FINANCIAL SECTOR SUPERVISION REPORT

2015

CENTRALE BANK VAN ARUBA

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June 30, 2016

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

DMS/pjj/2.4/SUP/23940

Re: Financial Sector Supervision Report 2015

His Excellency,

The Centrale Bank van Aruba (CBA) hereby submits the Financial Sector Supervision Report 2015. This in compliance with 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.

This report provides a broad overview of the activities carried out by the CBA in implementing aforementioned ordinances during 2015 as well as the work undertaken by the CBA to strengthen the legislative and regulatory framework. It also includes an overview of the recent development in the international supervisory and regulatory architecture as well as an analysis of the developments in the financial sector.

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

Sincerely yours,

Jeanette R. Semeleer
President

c.c. Board of Supervisory Directors CBA

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Preface

The Centrale Bank van Aruba (CBA) each year must submit a report 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, in compliance with the sectoral supervisory state ordinances, the State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT State Ordinance), and the Sanction State Ordinance 2006[1]. The CBA complies with this requirement via this yearly publication. Concurrently, this report informs all stakeholders of the main activities the CBA undertook in the areas of prudential and integrity supervision and of the changes in the regulatory and supervisory landscape, as well as provides an analysis of the developments in the financial sector in 2015.

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
ACAMS	Association of Certified Anti-Money Laundering Specialists
Afl.	Aruban florin
AFM	Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets)
ALLP	Allocated loan loss provision
Amending State Ordinance	State Ordinance Amending the Sectoral Supervisory State Ordinances
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
AML/CFT State Ordinance	State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing
APFA	Stichting Algemeen Pensioenfonds Aruba (the Civil Servants Pension Fund)
ASBA	Association of Supervisors of Banks of the Americas
AZV	Algemene Ziektekostenverzekering (the General Health Insurance)
Basel Committee	Basel Committee on Banking Supervision
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en St. Maarten (Central Bank of Curaçao and St. Maarten)
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group of Banking Supervisors
CoA	Chart of Account
DNB	De Nederlandsche Bank N.V. (the Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
Enactment State Ordinance	Enactment State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit (*Meldpunt Ongebruikelijke Transacties*)
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIFCS	Group of International Finance Centre Supervisors
GIICS	Group of International Insurance Centre Supervisors
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
ICRG	International Cooperation and Review Group
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISD	Integrity Supervision Department
ISIL	Terrorist Organization Islamic State in Iraq and the Levant
MENAFATF	Middle East & North Africa Financial Action Task Force
ML/FT	Money Laundering/ Financing of Terrorism
MoU	Memorandum of Understanding
NPOs	Non-profit organizations
OECD	Organization for Economic Co-operation and Development
PLR	Prudential Liquidity Ratio
PPO	Public Prosecutor's Office (*Openbaar Ministerie*)
PSD	Prudential Supervision Department
PVL	Pensioenverordening Landsdienaren
SDCIC	State Decree Captive Insurance Companies
SDSIB	State Decree on the Supervision of Insurance Brokers
SIBs	Systemically Important Banks
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)
TCSPs	Trust Companies Service Providers
UBOs	Ultimate Beneficial Owners
UA	University of Aruba

Contents

1

Introduction

1 Introduction

Since its establishment in 1986, the Centrale Bank van Aruba (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 (financial) soundness and integrity of the supervised institutions.

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

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

This report provides a broad overview of the main supervisory activities conducted by the CBA in 2015 and also discusses the main changes in the legislative as well as the policy framework, including the main changes in the international standards set by the standard-setting bodies like the Basel Committee on Banking Supervision (the Basel Committee), the International Association of Insurance Supervisors (IAIS), and the Financial Action Task Force (FATF) in the areas of prudential and integrity supervision and anti-money laundering and combating the financing of terrorism (AML/CFT). Also, the key developments with respect to the financial and prudential data of the supervised sectors are highlighted.

As can be concluded from the report, the financial sector remained very solid and highly resilient to external shocks. During 2015, the CBA also kept its close watch over the supervised sectors and, when considered necessary, took corrective action to ensure compliance with the prevailing laws and regulations.

Like in the previous years, the CBA prepared various legislative proposals to broaden the supervisory scope. Worth mentioning in this regard is that the draft State Ordinance on the Supervision of the Securities Business probably will be debated in Parliament this year, and that a draft legislative proposal to regulate consumer credit was recently submitted to the Minister of Finance and Government Organization. The main objective of this latter ordinance is to provide consumers with better protection against market abuse.

This report is structured as follows. Chapter 2 sets out the CBA's supervisory strategy and approach. In Chapter 3 the major changes in the legislative and regulatory framework are presented. Chapter 4 outlines the international supervisory developments, while national and international cooperation is discussed in Chapter 5. Chapters 6 and 7 describe the major activities undertaken in 2015 in the areas of prudential supervision and integrity supervision. Finally, in Chapter 8, the sectoral financial developments are covered.

2

Supervisory strategy and approach

2 Supervisory strategy and approach

One of the main strategic objectives of the CBA is to maintain confidence in the financial system. The CBA's supervisory activities aim towards this goal. Regular onsite examinations are undertaken at the supervised institutions. In addition, the CBA conducts ongoing offsite surveillance, which includes the review of the weekly, monthly, quarterly, and yearly financial reports that the supervised entities must file. These activities are key to maintain a close watch on the financial and nonfinancial developments at the institutions supervised and to assess ongoing compliance with the relevant laws and regulations. Furthermore, the CBA carriers out surveys to assess compliance. For example, in 2015 a survey targeted all credit institutions, insurance companies, and company pension funds to evaluate the level of compliance with the sectoral corporate governance guidelines issued by the CBA.

Over the years, the CBA has shifted its approach from a compliance-oriented to a risk-based supervisory approach, thereby allocating the supervisory resources to institutions with the highest risk profiles. These risk profiles are based on the institutions' financial and supervisory data, including the supervisory history as well as the data derived from surveys conducted. The risk profiles are updated regularly on the basis of new supervisory data and market signals. As part of the risk-based supervisory framework, the CBA focuses on the main risks and, based on a "root cause" analysis, strives to address the "root cause" of problems rather than treat the symptoms. Using this approach, the CBA aims for persistent and intrusive supervision conducted in an effective and efficient way. Over the past few years, it also placed increased emphasis on the existence of sound policies and procedures in the areas of governance, risk management, and compliance.

The international supervisory landscape changed drastically over the years. The call for more and stricter oversight, following the global financial and economic crisis, that peaked in 2008, has led to a further strengthening of the standards that are set by the international standard-setting bodies such as the Basel Committee and the IAIS in the area of supervision.

Also, the ongoing international efforts to combat money laundering and the financing of terrorism (ML/FT) have led to a strengthening of the FATF recommendations in this area. As a result of the "Panama papers", even higher scrutiny of offshore jurisdictions is expected from the international community. The perception held by many of the economically advanced countries that offshore jurisdictions facilitate ML/FT and tax evasion has led these countries to take additional measures to mitigate these risks. Strong calls also has come from the public at large, including nongovernmental organizations, to remove barriers for information exchange between the relevant authorities and for more transparency on the ultimate beneficial owner(s) (UBOs) of (offshore) companies. It is important to note that some large international banks in the USA have even stopped providing correspondent banking relations to banks in some countries in the Caribbean region because of the perceived high risks in the area of ML/FT involved in facilitating cross-border US dollar transactions. To date, the banks in Aruba have not been much affected by this de-risking policy applied by some international banks in the USA. Also in this respect, it remains of utmost importance for Aruba to maintain a high level of compliance with the international standards and international best practices in the area of supervision and AML/CFT.

On the basis of previous assessments by the International Monetary Fund (IMF) and the FATF and the follow-up actions taken by Aruba to address the identified weaknesses, Aruba is highly compliant with the Core Principles for effective banking and insurance supervision issued by, respectively, the Basel Committee and the IAIS, and also with the FATF recommendations. With respect to the latter recommendations, Aruba completely overhauled its AML/CFT framework to close the identified gaps. However, in light of the ongoing changes in the international regulatory landscape, it remains important to regularly update the laws and regulations to capture the ongoing changes in the standards set by the international standard-setting bodies. During the year under review, the CBA spent much time designing legislative proposals to harmonize and strengthen the existing supervisory laws.

Notwithstanding its excellent track record in maintaining a safe and sound financial system, the CBA is fully aware that no room exists for complacency. As the recent global financial crisis clearly showed, supervisory challenges can arise overnight. Although Aruba's financial sector has remained very solid and resilient to external shocks over the years, the CBA stands ready to respond quickly and effectively to supervisory threats that may arise. It also keeps an eye on preventing risks from building up in the system over time with the chance of spilling over to other sectors, thereby affecting the complete financial sector or the economy as a whole. In this regard, the CBA strives at all times to maintain a highly qualified staff and also invests on an ongoing basis in the training of its staff members. In consideration of the increasing complexity of supervision and regulation and the environment in which financial institutions operate, the aforementioned is considered key in maintaining a high level of quality of the oversight exercised by the CBA over the supervised institutions.

3

Major changes in the legislative and regulatory framework

3 Major changes in the legislative and regulatory framework

3.1 Legislative framework

3.1.1 State Ordinance on the Supervision of the Securities Business

In June 2013, the CBA drafted a State Ordinance on the Supervision of the Securities Business. This draft State Ordinance introduces a licensing obligation for securities brokers, portfolio managers, investment schemes, and operators of a stock exchange, and places these entities or persons under supervision. Furthermore, provisions are included that impose a prospectus obligation for the issuance of securities and prohibit and punish market abuse (insider trading and market manipulation). In 2014, this draft State Ordinance was approved by the Minister of Finance and Government Organization and, subsequently, sent to the Advisory Council. In 2015, the Advisory Council provided its comments on this draft State Ordinance. Introduction of this ordinance is expected before year-end 2016.

3.1.2 State Ordinance on Consumer Credit

In 2015, the CBA began drafting a legislative proposal to regulate consumer credit. The final draft ordinance regulating consumer credit was recently submitted to the Minister of Finance and Government Organization. The main objectives of this ordinance are to ensure that consumers receive sufficient information before entering into a consumer loan agreement, to place a cap on the interest rates that lenders are allowed to charge consumers, and to prevent overcrediting.

3.1.3 Deposit insurance scheme

In 2011, a joint working group was established to provide advice on the introduction of a deposit insurance scheme for the domestic commercial banking sector in Aruba. The group consisted of representatives of both the Aruban Bankers' Association (ABA) and the CBA. The joint working group met several times to discuss the modalities of such a scheme. On January 16, 2014, the Parliament of Aruba passed a motion in which the Minister of Finance and Government Organization was asked to present a legislative proposal for the introduction of a deposit insurance scheme to the Parliament of Aruba. Upon request of the Minister of Finance and Government Organization, the CBA drafted a legislative proposal, which was presented to the Minister of Finance and Government Organization on August 27, 2015. Based upon the comments received from the Department of Legislation and Legal Affairs ("Directie Wetgeving en Juridische Zaken"), this draft law is currently being revised by the CBA with the expectation that it will be formally submitted to the Minister of Finance and Government Organization around mid-2017.

3.2 Regulatory framework

3.2.1 Directive on sound business operations

With the implementation of the State Ordinance on the General Pension (*Landsverordening algemeen pensioen, AB 2011 no. 85*) on January 1, 2012, also some amendments were made to strengthen, the State Ordinance on Company Pension Funds (SOCPF). One of the main changes to the SOCPF was the requirement to have sound and controlled business operations. Furthermore, the enactment of the State Ordinance Amending the Sectoral Supervisory State Ordinances (Amending State Ordinance) on January 1, 2013, resulted in several amendments of the State Ordinance on the Supervision of the Credit System (SOSCS), State Ordinance on the Supervision of the Insurance Business (SOSIB), State Ordinance on the Supervision of Money Transfer Companies (SOSMTC), and State Ordinance on the Supervision of Trust Service Providers (SOSTSP), including the introduction of a uniform requirement to ensure sound business operations. Financial institutions are hence required by law to implement adequate policies, procedures, and measures, and to organize their activities in a way that ensures sound business operations. The CBA is authorized in the respective ordinances to give further instructions in this area.

To further this authorization, on March 1, 2015, the CBA issued a Directive on Sound Business operations. All institutions that fall under the scope of this ordinance received a grace period of six months to comply with this directive. In December 2015, several information sessions were organized by the CBA to provide further guidance on this directive.

Sound business operations include:

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

All supervised financial institutions are required to ensure an ethical business culture and promote ethical behavior within their organizations. On the basis of an integrity risk assessment, each financial institution must design adequate policies and implement such policies in its business processes via procedures and measures to control integrity risks to which it is exposed.

3.2.2 Revision of coverage test report for insurance companies

Effective January 1, 2015, claims on affiliated companies no longer qualify as admissible assets to cover the technical provisions and, consequently, must be excluded from the calculation of the coverage ratio. Insurance companies were granted a transitional period of six months to comply with the coverage ratio of 100 percent under the revised rules.

3.2.3 Draft Chart of Accounts (CoA) manual

In close cooperation with the Centrale Bank van Curaçao en St. Maarten (CBCS), the CBA drafted a new set of regulatory (and monetary) returns, known as the Chart of Account or CoA, for the supervised credit institutions. The CoA will replace the current Monthly Statement and appendices that credit institutions have to fill out monthly. It 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 Capital Accord. In October 2013, the draft CoA manual was sent to the credit institutions for consultation purposes. A second information session was held with the credit institutions on April 16, 2014. The final CoA manual is scheduled to be rolled out in the fourth quarter of 2016.

3.2.4 Draft revised actuarial guidelines for company pension funds

Following local and international developments and the comments received from the pension sector on the first draft, the CBA issued on December 21, 2015, a revised draft of the actuarial guidelines for company pension funds for consultation. Important revisions concern the mortality tables to be applied for the calculation of the technical provisions and the inclusion of the minimum conditions that recovery plans must meet. Company pension funds whose coverage ratio falls below the minimum requirement of 100 percent are required to submit a recovery plan to the CBA for its approval. Based upon the comments received from the company pension fund sector, the CBA is currently preparing a revised draft, which will be rolled out in the third quarter to the pension fund sector for a final consultation round.

4

International developments

4 International developments

4.1 Basel Committee: 'Guidelines Corporate governance principles for banks'

In July 2015, the Basel Committee issued a paper on corporate governance principles for banks, superseding the guidance paper published by the Basel Committee in 2010. The (revised) corporate governance principles provide a framework within which banks should operate to achieve robust and transparent risk management and decision-making. The revised guidance emphasizes the critical importance of effective corporate governance for the safe and sound functioning of banks. It also stresses the significance of risk governance as part of a bank's overall corporate governance framework and promotes the value of strong boards and board committees together with an effective control function. The CBA will take into account the matters brought forward in this paper when revising its corporate governance policy papers. The CBA strives to issue revised corporate governance guidelines in 2017 for consultation to the banking, insurance, and company pension fund sectors.

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

The Basel Committee issued a consultative version of the updated guidelines on sound management of risks related to money laundering and financing of terrorism in July 2015. Subsequently, in February 2016, the Basel Committee published the final version of these guidelines. Prudent management of ML/FT risks is critical in protecting the safety and soundness of banks as well as the integrity of the financial system. The inadequacy or absence of sound ML/FT risk management exposes banks to serious risks, especially reputational, operational, compliance, and concentration risks. The guidelines describe how banks should include ML and FT risks within their overall risk management. This important paper was sent to the banks requesting them to see to it that the guidelines are incorporated in their AML/CFT policies, procedures, and measures.

4.3 IAIS: 'Issues Paper on conduct of business risk and its management'

The IAIS published a paper on the conduct and management of business risk in November 2015. The recent global financial crisis highlighted that poor conduct of business can also give rise to systemic risks. Not only does poor conduct affect individual customers, but it also can impact the reputation of individual insurers, whole markets, or consumer confidence in the sector as a whole. The paper discusses the sources and impact of conduct of business risk and its place within risk management frameworks. It also describes current practices, and identifies regulatory and supervisory challenges in this area.

4.4 IAIS: 'Application paper on the regulation and supervision of captive insurers'

In November 2015, the IAIS also published an application paper on the regulation and supervision of captive insurers. The IAIS defines a captive insurer as "an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part, if any, of its risk exposure is related to providing insurance or reinsurance to other parties". The paper is intended to provide guidance to supervisors on the application of aspects of regulation and supervision specifically relevant to captive insurers or reinsurers. The CBA will assess in due time whether its supervisory and regulatory framework with regard to captives needs to be amended based on this paper.

4.5 Global trends in correspondent banking and potential drivers

A decline in correspondent banking services, particularly in the Caribbean, East Asia Pacific and Eastern Europe & Central Asia is noted. The main drivers for the erosion of correspondent banking relationships relate to concerns about ML/FT risks in these regions and, related hereto, lower profitability due to the required additional due diligence activities that correspondent banks need to undertake to mitigate the associated risks. The aforementioned trend, as well as the issues that are brought along with the decrease in correspondent banking services, are recognized by all parties involved, including governments and supervisory authorities. Public-private dialogues are being held to discuss and resolve the issues at hand.

4.6 Global Forum on Transparency and Exchange of Information for Tax Purposes

The Global Forum on Transparency and Exchange of Information for Tax Purposes is the multilateral framework within which work in the area of tax transparency and exchange of information is carried out by over 120 jurisdictions that participate in the Global Forum on an equal footing. The Global Forum is charged with in-depth monitoring and peer review of the implementation of the international standards of transparency and exchange of information for tax purposes. These standards provide for international exchange upon request of foreseeably relevant information for the administration or enforcement of the domestic tax laws of a requesting party. All members of the Global Forum, as well as jurisdictions identified by the Global Forum as relevant to its work, are being reviewed. Aruba has been assessed against these standards as well.

The assessment for Aruba was undertaken in two phases. In Phase 1, Aruba's legal and regulatory framework for exchange of information as of January 2011 was assessed; in Phase 2, the practical implementation of this framework was evaluated for the period July 2010 to June 2013, as well as amendments made to this framework since the Phase I review up to December 18, 2014. An onsite visit to Aruba also took place from May 12 to May 15, 2014. During this visit, the assessment team met with officials and representatives of relevant government agencies including the Ministry of Finance, the Department of Taxes, the Chamber of Commerce and Industry Aruba, the CBA, the acting Attorney-General, and the Department of Economic Affairs, Commerce and Industry of Aruba.

The draft report prepared by the assessment team was discussed and approved during the plenary meeting of the Organization for Economic Co-Operation and Development (OECD) in Paris that took place from February 9 to 12, 2015. The CBA was represented during this meeting by two of its senior officials. On March 16, 2015, the final report "Global Forum on Transparency and Exchange of information for Tax Purposes Peer Reviews: Aruba 2015: Implementation of the Standard in Practice" was published. Aruba received an overall rating of Largely Compliant.

4.7 GIFCS: Trust guidelines

The Group of International Finance Centre Supervisors (GIFCS) is a supervisory group with a keen interest in promoting the adoption of international regulatory standards, especially in the banking, fiduciary, and AML/CFT arena.

GIFCS issued a Best Practice Statement on the supervision of Trust Companies Service Providers (TCSPs) in 2002. A key objective of these best practices is to ensure that TCSPs are adequately regulated and supervised. In addition, information on the UBOs behind trust and company vehicles administered from GIFCS centres, as well as information on the sources and nature of underlying funds must be available and accessible at all times by the competent authorities. Based on the considerable experience acquired as a result of implementing these best practices, the GIFCS decided in 2012 to revise these best practices and to introduce a new Standard on the Regulation of Trust and Corporate Service Providers (the "Standard"). This Standard sets out a comprehensive framework for effective TCSP supervision, incorporating AML/CFT developments, corporate governance requirements, and other supporting legal and prudential conditions. An initial evaluation was conducted by the GIFCS in 2015 based upon a survey conducted amongst its members. The CBA also participated in this survey. Intention is to conduct a full fledge analysis for the legislative and regulatory framework of the trust service providers vis-a-vis the GIFCS standard.

4.8 FATF: Reports, guidance, and best practices

4.8.1 FATF: 'Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)

In February 2015, the Financial Action Task Force (FATF) issued a report addressing the financing of the Terrorist

Organization Islamic State in Iraq and the Levant (ISIL). This report analyses how this terrorist organization generates and uses its funding.

4.8.2 FATF and MENAFATF: 'Money Laundering through the physical transportation of cash'

In November 2015, the FATF and MENAFATF issued a report on money laundering through the physical transportation of cash. This report identifies the main challenges that law enforcement, customs and other agencies face in detecting and disrupting the physical transportation of cash. It provides 'red flag' indicators and other information for use by all agencies, who need to work together and exchange information to control their borders.

4.8.3 FATF: 'Guidance for a risk-based approach to virtual currencies'

The FATF issued guidance in connection with virtual currencies in June 2015. This guidance focusses on applying the risk-based approach to ML/FT risks associated with virtual currency payment products and services.

4.8.4 FATF: 'Best Practices Paper on combating the abuse of nonprofit organizations'

The FATF also released a best practices' paper on combating the abuse of non-profit organizations (NPOs) in June of 2015. The FATF acknowledges that NPOs provide vitally important services around the world. However, this sector also may be abused by terrorists and terrorist organizations through fake charities to funnel money to terrorists, to the abuse of legitimate NPOs without the knowledge of its donors, management, or staff. The best practices' paper aims at preventing misuse of NPOs for the financing of terrorism. It sets out specific examples of good practices which, among other things, may assist financial institutions in the proper implementation of a risk-based approach when providing financial services to NPOs.

5

National and international cooperation

5 National and international cooperation

5.1 National cooperation

In the course of 2015, the CBA met regularly with government agencies, as well as with sectoral and occupational organizations to discuss topics of mutual interest. Its most important partners with respect to integrity supervision and enforcement are the Financial Intelligence Unit (“*Meldpunt Ongebruikelijke Transacties*”) (FIU) and the Public Prosecutor’s Office (“*Openbaar Ministerie*”) (PPO). The Integrity Supervision Department (ISD) and the FIU held three bilateral meetings, while the ISD and the PPO had met twice on a bilateral basis. The cornerstone for these periodic meetings are the Memoranda of Understanding (MoUs) with the FIU (signed in 2011) and the PPO (signed in 2012). In addition to setting procedures for information exchange, the MoU with the PPO contains guidelines in the event of a concurrence of administrative and criminal offences. With due regard to the universal “ne bis in idem-principle,” i.e., a person cannot be punished twice for the same act, it is necessary in these cases that the parties decide which enforcement route to follow. Besides the mentioned periodic meetings, two know-how sessions with the FIU and the PPO were organized in 2015.

The CBA held periodic meetings with the representative organizations of the commercial banks and the insurance companies, i.e., the Aruban Bankers’ Association (ABA) and the Insurance Association of Aruba (IAA), respectively. Apart from relevant local and international developments, the following supervisory matters were discussed during the meetings held in 2015: (a) the Directive on Sound Business Operations, (b) the licensing of insurance brokers, (c) the prohibition on tight-selling (“*koppelverkoop*”), and (d) the CBA’s intention to draft a policy paper on electronic banking.

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

5.2 International cooperation

The sectoral supervisory laws authorize the CBA, provided that certain conditions are met, to exchange information with other (foreign) supervisory authorities.

Over 2015, the CBA received three information requests from foreign supervisory authorities. The CBA responded to all of these requests. Furthermore, on two occasions, the CBA requested and received information from foreign supervisors.

In May 2015, the CBA signed an MoU with the Netherlands Authority for the Financial Markets (“Autoriteit Financiële

Markten" or AFM), for the sharing of supervisory information and for carrying out onsite inspections to facilitate the performance of their respective duties and to promote the safe and sound functioning of financial institutions in the respective countries.

During 2015, the CBA met regularly with its counterparts within the Kingdom of the Netherlands, namely, De Nederlandsche Bank N.V. (DNB), the AFM, and the CBCS.

In October 2015, the CBA attended a seminar hosted by the DNB in which the supervisory authorities in the Kingdom of the Netherlands participated. The main subjects discussed were market conduct supervision and integrity-related matters (i.e., dealing with corruption and conflicts of interest, and sound business operations). The CBA also delivered a presentation on, among other things, sound business operations during a seminar on the combating of financial crimes hosted by the DNB during that same period. A total of 90 individuals from the financial sector of the Dutch Caribbean islands ("Caribisch Nederland") participated in this seminar. The supervisory authorities in the Kingdom of the Netherlands also held their fifth supervisory college in 2015. The purpose of these supervisory colleges is to ensure effective and efficient supervision through information sharing on financial institutions that operate in more than one of the respective jurisdictions within the Dutch Kingdom.

The Technical Committee of the Supervisory authorities of the Kingdom of the Netherlands met three times in 2015. Furthermore, the CBA participated in three meetings of the Joint Working Group on Integrity Issues, consisting of representatives of the supervisory authorities within the Kingdom of the Netherlands. The objective of this joint working group, established in 2011, is to enhance and harmonize, as far as possible, laws, regulations, and the supervisory practices in the area of integrity supervision. In October 2012, the group presented its mutual recommendations on the laws and regulations concerning, among other things, sound conduct of business, AML/CFT, and integrity and suitability testing. The group will continue to monitor progress and exchange knowledge regarding the broad area of integrity supervision.

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

The third Joint Working Group on Corporate Governance, which was installed in 2013 by the supervisory authorities within the Dutch Kingdom, met for the first time in 2014, and once again in 2015. The objective of this joint working group is to review the existing legal and regulatory frameworks in the Dutch Caribbean against the international standards and best practices in this area. The working group has produced an overview of the international standards and best practices on corporate governance and recommended follow-up actions based upon these standards and practices. The preparatory research done by the working group will assist the CBA in the review and revision of its policy papers on corporate governance.

The CBA also continued to provide assistance to the Caribbean Financial Action Task Force (CFATF) in 2015 with regard to assessing Suriname's progress in addressing the deficiencies found during the CFATF's last mutual evaluation vis-à-vis the FATF recommendations. Based on the outcome of the High Level Mission conducted by the CFATF International Cooperation and Review Group (ICRG) in February 2012, it was deemed important to have a Dutch-speaking member aboard to assist the CFATF in its review process of Suriname, particularly with respect to its laws and regulations. Aruba agreed to offer assistance. This assistance consists of reviewing the follow-up on the implementation of Suriname's Action Plan, including the review of new and revised Surinamese legislation to meet the Key and Core FATF Recommendations. Preceding the May and November 2015 CFATF Plenaries, Aruba reported on the progress made by the Surinamese authorities to close the still existing gaps.

Finally, the CBA also participated in questionnaires, surveys, and other information requests in the area of supervision received mostly from international and regional multilateral organizations and supervisory bodies.

5.3 Conferences/trainings/seminars

Throughout 2015, the CBA attended several meetings and conferences of the regional and international supervisory groups. In April 2015, it participated in the Plenary meeting of the Group of International Finance Centre Supervisors (GIFCS) held in London. This meeting produced fruitful insights into a number of technical issues. These issues included, among others, the GIFCS' Standard on the Regulation of Trust and Company Service Providers, the IMF financial sector assessment program (FSAP), and shadow banking.

In May 2015, the CBA attended the Annual General Meeting and XXXIII Annual Conference of the Caribbean Group of Banking Supervisors (CGBS) carrying the title "Emerging Mandates in Supervision: Striking the balance in 'A whole new world', held in Paramaribo, Suriname. The CGBS conference provided the attendees with relevant information on the following main subjects: (I) Financial inclusion; (II) The expanding role of banking supervision discussing, among other things, the role of banking supervisors in market conduct supervision; and (III) Current priorities in banking supervision, discussing, among other things, crisis management and resolution frameworks and the harmonization of regional supervisory standards for banking institutions.

In June 2015, the CBA participated in the Annual Working Group and Annual General Meeting of the Group of International Insurance Centre Supervisors (GIICS) held in London. Topics discussed during these meetings included, among other things, the emerging insurance capital standards (including Solvency II), catastrophe reinsurance, and Protected Cell Companies (PCCs).

Finally, in November 2015, the CBA attended the Plenary Meeting of the GIFCS in Macao SAR, China. The meeting offered a full-day seminar on Supervising Systemically Important Banks (SIBs) from a Host Country Perspective as well as dialogue and outreach among its member jurisdictions on a number of technical issues, i.e., the implementation of mutual evaluations under the GIFCS' Standard on the Regulation of Trust and Company Service Providers, and the national risk assessment process with regard to AML/CFT.

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

Furthermore, all supervisory staff of the CBA received ongoing training during the course of 2015 in distinct areas, such as, market conduct supervision, regulation and supervision of credit unions, credit risk analysis, and capital planning and stress testing.

In the area of integrity supervision, the CBA attended an AML/CFT Compliance Conference in March 2015 organized by the CFATF in the Turks and Caicos Islands. Topics discussed during this conference included risk assessments, customer due diligence, and supervision.

The CBA also took part in a seminar on terrorist financing in New York in April 2015, organized by the Association of Certified Anti-Money Laundering Specialists (ACAMS). This conference provided the participants with relevant information on the following main topics: (a) the evolving and ever increasing threat of terrorism, (b) the growing nexus between terrorist groups and transnational criminal organizations, (c) proactive countermeasures, (d) identifying the Islamic State's funding flows, (e) establishing internal protocols for identifying, investigating, and reporting red flags, (f) the global terrorist landscape, and (g) developing typologies through case studies.

Finally, staff members also participated in the AML/CFT training organized by "*Stichting IFEA*" in January 2015 and continued to attend regular webinar sessions on AML/CFT related topics.

6

Prudential supervision

6 Prudential supervision

Tasks and responsibilities

The Prudential Supervision Department (PSD), consisting at year-end 2015 of ten full-time staff members, carries the primary responsibility for proper execution of the following supervisory tasks: (*1*) monitoring of the financial soundness of supervised financial institutions through onsite visits and ongoing onsite surveillance; (*2*) evaluating requests pursuant to the SOSCS, SOSIB, and SOCPF for approval of changes in group structure, changes in business plans, and new banking or insurance licenses; (*3*) conducting integrity and suitability testing on an ongoing basis of directors and supervisory based members, as well as individual shareholders who fall under the scope of the SOSCS, SOSIB, and SOCPF; (*4*) conducting regular onsite examinations in the areas of corporate governance, risk management, asset quality, and prudential requirements (including compliance with the minimum prudential solvency and liquidity ratios); (*5*) conducting periodic stress tests on the commercial banking sector; and (*6*) monitoring international developments in the area of prudential supervision and, in so far relevant for Aruba, translating these into supervisory policy directives and policy papers and incorporating them in the CBA's supervisory practices. Finally, the PSD also is involved in the preparatory work and discussions in connection with the assessments of Aruba by international rating agencies. Below follows an overview of the activities carried out by the CBA in the area of prudential supervision in 2015.

Throughout 2015, the main focus of prudential supervision remained overseeing compliance with the stipulations of and pursuant to the sectoral state ordinances, especially with respect to the prudential requirements in the areas of solvency and liquidity. In addition, the CBA centers on compliance with the different prudential regulations issued by the CBA, including but not limited to corporate governance.

In general, the supervised institutions remained in compliance with the CBA's prudential requirements during 2015. At year-end 2015, besides Stichting Algemeen Pensioenfonds Aruba (the Civil Servants Pension Fund, APFA), two company pension funds reported a coverage ratio below the minimum requirement of 100 percent. The CBA continues to closely monitor these institutions' financial developments and their progress vis-à-vis their recovery plans. Reference is made to Chapter 8 for details on the sectoral financial developments.

Offsite surveillance

As part of its offsite surveillance, the PSD undertook several activities including, among other things, analysis of the financial and regulatory reports submitted by the supervised institutions and the processing of different requests for approval pursuant to the various sectoral supervisory laws. The latter requests included an application for a license to conduct the business of a credit institution in Aruba, requests for exemption pursuant to article 48 of the SOSCS and article 27b of the SOSIB, and petitions for changes in qualifying holding and external auditor. On three occasions, the CBA denied the appointment of an external auditor due to concerns related to the independence of the external auditor. On several occasions, the PSD also provided advice related to foreign exchange license requests of financial institutions supervised by the CBA.

In 2015, the CBA received thirteen requests related to the appointment of a key person from the credit institutions, thirty requests from the insurance companies, and six from the company pension funds (see also Annex 5).

The results of the 2015 stress testing exercise conducted by the CBA were communicated to the commercial banks during the bilateral meetings held at the beginning of 2016. The results show that the domestic commercial banking sector remains highly resilient to potential adverse developments in credit conditions and, albeit to a lesser degree, in liquidity levels.

During the course of 2015, the CBA approached the credit institutions, insurance companies, and company pension funds to assess their compliance with the corporate governance and pension fund governance policy papers issued by the CBA. The assessment provided important insights for the review and revision of the supervisory guidelines in the area of governance.

Onsite examinations

The PSD conducted six targeted onsite examinations to assess, among other things, compliance with the CBA's policy papers on corporate governance at one credit institution, two insurance companies, and one company pension fund. It also assessed the admissibility of assets and the quality of the prudential reporting at two insurance companies and two company pension funds. At one credit institution, an evaluation was made of the asset quality. During the onsite visit at one of the company pension funds, the PSD paid special attention to the financial developments and the progress vis-à-vis its recovery plan. Table 6.1 provides an overview of the onsite examinations conducted by the PSD.

Table 6.1: Onsite examinations by PSD 2013-2015 (End of period)

	2013	2014	2015
Sector			
Credit institutions	3	1	2
Life insurers	-	1	-
General insurers	-	4	2
Company pension funds	1	2	2
Total onsite examinations	**4**	**8**	**6**

Enforcement measures

On ten occasions, the CBA took formal enforcement measures against financial institutions for noncompliance with the requirements in or pursuant to the sectoral state ordinances.

One administrative fine was levied on a credit institution for noncompliance with article 7, paragraph 2, of the SOSCS, which requires a credit institution to have a supervisory board consisting of at least three natural persons. One life insurer and one general insurer received an administrative fine for failing to comply with the regulatory reporting requirements pursuant to articles 11 and 12 of the SOSIB. A general insurer was fined for noncompliance with article 17 of the SOSIB, which prohibits the appointment of key persons without prior approval of the CBA. An insurance broker was fined for acting in breach of article 27b of the SOSIB, which prohibits acting as an intermediary for an enterprise or institution that does not dispose of an insurance license from the CBA. On one occasion, the CBA imposed a penalty charge order on an accounting firm for failing to comply with article 25, paragraph 6, of the SOSIB. Furthermore, the CBA issued a formal directive to a credit institution pursuant to article 10 of the SOSCS for noncompliance with article 7, paragraph 1, of the SOSCS. Pursuant to article 15 of the SOSIB, the CBA also gave a formal directive to a life insurance company for not continuously complying with the minimum required coverage ratio during the course of 2015. Finally, formal directives to a life insurance company and a general insurance company were issued for not complying with the regulatory reporting requirements pursuant to articles 11 and 12 of the SOSIB. (See Table 6.2 and Annex 7.)

Supervisory costs

Pursuant to the various sectoral state ordinances and state decrees, the CBA may pass on part of the incurred supervision costs to the supervised entities. Annex 6 contains a breakdown of the supervision costs passed on to the different sectors supervised by the CBA.

Table 6.2: Enforcement actions of the PSD 2013-2015
(End of period)

	2013				2014				2015			
	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines
Sector												
Credit institutions	-	-	-	2	-	-	-	1	-	1	-	1
Life insurers	-	-	-	-	1	-	-	1	-	2	-	1
General insurers	-	-	-	-	-	1	-	-	-	1	-	2
Company pension funds	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	1	1
Total enforcement actions	**-**	**-**	**-**	**2**	**1**	**1**	**-**	**2**	**-**	**4**	**1**	**5**

7

Integrity supervision

7 Integrity supervision

Tasks and responsibilities

The Integrity Supervision Department (ISD), which consisted at year-end 2015 of seven dedicated AML/CFT specialists, carries the primary responsibility for proper execution of the following supervisory tasks: (1) overseeing compliance with the laws and regulations in the area of AML/CFT; (2) fostering the integrity of the supervised sectors via periodic risk-based onsite visits and onsite surveillance; (3) conducting on an ongoing basis integrity and suitability testing of managing and supervisory directors, as well as individual shareholders who fall under the scope of the SOSTSP and SOSMTC; (4) identifying and taking action against parties that operate on the Aruban financial market without a license, registration, or dispensation from the CBA; and (5) closely monitoring international developments in the area of AML/CFT and translating these developments into supervisory directives and practices. In addition, the ISD is entrusted with the execution of the state ordinances that are primarily focused on maintaining the integrity of the company service providers and money transfer business (SOSTSP, SOSMTC), the regulation of pawn shops/compra y benta companies (based upon article 48 of the SOSCS), and the supervision of insurance brokers (SDSIB). In the ordinances with dual objectives, the PSD has the lead, but works closely with ISD if the issues are related to integrity (including but not limited to AML/CFT matters).

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

In view of the expanded supervisory mandate in the area of integrity supervision, ISD's focus in 2015 remained on fostering the supervised institutions' compliance with the integrity-related requirements, via the issuance of guidance papers and directives, information sessions, and onsite visits and onsite surveillance.

Offsite surveillance

As part of its offsite surveillance, the ISD undertook several activities. In 2015, a significant part of the ISD's resources was allocated to the processing of the license applications of insurance brokers and the dispensation requests of insurance sales agents. Furthermore, the ISD processed license requests of money transfer companies and trust service providers servicing on-shore companies, and processed various requests for approval pursuant to the sectoral supervisory laws (including but not limited to changes in shareholding structure).

Other activities undertaken by the ISD included analyzing, and if and where necessary, following up on the periodic regulatory filings from the money transfer companies and trust service providers, and taking part in the preparatory work and discussions in connection with the assessments of Aruba by international rating agencies. Furthermore, the ISD held bilateral meetings with the supervised institutions and the representative organizations to discuss various supervisory matters of which some were integrity related. In the course of 2015, the CBA received seven requests related to the appointment of a key person from trust service providers, eleven requests from money transfer companies, and two requests from insurance brokers in relation to their license (see Annex 5).

In December 2015, information sessions were organized by the CBA to provide further guidance to the institutions that fall under the scope of the Directive on Sound Business Operations that entered into force on March 1, 2015.

Onsite examinations

In 2015, the ISD carried out six focused onsite examinations: one examination at a credit institution, one at a trust service provider, one at a notary, one at a pawnshop, and two at money transfer companies (see also Table 7.1).

The onsite examinations at the credit institution, notary, and money transfer companies focused mainly on the following topics: (1) compliance with the transitional provisions regarding existing clients laid down in article 2 of the Enactment State Ordinance, (2) transaction monitoring and unusual transaction reporting, and (3) corporate governance. The onsite examinations at the trust company and the pawnshop were special investigations focused on unusual transaction reporting at the trust company and compliance with the supervisory directive regarding publication of the effective interest rate at the pawn shop.

Table 7.1: Onsite examinations by ISD 2013-2015 (End of period)

	2013	2014	2015
Sector			
Credit institutions	2	3	1
Pawnshop	-	-	1
Life insurers	-	2	-
General insurers	-	1	-
Money transfer companies	-	-	2
Trust service providers	2	2	1
DNFBPs	4	1	1
Total onsite examinations	**8**	**9**	**6**

Enforcement measures

During 2015, the ISD imposed one administrative fine on a general insurance company for noncompliance with article 14d of the SOSIB. The enforcement actions taken over the last three years in the area of integrity supervision are shown in Table 7.2.

Supervisory costs

Annex 6 contains a break-down of the supervision costs passed on to the different sectors supervised by the CBA.

Table 7.2: Enforcement actions of the ISD 2013-2015
(End of period)

	2013				2014				2015			
	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines
Sector												
Credit institutions	-	-	-	-	1	-	2	1	-	-	-	-
Pawnshops	-	-	-	-	-	-	-	-	-	-	-	-
Life insurers	3	-	-	-	-	-	1	-	-	-	-	-
General insurers	-	-	-	-	-	-	-	-	-	-	-	1
Money transfer companies	3	-	-	1	1	-	-	-	-	-	-	-
Trust service providers	1	-	-	-	3	-	-	4	-	-	-	-
DNFBPs	-	-	-	-	1	-	-	1	-	-	-	-
Total enforcement actions	**7**	**-**	**-**	**1**	**6**	**-**	**3**	**6**	**-**	**-**	**-**	**1**

8

Sectoral financial analysis

8 Sectoral financial analysis

The following sections briefly describe the main financial developments in the various sectors supervised by the CBA, as well as the Social Security Bank (SVB) and the General Health Insurance (AZV), which do not fall under the CBA's supervision. Because of their important role within the Aruban economy, their financials are briefly covered. Section 8.1 covers the credit institutions, section 8.2 comprises the money transfer companies, and section 8.3 discusses the trust service providers. Section 8.4 relates to the insurance companies and company pension funds. Sections 8.5-8.7 analyze the main financial developments at the Civil Servants Pension Fund (APFA), the SVB, and the AZV. A list of the financial institutions supervised by the CBA at the end of December 2015 is provided in Annex 2, while Annex 3 presents an overview of the institutions with a dispensation as described in section 48, paragraph 3 of the SOSCS and section 10, paragraph 1 of the SOSMTC. Annex 4 contains an overview of the changes in the registers of the supervised institutions and shareholding for the year 2015.

8.1 Credit institutions

8.1.1 Supervised banking institutions

As shown in Table 8.1, the number of banking institutions supervised by the CBA remained unchanged at 12 at the end of 2015. However, the number of supervised commercial banks increased to six, while the number of supervised international banks decreased to one as BBA Bank N.V. received a license on August 27, 2015 to operate on the domestic market. However, in April 2016, BBA Bank N.V. decided to cease its operations and to start a voluntary liquidation process. On September 19, 2014, the CBA granted FirstCaribbean International Bank (FCIB) (Cayman) Limited a license to pursue the business of a credit institution through a branch office in Aruba. This branch will be operational during 2016.

The number of credit institutions supervised by the CBA remained unchanged at 12 at the end of 2015.

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

	2013	2014	2015
1. Total	**11**	**12**	**12**
2. Commercial banks	4	5	6
3. International banks	2	2	1
4. Bank-like institutions	3	3	3
1. Mortgage banks	1	1	1
2. Other specialized financial institutions	2	2	2
5. Credit unions	2	2	2

Source: CBA.

8.1.2 Commercial banks

As illustrated in Table 8.2, the aggregated balance sheet total of the commercial banks experienced continued growth over the past five years. The aggregated balance sheet total of Afl. 5,090.3 million at year-end 2015 is equivalent to 105.3 percent of the estimated 2015 nominal Gross Domestic Product (GDP), clearly indicating the importance of the commercial banking sector in the Aruban economy.

Assets

The aggregated outstanding loans showed an upward trend, rising from Afl. 2,600.9 million in 2011 to Afl. 3,005.3 million in 2015. This rise was due mainly to expansions in loans to individuals and commercial loans of, respectively, Afl. 237.9 million (15.6 percent) and Afl. 155.3 million (14.5 percent). In 2015, the aggregated loans registered the lowest growth in the last five years, namely, Afl. 7.9 million or 0.3 percent compared to 2014. The loan growth was caused by increases in loans to individuals (Afl. 62.6 million) and loans to government (Afl. 11.2 million), but was largely offset by a decline of Afl. 65.9 million in commercial loans. Cash and due from banks increased by Afl. 285.8 million during the period 2011-2015. The balance sheet item other assets rose from Afl. 200.7 million at the end of 2011 to Afl. 247.2 million in 2015, due mainly to rises in premises and equipment of Afl. 33.8 million and in accounts receivable and prepayments of Afl. 13.8 million. The commercial banks'

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

	2011	2012	2013	2014	2015[1]
1. Total assets	**4,324.7**	**4,639.0**	**4,720.2**	**4,866.5**	**5,090.3**
a. Cash and due from banks	1,218.3	1,357.9	1,248.8	1,289.1	1,504.1
b. Investments	304.8	346.1	333.2	323.1	333.7
c. Loans	2,600.9	2,708.0	2,880.9	2,997.4	3,005.3
- Commercial [2]	1,071.4	1,151.2	1,246.9	1,292.6	1,226.7
- Individuals [3]	1,529.5	1,556.8	1,634.0	1,704.8	1,767.4
- Government	0.0	0.0	0.0	0.0	11.2
d. Other assets	200.7	227.0	257.3	256.9	247.2
2. Total capital and liabilities	**4,324.7**	**4,639.0**	**4,720.2**	**4,866.5**	**5,090.3**
a. Deposits	3,519.6	3,812.3	3,804.3	3,904.1	4,111.1
- Demand	1,588.6	1,834.2	1,729.0	1,770.0	2,017.2
- Time	930.7	957.8	1,031.4	1,093.6	1,079.6
- Savings	1,000.3	1,020.3	1,043.9	1,040.5	1,014.3
b. Other liabilities	243.9	250.1	259.0	242.5	200.5
c. Capital and reserves [4]	561.2	576.6	656.9	719.9	778.7

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.

investment portfolio expanded by Afl. 28.9 million (9.5 percent) in 2015 compared to 2011 mostly because of an Afl. 50.0 million increase in government bond holdings, partially offset by an Afl. 22.1 million contraction in other marketable securities.

The commercial banks' aggregated balance sheet total at year-end 2015 equals 105.3 percent of the nominal estimated GDP for 2015.

Liabilities

The aggregated deposits recorded growth during the period 2011-2015, with the exception of the year 2013. In 2015, the aggregated deposits surged by Afl. 207.0 million (5.3 percent) compared to year-end 2014, due mainly to an increase in demand deposits of Afl. 247.2 million (14.0 percent). Capital and reserves expanded substantially over the past five years, from Afl. 561.2 million in 2011 to Afl. 778.7 million at the end of 2015. In 2015, capital and reserves grew by Afl. 58.8 million or 8.2 percent compared to 2014. This increase was associated primarily with additions from net income to the reserves, and offset in part by dividend distributions.

Income Statement

Table 8.3 shows that the total income of the banking sector grew from Afl. 317.2 million in 2011 to Afl. 363.6 million in 2015, primarily due to expansions in operating income. Total expenses experienced an increasing trend in the past five years, rising from Afl. 207.0 million in 2011 to Afl. 236.3 million in 2015, and related mainly to increases in general expenses and higher salaries and employee benefits. On the other hand, the additions to the loan loss provisions decreased from Afl. 13.6 million end-2011 to Afl. 8.6 million in 2015. From 2011 to

Table 8.3: Income statement of the commercial banks
(In Afl. million)

	2011	2012	2013	2014	2015[1]
1. Total income	**317.2**	**341.9**	**352.7**	**357.2**	**363.6**
a. Net interest income	202.1	218.1	220.5	217.9	210.6
b. Operating income	115.1	123.8	132.2	139.3	153.0
2. Total expenses	**207.0**	**215.8**	**218.0**	**229.2**	**236.3**
a. Salaries & employee benefits	94.0	98.4	102.0	109.8	100.4
b. Additions to the loan loss provisions	13.6	9.6	4.3	4.5	8.6
c. Other expenses	99.4	107.8	111.7	114.9	127.3
3. Net income before extraordinary items and taxes	**110.2**	**126.1**	**134.7**	**128.0**	**127.3**
4. Net income before taxes	**115.7**	**135.5**	**138.8**	**131.4**	**131.5**
5. Taxes	**27.8**	**34.6**	**38.2**	**30.4**	**32.8**
6. Net income	**87.9**	**100.9**	**100.6**	**101.0**	**98.7**

Source: CBA; commercial banks.

1 Preliminary figures.

2013, the net income before taxes exhibited an increasing trend, rising from Afl. 115.7 million to Afl. 138.8 million, and then dropping by Afl. 7.4 million (5.3 percent) to Afl. 131.4 million in 2014. In 2015, the net income (before taxes) remained practically unchanged at Afl. 131.5 million. The increase in total income was related predominantly to fees and commissions and was mitigated in part by a decline in net interest income. The rise in total expenses was associated mainly with increases in the items other expenses and additions to the loan loss provisions. A drop in salaries and employee benefits partially offset the mentioned increases.

Financial Soundness Indicators

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

Capital Adequacy Ratio

The commercial banks' aggregated risk-weighted capital asset ratio stayed well above the required minimum of 14 percent. This ratio moved up from 17.7 percent at year-end 2011 to 25.8 percent at the end of 2015, due mainly to the continued growth in the commercial banks' regulatory capital.

The commercial banks' aggregated risk-weighted capital ratio moved up to 25.8 percent at the end of December 2015.

Asset Quality

The quality of the commercial banks' loan portfolio improved significantly during 2011-2015, as the nonperforming loans to gross loans ratio declined almost by half to 4.7 percent in 2015. The decrease of Afl. 76.6 million in the nonperforming loans during the period 2011-2015 was due to the restructuring and the write off of some nonperforming loans. The development of the nonperforming loans ratio since 2011 is depicted in Charts 1 and 2.

Chart 1: Nonperforming loans (gross) to total gross loans of the commercial banks

(In percentages)

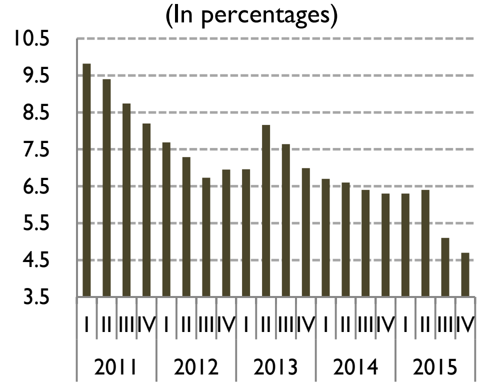


Chart 1: *The nonperforming loan ratio shows a decreasing trend during 2011 to 2015.*

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

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

Chart 2: Development of nonperforming loans by category of the commercial banks
(in percentages per each category)

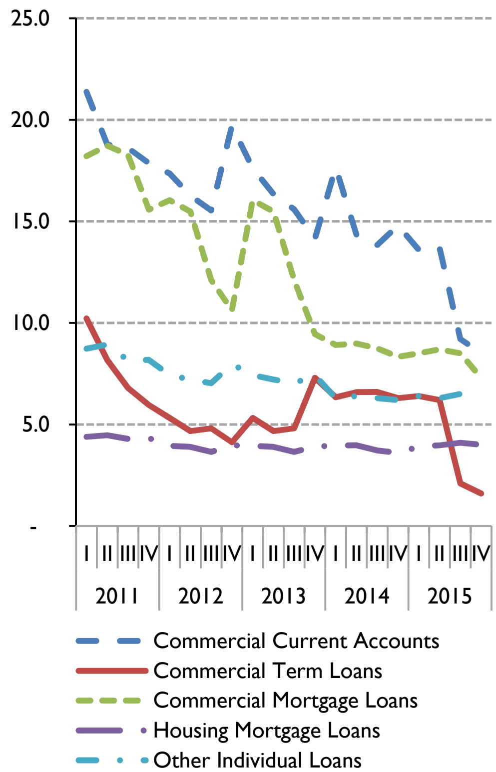


Chart 2: *As shown in Chart 2, the decrease in nonperforming loans occurred largely in the commercial current account and commercial mortgage loan categories.*

The outcome of the annual stress tests shows that the commercial banks continue to be able to absorb significant external shocks.

Profitability Indicators

Return on Assets

The return on assets (before taxes) remained relatively stable during the period 2011-2015; the highest increase of 0.4 percentage point was recorded in 2012. In 2015, the return on assets (before taxes) declined slightly by 0.1 percentage point to 2.7 percent.

Return on Equity

During 2012-2015, the return on equity (before taxes) declined by 9.0 percentage points to 21.4 percent. This decline was caused mainly by the increase in capital and reserves held by the commercial banks.

Net Interest Income to Gross Income

During 2011-2015, the net interest income to gross income ratio contracted, decreasing from 62.6 percent in 2011 to 57.3 percent in 2015. This contraction was caused by a larger increase in gross income of Afl. 45.3 million compared to the rise in net interest income of Afl. 8.5 million. The growth in gross income was the result of an increase in fees and commissions.

The weighted average interest rate margin edged up in 2015.

Interest Rate Margin

In line with international developments, from 2011 to 2014, the weighted average interest rate margin of the commercial banks decreased from 7.9 percentage points in 2011 to 5.7 percentage points in 2014. Although interest rates have shown a declining trend, they have remained relatively high when compared to the interest rates in more advanced economies. In 2015, the weighted average interest rate margin picked up slightly by 0.4 percentage point to 6.1 percentage points due to a decline in the weighted average rate of interest on deposits.

Prudential Liquidity Ratio

The commercial banks' aggregated prudential liquidity ratio (PLR) fluctuated during the five-year period under review. The decrease noted during the period 2012-2014 was associated mostly with the overall drop in liquidity surplus in the commercial banking sector (partially the result of the placement of debt paper issued by the Government of Aruba on the domestic market).

The banks' aggregated PLR went up from 24.1 percent at the end of 2014 to 27.3 percent at the end of December 2015, remaining far above the required minimum of 15 percent. This growth was reflected in

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

	2011	2012	2013	2014	2015[1]
1. Capital adequacy					
a. Regulatory capital (Tier I + II) to risk-weighted assets (minimum 14 percent)	17.7	19.4	22.7	23.3	25.8
b. Regulatory Tier I capital to risk-weighted assets	11.3	11.8	14.7	15.3	17.6
2. Asset quality					
a. Nonperforming loans to gross loans	8.2	7.0	7.0	6.3	4.7
b. Nonperforming loans (net of ALLP) to gross loans [2]	4.1	3.4	3.7	3.2	1.6
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	25.9	19.2	18.3	14.7	6.8
d. Large loans to regulatory capital [3]	68.3	86.4	67.6	69.2	57.5
3. Earnings and profitability					
a. Return on assets (before taxes)	2.7	3.1	3.1	2.8	2.7
b. Return on equity (before taxes)	26.1	30.4	28.0	23.3	21.4
c. Return on assets (after taxes)	2.1	2.3	2.2	2.2	2.1
d. Return on equity (after taxes)	19.8	22.7	20.3	17.9	16.1
e. Net interest income to gross income	62.6	62.1	61.8	60.4	57.3
f. Noninterest expenses to gross income	72.8	71.3	71.8	72.0	73.2
g. Interest rate margin [4]	7.9	7.5	7.0	5.7	6.1
4. Liquidity					
a. Loans to deposits ratio (maximum 80 percent)	71.0	68.2	72.9	73.6	69.9
b. Liquid assets to total assets (minimum 15 percent) [5]	26.1	27.6	24.3	24.1	27.3
c. Liquid assets to short-term liabilities	61.4	61.2	57.5	58.7	62.9
5. Sensitivity to market risk					
a. Net foreign assets[6] to regulatory capital	63.8	44.8	25.3	26.5	36.4

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 regulatory capital.
4 Weighted averages related to new loans granted and new deposits during the indicated period.
5 This ratio is the Prudential Liquidity Ratio (PLR).
6 Denominated in foreign currencies only.

rises in deposits of the commercial banks held at the CBA. The loans to deposits ratio hovered between 68.2 percent and 73.6 percent over the last five years. In 2015, the loans to deposit ratio declined to 69.9 percent and remained well below the maximum of 80 percent. This was mainly due to an Afl. 207.0 million or 5.3 percent growth in total deposits. The decline is mainly explained by the subdued credit growth and the significant increase in the deposits held by the commercial banks.

Sensitivity to Market Risk

During the years 2011 to 2013, the ratio of net foreign assets to regulatory capital of the commercial banks plunged from 63.8 percent end-2011 to 25.3 percent end-2013, due to an increase in the regulatory capital (denominator) of Afl. 177.1 million (40.8 percent) and a drop of Afl. 122.2 million (44.2 percent) in the net foreign assets (numerator). As of 2014, the aggregated net foreign assets to regulatory capital began its upward trajectory and stood at 36.4 percent at end-2015, related mainly to an Afl. 111.3 million increase in the net foreign assets when compared to 2013.

8.1.3 International banks

In 2015, the number of international banks registered in Aruba declined to

Table 8.5: Balance sheet of the international banks

(End of period in Afl. million)

	2011	2012	2013	2014	2015[1]
1. Total assets	**219.1**	**254.8**	**290.2**	**327.0**	**150.9**
a. Cash and due from banks	19.0	78.2	36.8	200.2	90.1
b. Investments	51.9	27.8	27.5	11.9	9.7
c. Loans [2]	60.6	120.5	171.2	105.3	49.0
d. Other assets	87.6	28.3	54.7	9.6	2.1
2. Capital and liabilities	**219.1**	**254.8**	**290.2**	**327.0**	**150.9**
a. Deposits	57.9	59.8	75.3	199.4	85.8
- Demand	12.5	25.9	28.7	27.1	18.6
- Time	45.4	33.9	46.6	172.3	67.2
b. Other liabilities	27.3	35.6	121.1	25.5	1.1
c. Capital and reserves [3]	133.9	159.4	93.8	102.1	64.0
3. Risk-weighted capital asset ratio (percentage) [4]	**46.6**	**70.4**	**34.4**	**60.3**	**53.9**
Regulatory capital to risk-weighted assets					

Source: CBA; international banks.

1 Preliminary figures.

2 Corrected for allocated loan loss provisions.

3 Including unallocated loan loss provisions.

4 The calculation of the risk-weighted capital asset ratio cannot be derived from Table 8.5.

one, as the CBA granted BBA Bank N.V. a domestic banking license on August 27, 2015. BBA Bank N.V. intended to commence its domestic banking activities in 2016 but decided in April 2016 to cease operations. Since BBA did not commence its domestic banking activities, but continued to operate as an international bank, its figures remain included in the aggregated financial information of the international banks presented in Tables 8.5 and 8.6 below.

Assets

Table 8.5 shows that the aggregated balance sheet total of the international banks grew steadily during the period 2011-2014, rising from Afl. 219.1 million at the end of 2011 to Afl. 327.0 million at year-end 2014. This growth of Afl. 107.9 million (49.2 percent) was the result of expansions in both cash and due from banks and loans outstanding of, respectively, Afl. 181.2 million (953.7 percent) and Afl. 44.7 million (73.8 percent), partially offset by a decline in other assets of Afl. 78.0 million (89.0 percent) and in investments of Afl. 40.0 million (77.1 percent). The notable growth in cash and due from banks over the past four years, rising from Afl. 19.0 million at the end of 2011 to Afl. 200.2 million at the end of 2014, is associated primarily with increases in demand deposits held at foreign banks. The total loans outstanding were quite volatile during 2011-2014, ranging between Afl. 60.6 million and Afl. 171.2 million. For the most part, the decrease in other assets during the period 2011-2014 reflects drops in accounts receivable and prepayments related to adjustments in cross-currency swaps and foreign exchange transactions. The investment portfolio contracted from Afl. 51.9 million in 2011 to Afl. 11.9 million in 2014,

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

	2011	2012	2013	2014	2015[1]
1. Total income	**21.5**	**15.6**	**20.1**	**11.6**	**7.0**
a. Net interest margin	11.8	9.7	7.9	9.6	5.5
b. Operating income	9.7	5.9	12.2	2.0	1.5
2. Total expenses	**18.9**	**7.9**	**18.4**	**14.2**	**6.7**
a. General expenses	21.0	9.1	13.5	12.8	15.1
b. Additions to (release of) the loan provision	-2.1	-1.2	4.9	1.4	-8.4
3. Net income before extraordinary items and taxes	**2.6**	**7.7**	**1.7**	**-2.6**	**0.3**
4. Net income before taxes	**42.0**	**80.2**	**5.6**	**12.6**	**3.0**
5. Taxes	**-0.8**	**0.4**	**1.2**	**0.0**	**-0.1**
6. Net income	**42.8**	**79.8**	**4.4**	**12.6**	**3.1**

Source: CBA; international banks.

1 Preliminary figures.

reflecting declines in long-term government bond holdings and other marketable securities.

In 2015, the aggregate balance sheet total shrank significantly by Afl. 176.1 million (53.9 percent) compared to year-end 2014. This decline was due mainly to decreases in cash and due from banks (Afl. 110.1 million) and loans outstanding (Afl. 56.3 million).

Liabilities

During the period 2011-2014, total deposits expanded from Afl. 57.9 million at year-end 2011 to Afl. 199.4 million at year-end 2014, largely the result of an increase in time deposits. At the end of 2015, total deposits dropped by Afl. 113.6 million (57.0 percent) compared to end-2014, associated mainly with a decline in time deposits of Afl. 105.1 million (61.0 percent). The capital and reserves contracted by Afl. 69.9 million (52.2 percent) from 2011 to 2015, predominantly related to dividend payments.

Risk-weighted Capital Asset Ratio

The aggregated risk-weighted capital asset ratio of the international banks varied significantly over the period 2011-2015, peaking at 70.4 percent in 2012 and after a sharp decline in 2013 (34.4 percent), rebounding to 60.3 percent in 2014. The marked upsurges in 2012 and 2014 were due primarily to larger declines in the risk-weighted assets (denominator) compared to the increases in the regulatory capital (numerator). In 2015, the aggregated risk-weighted capital asset ratio contracted by 6.4 percentage points to 53.9 percent when compared to 2014, due largely to a decline in the aggregated regulatory capital resulting from dividend payments.

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

Income Statement

As illustrated in Table 8.6, the profitability of the international banking sector was quite volatile during the period 2011-2015. A net income (before taxes) of Afl. 3.0 million was reported in 2015, the lowest net income (before taxes) recorded over the past five years. The decrease in net income during 2013-2015 was related mostly to lower extraordinary income. In 2015, net income (before taxes) dropped by Afl. 9.6 million, due mainly to an Afl. 12.5 million drop in extraordinary income compared to 2014. In addition, interest income contracted by Afl. 4.5 million, while 2015 witnessed a release of loan loss provisions of Afl. 8.4 million, compared to an addition of Afl. 1.4 million in the loan loss provisions in 2014.

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 primarily in, respectively, mortgage lending to individuals and financing of social housing projects, long-term project financing, and the granting of personal loans for consumptive and home improvement purposes. Their activities are financed mostly by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors.

Assets

Table 8.7 provides an overview of the movement of the aggregated balance sheet total of the bank-like institutions over the past five years. The total assets of the bank-like institutions exhibited a decreasing trend during 2011-2015. Overall, the aggregated total assets contracted by Afl. 41.8 million (5.9 percent) in 2015 compared to 2011, reflecting declines in outstanding loans (Afl. 62.9 million) and investment portfolio (Afl. 33.2 million), partially offset by increases in cash and due from banks (Afl. 31.3 million) and other assets (Afl. 23.0 million). The decrease in total outstanding loans was the result of an Afl. 70.3 million contraction in commercial loans, which was offset slightly by increases in loans to individuals and to the government of, respectively, Afl. 4.7 million and Afl. 2.7 million. The decline in the combined investment portfolio was due to decreases in short-term government bonds holdings of Afl. 30.0 million and in nonmarketable securities of Afl. 3.2 million. Cash and due from banks rose from Afl. 39.1 million in 2011 to Afl. 70.4 million in 2015, due to increases in the demand and time deposits held at other banks of, respectively, Afl. 26.3 million and Afl. 5.0 million. The increase in

Table 8.7: Balance sheet of the bank-like institutions

(End of period in Afl. million)

	2011	2012	2013	2014	2015[1]
1. Total assets	**710.4**	**683.3**	**669.5**	**675.9**	**668.6**
a. Cash & due from banks	39.1	68.3	64.3	56.5	70.4
b. Investments	55.1	21.9	21.9	25.6	21.9
c. Loans	469.2	431.1	412.5	419.9	406.3
- Commercial [2]	151.0	112.5	100.5	99.3	80.7
- Individuals [3]	318.2	318.6	312.0	317.9	322.9
- Government	0.0	0.0	0.0	2.7	2.7
d. Other assets	147.0	162.0	170.8	173.9	170.0
2. Total capital and liabilities	**710.4**	**683.3**	**669.5**	**675.9**	**668.6**
a. Deposits	0.0	0.0	0.0	0.0	0.0
b. Borrowings	377.1	325.7	277.1	257.4	245.2
- Commercial	257.5	236.1	206.8	192.5	184.2
- Individuals	7.0	7.0	5.5	0.1	0.1
- Government	112.6	82.6	64.8	64.8	60.9
c. Other liabilities	32.5	35.3	42.3	49.8	34.7
d. Capital and reserves [4]	300.8	322.3	350.1	368.7	388.7

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.

other assets was associated mainly with rises in other real estate owned (Afl. 12.8 million), accounts receivables and prepayments (Afl. 6.4 million), and investments in other companies (Afl. 3.9 million).

Liabilities

On the liability side, the balance sheet item borrowings shrank, dropping from Afl. 377.1 million in 2011 to Afl. 245.2 million at the end of 2015. The decrease of Afl. 131.9 million (35.0 percent) in total borrowings over the five-year period was due mostly to reductions of Afl. 73.3 million (28.5 percent) in commercial borrowings and Afl. 51.7 million (45.9 percent) in government borrowings. Capital and reserves showed a consistent upward trend, rising from Afl. 300.8 million in 2011 to Afl. 388.7 million in 2015, associated mostly with additions from net income to the reserves.

Income Statement

Table 8.8 shows that total income fluctuated between Afl. 60.3 million and Afl. 77.5 million over the years 2011-2015. At the end of 2015, total income increased slightly by Afl. 2.1 million (3.2 percent) to Afl. 67.4 million compared to 2014. This growth was attributed to increases in net interest income of Afl. 1.1 million (2.5 percent) and other operating income of Afl. 1.0 million (4.8 percent). The 2012 growth in total expenses was caused mostly by an Afl. 15.0 million (267.9 percent) upsurge in loan loss provisions compared to 2011, while the drop in 2013 was mainly the result of releases of previously formed loan loss provisions. The total expenses remained practically unchanged at Afl. 43.6 million in 2015 compared to 2014.

Table 8.8: Income statement of the bank-like institutions

(In Afl. million)

	2011	2012	2013	2014	2015[1]
1. Total income	**60.3**	**77.5**	**64.5**	**65.3**	**67.4**
a. Net interest income	41.3	50.4	42.7	44.5	45.6
b. Operating income	19.0	27.1	21.8	20.8	21.8
2. Total expenses	**46.7**	**61.4**	**37.6**	**43.3**	**43.6**
a. Salaries & employee benefits	17.9	19.4	17.9	19.0	19.2
b. Additions to the loan loss provisions	5.6	20.6	-2.0	3.7	3.7
c. Other expenses	23.2	21.4	21.7	20.6	20.7
3. Net income before extraordinary items and taxes	**13.6**	**16.1**	**26.9**	**22.0**	**23.8**
4. Net income before taxes	**14.8**	**20.9**	**31.6**	**27.5**	**23.8**
5. Taxes	**0.5**	**2.3**	**3.7**	**3.6**	**3.5**
6. Net income	**14.3**	**18.6**	**27.9**	**23.9**	**20.3**

Source: CBA; bank-like institutions.

1 Preliminary figures.

Financial Soundness Indicators

The various financial soundness indicators depicted in Table 8.9 show that, on aggregate, the bank-like institutions' sector was sound and profitable during the period 2011-2015.

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

Capital Adequacy Ratio

The aggregated risk-weighted capital asset ratio of the bank-like institutions experienced an increasing trend, rising from 55.3 percent in 2011 to 68.2 percent in 2015, remaining far above the minimum requirement of 14 percent. This increase can be attributed mainly to a growth of Afl. 83.9 million 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 during the past five years. The remarkable drop of 6.2 percentage points in the nonperforming loans to gross loans ratio at year-end 2013 compared to year-end 2012 was related in particular to the restructuring of the loan portfolio at

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

(End of period in percentages)

	2011	2012	2013	2014	2015[1]
1. Capital adequacy					
a. Regulatory capital (Tier I + II) to risk-weighted assets (minimum 14 percent)	55.3	60.2	60.5	62.6	68.2
b. Regulatory Tier I capital to risk-weighted assets	49.0	53.2	52.4	55.3	61.5
2. Asset quality					
a. Nonperforming loans to gross loans	15.8	14.9	8.7	8.5	7.9
b. Nonperforming loans (net of ALLP) to gross loans [2]	11.3	9.9	6.6	6.9	6.2
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	18.8	14.5	8.3	8.3	6.8
3. Earnings and profitability					
a. Return on assets (before taxes)	2.2	3.1	4.8	4.2	3.7
b. Return on equity (before taxes)	5.4	7.1	9.9	8.0	6.6
c. Return on assets (after taxes)	2.1	2.7	4.2	3.6	3.1
d. Return on equity (after taxes)	5.2	6.3	8.8	7.0	5.6
e. Interest margin to gross income	67.1	61.3	61.7	62.8	67.7
f. Non-interest expenses to gross income	76.7	77.5	59.7	66.3	69.8

Source: CBA; bank-like institutions.

1 Preliminary figures.

2 ALLP: allocated loan loss provision.

one of the bank-like institutions. During the period 2013-2015, this ratio fluctuated between 7.9 percent and 8.7 percent. The development in the nonperforming loans ratio of the bank-like institutions is depicted in Charts 3 and 4.

Chart 3: Nonperforming loans (gross) to total gross loans of the bank-like institutions (in percentages)

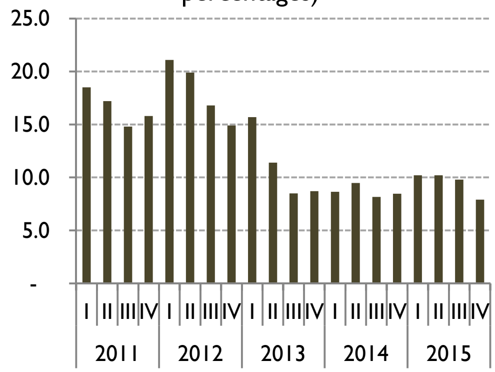


Chart 3: The nonperforming loans (gross) to gross loans ratio dropped from 15.8 percent at end-2011 to 7.9 percent at the end of 2015 as a result of a significant decline in nonperforming loans.

Profitability Indicators

Return on Assets

During the period 2011-2015, the return on assets (before taxes) fluctuated between 2.2 percent and 4.8 percent. The rise of 1.7 percentage points in 2013 compared to end 2012, was related mainly to the additions of loan loss provisions in 2012, which turned into releases from loan loss provisions in 2013.

Return on Equity

As outlined in Table 8.9, the bank-like institutions reported low return on equity ratios, substantially lower than the ratios of the commercial banking sector. However, maximization of shareholders' value, generally speaking, is not the prime objective of all the institutions operating in this market segment. Also, some institutions in this segment maintain very high equity levels, thereby depressing the return on equity ratio. After peaking in 2013 at 9.9 percent, the return on equity (before taxes) moved downward and fell to 6.6 percent in 2015.

Chart 4: Nonperforming loan ratios by category of the bank-like institutions (in percentage per each category)

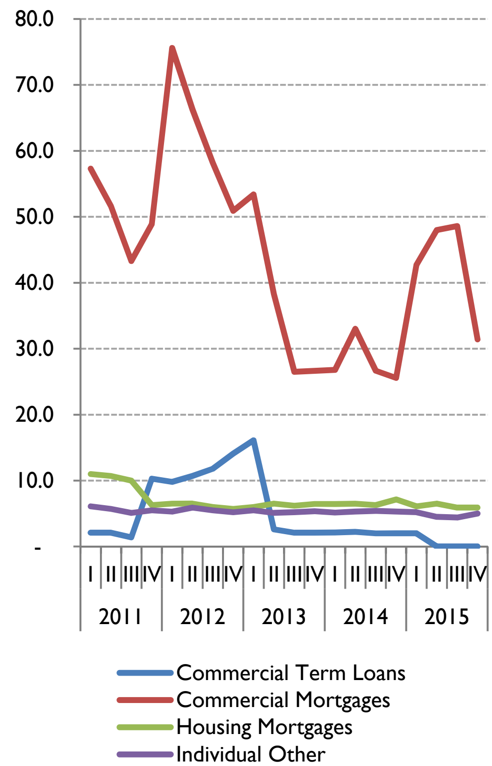


Chart 4: The movement in the nonperforming loans (gross) to gross loans ratio of the bank-like institutions is reflected mainly in the nonperforming loan commercial mortgages category.

Net interest income to Gross Income

The net interest income to gross income ratio dropped by 5.8 percentage points to 61.3 percent in 2012 compared to 2011, due to a larger increase in gross income (Afl. 20.7 million) compared to the rise in net interest income (Afl. 9.1 million). On the other hand, in 2015, the net interest income to gross income ratio rose by 4.9 percentage points to 67.7 percent compared to 2014, due to an Afl. 3.4 million (4.8 percent) decline in gross income, while net interest income rose by Afl. 1.1 million (2.5 percent).

Non-interest expenses to Gross Income

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

8.2 Money transfer companies

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

Chart 5: Money transfer outflows by destination

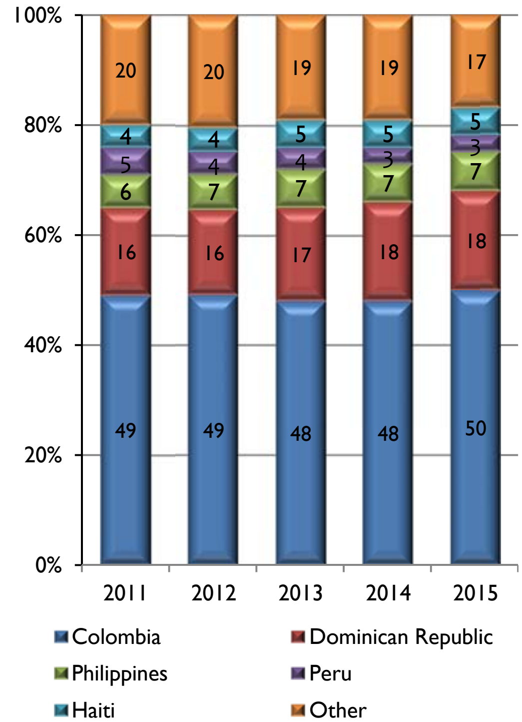


Chart 5: Illustrates the percentage of money outflows from 2011-2015 by destination.

The total amount of outgoing money transfers executed through the money transfer sector grew continuously during the last five years.

Table 8.10: Outgoing money transfers by countries of destination

(End of period in Afl. thousand)

	2011	2012	2013	2014	2015[1]
1. Total	**106,827**	**107,887**	**109,000**	**109,823**	**114,764**
2. Colombia	52,157	52,937	52,290	52,201	57,351
3. Dominican Republic	17,058	16,755	18,497	19,994	20,781
4. Philippines	6,671	6,973	7,636	7,963	8,165
5. Peru	4,813	4,509	4,088	3,659	3,500
6. Haiti	4,603	4,660	5,222	5,506	5,693
7. Other	21,525	22,053	21,267	20,500	19,274

Source: CBA; money transfer companies.

1 Preliminary figures.

Table 8.10 shows that the amount of outgoing transfers executed by the money transfer companies grew continuously during the last five years, rising from Afl. 106.8 million in 2011 to Afl. 114.8 million in 2015. The main reason for these transfers to abroad is to provide financial support to relatives in the countries of origin of the foreign workers residing in Aruba. A substantial part of Aruba's labor force consists of foreign workers, predominantly from Latin America. Over the period 2011-2015, the number of outgoing transfers exhibited an increasing trend, with the exception of the year 2014. In 2015, the number of outgoing transfers rose by roughly 14,100 to approximately 280,300 compared to 2014. Colombia remained the main destination of the outgoing money transfers, its share rebounded to 50.0 percent in 2015 after a slight decline during 2013-2014 (Chart 5).

As shown in Table 8.11, the amount of the incoming money transfers decreased during 2011-2015, declining from Afl. 20.6 million in 2011 to Afl. 13.8 million in 2015. The corresponding number of transfers also decreased from approximately 23,400 in 2011 to around 19,800 in 2015. The incoming transfers originated mainly from the Netherlands and the United States (Chart 6).

Chart 6: Money transfer inflows by origin

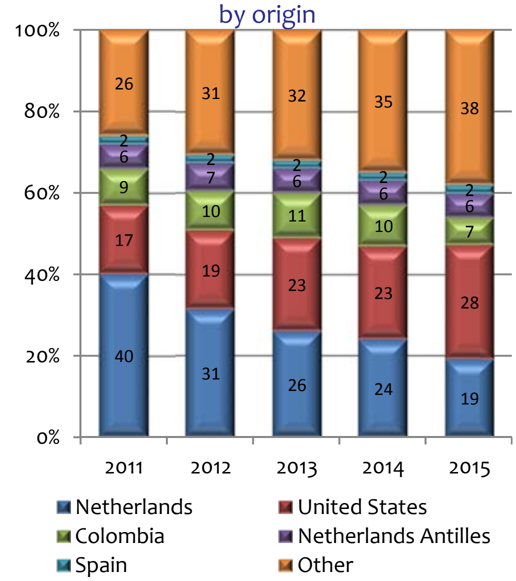


Chart 6: *Illustrates the percentage of incoming money transfers by country of origin during 2011-2015.*

Table 8.11: Incoming money transfers by countries of origin

(End of period in Afl. thousand)

	2011	2012	2013	2014	2015[1]
1. Total	**20,583**	**18,472**	**17,092**	**15,858**	**13,780**
2. Netherlands	8,169	5,806	4,402	3,833	2,643
3. United States	3,586	3,573	3,966	3,614	3,877
4. Colombia	1,821	1,800	1,872	1,606	910
5. Netherlands Antilles [2]	1,225	1,270	992	908	807
6. Spain	510	379	315	349	306
7. Other	5,272	5,644	5,545	5,548	5,237

Source: CBA; money transfer companies.

1 Preliminary figures.

2 The Netherlands Antilles ceased to exist in October 2010. From 2011 on, this item comprises Curaçao, Sint Maarten, and the BES islands.

8.3 Trust service providers

8.3.1 Licensed trust service providers

At the beginning of 2015, 12 trust service providers were included in the CBA's register of licensed trust service providers. During 2015, one new license was issued, making the total number of licensed trust service providers 13 at the end of 2015.

8.3.2 Trust services provided

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

8.3.3 Client portfolio

During the period June 2014 through June 2015, the trust sector experienced a slight decrease in the number of clients serviced from 750 in 2014 to 661 in 2015.

8.3.4 Lines of business serviced

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

8.3.5 Ultimate beneficial owners ("UBOs")

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

8.4 Insurance companies

8.4.1 Supervised institutions within the insurance sector

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

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

8.4.2 Licensed insurance brokers

At the end of 2015, 10 insurance brokers received a license to operate as an insurance broker on Aruba: 7 of the 10

Table 8.12: Number of supervised institutions within the insurance sector

(End of period)

	2011	2012	2013	2014	2015
1. Total	**22**	**23**	**24**	**23**	**22**
2. Nonlife insurance companies	12	12	13	12	12
3. Life insurance companies	6	7	7	7	6
4. Captive insurance companies	4	4	4	4	4

Source: CBA.

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

	2010	2011	2012	2013	2014
1. Total assets	**247.7**	**271.2**	**291.4**	**309.3**	**337.5**
a. Investments	158.6	179.0	188.9	179.4	190.3
b. Fixed assets	3.5	3.8	3.6	3.2	3.1
c. Due from affiliated companies	30.0	30.4	29.8	44.6	54.7
d. Current assets	55.6	57.5	68.7	81.8	89.1
e. Intangible assets	0.0	0.5	0.4	0.3	0.3
2. Total capital and liabilities	**247.7**	**271.2**	**291.4**	**309.3**	**337.5**
a. Technical provisions	59.4	56.3	61.8	58.5	59.5
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	113.1	120.1	129.7	148.4	170.1
d. Current liabilities	12.1	16.6	20.2	20.6	19.3
e. Capital and reserves	63.1	78.2	79.7	81.8	88.6

Source: CBA; nonlife insurance companies.

provide life and general insurance brokerage services, while 3 render only general insurance brokerage services.

8.4.3 The nonlife insurance sector

Assets

As shown in Table 8.13, the aggregated balance sheet total of the nonlife insurance companies expanded over the period 2010-2014, resulting in total assets of Afl. 337.5 million at the end of 2014. The total assets of this sector are equivalent to 7.1 percent of the estimated nominal GDP of 2014. From end-2010 to end-2014, total assets grew by Afl. 89.8 million (36.3 percent). This growth can be attributed primarily to increases in current assets, the investment portfolio, and claims on affiliated companies of, respectively, Afl. 33.5 million (60.3 percent), Afl. 31.7 million (20.0 percent), and Afl. 24.7 million (82.3 percent). In 2014, the total assets of the nonlife insurers rose by Afl. 28.2 million (9.1 percent) compared to 2013, due largely to rises in investments and claims on affiliated companies of, respectively, Afl. 10.9 million (6.1 percent) and Afl. 10.1 million (22.6 percent).

The total combined assets of the nonlife insurance sector kept growing to Afl. 337.5 million at year-end 2014 and is 7.1 percent of the estimated nominal GDP of 2014.

Liabilities

On the liability side, amounts due to affiliated companies and current liabilities grew by, respectively, Afl. 57.0 million (50.4 percent) and Afl. 7.2 million (59.5 percent) over the period 2010-2014. After peaking at Afl. 61.8 million in 2012, technical provision declined by Afl. 3.3 million in 2013, and then rebounded slightly by Afl. 1.0 million to Afl. 59.5 million at end-2014. Capital and reserves rose from Afl. 81.8 million end-2013 to Afl.

Table 8.14: Investments of the nonlife insurance companies

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total	**158.6**	**179.0**	**188.9**	**179.4**	**190.3**
2. Shares	0.4	0.4	0.4	0.5	0.5
3. Bonds	72.1	99.7	101.3	101.5	102.5
4. Time deposits	78.0	70.4	80.2	71.7	83.5
5. Loans	8.1	8.5	7.0	5.7	3.8
6. Other investments	0.0	0.0	0.0	0.0	0.0

Source: CBA; nonlife insurance companies.

88.6 million in 2014, due to additions from net income to general reserves.

Investments

Table 8.14 shows that the combined investment portfolio strengthened during 2010-2014, with the exception of the year 2013. This overall increase was due largely to rises in bond holdings and time deposits. In 2014, the combined investment portfolio rose by Afl. 10.9 million (6.1 percent) to Afl. 190.3 million compared to 2013, associated mainly with a rise in time deposits of Afl. 11.8 million (16.5 percent). At the end of 2014, local investments amounted to Afl. 187.1 million

Table 8.15: Income statement of the nonlife insurance companies

(In Afl. million)

	2010	2011	2012	2013	2014
1. Total income	**77.2**	**75.6**	**81.2**	**81.3**	**85.6**
a. Net premiums	70.6	69.8	74.6	74.4	77.5
b. Investment income	7.8	7.5	8.1	8.1	8.7
c. Other income	-1.2	-1.7	-1.5	-1.2	-0.6
2. Total expenses	**63.8**	**58.9**	**75.3**	**66.5**	**66.4**
a. Net claims (including changes in technical provisions)	25.2	22.6	36.1	26.3	22.5
b. Commissions	15.3	15.1	15.5	16.2	16.3
c. Management expenses	23.3	21.2	24.4	24.1	27.4
d. Extraordinary items	0.0	0.0	-0.6	0.0	0.0
e. Policyholders' dividends	0.0	0.0	0.0	0.0	0.0
f. Other expenses	0.0	0.0	-0.1	-0.1	0.2
3. Net income before taxes	**13.4**	**16.7**	**5.9**	**14.8**	**19.2**
4. Taxes	**1.6**	**3.0**	**3.0**	**3.3**	**3.6**
5. Net income	**11.8**	**13.7**	**2.9**	**11.5**	**15.6**

Source: CBA; nonlife insurance companies.

(98.3 percent) of the combined investment portfolio of the nonlife insurance sector (end-2013: Afl. 176.7 million or 98.5 percent).

Income Statement

As displayed in Table 8.15, the aggregated net income (before taxes) was quite volatile over the past five years, reporting a record profit of Afl. 19.2 million in 2014. The fluctuation in net claims during 2011-2014 was mainly responsible for the swing in net income (before taxes) during the mentioned period. In 2014, the nonlife insurance sector reported a profit (before taxes) of Afl. 19.2 million, an Afl. 4.4 million (29.7 percent) increase compared to 2013. This rise was attributed mainly to an Afl. 3.1 million growth (4.2 percent) in net premiums. Total expenses remained practically unchanged in 2014 compared to 2013.

Net Earned Premium by Indemnity Line

As displayed in Chart 7, the net premiums received in the area of motor vehicle insurance (52 percent) and property insurance (28 percent) remained the main source of income of the nonlife insurance companies in 2014.

Prudential Indicators

Liquidity Ratio

As shown in Table 8.16, the liquidity ratio of the nonlife insurance companies decreased during the period 2010-2011, but moved upward during 2012-2013 and equaled 26.4 percent at the end of 2014.

Chart 7: Net earned premium by indemnity line (in percentages)

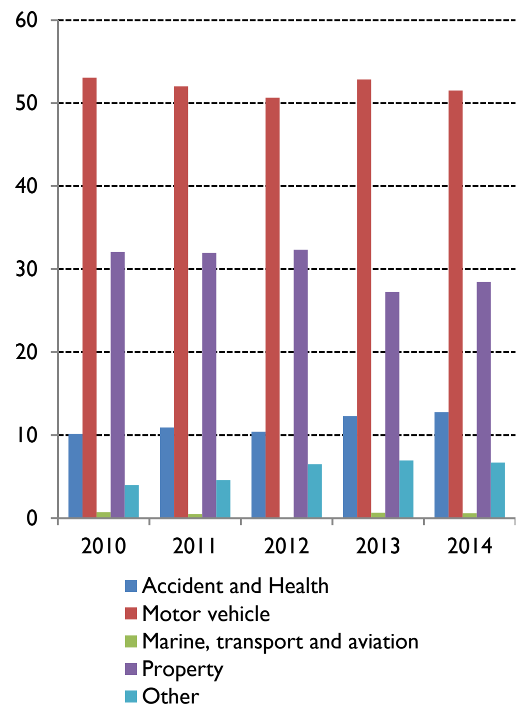


Table 8.16: Financial ratios of the nonlife insurance companies

(End of period in percentages)

	2010	2011	2012	2013	2014
1. Liquidity ratio	**22.4**	**21.2**	**23.6**	**26.5**	**26.4**
Current assets to total assets					
2. Return on investments ratio	**5.3**	**4.4**	**4.4**	**4.4**	**4.7**
Investment income to average invested assets					
3. Coverage ratio [1]	**369.7**	**397.2**	**404.2**	**433.3**	**491.6**
Weighted assets less borrowings to technical provisions					

Source: CBA; nonlife insurance companies.

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

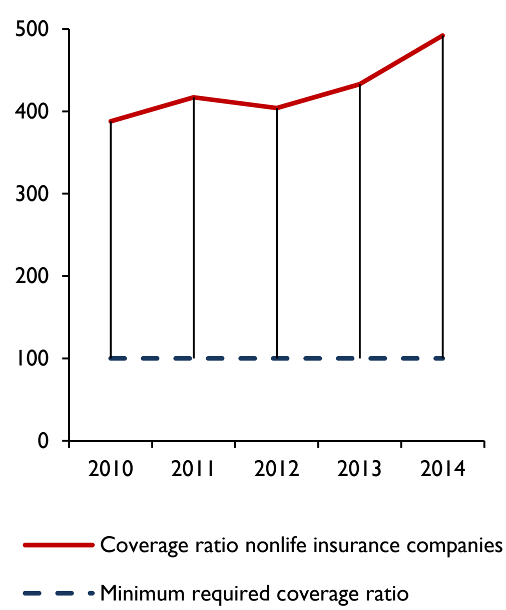
Return on Investment Ratio

The return on investment ratio stayed unchanged at 4.4 percent during 2011-2013 and equaled 4.7 percent in 2014.

Coverage Ratio

The coverage ratio of the nonlife insurance sector showed a steady upward trend over the last five years, rising from 369.7 percent in 2010 to a record of 491.6 percent in 2014 (Chart 8). At the end of 2014, the combined coverage ratio of the nonlife insurance companies surged by 58.3 percentage points, mainly the result of an Afl. 40.2 million (15.8 percent) expansion in the weighted assets, reflecting increases in claims on affiliated companies, investments, and current assets. All in all, during the years 2010-2014, the combined coverage ratio of the nonlife insurance companies remained far above the minimum requirement of 100 percent.

Chart 8: Combined coverage ratio of the nonlife insurance companies



The coverage ratio of the nonlife insurance sector continued to climb steadily almost reaching 500 percent in 2014.

8.4.4 The life insurance sector

Assets

As illustrated in Table 8.17, following a consistent rising trend during the period 2010-2014, the aggregated balance sheet total of the life insurance companies in 2014 amounted to Afl. 1,115.9 million (equivalent to 23.5 percent of the estimated nominal GDP of 2014). The expansion in total assets of Afl. 326.1 million (41.3 percent) over the past five years was mainly the result of upsurges in investments and due from affiliated companies of, respectively, Afl. 224.2 million (36.2 percent) and Afl. 87.2 million (174.7 percent).

Liabilities

On the liability side, technical provisions, capital and reserves, and amounts due to affiliated companies rose by, respectively, Afl. 248.0 million (42.3 percent), Afl. 66.6 million (53.4 percent), and Afl. 21.2 million (55.6 percent) over the period 2010-2014. The growth in capital and reserves in 2010-2014 was related mainly to additions from net income to the general reserves, offset in part by dividend distributions.

Investments

The aggregated investments of the life insurance companies grew continuously over the period 2010-2014 as shown in Table 8.18. The combined investment portfolio increased in the years under review by Afl. 224.2 million (36.2 percent), due mostly to expansions in

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

	2010	2011	2012	2013	2014
1. Total assets	**789.8**	**842.5**	**978.1**	**1,024.1**	**1,115.9**
a. Investments	619.3	661.3	696.1	696.9	843.5
b. Fixed assets	4.6	4.9	4.2	9.4	9.1
c. Due from affiliated companies	49.9	54.3	106.1	109.0	137.1
d. Current assets	116.0	122.0	171.7	208.8	126.2
2. Total capital and liabilities	**789.8**	**842.5**	**978.1**	**1,024.1**	**1,115.9**
a. Technical provisions	586.6	632.6	713.3	764.0	834.6
b. Long-term liabilities	1.0	1.0	1.0	0.9	1.0
c. Due to affiliated companies	38.1	36.3	79.9	49.3	59.3
d. Current liabilities	39.3	38.1	32.1	30.5	29.6
e. Capital and reserves	124.8	134.5	151.8	179.4	191.4

Source: CBA; life insurance companies.

bond holdings, time deposits, shares, and mortgage loans of, respectively, Afl. 150.9 million (46.1 percent), Afl. 26.9 million (23.4 percent), Afl. 19.0 million (84.1 percent), and Afl. 17.3 million (16.8 percent).

In 2014, the increases in time deposits (Afl. 89.4 million) and bond holdings (Afl. 38.7 million) were mainly responsible for the overall Afl. 146.6 million surge in the combined investments compared to 2013.

At the end of 2014, local investments amounted to Afl. 699.7 million (83.0 percent) of the life insurance sector's combined investment portfolio (end 2013: Afl. 577.8 million or 82.9 percent).

Income Statement

During the period 2010 to 2014, the aggregated net premiums rose by Afl. 20.8 million (22.8 percent). The aggregated net income (before taxes) of the life insurance companies varied between Afl. 12.8

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

	2010	2011	2012	2013	2014
1. Total	**619.3**	**661.3**	**696.1**	**696.9**	**843.5**
2. Shares	22.6	22.9	23.9	26.5	41.6
3. Bonds	327.1	371.0	394.5	439.3	478.0
4. Real estate	0.1	0.2	0.2	0.2	3.3
5. Time deposits	115.1	99.0	100.7	52.6	142.0
6. Mortgage loans	102.8	110.3	114.3	117.4	120.1
7. Other loans	51.6	57.9	62.5	60.9	58.5

Source: CBA; life insurance companies.

Table 8.19: Income statement of the life insurance companies

(In Afl. million)

	2010	2011	2012	2013	2014
1. Total income	**133.4**	**128.8**	**161.0**	**155.3**	**168.0**
a. Net premiums	91.1	83.1	114.7	110.7	111.9
b. Investment income	39.7	43.3	44.2	40.5	51.5
c. Other income	2.6	2.4	2.1	4.1	4.6
2. Total expenses	**120.6**	**105.8**	**139.3**	**125.0**	**145.4**
a. Net claims	38.8	37.2	34.1	48.5	44.9
b. Change in technical provisions	52.6	44.8	80.3	47.6	70.2
c. Commissions	4.0	3.7	4.5	4.7	5.0
d. Management expenses	17.9	15.6	17.1	21.9	23.7
e. Extraordinary items	-0.3	0.2	0.0	0.0	0.0
f. Policyholders' dividends	1.4	2.1	1.6	1.3	1.1
g. Other expenses	6.2	2.2	1.7	1.0	0.5
3. Net income before taxes	**12.8**	**23.0**	**21.7**	**30.3**	**22.6**
4. Taxes	**2.0**	**0.6**	**1.9**	**0.2**	**4.3**
5. Net income	**10.8**	**22.4**	**19.8**	**30.1**	**18.3**

Source: CBA; life insurance companies.

million and Afl. 30.3 million in the period 2010-2014, mostly because of fluctuations in the net premiums earned and changes in technical provisions. The total expenses of the life insurance companies peaked at Afl. 145.4 million in 2014. At the end of 2014, net income (before taxes) declined by Afl. 7.7 million when compared to 2013, associated predominantly with higher additions to the technical provisions of Afl. 22.6 million (47.5 percent), offset in part by an expansion in investment income of Afl. 11.0 million (27.2 percent).

Prudential Indicators

Liquidity Ratio

Table 8.20 shows that the life insurance companies reported an increasing aggregate liquidity ratio during 2011-2013. After peaking at 20.4 percent in 2013, the aggregate liquidity ratio plunged to 11.3 percent in 2014, following an Afl. 82.6 million (39.6 percent) decline in current assets. This decline was mainly reflected in cash on hand and at banks.

Return on Investments Ratio

The return on investments ratio fluctuated marginally, ranging between 5.8 percent and 6.8 percent over the last five years. In 2014, the return on investment ratio rose slightly by 0.9 percentage point to 6.7 percent, due to a stronger increase of 27.2 percent in investment income, compared to the rise in average invested assets of 9.5 percent.

Table 8.20: Financial ratios of the life insurance companies

(End of period in percentages)

	2010	2011	2012	2013	2014
1. Liquidity ratio	**14.7**	**14.5**	**17.6**	**20.4**	**11.3**
Current assets to total assets					
2. Return on investments ratio	**6.6**	**6.8**	**6.5**	**5.8**	**6.7**
Investment income to average invested assets					
3. Coverage ratio [1]	**129.8**	**123.9**	**120.7**	**123.4**	**122.7**
Weighted assets less borrowings to technical provisions					

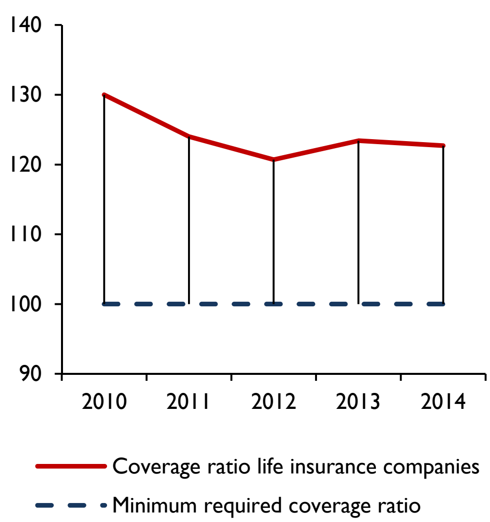
Source: CBA; life insurance companies.

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

Coverage Ratio

The coverage ratio contracted from 129.8 percent in 2010 to 120.7 percent in 2012 and rose by 2.7 percentage points to 123.4 percent in 2013. In 2014, the coverage ratio declined slightly by 0.7 percentage point to 122.7 percent. The combined coverage ratio of the life insurers remained above the minimum requirement of 100 percent during the years 2010-2014 as shown in Chart 9.

Chart 9: Combined coverage ratio of the life insurance companies



Coverage ratio of the life insurance sector declined slightly in 2014.

8.4.5 The captive insurance sector

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

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

Fides Rae started its activities as an associative nonlife captive. As of January 1, 2008, Fides Rae changed from an associative captive into a rent-a-captive providing disability income coverage (group sickness benefit insurance) to the clients of the Interfisc Group in The Netherlands. MCB Risk has a license to operate as a pure captive life insurance company in Aruba. MCB Risk underwrites the life risk of consumer loans as well as

Table 8.21: Balance sheet of the captive insurance companies

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total assets	**59.3**	**65.4**	**74.3**	**89.4**	**101.3**
a. Investments	28.9	31.0	32.1	34.3	36.5
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Due from affiliated companies	14.5	16.8	16.3	20.2	23.4
d. Current assets	15.9	17.6	25.9	34.9	41.4
2. Total capital and liabilities	**59.3**	**65.4**	**74.3**	**89.4**	**101.3**
a. Technical provisions	6.2	6.8	7.6	7.8	7.1
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	0.4	0.2	0.3	4.3	0.2
d. Current liabilities	9.3	9.5	10.3	9.6	10.6
e. Capital and reserves	43.4	48.9	56.1	67.7	83.4

Source: CBA; captive insurance companies.

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

As shown in Table 8.21, the aggregated balance sheet total of the captive insurance companies continued to expand during the 5-year period under review, representing an increase of Afl. 42.0 million (70.8 percent). Total assets grew by Afl. 11.9 million (13.3 percent) from 2013 to the end of 2014, associated with rises in current assets, due from affiliated companies, and investments of, respectively, Afl. 6.5 million (18.6 percent), Afl. 3.2 million (15.8 percent), and Afl. 2.2 million (6.4 percent).

Liabilities

On the liability side, capital and reserves and current liabilities rose by, respectively, Afl. 40.0 million (92.2 percent) and Afl. 1.3 million (14.0 percent) in 2014 compared to 2010. The growth in capital and reserves was related

Table 8.22: Investments of the captive insurance companies

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total	**28.9**	**31.0**	**32.1**	**34.3**	**36.5**
2. Shares	0.0	0.0	0.0	0.0	0.0
3. Bonds	0.7	2.7	2.7	2.7	4.8
4. Time deposits	28.2	28.3	29.4	31.6	31.7

Source: CBA; captive insurance companies.

mainly to additions from net income to the reserves.

Investments

As shown in Table 8.22, the increase of Afl. 7.6 million in the combined investment portfolio from 2010 to 2014 was due to expansions in bond holdings and time deposits of, respectively, Afl. 4.1 million and Afl. 3.5 million. In 2014, the combined investment portfolio of the captive insurance companies increased by Afl. 2.2 million, due mainly to a rise in bond holdings compared to 2013. At the end of 2014, local investments amounted to Afl. 22.5 million (61.6 percent) of the captive insurance sector's investment portfolio (end 2013: Afl. 20.5 million or 59.8 percent).

Income Statement

As shown in Table 8.23, on an aggregate level, the captive insurance companies operated with positive results from 2010 to 2014. A total net income (before taxes) of Afl. 16.8 million was reported for 2014, an Afl. 1.9 million decline compared to 2013. This decrease was due largely to an Afl. 1.4 million contraction in net premiums.

Prudential Indicators

Liquidity Ratio

The liquidity ratio of the captive insurance companies shown in Table 8.24 illustrates a consistent improvement during the period 2010-2014, rising from 26.8 percent in 2010 to 40.9 percent in 2014, mainly due to a significant growth in cash

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

	2010	2011	2012	2013	2014
1. Total income	**24.5**	**24.4**	**26.0**	**27.6**	**25.4**
a. Net premiums	23.1	22.9	24.3	25.5	24.1
b. Investment income	1.4	1.5	1.7	1.7	1.3
c. Other income	0.0	0.0	0.0	0.4	0.0
2. Total expenses	**8.5**	**9.3**	**8.7**	**8.9**	**8.6**
a. Net claims	4.2	5.2	3.7	4.1	5.9
b. Change in technical provisions	0.5	0.4	1.0	0.1	-1.7
c. Commissions	1.9	1.8	1.4	1.9	2.1
d. Management expenses	1.9	1.9	2.6	2.8	2.3
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	**16.0**	**15.1**	**17.3**	**18.7**	**16.8**
4. Taxes	**2.5**	**1.8**	**2.3**	**2.0**	**1.5**
5. Net income	**13.5**	**13.3**	**15.0**	**16.7**	**15.3**

Source: CBA; captive insurance companies.

Table 8.24: Financial ratios of the captive insurance companies

(End of period in percentages)

	2010	2011	2012	2013	2014
1. Liquidity ratio	**26.8**	**26.9**	**34.9**	**39.0**	**40.9**
Current assets to total assets					
2. Return on investments ratio	**4.9**	**5.0**	**5.4**	**5.1**	**3.7**
Investment income to average invested assets					
3. Coverage ratio [1]	**936.5**	**930.8**	**950.7**	**1,098.5**	**1,391.6**
Weighted assets less borrowings to technical provisions					

Source: CBA; captive insurance companies .

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

on hand and at banks.

Return on Investments Ratio

After fluctuating around 5.0 percent during 2010-2013, the return on investments ratio dropped to 3.7 percent in 2014, due mainly to a decline in investment income.

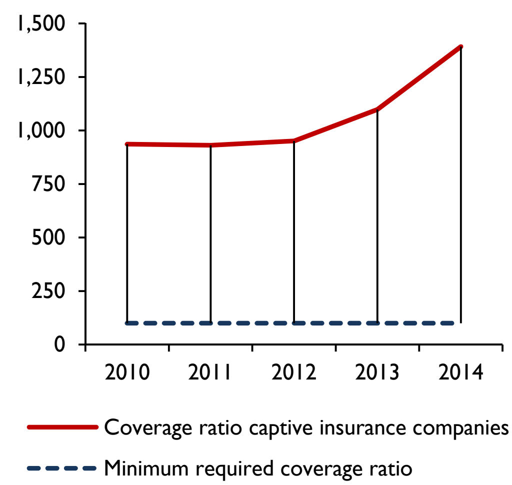
Coverage Ratio

The coverage ratio of the captive insurance companies increased from 936.5 percent in 2010 to 1,391.6 percent in 2014, remaining far above the minimum requirement of 100 percent (Chart 10).

In 2014, the coverage ratio surged by 293.1 percentage points compared to 2013. This marked increase was caused by an Afl. 13.7 million (16.1 percent) rise in weighted assets and an Afl. 0.7 million (9.0 percent) decrease in technical provisions. The rise in weighted assets was mostly associated with a growth in current assets.

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

Chart 10: Combined coverage ratio of the captive insurance companies



8.5 The company pension funds[2]

At the end of 2015, the coverage ratios of two company pension funds and APFA were still below the minimum requirement of 100 percent. These three pension funds submitted recovery plans to the CBA to restore the coverage ratio up to the 100 percent required minimum.

[2] Please note that the developments in this section does not include the Civil Servants Pension Fund (APFA).

Table 8.25: Balance sheet of the company pension funds

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total assets	**263.4**	**273.8**	**301.9**	**332.0**	**356.8**
a. Investments	230.6	257.6	256.0	297.7	326.7
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Current assets	32.8	16.2	45.9	34.3	30.1
2. Total capital and liabilities	**263.4**	**273.8**	**301.9**	**332.0**	**356.8**
a. Technical provisions	224.2	247.4	269.4	296.9	321.4
b. Long-term liabilities	0.1	0.1	0.2	0.2	0.2
c. Current liabilities	1.6	2.0	1.6	2.2	1.5
d. Capital and reserves	37.5	24.3	30.7	32.7	33.7

Source: CBA; company pension funds.

The CBA strictly monitors the execution of the recovery plans.

Assets

Table 8.25 indicates that in the period 2010-2014, the total assets of the company pension funds (excluding the Lago Annuity Foundation whose pension obligations are covered by a guarantee from the Exxon Mobil Corporation) showed a steady increasing trend. The balance sheet total of the company pension funds rose from Afl. 263.4 million in 2010 to Afl. 356.8 million at the end of 2014, reflecting a strong growth in the combined investments portfolio of Afl. 96.1 million (41.7 percent). At the end of 2014, total investments were Afl. 29.0 million (9.7 percent) higher than in 2013, offset in part by a decrease of Afl. 4.2 million (12.2 percent) in current assets.

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

Liabilities

On the liability side, technical provisions grew steadily and rose by Afl. 97.2 million (43.4 percent) over the period 2010-

Table 8.26: Investments of the company pension funds

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total	**230.6**	**257.6**	**256.0**	**297.7**	**326.7**
2. Shares	65.3	61.4	73.0	92.5	94.8
3. Bonds	97.7	116.3	99.9	115.5	131.7
4. Real estate	13.3	13.2	13.1	13.8	15.0
5. Time deposits	15.7	8.0	10.9	6.7	7.8
6. Mortgage loans	18.4	21.9	23.0	23.5	23.9
7. Other investments	20.2	36.8	36.1	45.7	53.5

Source: CBA; company pension funds.

Table 8.27: Income statement of the company pension funds

(In Afl. million)

	2010	2011	2012	2013	2014
1. Total income	**34.0**	**21.4**	**40.3**	**43.8**	**38.6**
a. Premium income	14.6	15.9	18.5	20.5	22.5
b. Investment income	19.4	5.5	21.8	23.3	16.1
c. Other income	0.0	0.0	0.0	0.0	0.0
2. Total expenses	**26.3**	**34.5**	**33.9**	**41.6**	**37.6**
a. Change in technical provisions	15.3	23.1	22.1	27.5	24.7
b. Pension benefits paid	7.8	8.5	9.3	10.5	8.8
c. Reinsurance net	0.3	0.3	0.2	0.4	0.4
d. Management expenses	2.0	2.4	2.7	3.0	3.3
e. Other expenses	0.9	0.2	-0.4	0.2	0.4
3. Net result	**7.7**	**-13.1**	**6.4**	**2.2**	**1.0**

Source: CBA; company pension funds.

2014. Capital and reserves grew during the last five years except for the year 2011 due to a negative net result. Neither long-term nor short-term liabilities experienced a lot of movement over the last five years. Compared to 2013, technical provisions increased by Afl. 24.5 million (8.3 percent) to Afl. 321.4 million, and capital and reserves expanded slightly by Afl. 1.0 million to Afl. 33.7 million by end-2014. The latter expansion is associated with additions from net income to the reserves.

Investments

As shown in Table 8.26, the growth of Afl. 96.1 million (41.7 percent) in investments during the period 2010-2014 was attributed mainly to increases in bond holdings, other investments, and shares of, respectively, Afl. 34.0 million (34.8 percent), Afl. 33.3 million (164.9 percent), and Afl. 29.5 million (45.2 percent). The increase was offset partly by a decrease of Afl. 7.9 million (50.3 percent) in time deposits. After a slight drop in 2012, the investment portfolio continued its rising trend, by Afl. 70.7 million (27.6 percent), to Afl. 326.7 million at the end of 2014. This rise occurred primarily because of upsurges in bond holding and shares of, respectively, Afl. 31.8 million (31.8 percent) and Afl. 21.8 million (29.9 percent). At the end of 2014, local investments amounted to Afl. 201.2 million (61.6 percent) of the pension sector's investment portfolio (end-2013: Afl. 178.0 million or 59.8 percent).

Income Statement

Table 8.27 shows that the two principal income sources of the company pension funds are premium income and investment income. The aggregated net result of the company pension funds was rather volatile over the past five years, reporting a significant loss of Afl. 13.1 million in 2011. The notable loss incurred in 2011 was due largely to a drop in investment income, originating mainly in the persisting low interest rate environment in the United States, in particular. In 2012, the company pension funds reported a total income of Afl. 40.3 million, due largely to an increase of Afl. 16.3 million (296.4 percent) in investment income compared to 2011. In 2014, net result declined slightly by Afl. 1.2 million, due to a reduction of Afl. 5.2 million in total income, which was partially mitigated by a decrease in total expenses of Afl. 4.0 million.

Prudential Indicators

Liquidity Ratio

The liquidity ratio of the company pension funds shown in Table 8.28 was quite volatile over the years 2010-2014. The fall in the liquidity ratio of 1.9 percentage points in 2014 compared to 2013 was mainly the result of an Afl. 4.2 million decrease in current assets.

Return on Investments Ratio

After the notable plunge in 2011, the return on investments increased by 6.2 percentage points in 2012 due to the rise of Afl. 16.3 million (296.4 percent) in the investment income. The return on investments declined slightly by 0.1 percentage point to 8.4 percent in 2013, and dropped again in 2014 to 5.2 percent. The drop in 2014 is attributed to the decline in investment income of Afl. 7.2 million (30.9 percent).

Coverage Ratio

Chart 11 shows the development of the combined coverage ratio of the company pension funds over the period 2010-2014. After the significant drop in 2011, due mainly to the changes in technical provisions of Afl. 7.8 million (51.0 percent), the combined coverage ratio started to improve, reaching 104.2 percent in 2012 and 104.5 percent in 2013. However, in 2014, the coverage ratio declined by 2.0 percentage points to 102.5 percent due to a larger increase in technical provisions of Afl. 24.5 million compared to the rise in weighted assets of Afl. 19.2 million. On aggregate, the combined coverage ratio remained above the minimum of 100 percent. Note, however, that two company pension funds operated with a coverage ratio

Table 8.28: Financial ratios of the company pension funds

(End of period in percentages)

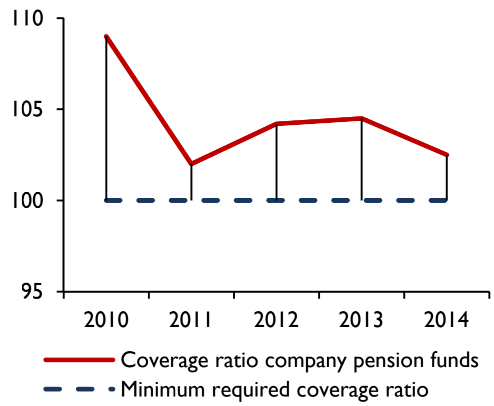
	2010	2011	2012	2013	2014
1. Liquidity ratio	**12.5**	**5.9**	**15.2**	**10.3**	**8.4**
Current assets to total assets					
2. Return on investments ratio	**8.6**	**2.3**	**8.5**	**8.4**	**5.2**
Investment income to average invested assets					
3. Coverage ratio [1]	**109.0**	**101.5**	**104.2**	**104.5**	**102.5**
Investments & cash minus volatility cushion to technical provisions					

Source: CBA; company pension funds.

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

below the required minimum of 100 percent and were required to design a recovery plan to address the shortfall.

Chart 11: Development coverage ratio of the company pension funds



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

The coverage ratio of the company pension funds' sector decreased to 102.5 percent in 2014.

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: 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, participants in the PVL pension scheme were transferred to a more sober pension scheme (the NPR 2011 pension scheme). Participants in the NPR 2005 pension scheme with no relationship to the PVL pension scheme were allowed to remain in the NPR 2005 pension scheme and were not transferred to the NPR 2011 pension scheme. Consequently, although most participants in the NPR 2005 pension scheme were transferred to the NPR 2011 pension scheme, the NPR 2005 pension remains active.

As of January 1, 2011, APFA falls under the supervision of the CBA. Prior to this date, APFA was under the supervision of the Minister of Finance. In view of its significant negative equity position, APFA had to submit a recovery plan to the CBA delineating how the shortfall would be addressed within the agreed-upon timeframe. On October 5, 2012, this proposed recovery plan was approved by the CBA.

In 2013, the Aruban government initiated meetings with relevant stakeholders to further discuss the retrenchment of the NPR 2011 pension scheme. In May 2014, the Aruban government reached an agreement with the relevant stakeholders that the NPR 2011 would be revoked retrospectively as of January 1, 2014, and be replaced with a new pension scheme (NPR 2014). Subsequently, the participants in the NPR 2011 pension scheme were transferred to the NPR 2014 pension scheme, while the NPR 2005 pension remains active. With the introduction of the NPR 2014 pension scheme, the retirement age will gradually increase from 60 years to 65 years. Following the rise of the retirement age and a one-time additional contribution from the employers, APFA's gross coverage ratio reached 100 percent. The net coverage ratio (including a buffer for possible losses on the investment portfolio) as at end-2015 was 94.2 percent, still below the required minimum of 100 percent. A revised recovery plan is currently under review.

As shown in Table 8.29, in the period 2011-2015, the balance sheet total of APFA displayed an upward trend, rising from Afl. 1,939.4 million in 2011 to Afl. 2,571.4 million in 2015 (equivalent to 53.2 percent of the estimated nominal GDP for 2015), reflecting upsurges primarily in investments of Afl. 674.9 million (37.1 percent), partially offset by a decrease in current assets of Afl. 39.8 million (38.3 percent). The highest growth in total assets was recorded in 2014 as APFA's total assets expanded substantially by Afl. 287.6 million (12.8 percent) compared to 2013, originating mainly from the employers' additional contribution to bring the gross coverage ratio to 100 percent. This contribution led to a significant rise of Afl. 274.8 million (12.8 percent) in investments in 2014 compared to 2013.

Total assets of APFA as at year-end 2015 equivalent to 53.2 percent of the estimated nominal GDP for 2015.

Assets

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

	2011	2012	2013	2014	2015[1]
1. Total assets	**1,939.4**	**2,091.3**	**2,242.5**	**2,530.1**	**2,571.4**
a. Investments	1,820.9	2,005.4	2,138.6	2,413.4	2,495.8
b. Fixed assets	14.6	13.7	13.0	12.2	11.5
c. Current assets	103.9	72.2	90.9	104.5	64.1
2. Total capital and liabilities	**1,939.4**	**2,091.3**	**2,242.5**	**2,530.1**	**2,571.4**
a. Technical provisions	2,421.1	2,547.0	2,698.5	2,451.2	2,481.4
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Current liabilities	7.3	8.2	6.3	7.3	10.0
d. Capital and reserves	-489.0	-463.9	-462.3	71.6	80.0

Source: CBA; APFA .
1 Preliminary figures.

Table 8.30: Investments of APFA

(End of period in Afl. million)

	2011	2012	2013	2014	2015[1]
1. Total	**1,820.9**	**2,005.4**	**2,138.6**	**2,413.4**	**2,495.8**
2. Shares and convertible bonds	435.8	143.7	283.2	307.0	327.8
3. Bonds and treasury bills	437.5	826.2	842.2	885.9	903.3
4. Real estate	28.4	50.0	50.0	69.8	73.1
5. Time deposits	235.5	225.5	234.8	167.7	207.1
6. Mortgage loans	231.1	241.3	237.7	229.0	233.6
7. Other investments	452.6	518.7	490.7	754.0	750.9

Source: CBA; APFA.

1 Preliminary figures.

Liabilities

On the liability side, technical provisions rose by Afl. 60.3 million (2.5 percent) to Afl. 2,481.4 million at the end of 2015 compared to year-end 2011. The negative equity recorded during the period 2011-2013 was caused by a substantial loss incurred in 2008 due to the substantial lowering of the actuarial discount rate from 7.0 percent to 5.5 percent, combined with the adjustment of the life expectancy tables and the substantial losses APFA incurred on its foreign investment portfolio as a result of the global financial crisis. The fund's equity improved considerably by end-2014 to a positive Afl. 71.6 million, up from a negative Afl. 462.3 million in 2013. This improvement occurred mostly because of the release in the technical provisions of Afl. 247.3 million (9.2 percent), and a one-time additional contribution from the employers of Afl. 184.4 million. The release in technical provisions in 2014 was possible as a result of the pension reforms that took place that year.

Investments

Table 8.30 shows that the growth in investments during the period 2011-2015 was attributable to increases in the holdings of bonds and treasury bills and other investments of, respectively, Afl. 465.8 million (106.5 percent) and Afl. 298.3 million (65.9 percent). These increases were partially offset by declines in shares and convertible bonds and time deposits of, respectively Afl. 108.0 million (24.8 percent) and Afl. 28.4 million (12.1 percent). In 2015, investments continued its upward trend, rising by Afl. 82.4 million (3.4 percent) to Afl. 2,495.8 million compared to 2014, due mostly to increases in time deposits (Afl. 39.4 million), shares and convertible bonds (Afl. 20.8 million), and bonds and treasury bills (Afl. 17.4 million). At the end of 2015, foreign investment amounted to Afl. 825.0 million or 33.1 percent of APFA's total investment portfolio (end-2014: Afl. 796.4 million or 33.0 percent).

Income Statement

The profitability of APFA was highly volatile during the five years under review as

Table 8.31: Income statement of APFA

(in Afl. million)

	2011	2012	2013	2014	2015[1]
1. Total income	**82.4**	**248.8**	**236.7**	**215.2**	**158.8**
a. Premium income	43.4	124.6	133.2	75.9	64.8
b. Investment income	39.0	124.2	103.5	139.3	94.0
2. Total expenses	**132.4**	**223.7**	**235.0**	**-134.4**	**149.9**
a. Change in technical provisions	42.1	125.9	151.5	-247.3	30.3
b. Pension benefits paid	81.9	86.9	92.4	98.4	105.6
c. Management expenses	8.4	10.9	-8.9	14.5	14.0
3. One-time additional contribution				**184.4**	
4. Net result	**-50.0**	**25.1**	**1.7**	**534.0**	**8.9**

Source: CBA; APFA.

1 Preliminary figures.

shown in Table 8.31. During the period 2013-2014, APFA's net result surged by Afl. 532.3 million, from Afl. 1.7 million in 2013 to Afl. 534.0 million in 2014. This rise was largely due to the release in technical provisions related to the pension reforms that took place that year, and the one-time additional contribution of Afl. 184.4 million from the employers.

Prudential Indicators

Liquidity Ratio

As shown in Table 8.32, APFA's liquidity ratio declined from 5.4 percent in 2011 to 2.5 percent in 2015 due to a decrease in current assets, predominantly associated with declines in receivables and prepayments during the past years.

Table 8.32: Financial ratios of APFA

(End of period in percentages)

	2011	2012	2013	2014	2015[1]
1. Liquidity ratio	**5.4**	**3.5**	**4.1**	**4.1**	**2.5**
Current assets to total assets					
2. Return on investments ratio	**2.2**	**6.5**	**5.0**	**6.1**	**3.8**
Investment income to average invested assets					
3. Coverage ratio [2]	**70.7**	**76.0**	**75.6**	**92.5**	**94.2**
Investments & cash minus volatility cushion to technical provisions					

Source: CBA; APFA.

1 Preliminary figures.

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

Return on Investments Ratio

The return on the investments ratio varied significantly during the period 2011-2015 mainly because of the volatility in investment income. The ratio hovered between a high of 6.5 percent in 2012 and a low of 2.2 percent in 2011.

Coverage Ratio

The net coverage ratio improved in the five years under review, rising from 70.7 percent in 2011 to 94.2 percent in 2015, but still significantly below the minimum required coverage ratio of 100 percent (Chart 12).

APFA's net coverage ratio reached 94.2 percent in 2015, remaining below the required minimum of 100 percent.

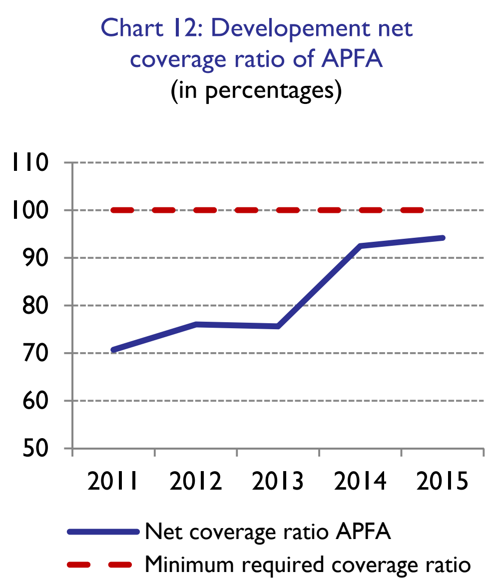


Chart 12: *Development of the net coverage ratio of the APFA over the five-year period 2011-2015.*

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);
- State Ordinance on the General Widowers and Orphans Insurance (AWW).

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

Assets

The consolidated balance sheet of the SVB is provided in Table 8.33. Total assets amounted to Afl. 156.2 million (equivalent to 3.3 percent of the estimated nominal 2014 GDP) in 2014, a decrease of Afl. 76.4 million (32.8 percent) compared to 2010. The largest declines of Afl. 38.0 million and Afl. 24.4 million were registered in 2011 and 2013, respectively. These were associated mainly with decreases in investments of Afl. 48.7 million in 2011 and in current assets of Afl. 31.4 million in 2013. In 2014, SVB reported total assets of Afl. 156.2 million, an Afl. 9.3 million (5.6

Table 8.33: Aggregated balance sheet of SVB

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total assets	**232.6**	**194.6**	**189.9**	**165.5**	**156.2**
a. Investments	147.0	98.3	23.2	27.3	22.3
b. Fixed assets	55.8	57.8	60.1	63.0	65.5
c. Current assets	29.8	38.5	106.6	75.2	68.4
2. Total capital and liabilities	**232.6**	**194.6**	**189.9**	**165.5**	**156.2**
a. Current liabilities	14.5	14.7	22.2	24.1	28.2
b. Capital and reserves	218.1	179.9	167.7	141.4	128.0

Source: CBA; SVB.

percent) decrease in its assets compared to 2013. This was due to contractions in current assets (Afl. 6.8 million) and investments (Afl. 5.0 million), which were offset slightly by an increase of Afl. 2.5 million in fixed assets.

Liabilities

On the liability side, capital and reserves declined by Afl. 90.1 million (41.3 percent) from 2010 to 2014, mainly as a result of net losses incurred. The downturn in capital and reserves at the end of 2014 is attributable to the net loss of Afl. 13.4 million incurred in 2014.

Investments

As illustrated in Table 8.34, total investments trended downward from Afl. 147.0 million at the end of 2010 to Afl. 23.2 million at the end of 2012, and increased marginally to Afl. 27.3 million in 2013. In 2014, the total investments again declined to Afl. 22.3 million compared to end-2013, reflecting a decrease of Afl. 5.0 million in time deposits.

Income Statement

As seen in Table 8.35, SVB remained in a loss position over the years under review, although the losses decreased substantially in 2012 and 2014. In 2014, SVB recorded a loss of Afl. 13.4 million, Afl. 13.1 million lower (49.4 percent) than the previous year. This decrease was due mainly to higher premium income of Afl. 23.9 million, offset in part by an increase

Table 8.34: Investments of SVB

(End of period in Afl. million)

	2010	2011	2012	2013	2014
1. Total	**147.0**	**98.3**	**23.2**	**27.3**	**22.3**
2. Loans	25.6	22.0	17.4	17.0	17.0
3. Shares	0.1	0.1	0.1	0.1	0.1
4. Bonds	49.6	47.7	5.2	5.2	5.2
5. Time deposits	71.7	28.5	0.5	5.0	0.0

Source: CBA; SVB.

Table 8.35: Aggregated income statement of SVB[1]

(In Afl. million)

	2010	2011	2012	2013	2014
1. Total income	**215.2**	**240.4**	**265.1**	**286.0**	**310.2**
a. Premium income	197.4	224.5	247.7	276.3	300.2
b. Other income	17.8	15.9	17.4	9.7	10.0
2. Total expenses	**261.2**	**278.3**	**277.4**	**312.5**	**323.6**
a. Claims paid	242.4	259.5	258.5	292.3	301.1
b. Interest expenses	4.5	4.6	4.9	4.9	5.0
c. Administrative expenses	14.3	14.2	14.0	15.3	17.5
3. Net result	**-46.0**	**-37.9**	**-12.3**	**-26.5**	**-13.4**

Source: CBA; SVB.

1 Prepared on a cash-basis.

of Afl. 8.8 million in claims paid.

All in all, SVB's financial position remains vulnerable. In the Social Dialogue of 2013 a consensus was reached with the social partners on a reform to alleviate the financial position of the AOV fund.

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

- A gradual annual increment of the pension age by 0.5 year from 60 to 65 year.
- An increase of the premium percentage by 2 percentage points over a two-year period from 12.5 percent to 14.5 percent.
- An rise of the premium ceiling from Afl. 65,052 to Afl 85,000.

These measures are expected to significantly reduce the pressure on the AOV fund.

Also, the financial position of the sickness fund (ZV) remains vulnerable. According to SVB, in November of 2015 possible options for strengthening this fund were presented to the government.

8.8 The General Health Insurance (AZV)

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

As of December 1, 2014, the National Ordinance Health Levy, the so-called "Bestemmingsheffing AZV" went into effect. Based on this Ordinance, a one (1) percent Health Levy is levied on business

Table 8.36: Balance sheet of AZV

(End of period in Afl. million)

	2011	2012	2013	2014	2015
1. Total assets	**56.9**	**60.2**	**63.3**	**64.8**	**70.5**
a. Fixed assets	2.3	1.8	1.4	1.0	1.1
b. Current assets	54.6	58.4	61.9	63.8	69.4
2. Total capital and liabilities	**56.9**	**60.2**	**63.3**	**64.8**	**70.5**
a. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
b. Current liabilities	56.9	60.2	63.3	64.8	70.5

Source: CBA; AZV.

turnover. The Health Levy was increased to two (2) percent as of July 8, 2015.

As of July 1, 2015, the AZV premium was lowered to 10.5 percent of the annual income, reflecting a decrease in the employees' contribution from 2.6 percent to 1.6 percent of their annual income. The employers' share remained unchanged at 8.9 percent.

Assets

As depicted in Table 8.36, over the five-year period from 2011 to 2015, the AZV's balance sheet total showed an overall growth of Afl. 13.6 million (23.9 percent) totaling Afl. 70.5 million at the end of 2015. The expansion in the total assets during 2011-2015 was associated mainly with higher current assets.

Liabilities

In 2015, the (current) liabilities were Afl. 13.6 million (23.9 percent) higher than in 2011. AZV does not maintain capital and reserves because its financial deficits must be covered by the Aruban government.

Income Statement

AZV consistently recorded negative

Table 8.37: Income statement of AZV

(In Afl. million)

	2011	2012	2013	2014	2015
1. Total income	**351.7**	**367.2**	**366.4**	**385.7**	**384.3**
a. Premium income	235.9	250.1	248.7	258.8	246.2
b. Other income	115.8	117.1	117.7	126.9	138.1
2. Total expenses	**359.4**	**369.9**	**370.9**	**385.9**	**390.5**
a. Health care expenses	342.7	353.3	354.8	368.3	372.6
b. Interest expenses	0.0	-0.1	-0.3	-0.1	-0.1
c. Administrative expenses	16.7	16.7	16.4	17.7	18.0
3. Net result	**-7.7**	**-2.7**	**-4.5**	**-0.2**	**-6.2**

Source: CBA; AZV.

results over the past five years mainly because healthcare expenses exceeded total income (the latter also includes the yearly government contribution). These results are shown in Table 8.37. Claims paid increased consistently during the period 2011-2015, rising from Afl. 342.7 million in 2011 to Afl. 372.6 million in 2015. Total income rose from Afl. 351.7 million in 2011 to Afl. 384.3 million in 2015, reflecting increases in other income and premium income of, respectively, Afl. 22.3 million (19.3 percent) and Afl. 10.3 million (4.4 percent).

In 2015, premium income declined by Afl. 12.6 million (4.9 percent) compared to 2014, mainly associated with the lowering of the AZV premium from 11.5 percent to 10.5 percent. Other income rose by Afl. 11.2 million (8.8 percent) in 2015 compared to 2014, primarily due to an Afl. 76.6 million increase in income from the so-called “Bestemmingsheffing AZV”. This increase was mitigated partly by a decline of Afl. 66.0 million in the government’s contribution to AZV.

Considering the expected continuing aging of the Aruban population, the AZV scheme needs further reform to improve its sustainability. Consumer co-payments should be considered as part of a package of measures to reduce the healthcare costs.

Annexes

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

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 Decree on Captive Insurance Companies (SDCIC)	AB 2002 no. 50
5.	State Ordinance on the Supervision of Money Transfer Companies (SOSMTC)	AB 2003 no. 60
6.	Sanction State Ordinance 2006	AB 2007 no. 27
7.	State Ordinance on the Supervision of Trust Service Providers (SOSTSP)	AB 2009 no. 13
8.	State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AML/CFT State Ordinance)	AB 2011 no. 28
9.	State Decree on the Supervision of Insurance Brokers (SDSIB)	AB 2014 no. 6

*) Excluding the subsidiary legislation putting into effect certain provisions contained in these ordinances.

Annex 2. Financial institutions supervised by the CBA (December 31, 2015)

1. Banking sector[1]

1.1 Commercial banks	1.3 Mortgage banks
Aruba Bank N.V.	Fundacion Cas pa Comunidad Arubano (FCCA)
Banco di Caribe (Aruba) N.V.	
Caribbean Mercantile Bank N.V.	**1.4 Credit unions**
RBC Royal Bank (Aruba) N.V.	Cooperativa di Ahorro y Prestamo Aruba
FirstCaribbean International Bank (Cayman) Limited, Aruba Branch	Coöperatieve Spaar- en Kredietvereniging Douane Aruba
BBA Bank N.V.[2]	
	1.5 Other financial institutions
1.2 International banks	AIB Bank N.V.
Citibank Aruba N.V.	Island Finance Aruba N.V.

2. Money transfer sector[3]

2.1 Money transfer companies	
Global Access Corporation N.V. [4]	Post Aruba N.V.
Union Caribe N.V.	

3. Trust sector[5]

3.1 Trust service providers	
AMTR N.V.	IMC International Management & Trust Company N.V.
Aruba International Trust Company N.V.	Intima Management N.V.
Arulex Trust Services N.V.	Orangefield Trust (Aruba) N.V.
Ascor Trust (Aruba) N.V.	SGG Management (Aruba) N.V.
C.T.F. (Aruba) N.V.	Standard Trust Company N.V.
Curado Trust (Aruba) N.V.	United Trust Management (Aruba) UTM N.V.
Euro Trust International N.V.	

1 Supervision by virtue of the State Ordinance on the Supervision of the Credit System (AB 1998 no. 16).
2 In liquidation.
3 Supervision by virtue of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003 no. 60).
4 Ceased activities as of December 31, 2013.
5 Supervision by virtue of the State Ordinance on the Supervision of Trust Service Providers (AB 2009 no. 13).

4. Institutional investors' sector

4.1 Company Pension Funds[6]

Lago Annuity Foundation	Stichting Pensioenfonds Havenwerkers Aruba
Stichting Algemeen Pensioenfonds Aruba (APFA)	Stichting Pensioenfonds META Bedrijven Aruba
Stichting Bedrijfspensioenfonds Aruba	Stichting Pensioenfonds RBTT Bank Aruba
Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico	Stichting Pensioenfonds RBTT Bank Aruba II[7]
Stichting Pensioenfonds Caribbean Mercantile Bank N.V.	Stichting Pensioenfonds Tourist Sector Aruba

5. Insurance companies[8]

5.1 Life insurance companies	5.2 Captive insurance companies
American Bankers Life Assurance Company of Florida Limited, Agency	Bancarib Real Insurance Aruba N.V.
Ennia Caribe Leven (Aruba) N.V.	Fides Rae Insurance Company N.V.
Fatum Life Aruba N.V.	MCB Risk Insurance N.V.
Nagico Life Insurance (Aruba) N.V.	Mondis Manufacturers Insurance Company N.V.
Pan-American Life Insurance Company of Aruba V.B.A.	
Sagicor Life Aruba N.V.	

5.3 Insurance brokers

Turtle Island Insurance Broker N.V.	De L'Isle & Sons Insurance Brokers N.V.
Worldwide Insurance Agency N.V.	Seguros Geerman N.V.
Verdant Insurance and Management Company Group N.V.	Boogaard Assurantiën N.V.
AON Aruba N.V.	Windward Insurance Solutions N.V.
Assurantie Service Centrum Aruba A.S.C.A. N.V.	Nos Seguro N.V.

5.4 Sales agents

The following persons have been granted a dispensation to operate as an insurance agent for Fatum Life Aruba N.V. and Fatum General Insurance Aruba N.V.:

Mr. J.W. Isenia	Mrs. M.D.D. Geerman
Mrs. T.D. Kelly-Hernandez	Mr. J.W.P.J. Kaan
Mr. G.M. Daal	Mr. F.J. Gonzalez
Mr. J.A.M. Lomans	Mr. R. Seraus

[6] Supervision by virtue of the State Ordinance on Company Pension Funds (AB 1998 no. GT 17).

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

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

The following persons have been granted a dispensation to operate as an insurance agent for PanAmerican Life Insurance Company of Aruba V.B.A:

Mrs. Alli-Martijn	Mrs. B.R. Simileer
Mr. J.R. Martina	Mrs. J.M. Pesqueira
Mrs. O.D. Van Putten-Ellis	Mrs. C.G. Monah-Trimon
Mrs. L. Kelly	Mrs. M.N.R. Tromp
Mrs. A.R. Cordero-Murray	Mrs. J.M. Tromp

5.5 Nonlife (general) insurance companies

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

Source: CBA.

[9] Said company is in the process of running off its insurance portfolio.

Annex 3. Financial institutions in possession of an exemption (December 31, 2015)

Financial institutions in possession of an exemption as meant in section 48, paragraph 3 of the SOSCS

- **Pawnshops**
  't Juwelenhuisje N.V.
  Estrella America N.V.
  Compra y Venta El Triunfo N.V.

- **Finance companies**
  H.J. Ruiz N.V.
  Volkskredietbank

Financial institutions in possession of an exemption as meant in section 10, paragraph 1 of the SOSMTC[10]

- **Money transfer companies**
  MoneyGram International Inc.
  Western Union Financial Services International Inc.

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

Annex 4. Changes in the registers and shareholding of supervised institutions in 2015

I. Banking sector

- On July 29, 2015, and in accordance with section 4 of the SOSCS, the CBA granted a license to BBA Bank N.V. to pursue the business of a credit institution in Aruba pursuant to section 4 of the SOSCS[11].

II. Insurance sector

- As of February 12, 2015, United Insurance Company N.V. changed its statutory name to Massy United Insurance Aruba N.V.

- On April 14, 2015, and in accordance with section 14a, paragraph 1, of the SOSIB, the CBA granted permission to Mrs. W.E.M. Mahieu-Scholte for the holding of a qualifying holding of 100 percent in Fides Rae Insurance Company N.V.

- On June 30, 2015, and in accordance with section 14a, paragraph 1, of the SOSIB, the CBA granted permission to Primary Group Limited for the acquisition and holding of a qualifying holding of 100 percent in Best Doctors Insurance VBA.

- On July 29, 2015, and in accordance with section 14a, paragraph 1, of the SOSIB, the CBA granted permission to Guardian Holdings Limited (GHL), Guardian International Inc. (GII), and Fatum Holding N.V. (FH) via Fatum Brokers Holding B.V. (FBH) and Fatum Holding Aruba VBA (FHA) to acquire a 100 percent qualifying holding in Elvira Verzekeringen N.V. Furthermore, on the same date, and in accordance with section 4, paragraph 4, of the SDSIB and in conjunction with section 14a, paragraph 1, of the SOSIB, the CBA gave permission to GHL, GII, and FH to acquire a 100 percent qualifying holding in Boogaard Assurantiën N.V. through FBH and FHA.

- On September 29, 2015, and in accordance with section 8, paragraph 1, subsection b, of the SOSIB, the CBA revoked, on request, the license of American Life Insurance Company, Aruba Branch issued by the CBA on May 13, 2002, to conduct the life insurance business via a branch in Aruba.

- As of October 28, 2015, British American Insurance Company (Aruba) N.V. changed its statutory name to Nagico Life Insurance (Aruba) N.V.

III. Trust sector

- On October 29, 2015, and in accordance with section 2, paragraph 1, of the SOSTSP, the CBA granted a license to Intima Management N.V. to provide trust services in Aruba pursuant to section 2, paragraph 1, of the SOSTSP.

[11] In April 2016, BBA Bank N.V. decided to cease its activities.

Annex 5. Integrity and suitability testing conducted in 2015

Integrity and suitability testing 2015

Sector	Credit institutions	Insurance companies	Company pension funds	Money transfer companies	Trust service providers	Insurance brokers
Pending as of January 1, 2015	**20**	**25**	**7**	**3**	**1**	**33**
New requests	13	30	6	11	7	2[12]
Reassessments	1	0	0	-	-	-
Withdrawn requests	0	6	2	-	-	3
Rejected requests	0	2	0	-	-	-
Approved	16	14	0	-	1	15
Conditionally approved	7	10	7	-	-	-
Assessment ceased	3	5	0		6	5
Pending as of December 31, 2015	**6**	**18**	**4**	**14**	**1**	**12**

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

Annex 6. Supervisory costs passed on in 2015

Pursuant to the respective state decrees[13], the CBA charges the sectors supervised for part of the supervision costs incurred. The supervisory costs passed on to the different sectors in 2015 are as follows:

Sectors:	Supervisory costs passed on in 2015	
Credit institutions	Afl.	800,000
Insurers	Afl.	300,000
Captives	Afl.	12,000
Company pension funds	Afl.	155,000
Money transfer companies	Afl.	150,000
Trust service providers	Afl.	100,000
Total	**Afl.**	**1,517,000**

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

Annex 7. Overview administrative sanctions imposed in 2015

Enforcement actions prudential supervision	Penalty charge orders	Administrative fines	Legal/regulatory breaches
Credit institutions	-	Afl. 250,000	Article 7, paragraph 1, of the SOSCS
Insurers			
Life insurers	-	Afl. 150,000	Articles 11 and 12 of the SOSIB
General insurers	-	Afl. 350,000	Articles 11, 12, and 17 of the SOSIB
Captive insurers	-	-	-
Company pension funds	-	-	-
Other	Afl. 25,000	Afl. 500,000	Article 27b, paragraph 2, and Article 25, paragraph 6, of the SOSIB
Total	**Afl. 25,000**	**Afl. 1,250,000**	
Enforcement actions integrity supervision:	**Penalty charge orders**	**Administrative fines**	**Legal/ regulatory breaches**
Credit institutions	-	-	-
Life insurers	-	-	-
General insurers	-	Afl. 100,000	Article 14d of the SOSIB
Money transfer companies	-	-	-
Trust service providers	-	-	-
DNFBPs	-	-	-
Total	-	**Afl. 100,000**	

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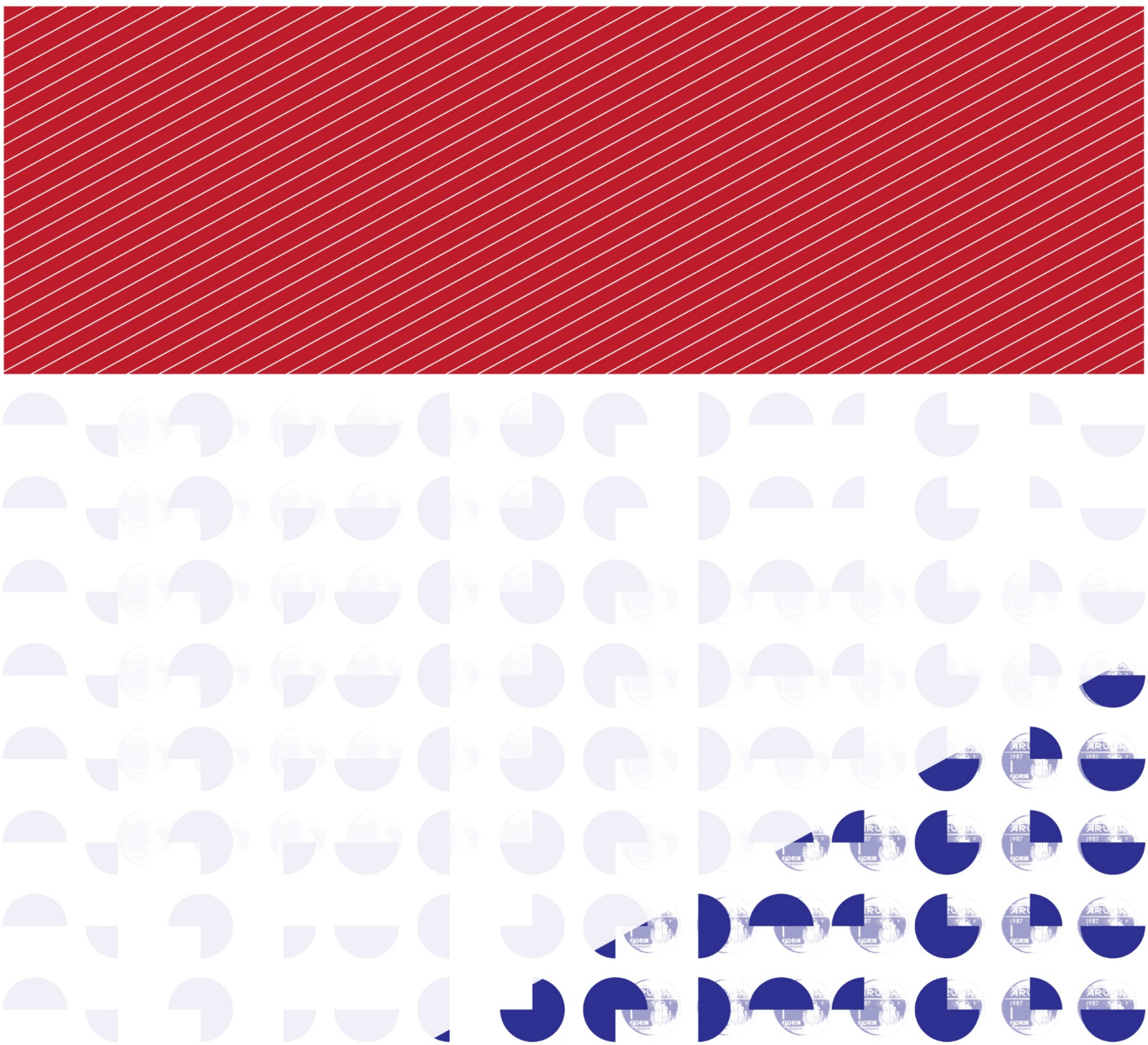
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