698.5
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Current liabilities	5.5	6.7	7.3	8.3	6.2
d. Capital and reserves	-585.7	-439.3	-489.0	-464.0	-462.3

Source: CBA; APFA.

1 Preliminary figures.

Assets

As shown in Table 8.29, in the period 2009-2013, the balance sheet total of APFA displayed a rising trend, with the exception of the year 2011, when it shrank by Afl. 7.2 million to Afl. 1,939.4 million. Total assets rose from Afl. 1,705.3 million in 2009 to Afl. 2,242.4 million in 2013 (equivalent to 48.4 percent of the estimated GDP for 2013), reflecting upsurges primarily in investments of Afl. 583.8 million (37.5 percent), partially offset by a decrease in current assets of Afl. 41.7 million (31.5 percent). In 2013, APFA's total assets expanded by Afl. 151.1 million (7.2 percent) compared to 2012, resulting from a rise in both investments and current assets of, respectively, Afl. 133.2 million (6.6 percent) and Afl. 18.6 million (25.6 percent).

Liabilities

On the liability side, technical provisions rose by Afl. 413.0 million (18.1 percent) to Afl. 2,698.5 million at the end of 2013 compared to the end of 2009. The fund's negative equity fell from Afl. 585.7 million in 2009 to Afl. 462.3 million in 2013, mostly because of the positive net results recorded in the years 2009-2012, except for the loss in 2011 (see Table 8.31). At the end of 2013, technical provisions soared by Afl. 151.5 million (5.9 percent) compared to 2012, while capital and reserves increased by Afl. 1.7 million (0.4 percent).

Investments

Table 8.30 shows that the growth in investments during the period 2009-2013 was attributable to increases in the holdings of bonds and treasury bills, other investments, and mortgage loans of, respectively, Afl. 521.6 million (162.7 percent), Afl. 69.9 million (16.6 percent), and Afl. 46.4 million (24.3 percent). These increases were partially offset by a decline of Afl. 110.4 million (28.0 percent) in shares and convertible bonds.

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

	2009	2010	2011	2012	2013 [1]
1. Total	1,554.8	1,746.4	1,820.9	2,005.4	2,138.6
2. Shares and convertible bonds	393.6	547.0	435.8	143.7	283.2
3. Bonds and treasury bills	320.6	236.1	437.5	827.8	842.2
4. Real estate	24.1	24.1	28.4	50.0	50.0
5. Time deposits	204.4	353.8	235.5	225.5	234.8
6. Mortgage loans	191.3	200.7	231.1	241.3	237.7
7. Other investments	420.8	384.7	452.6	517.1	490.7

Source: CBA; APFA.

1 Preliminary figures.

At the end of 2013, foreign investments amounted to Afl. 697.2 million or 32.6 percent of APFA's total investment portfolio (end 2012: Afl. 620.7 million or 31.0 percent). In 2013, the investments rose by Afl. 133.2 million (6.6 percent) to Afl. 2,138.6 million compared to 2012, due mostly to increases in shares and convertible bonds and the holdings of bonds and treasury bills of, respectively, Afl. 139.5 million (97.1 percent) and Afl. 14.4million (1.7 percent), offset partly by a drop in other investments of Afl. 26.4 million (5.1 percent).

Income Statement

The profitability of APFA was highly volatile during the period 2009-2013 as shown on 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 premium and investment income of, respectively, Afl. 146.0 million (77.1 percent) and Afl. 94.0 million (70.7 percent) when comparing 2011 to 2010. In 2013, APFA recorded a net profit of Afl. 1.7 million, a decline of Afl. 23.4 million (93.2 percent) compared to the previous year. This was associated mostly with an Afl. 25.6 million (20.3 percent) increased technical provisions as a result of the lowering of the actuarial interest rate. In 2011, the additions to technical provisions were significantly lower because of the transition to the NPR 2011 pension scheme.

Table 8.31: Income statement of APFA

(In Afl. million)

	2009	2010	2011	2012	2013 [1]
1. Total income	287.5	322.4	82.4	248.8	258.0
a. Premium income	122.5	189.4	43.4	124.6	133.2
b. Investment income	165.0	133.0	39.0	124.2	103.5
					21.3
2. Total expenses	182.1	176.0	132.4	223.7	256.3
a. Change in technical provisions	108.9	93.7	42.1	125.9	151.5
b. Pension benefits paid	66.7	73.4	81.9	86.9	92.3
c. Management expenses	6.5	8.9	8.4	10.9	12.5
3. Net result	105.4	146.4	-50.0	25.1	1.7

Source: CBA; APFA.

1 Preliminary figures.

Prudential Indicators

Liquidity Ratio

APFA's liquidity ratio declined from 7.8 percent in 2009 to 4.0 percent in 2013, while peaking at 9.4 percent in 2010, largely because of upsurges in APFA's liquid assets as shown in Table 8.32.

Table 8.32: Financial ratios of APFA

(End of period)

	2009	2010	2011	2012	2013 1)
1. Liquidity ratio *Current assets to total assets*	7.8	9.4	5.4	3.5	4.0
2. Return on investments ratio *Investment income to average invested assets*	11.1	8.1	2.2	6.5	5.0
3. Coverage ratio 2) *Investments & cash minus volatility cushion to technical provisions*	63.1	69.5	70.7	76.0	75.6

Source: CBA; APFA.

1) Preliminary figures.
2) The calculation of the coverage ratio cannot be derived from Table 29.

Return on Investments Ratio

The return on investments ratio varied significantly during the period 2009-2013 mainly because of the volatility in investment income. The ratio hovered between a high of 11.1 percent in 2009 and a low of 2.2 percent in 2011.

Coverage Ratio

The coverage ratio saw an increasing trend in the five years, rising from 63.1 percent in 2009 to 75.6 percent in 2013, but remained far below the minimum required coverage ratio of 100 percent set by the CBA (Chart 12). Although the coverage ratio displayed steady improvements since 2009, the underfunding of APFA remains substantial and worrisome. A further retrenchment of the government pension plans must take place to improve their sustainability, including but not limited to an increase in the pension age, commensurate with the trend in many advanced countries.

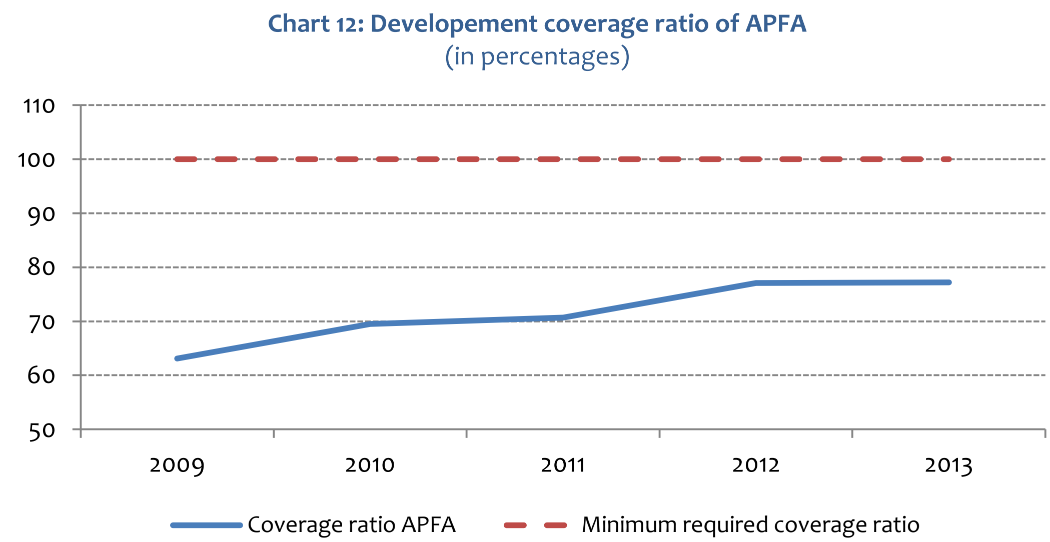


Chart 12: Development of the coverage ratio of the APFA over the five-year period 2009-2013.

8.7 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); and
- 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). The aggregated balance sheet of SVB is provided in Table 8.33.

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

	2008	2009	2010	2011	2012
1. Total Assets	283.3	280.8	232.6	194.6	189.9
a. Investments	213.3	181.2	147.0	98.3	23.2
b. Fixed assets	51.3	53.5	55.8	57.8	60.1
c. Current assets	18.7	46.1	29.8	38.5	106.6
2. Total capital and liabilities	283.3	280.8	232.6	194.6	189.9
a. Current liabilities	11.0	16.7	14.5	14.7	22.2
b. Capital and reserves	272.3	264.1	218.1	179.9	167.7

Source: CBA; SVB.

Assets

The consolidated balance sheet of the SVB amounted to Afl. 189.9 million (equivalent to 4.2 percent of GDP) in 2012, a decrease of Afl. 93.4 million (33.0 percent) compared to 2008. This notable contraction in total assets in 2012 was mainly the result of a significant decline of Afl. 190.1 million (89.1 percent) in investments compared to the end of 2008, offset by increases in current assets and fixed assets of, respectively, Afl. 87.9 million (470.1 percent) and Afl. 8.8 million (17.2 percent). In 2012, the SVB reported total assets of Afl. 189.9 million, an Afl. 4.7 million (2.4 percent) decrease from its assets in 2011.

Liabilities

On the liability side, capital and reserves declined by Afl. 104.6 million (38.4 percent) from 2008 to 2012, mainly as a result of net losses incurred during the period 2009-2012. The downturn in capital and reserves at the end of 2012 is attributable to the net loss of Afl. 12.3 million incurred in 2012.

Investments

As can be derived from Table 8.34, the decrease in the investment portfolio in 2012 compared to 2011 reflects drops in bond holdings, time deposits, and loans of, respectively, Afl. 42.5 million (89.1 percent), Afl. 28.0 million (98.2 percent), and Afl. 4.6 million (20.9 percent).

Table 8.34: Investments of SVB
(End-of-period figures in Afl. million)

	2008	2009	2010	2011	2012
1. Total	213.3	181.2	147.0	98.3	23.2
2. Loans	39.6	38.1	25.6	22.0	17.4
3. Shares	0.1	0.1	0.1	0.1	0.1
4. Bonds	63.9	50.5	49.6	47.7	5.2
5. Time deposits	109.7	92.5	71.7	28.5	0.5

Source: CBA; SVB.

Income Statement

After recording a record high net loss of Afl. 46.0 million in 2010, the net financial result of SVB showed some improvement over the period 2011-2012 as seen on Table 8.35. The negative result in 2010 was due mainly to a sharp decrease of Afl. 24.8 million (11.2 percent) in the premium income compared to 2009. The lower net loss of Afl. 12.3 million recorded in 2012 was associated with an increase in premium income of Afl. 23.2 million (10.3 percent) compared to 2011, but was also the result of the shift from the cash-based accounting system to an accrual-based accounting system. Meanwhile, measures, have been taken to halt the depletion of SVB's reserves, including an (gradual) increase of the pension age from 60 to 65.

Table 8.35: Aggregated income statement of SVB[1]
(In Afl. million)

	2008	2009	2010	2011	2012
1. Total income	247.2	241.9	215.2	240.4	265.1
a. Premium income	227.1	222.2	197.4	224.5	247.7
b. Other income	20.1	19.7	17.8	15.9	17.4
2. Total expenses	240.3	250.2	261.2	278.3	277.4
a. Claims paid	223.4	233.6	242.4	259.5	258.5
b. Interest expenses	4.6	4.3	4.5	4.6	4.9
c. Administrative expenses	12.3	12.3	14.3	14.2	14.0
3. Net result	6.9	-8.3	-46.0	-37.9	-12.3

Source: CBA; SVB.

1 Prepared on a cash-basis.

8.8 The General Health Insurance (AZV)

Assets

As depicted in Table 8.36, over the five-year period from 2009 to 2013, the balance sheet total of AZV showed an overall growth of Afl. 13.7 million (27.6 percent) for a total of Afl. 63.3 million at the end of 2013. The balance sheet total as per end-2013 is equivalent to 1.4 percent of the estimated GDP for 2013. The expansion in the total assets during 2009-2013 was associated mainly with higher current assets, caused primarily by increases in liquid assets.

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

	2009	2010	2011	2012	2013
1. Total assets	49.6	52.0	56.9	60.2	63.3
a. Fixed assets	2.3	2.2	2.3	1.8	1.4
b. Current assets	47.3	49.8	54.6	58.4	61.9
2. Total liabilities	49.6	52.0	56.9	60.2	63.3
a. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
b. Current liabilities	49.6	52.0	56.9	60.2	63.3

Source: CBA; AZV.

Liabilities

Over the period 2009-2013, the (current) liabilities were Afl. 13.7 million (27.6 percent) higher in 2013 than in 2009. AZV does not maintain capital and reserves because its financial deficits are by law covered by the Aruban Government.

Income Statement

AZV consistently recorded negative results over the past five years mainly because of high healthcare expenses when compared to total income (the latter also include the yearly government contribution). These results are shown on Table 8.37. Total income rose from Afl. 308.8 million in 2009 to Afl. 366.4 million in 2013 due largely to an increase of Afl. 65.9 million (36.1 percent) in premium income. The expansion in premium income was predominantly attributed to a rise in the premium rate from 9.5 percent to 11.5 percent in 2011 compounded by an increase in the minimum wage as of January 2012. On a positive note, the net losses of AZV fell over the past five years. For the year 2013, AZV reported a net loss of Afl. 4.5 million. This decrease was mainly the result of a slight drop in premium income of Afl. 1.4 million (0.6 percent), partially offset by a minor increase in other income of Afl. 0.6 million (0.5 percent) when comparing 2013 to 2012. On the other hand, the healthcare expenses also expanded in 2013 by Afl. 1.5 million (0.4 percent).

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

	2009	2010	2011	2012	2013
1. Total income	308.8	332.6	351.7	367.2	366.4
a. Premium income	182.8	186.4	235.9	250.1	248.7
b. Other income	126.0	146.2	115.8	117.1	117.7
2. Total expenses	336.8	348.7	359.4	369.9	370.9
a. Health expenses	317.6	330.6	342.7	353.3	354.8
b. Interest expenses	0.1	0.0	0.0	-0.1	-0.3
c. Administrative expenses	19.1	18.1	16.7	16.7	16.4
3. Net result	-28.0	-16.1	-7.7	-2.7	-4.5

Source: CBA; AZV.

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 reduce the healthcare costs.

9 ANNEXES

2013

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

Table A: Supervisory and AML/CFT Laws[8]

1.	State Ordinance on the Supervision of the Credit System (SOSCS)	AB 1998 no. 16
2.	State Ordinance on Company Pension Funds (SOCPF)	AB 1998 no. GT 17
3.	State Ordinance on the Supervision of the Insurance Business (SOSIB)	AB 2000 no. 82
4.	State Ordinance on the Supervision of Money Transfer Companies (SOSMTC)	AB 2003 no. 60
5.	State Ordinance on the Supervision of Trust Service Providers (SOSTSP)	AB 2009 no. 13
6.	State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AML/CFT State Ordinance)	AB 2011 no. 28
7.	Sanction State Ordinance 2006	AB 2007 no. 27

Source: CBA.

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

Annex 2: Financial institutions supervised by the CBA (December 31, 2013)

1. Banking sector[9]

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.

1.2 Offshore 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 Finance companies

Island Finance Aruba N.V.

1.6 Other financial institutions

AIB Bank N.V.

2. Money transfer sector[10]

2.1 Money transfer companies

Global Access Corporation N.V.

Post Aruba N.V.

Union Caribe N.V.

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

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

3.Trust sector[11]

3.1 Trust service providers

AMTR N.V.
SGG Management (Aruba) N.V. (previously named ANT Management (Aruba) N.V.)
Aruba International Trust Company N.V.
Arulex Trust Services N.V.
Ascor Trust (Aruba) N.V.
C.M.S. Corporate Management Services 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.
Nazca Services N.V.
Orangefield Trust (Aruba) N.V.
United Trust Management (Aruba) UTM N.V.

4. Institutional investors' sector

4.1 Company Pension Funds[12]

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
Stichting Pensioenfonds N.V. Aruba Bank[13]
Sitchting Pensioenfonds RBTT Bank Aruba I
Stichting Pensioenfonds RBTT Bank Aruba II[13]
Stichting Pensioenfonds Tourist Sector Aruba

[11] Supervision by virtue of the State Ordinance on the Supervision of Trust Service Providers (AB 2009 no. 13).
[12] Supervision by virtue of the State Ordinance on Company Pension Funds (AB 1998 no. GT 17).
[13] In liquidation.

5. Insurance Companies[14]

5.1 Life insurance companies

American Bankers Life Assurance Company of Florida Limited, Agency
American Life Insurance Company, Aruba Branch[15]
British-American Insurance Company (Aruba) N.V.[15]
Ennia Caribe Leven (Aruba) N.V.
Fatum Life Aruba N.V.
Pan-American Life Insurance Company of Aruba V.B.A.[15]
Sagicor Life Aruba N.V.[15]

5.2. Captive insurance companies

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

[14] Supervision by virtue of the State Ordinance on the Supervision of the Insurance Business (AB 2000 no. 82).

[15] ursuant 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
Chartis Aruba Insurance Company N.V.	X	X	X	X	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
Royal & Sun Alliance Insurance (Antilles) N.V.; Aruba Branch	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.	X	X	X	X	X
United Insurance Company N.V.	X	X	X	X	X
Best Doctors Insurance Company V.B.A.	X				

Source: CBA.

Annex 3: Changes in the registers of supervised institutions and shareholding

Insurance sector

- On February 1, 2013, and in accordance with section 5, paragraph 2 of the SOSIB, the CBA licensed Best Doctors Insurance V.B.A. to conduct the nonlife insurance business as referred to in sections 1 and 3 of the SOSIB.
- On August 8, 2013, and in accordance with section 14a, paragraph 1 of the SOSIB, the CBA granted permission to transfer 100 percent of the shares of British American Insurance Company (Aruba) N.V. from British American Insurance Company (Curaçao) N.V. to Nagico Life N.V.

Money transfer sector

- On May 15, 2013, and in accordance with section 7, paragraph 1, part a of the SOSMTC, the CBA cancelled the registration of G.F.P. International N.V., upon its request, to be active as a money transfer company as referred to in section 2, paragraph 1 of the SOSMTC.
- On October 30, 2013, and in accordance with section 11, paragraph 1 of the SOSMTC, the CBA withdrew the exemption granted to MoneyGram International Inc. to conduct money transfer activities via Caribbean Mercantile Bank N.V. as latter bank decided not to continue its money transfers activities via MoneyGram.

Trust sector

- On August 16 2013, and in accordance with section 18, paragraph 1 of the SOSTSP, the CBA revoked the license of ATC Trustees (Aruba) N.V. upon its request, to conduct the business of a trust service provider as referred to in section 4, paragraph 1 of the SOSTSP.
- The CBA was notified that ANT Management (Aruba) N.V. changed its name to SGG Management (Aruba) N.V. On December 23, 2013, the CBA amended its register accordingly.

Annex 4: Integrity and suitability testing

Integrity and suitability testing 2013					
Sector	**Banking**	**Insurance companies**	**Company pension funds**	**Money transfer companies**	**Trust service providers**
Pending as of January 1, 2013	**7**	**2**	**3**	**-**	**-**
New received requests	23	21	10	1	-
Reassessments	3	-	1	-	-
Withdrawn requests	2	1	2	-	-
Rejected requests	-	-	-	-	-
Approved	14	1	3	-	-
Conditionally approved	1	1	5	1	-
Pending as of December 31, 2013	**16**	**20**	**4**	**-**	**-**

Source: CBA.

Annex 5: 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; (2) to evaluate various requests for approval emanating from the different supervisory laws, such as changes in group structure, changes in business plans, and new license requests; (3) to conduct integrity and suitability testing on an ongoing basis of managing and supervising directors as well as individual shareholders (SOSCS, SOSIB, SOCPF); (4) to conduct regular on-site examinations in the areas of corporate governance, asset quality, and prudential requirements; (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 2013.

The main tasks of the ISD are (1) to oversee compliance with the laws and regulations in the area of AML/CFT; (2) to conduct on an ongoing basis integrity and suitability testing of managing and supervisory directors, as well as individual shareholders (SOSTSP, SOSMTC); (3) to identify and take action against parties that operate on the Aruban financial market without a license, registration, or dispensation from the CBA; and (4) to closely monitor international developments in the area of AML/CFT, including the translation of 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 financial system (SOSTSP, SOSMTC), as well as the regulation of pawn shops/ compra y benta companies (requiring a dispensation in accordance with article 48 of the SOSCS). In the ordinances with dual objectives, the PSD has the lead but works closely with ISD if the issues are related to integrity including AML/CFT. Reference is made to Box 4 for an overview of the main supervisory activities of the ISD in 2012.

Box 3: Overview of the main supervisory activities of the PSD in 2013

In 2013, the PSD undertook among other things the following activities:

a. On-site examinations

The PSD conducted four targeted on-site examinations and assessed hereby the quality of the loan portfolio at three credit institutions and the admissibility of assets and the financial reporting at one company pension fund.

b. Off-site surveillance

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

- Held bilateral meetings with the supervised institutions and the representative organizations on various supervisory matters.
- Analyzed and followed-up on periodic filings from the banking sector, insurance companies, and company pension funds and reported to the management of the CBA on the findings.
- Conducted stress testing on the domestic commercial banking sector.
- Processed various requests for approval pursuant to the sectoral supervisory laws as well as provided advice related to foreign exchange license requests of financial institutions supervised by the CBA.
- Filled out questionnaires, surveys, and other information requests in the area of prudential Supervision.
- Participated in assessments of international rating agencies.
- Participated in technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

c. Enforcement measures

The PSD issued on two occasions an administrative fine pursuant to section 35a, paragraphs 1 and 2 of the SOSCS.

d. Legislation

The PSD assisted in the drafting of the following state decrees and state ordinance:

- State Decree Principles Administrative Enforcement sectoral supervisory laws (Landsbesluit grondslagen bestuurlijke handhaving sectorale toezichtwetgeving) (AB 2013 no. 31). Effective date: June 1, 2013.
- State Decree Supervision Insurance Brokers (Landsbesluit toezicht assurantiebemiddelaars) (AB 2014 no. 6). Effective date: January 30, 2014.
- State Ordinance on the Supervision of the Securities Trade (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 go into effect in the second half of 2014.

e. Policy development/ guidance

The PSD participated in the following working groups:

- CoA for credit institutions.
- In November 2013, the PSD, together with the Statistics Department, held an information session for credit institutions in connection with the new reporting format, the CoA manual.
- Web-based reporting for insurance companies and company pension funds.

f. Other

- The PSD contributed to the organization of a seminar for the benefit of the supervisory authorities of the Kingdom of the Netherlands, hosted by the CBA in October 2013.

Box 4: Overview of the main supervisory activities of the ISD in 2013

In 2013, ISD undertook among other things the following activities:

a. On-site examinations

ISD carried out eight focused on-site examinations: two examinations at banks, two examinations at trust service providers, two examinations at casinos, and two examinations at notaries.

b. Off-site activities

- Processed dispensation requests of pawn shops/ compra y benta companies.
- Processed license applications of trust service providers servicing on-shore companies.
- Held bilateral meetings with the supervised institutions and the representative organizations to discuss various supervisory matters.
- Analyzed and followed up on periodic filings from money transfer companies and trust service providers.
- Processed various requests for approval pursuant to the sectoral supervisory laws.
- Participated in assessments of international rating agencies.
- Participated in technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

c. Enforcement measures

In one instance, an administrative fine was imposed as a result of deficiencies noted. In seven instances, normative conversations were held with the management of the supervised institutions.

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 Ordinance amending the sectoral Supervisory State Ordinances (Landsverordening herziening sectorale toezichtwetgeving, AB 2012 no. 55). Effective date: January 1, 2013
- State Decree Principles Administrative Enforcement sectoral supervisory laws (Landsbesluit grondslagen bestuurlijke handhaving sectorale toezichtwetgeving) (AB 2013 no. 31). Effective date: June 1, 2013
- 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 Trade (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 go into effect in the second half of 2014.

e. Policy development/guidance

The following documents were completed:

- Revised PQ.
- Transaction monitoring circular for money transfer companies.

f. Other

- In March 2013, the ISD held a discussion session on an AML/CFT risk questionnaire for the compliance staff of banks.
- In March 2013, the ISD held a discussion session on an AML/CFT risk questionnaire for the compliance staff of life insurance companies.
- In May 2013, the ISD held a discussion session on an AML/CFT risk questionnaire for the compliance staff of money transfer companies. This session also served as a consultation session regarding the draft Transaction monitoring circular for money transfer companies.
- In May 2013, the ISD held a discussion session on an AML/CFT risk questionnaire for the compliance staff of trust service providers.
- In August 2013, the ISD held an AML/CFT information session for members of the Association of Aruban Realtors.
- In November 2013, the ISD gave a presentation during the real estate conference (Dag van het vastgoed) organized by the FIU.
- In December 2013, the ISD gave a presentation during a compliance training organized by Compliance Services Caribbean.
- The ISD contributed to the organization of a seminar for the benefit of the supervisory authorities of the Kingdom of the Netherlands, hosted by the CBA.

Annex 6: Supervisory costs passed on in 2013

Pursuant to the respective state decrees,[16] the CBA charges the sectors supervised for part of the supervision costs incurred. The supervisory costs passed on in 2013 to the different sectors are as follows:

Banks	Afl. 800,000
Insurers	Afl. 300,000
Company pension funds	Afl. 95,000
Money transfer companies	Afl. 150,000
Trust service providers	Afl. 100,000
Total	Afl. 1, 445,000

[16] 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 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).