



2017

ANNUAL REPORT

Arubabank®

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ANNUAL REPORT 2017



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FOREWORD

Aruba Bank started out on a good path in 2017! A continued leadership position, a brand with remarkable market presence, an innovative spirit and engaged employees dedicated to delivering outstanding customer service, set the tune for another record year for Aruba Bank.

A year of collaboration with many partners in the community, both NGO's (Non Government Organization) and GO's (Government Organization) enabled us to facilitate and safeguard our clients' banking transactions through innovation.

We hereby express our sincere gratitude for the unwavering support and trust from all our stakeholders who have made us the pioneer bank on the island, with a total market share of 41%.

MESSAGE FROM OUR CHAIRMAN OF THE SUPERVISORY BOARD



*Bastiaan Guis
Chairman of the
Supervisory Board*

During 2017, the Supervisory Board continued to focus on the strategy of the Bank and all pertaining relevant matters including but not limited to risk management, portfolio developments, financial affairs, IT developments, supervision, marketing, governance, integrity, tax and compliance.

The continued focus areas of the Strategic Plan 2016-2018 are the introduction of further automated solutions in support of Customer Service enhancement, expansion of transactional services, controlled growth, compliance, and building an organizational culture of continuous improvement.

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 by management and in keeping up with all relevant developments.

Change in composition of the Supervisory Board

We would like to welcome Mr. Fred Tuininga, former Managing Director ING Domestic Bank, the Netherlands and Mr. Peter Dams, recently retired partner of PWC the Netherlands, who were appointed members as per July 1, 2017. We look forward to drawing great benefit from both their knowledge and expertise for the years to come.

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

Introduction

Aruba Bank has further strengthened its position in the Aruban market in 2017. As the largest commercial bank in Aruba, we remain firmly committed to ensuring stability, reliability, innovation, and a solid financial and operational performance, supported by a robust governance, risk and compliance framework.

In 2017, Aruba Bank has continued its ambitious investment program, launching new services for our customers, online and mobile functionalities, 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, optimally combining the latest developments in technology and financial services with our in-depth understanding of our clients' needs in the Aruban market. We have also continued to invest substantially in the field of integrity, compliance and corporate governance.

Our portfolios of client business showed further growth, client-satisfaction as well as employee engagement increased, and Aruba Bank recorded a strong financial performance in 2017.



Our mission, strategy, and values

As the 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, 2017 increased with 3.2% to 1,296,364.

The retail loan portfolio showed above market growth, while our corporate loan portfolio remained stable. Our overall market share increased slightly and surpassed 41%.

Our financial position shows a decline in liquid assets, (cash and cash equivalents and amounts due from banks), thus leading to a prudential liquidity ratio as at December 31, 2017 of 21.2% (2016: 25.0%), well above the minimum regulatory ratio of 15%. The capital ratio at year-end 2017 stood at 23.3% (2016: 23.0%), which is also well above the minimum regulatory requirement (16%). The loan-to-deposit ratio is 71.3% at year-end 2017 (2016: 68.5%), below the regulatory maximum of 80%.



Financial results

A good overall performance in all market segments was observed in 2017.

All segments in which the Bank operates made a positive contribution to the Bank's 2017 performance. The profit before tax for the year 2017 amounts to 55,354 (2016: 51,661).



Organization

Network

Aruba Bank offers commercial and retail banking services to a wide variety of private, commercial and institutional clients. In 2017, the Bank added a string of new client services, combining new self-service options with face-to-face personal service. We invested in both digital as well as personal services, and will continue to do so in 2018. New client applications were introduced to our kiosks, smart deposit machines, and our online and mobile banking platforms. The Bank also introduced innovations in payments in the market, in partnership with large payment parties in Aruba, e.g. Douane (Customs) and Setar (telecomm) to simplify payments for retail and corporate customers and to help achieve faster and more efficient digital payment streams. We shall continue to innovate in this field, and support initiatives by the Central Bank of Aruba to modernize Aruba's payment systems. As active member of Aruba's Bankers Association, we started with the phase out checks in Q4 2017.

Staff

As a service providing institution the Bank strongly believes in the ongoing training and development of management and staff. As at December 31, 2017, our full time staff numbered 264 (December 31, 2016: 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, 2017

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

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

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

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

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

In the course of 2017 Mr. Marc Kwaad, responsible for IT and Operations, left Aruba Bank. Since then, his areas of responsibility have been taken over by several members of the Managing Board and the Management Team.

From left to right:

Barbara Bronswinkel

Marleen van der Borgt

Gina Habibe - Arendsz

Nataly Simmons - Thompson

Rocila Tromp - Acosta





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, sponsorships and other initiatives. 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 2017, 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 2017 we started a number of ‘Green Initiatives’, both internal and external, to contribute to a sustainable Aruba. We shall continue to step up these initiatives in 2018.





Outlook

Available indicators of the economy in Aruba show a mixed outlook for 2018, some optimism, but no clear upturn in the general pace of economic activities. The reopening of the refinery, which is expected to provide an uptick in growth, is expected to start later than planned, in 2018/2019. We anticipate a limited growth of the Corporate and Retail portfolios.

The Bank will continue to focus on maintaining its strong market share and will increase investment in technological innovation as well as in people and organization, partnering with our clients, service providers, correspondent banking partners and regulators to create sustainable value.

Above all, we aim to continuously improve the quality of our services to our customers. This is the cornerstone of our continued long-term strong performance.

We realize that the accomplishment of our objectives is only possible with the continued support of all stakeholders, for which we are truly grateful. Above all, we would like to thank our dedicated staff 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, 2017 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, 2017, as set out on pages 14 to 18.

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 9, 2018. The 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 the consolidated 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), "Engagements to Report on Summary Financial Statements".

Curaçao, February 20, 2018
KPMG Accountants B.V.
R.J. Liedenbaum RA



ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS

Summary of consolidated statement of financial position as at December 31, 2017

(Amounts are expressed in thousands of Aruban Florins)

Assets	2017	2016
Cash resources	440.081	550.512
Investments	221.821	153.283
Loans and advances to customers	1.296.364	1.255.894
Premises and equipment	62.110	66.627
Other assets	42.738	38.780
Total assets	2.063.114	2.065.096
Shareholder's equity and liabilities		
Shareholder's equity	281.527	278.691
Due to other banks	8.322	9.687
Deposits from customers	1.725.897	1.727.433
Other liabilities	47.368	49.285
Total shareholder's equity and liabilities	2.063.114	2.065.096

Summary of consolidated statement of income 2017

(Amounts expressed in thousands of Aruba Florins)

	2017	2016
Result from banking activities	115.633	109.875
Other operating income	2.847	1.329
Operating income	118.480	111.204
Personnel, general and administrative expenses	(53.990)	(52.439)
Depreciation	(9.136)	(7.104)
Operating expenses	(63.126)	(59.543)
Net operating income	55.354	51.661
Profit tax	(12.518)	(9.090)
Net income	42.836	42.571



SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these abbreviated consolidated financial statements are set out on the following pages. 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.*
- *Aruba Bank Onroerend Goed II N.V.*
- *Aruba Bank Onroerend Goed III N.V.*
- *OHRA Hypotheekbank N.V.*
- *IBA Corporation N.V.*
- *IB Aruba Finance N.V.*
- *AB Beleggingen VBA*

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.

"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.

'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.

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.



CONTINUED INNOVATION DRIVING ENHANCED EXPERIENCES

Throughout the year we focused on moving clients from assisted to self-service. This effort, which promotes process and organizational efficiencies, allowed for customers to experience and understand the ease, rapidness, and safety of conducting transactions using various self-service options.

Aruba Bank is the leading bank in Aruba offering these unique options to customers, allowing them to conduct unassisted transactions at the Smart Deposit Machine, as well as pay all their utility bills without standing in line at the tellers in branches.

Additional benefits introduced included inserting a Travel Notice and changing personal information at the Self Service kiosk.

All efforts were designed to make the self-service experiences better and encourage usage.



GREEN INITIATIVES

Starting at the core of what Aruba Bank stands for, we strive to make Aruba a better place to live and work by acting in an environmentally and socially responsible way.

Our efforts listed under “The Green Wave” initiatives of 2017 include among others; Enabling clients to not print their statement when at the ATM; introducing options to email statements or receipts instead of providing a printed copy.

In 2017 Aruba banned the use of plastic bags. Aruba Bank supports the policy and to help our clients’ transition into “living green” easier, Aruba Bank offered free reusable shopping bags to its clients.

Aruba Bank also introduced new products that will help our customers to become more energy efficient and sustainable. Included are:

- Green Car Loan - for the purchase of Electric Car or Hybrid Car.
- Green Loan - for the purchase of Solar Panels.

The Green Wave effort is part of a company-wide endeavor which includes internal measures to make operations at the bank more environmentally friendly which will continue to expand and grow as we transition into its second year of existence.



BUILDING STRENGTH AT THE CORE THROUGH CORPORATE WELLBEING

Aruba bank has fostered employee health, happiness, and productivity at work and home, to everybody's benefit through an extensive Corporate Wellness program this year.

A stronger level of employee engagement, particularly in the area of communication and cooperation was also enabled through training on various levels throughout the organization.

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