

Arubabank®



2016

ANNUAL REPORT

Arubabank[®]



ANNUAL REPORT - 2016

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FOREWORD

In 2016 Aruba bank stepped up its investments in technology and innovations, ensuring delivery of leading digital banking services, and strengthening our market leadership in Aruba.

Thanks to the dedication of our people, we have implemented innovations, grown our market-share, and continued to earn trust and appeal in the Aruban community.

Building on these strengths, we will continue to lead for the long term, putting our customers first and investing for the future, to ensure we are resilient and successful, and that we remain Aruba's leading financial institution.

We thank our clients and stakeholders for their trust in Aruba Bank.



*Bastiaan Guis
Chairman of the
Supervisory Board*

During 2016, the Supervisory Board keyed in on all relevant matters pertaining to the strategy of the bank, including, but not limited to, Risk, Portfolio progresses, Financial activities, IT advances, Supervision, Marketing, Integrity, and AML/CFT.

The progress on the realization of the Strategic Plan 2016-2018 was reviewed. Items discussed included, automated solutions in support of Customer Service enhancement, expansion of Transactional services, controlled growth, Compliance and building an organizational culture of continuous improvement.

MESSAGE FROM OUR CHAIRMAN OF THE SUPERVISORY BOARD

The Supervisory Board has five (5) committees, being the Audit and Compliance Committee (ACC), the Board Credit Committee (BCC), the Nomination and Remuneration Committee (N&RC), the Board Asset and Liability Management Committee (BALM), and the Related Party Transactions Committee (RPTC), who meet regularly to assure well-rounded and responsible decision-making in keeping with all relevant developments.

Change in composition of the Supervisory Board

Mr. Marius Jonkhart resigned effective September 1, 2016. We would like to extend our sincere appreciation to Mr. Jonkhart for his valuable contribution and dedication to Aruba Bank.

IN CLOSING

The Supervisory Board would like to express their appreciation and gratitude towards the Management Board and staff of Aruba Bank for their continuous commitment and effort.

On behalf of the Supervisory Board,
Mr. B.W. H. Guis
Chairman of the Supervisory Board

MESSAGE FROM OUR MANAGEMENT BOARD



Aruba Bank has further solidified its position in the Aruban market in 2016. As the largest commercial bank in Aruba, we remain firmly committed to ensuring stability, reliability, innovation, solid financial and operational performance, supported by a robust governance, risk and compliance framework.

In 2016, Aruba Bank has continued its ambitious investment program launching new online and mobile services, new branch- and self-service concepts and new tools for our staff to better service our clients. Our ambition is to continue making banking easier, faster and better for our clients. We have also continued to invest in the field of compliance and corporate governance.

Our portfolios of client business showed further growth and Aruba Bank recorded a strong financial performance in 2016.



Introduction

Our Mission, Strategy, and Values

As a leading commercial bank in Aruba, our business is building great long-term relationships with our clients, thus benefiting all our stakeholders.

Our strategy is based on the following three pillars:

We Deliver

The best in banking and transactional services.

We Care

For our clients and for the society that we serve, with integrity.

We Build

An organization with a culture of continuous improvement.

This is supported by our values:
professional, reliable, proactive, innovative
and leadership.



Financial position

The net loan portfolio (gross loan portfolio minus allocated loan loss provision) as at December 31, 2016 increased with 4.2% to 1,255,894.

The retail loan portfolio showed above market growth, while our corporate loan portfolio remained stable. Our overall market share increased slightly and surpasses 40%.

Our financial position shows further growth in liquid assets, (cash and cash equivalents and amounts due from banks), thus leading to an improved prudential liquidity ratio as at December 31, 2016 of 25% (2015: 23%), well above the minimum regulatory ratio of 15%.



Financial results

All markets segments in which the Bank operates made a positive contribution to the Bank's 2016 performance. The profit before tax for the year 2016 amounts to 51,661 (2015: 50,056).



Organization

Network



Aruba Bank offers commercial and retail banking services to a wide variety of both resident and non-resident private, commercial and institutional clients. In 2016, the Bank added new automated, self-service kiosks at its branches as well as Green solutions to the benefit of both bank and clients.

Staff



As a service providing institution, the Bank strongly believes in the ongoing development of management and staff.

As at December 31, 2016, our number of staff remained stable at 271.



Corporate governance

Aruba Bank is a company established under the laws of Aruba. The Articles of Association form the foundation from which the Corporate Governance Structure is derived. It is based on a two-tier governance structure consisting of a Management Board and a Supervisory Board.



Bank policy and objectives

The Management Board is responsible for the setting and achieving of the Bank's strategy, objectives and policies, and to ensure that the Bank is compliant with all relevant laws and regulations. The Management Board is accountable for the performance of its duties to the Supervisory Board and the General Meeting of Shareholders. The Management Team of Aruba Bank performs the execution of the strategy and policies, in consultation with the Management Board. It operates as a team with the Management Board members to ensure alignment in achieving effective execution, as well as overseeing individual areas of responsibility, as follows per December 31, 2016:



Retail: Mrs. R.M.T. (Rocila) Tromp - Acosta

Corporate: Mrs. G.N. (Gina) Habibe - Arendsz

Risk and Compliance: Mrs. N.M. (Nataly) Simmons - Thompson

IT and Operations: Mr. M. (Marc) Kwaad

Finance: Ms. M.C.C. (Marleen) van der Borgt

Human Resources: Ms. B.I. (Barbara) Bronswinkel



Corporate responsibility

Aruba Bank has a major role to play in the society it serves. We do this, not only by taking our responsibility as a sound financial institution, but also by supporting numerous projects and initiatives, through charity, donations and sponsorships. These include events such as seminars on a wide variety of topics, the 'Good 4 the Neighborhood' project, the Caminata "Walk and Run", again held in 2016, and our Charity Foundation, which is mainly focused on helping children and families in need. Many of our staff is engaged in these projects. In Olympic year 2016, the bank engaged in a 4 year partnership with the Olympic Committee of Aruba.



Outlook

Tourism is the basis of the Aruban economy, which has grown rapidly over the last decade. Over 1.5 million tourists per year visit Aruba. 2016 has seen further (modest) growth of tourism revenues. Investment and consumption has remained subdued in 2016.

In light of these developments, the bank has chosen for stable and selective growth in its lending portfolios, while maintaining stability in its financial ratios.

Available indicators of the economy in Aruba show a mixed outlook for 2017, but no clear upturn in the general pace of economic activities. As such, we are cautious in terms of the expected economic growth in Aruba. We anticipate a limited growth of the Corporate and Retail portfolios.

The Bank will continue to focus on maintaining its current market share while strengthening its funding base, further developing the internal organization, implementing new IT solutions, and on selective growth of our client business rather than seeking significant volume growth. At the same time, we will continue to invest in improving the quality of our services to ensure high customer satisfaction and efficient delivery of these services.

We realize that the accomplishment of our strategic objectives is only possible with the continued support of all stakeholders including our dedicated staff whom we thank for their hard work, client focus and great commitment.



INDEPENDENT AUDITOR'S REPORT

Independent auditor's report on the audit of the abbreviated consolidated financial statements

Opinion

The abbreviated consolidated financial statements, which comprise a summary of the consolidated statement of financial position as at December 31, 2016 and a summary of the consolidated statement of income for the year then ended, and related notes, are derived from the audited consolidated financial statements of Aruba Bank N.V. ("the Bank") for the year ended December 31, 2016.

In our opinion, the accompanying abbreviated consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of the Bank, on the basis described in the summary of significant accounting policies.

Abbreviated consolidated financial statements

The abbreviated consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the abbreviated consolidated financial statements and our report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of the Bank.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the consolidated financial statements of the Bank in our report dated February 24, 2017. Those consolidated financial statements, and the abbreviated consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

Management's Responsibility for the abbreviated consolidated financial statements

Management is responsible for the preparation of the abbreviated consolidated financial statements of the Bank on the basis described in the summary of significant accounting policies.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the abbreviated consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of Aruba Bank N.V. based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised).

Curacao, May 12, 2017
KPMG Accountants B.V.

Original has been signed by R.J. Liedenbaum RA

ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS

Summary of consolidated statement of financial position as at December 31, 2016

(Amounts are expressed in
thousands of Aruban Florins)

Assets	2016	2015
Cash resources	550,512	509,547
Investments	153,283	144,962
Loans and advances to customers	1,255,894	1,205,271
Premises and equipment	66,627	65,523
Other assets	38,780	40,527
Total assets	2,065,096	1,965,830
Shareholder's equity and liabilities	2016	2015
Shareholder's equity	278,691	272,120
Due to other banks	9,687	12,101
Deposits from customers	1,727,433	1,611,147
Other liabilities	49,285	50,975
Subordinated debt	-	19,487
Total shareholder's equity and liabilities	2,065,096	1,965,830

Summary of consolidated statement of income 2016

(Amounts are expressed in
thousands of Aruban Florins)

	2016	2015
Result from banking activities	109,875	105,165
Other operating income	1,329	2,432
Operating income	111,204	107,597
Personnel, general and administrative expenses	(52,439)	(52,708)
Depreciation	(7,104)	(4,833)
Operating expenses	(59,543)	(57,541)
Net operating income	51,661	50,056
Profit tax	(9,090)	(13,404)
Net income	42,571	36,652



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these abbreviated consolidated financial statements are set out as follows. The notes are an extract of the detailed notes included in Aruba Bank N.V.'s statutory financial statements. The notes detailed below coincide in all material aspects with those from which they have been derived. In this report, the word Group refers to Aruba Bank N.V. and its consolidated subsidiaries.

Basis of preparation

The full set of the consolidated financial statements of Aruba Bank have been prepared in thousands of Aruban Florins (Afl.) and in accordance with International Financial Reporting Standards.

Principles of consolidation

The abbreviated consolidated financial statements incorporate the financial statements of Aruba Bank N.V. and entities controlled by Aruba Bank N.V. (its subsidiaries). Control is achieved where Aruba Bank N.V. has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The abbreviated consolidated financial statements include the assets, liabilities and results of operations of the following 100% subsidiaries (all incorporated in Aruba):

- | | |
|--------------------------------------|---------------------------|
| ■ Aruba Bank Onroerend Goed N.V. | ■ OHRA Hypotheekbank N.V. |
| ■ Aruba Bank Onroerend Goed II N.V. | ■ IBA Corporation N.V. |
| ■ Aruba Bank Onroerend Goed III N.V. | ■ IB Aruba Finance N.V. |

Financial assets

Financial assets are classified into the following specified categories:

1. 'held-to-maturity' investments;
2. 'available-for-sale' financial assets; and
3. 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

‘Available-for-sale’ financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM investments or (c) financial assets at FVTPL.

The Group has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the Managing Directors consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are initially measured at fair value and subsequently at amortized cost using the effective interest method, less any impairment.

Loans and receivables are reported in the consolidated statement of financial position as loans and advances to customers. Interest on loans is included in the consolidated statement of profit or loss and other comprehensive income and is reported as ‘Interest income’. In the case of an impairment of the loan, the impairment loss is reported as a deduction from the carrying value of the loan and recognized in the consolidated statement of profit or loss and other comprehensive income as ‘Loan loss impairments, net’.

A loan is classified as doubtful when there is reasonable doubt as to the full collection of the loan and/or unpaid interest.

'Held-to-maturity' investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method less any impairment.

Allocated loan loss provision

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected. An indication that a loan may be impaired is obtained through the Group's credit review processes, which include monitoring customer payments and regular loan reviews at least every month.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that are likely to result from foreclosure less costs for obtaining and selling the collateral. Where possible, the Group seeks to restructure loans and receivables rather than to take possession of collateral. This may involve extending payment arrangements and/or new agreements with revised loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due and is considered an extinguishment of the original loan and is recognized as a new loan. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimate of future cash flows for groups of such assets by being indicative of the debt holder's ability to pay amounts due according to the contractual terms of the assets being evaluated.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The impact of changes in estimates and recoveries is recorded in the consolidated statement of profit or loss and other comprehensive income.

Modern Banking

BRINGING DIGITAL BANKING TO THE HIGHEST LEVEL IN ARUBA

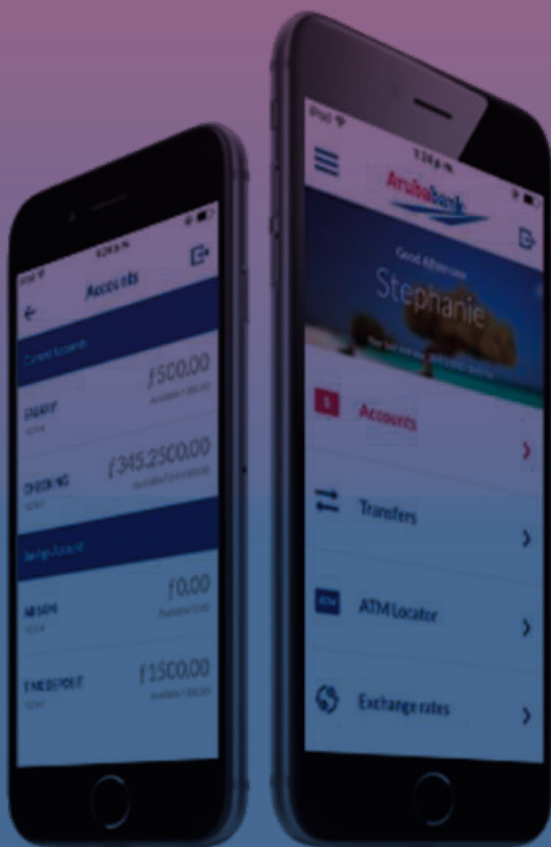
Aruba Bank introduced their new and improved, world-class website, online banking system, and the new Aruba Bank mobile app. mid 2016.

Aruba Bank's online banking system has been upgraded to include even more features. The website, Aruba Bank Online, and the Aruba Bank mobile app offer clients the convenience of having their bank available 24/7, wherever they are.

Over the past two years Aruba Bank has made multi-million guilder investments in "state-of-the-art" technology and innovation to offer the best in client services, branches and self-service, as well as digital services.

2016 allowed Aruba Bank to bring digital banking to the highest level in Aruba. In fact we have come so far that as of this year we introduced a completely digital way of banking even for new clients who want to join Aruba Bank!

This new platform also brings with it a heightened efficiency in services for clients and improved processes for our employees.





Aruba Bank hosted its 12th consecutive Walk & Run 2016 in May. Aruba's only 4-day walk & run event with approximately 2,500 participants registering to participate to walk an average of 4.5 – 6KM per day.



Aruba Bank client using the Smart Deposit Machine, a first in self-service abilities in Aruba and at the newly inaugurated Main Street Express Branch.



The island's only self-service bank branch, Aruba Bank's Main Street Express branch, was opened at the beginning of the year.



Aruba Bank's First Annual Chef Challenge 2016 enlisted four students who were mentored by professional Chefs in a live cook-off event



During Platinum Banking's 10th Anniversary Celebration, Aruba Bank unveiled the unit's new branding and visuals to its clients.



As a result of Aruba Bank's partnership with Comit  Olimpico Arubano (COA), our branches were visited by the Olympic Torch used in Rio

The background of the image is a blurred photograph of a hand holding a smartphone, overlaid with a semi-transparent magenta filter. In the bottom-left corner, there is a solid dark blue triangular shape. The text 'Arubabank®' is centered horizontally in a white, bold, sans-serif font. A white graphic element, consisting of two parallel diagonal lines that taper to points, is positioned below the text, extending from the left side towards the right.

Arubabank®