

RESERVE BANK OF VANUATU
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2015**DIRECTORS' REPORT**

In accordance with a resolution of the Board of Directors, the directors herewith submit the Statement of Financial Position of the Bank as at 31 December 2015 and the related Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year ended on that date and report as follows:

1. DIRECTORS

The following were directors of the Bank at any time during the financial year and up to the date of this report:

Simeon Malachi Athy – Chairman

Georges Maniuri (Relinquished on 23rd September 2015)

Jimmy Nipo

Anatole Hymak

Marakon Alilee

Letlet August (Appointment on 23rd September 2015)

2. PRINCIPAL ACTIVITIES

The Bank's role as a central bank, as defined in the Reserve Bank of Vanuatu Act [CAP 125], is:

- (a) to regulate the issue of currency and the supply, availability and international exchange of money;
- (b) to promote monetary stability;
- (c) to promote a sound financial structure;
- (d) to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country;
- (e) to regulate the banking and insurance industry.

3. TRADING RESULTS

The operating loss of the Bank for the year ended 31 December 2015 was VT154.045m (2014 net profit: VT104.484m) of which VT63.857m was due to realised exchange rate gain (2014 realised exchange gain: VT255.574m)

4. RESERVES

In accordance with section 7(1) of the Reserve Bank of Vanuatu act, the Bank is to transfer 10% of its profit to the general reserve, but due to the loss incurred an additional Government non negotiable interest bearing security will be issued to cover the VT154.045m loss. (2014: Nil)

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2015**DIRECTORS' REPORT – continued****5. PAYABLE TO GOVERNMENT**

In accordance with the Reserve Bank of Vanuatu Act [CAP 125] section 7(3), the balance of earnings available for distribution after allocation/transfer to the General reserve is to be distributed to the Government.

Realized gains from retained earnings reserve is also available for distribution to the Government depending on Board approval. However due to the loss incurred no distribution has been made in the current year.

6. BAD AND DOUBTFUL DEBTS

The directors took reasonable steps before the Bank's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

7. PROVISIONS

There were no material movements in provisions during the year apart from the normal amounts set aside for such items as doubtful debts, depreciation and employee entitlements.

8. ASSETS

The directors took reasonable steps before the Bank's financial statements were made out to ascertain that the assets of the Bank were shown in the accounting records at a value equal to or below the value that would be expected to be realized in the ordinary course of business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

9. DIRECTORS BENEFIT

No director of the Bank has, since the end of the previous financial year, received or become entitled to receive a benefit by reason of a contract made by the Bank with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest, other than that which is disclosed in the financial statements.

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2015**DIRECTORS' REPORT – continued****10. EVENTS SUBSEQUENT TO BALANCE DATE**

Since the end of the financial year the directors are not aware of any matter or circumstances not otherwise dealt with in this report that has significantly affected the operations of the Bank, the results of those operations or the state of affairs of the Bank.

11. BASIS OF ACCOUNTING

The Directors believe that the basis of preparation of accounts is appropriate and the Bank will be able to continue in operation for at least 12 months from the date of this statement. Accordingly, the Directors believe that the classification and carrying amounts of the assets and liabilities as stated in the accounts to be appropriate.

12. OTHER CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render any amounts stated in the financial statements misleading.

13. UNUSUAL TRANSACTIONS

The results of the Bank's operations during the financial year include substantial movements from Loans made through the IMF [VT 2,606.950m] to assist with the Country's balance of payment needs after severe tropical cyclone PAM and insurance cover received [VT 57.063m] from the Bank's insurer to cover for damages sustained by the Reserve Bank building.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this **20th** day of **June** 2016.


.....
Governor (Chairman)
.....
Director

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2015**STATEMENT BY DIRECTORS**


In the opinion of the Directors:

- (a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2015;
- (b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2015;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in equity for the year ended 31 December 2015; and
- (d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2015.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 20th day of June 2016.



.....
Governor (Chairman)



.....
Director



Independent Auditor's Report

To the Shareholder of Reserve Bank of Vanuatu

Report on the Financial Statements

We have audited the accompanying financial statements of the Reserve Bank of Vanuatu (the 'Bank'). The financial statements comprise the statement of financial position of the Bank as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Reserve Bank of Vanuatu Act [CAP 125] and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors and management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report- continued

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion:

- a) proper books of account have been kept by the Bank, so far as it appears from our examination of those books, and
- b) the accompanying financial statements are in agreement with the books of account and to the best of our information and according to the explanations given to us give the information required by the Reserve Bank of Vanuatu Act [CAP 125] in the manner so required.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

Restriction on Distribution or Use

This report is made solely to the Bank's shareholder. Our audit work has been undertaken so that we might state to the Bank's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

20 June 2016
Suva, Fiji

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Notes	2015	2014
Operating Revenue			
Interest income	7(a)	491,600	475,061
Net unrealised (losses)/gains in foreign securities market prices		(16,233)	13,357
Net foreign exchange gains		63,857	255,574
Other income	7(b)	<u>98,040</u>	<u>26,026</u>
Total revenue		637,264	770,018
		=====	=====
Operating Expenses			
Interest expense	8	30,976	22,561
Personnel expenses	9	329,742	363,391
Other operating expenses	10	<u>430,591</u>	<u>279,582</u>
Total expenses		791,309	665,534
		=====	=====
Net (loss) / profit for the year		(154,045)	104,484
Other comprehensive income			
Change in value of available for sale financial asset		<u>(3,480)</u>	<u>(32,585)</u>
Total comprehensive income		(157,525)	71,899
		=====	=====

This statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 32.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Notes	2015	2014
Assets			
Cash and cash equivalents	11	24,892,358	15,574,748
Investment securities	11	4,253,909	2,731,020
Government securities	12	526,192	372,201
Government bonds	13	1,998,870	1,998,290
Other receivables	14	253,599	192,203
Currency stock (notes and coins)	15(a)	479,804	476,348
Property, plant and equipment	16	1,349,878	1,388,378
Intangible assets	17	4,136	5,079
International Monetary Fund (IMF):	21		
Reserve Tranche Position		382,743	371,312
Special Drawing Rights	11,21(c)	<u>217,748</u>	<u>223,653</u>
Total Assets		34,359,237	23,333,232
		=====	=====
Liabilities			
Other creditors and accruals		130,210	106,346
Demand deposits	18	19,285,639	12,248,178
Reserve Bank of Vanuatu notes		443,652	215,737
International Monetary Fund	21(d)	5,229,215	2,547,763
Currency in circulation	15(b)	8,548,899	7,499,202
Employee provisions	20	<u>273,196</u>	<u>264,100</u>
Total Liabilities		33,910,811	22,881,326
		=====	=====
Net Assets		448,426	451,906
		=====	=====
Capital and Reserves			
Paid up capital	22	100,000	100,000
General Reserve	4	-	-
Retain Earnings Reserve	5	-	-
Fair Value Reserve	6(a)	22,695	26,175
Asset Revaluation Reserve	6(b)	<u>325,731</u>	<u>325,731</u>
Total Capital and Reserves		448,426	451,906
		=====	=====

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 32.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Note	Paid Up Capital	General Reserve	Retain Earnings Reserve	Fair Value Reserve	Asset Revaluation Reserve	Earnings Available for Distribution	Total Capital Reserves
Balance as at 31 December 2013		100,000	-	-	58,760	325,731	-	484,491
Net Profit for the year		-	-	-	-	-	104,484	104,484
<i>Other comprehensive income</i>								
Change in value for available for sale financial assets	6(a)	-	-	-	(32,585)	-	-	(32,585)
Total comprehensive income		-	-	-	(32,585)	-	104,484	71,899
Transfers to reserves and Government - non- interest bearing notes issued by the Vanuatu Government	12	-	-	-	-	-	(104,484)	(104,484)
Balance as at 31 December 2014		100,000	-	-	26,175	325,731	-	451,906
Net Loss for the year							(154,045)	(154,045)
<i>Other comprehensive income</i>								
Change in value for available for sale financial assets	6(a)	-	-	-	(3,480)	-	-	(3,480)
Gains on revaluation of lands and buildings	16	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	(3,480)	-	(154,045)	(157,525)
Transfers from reserves and Government - non -interest bearing notes issued by the Vanuatu Government	12	-	-	-	-	-	154,045	154,045
Balance as at 31 December 2015		100,000	-	-	22,695	325,731	-	448,426

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 32.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		462,748	476,063
Interest paid	(	30,976)	(22,561)
Other operating receipts		70,733	127,971
Other operating payments	(	524,213)	(415,313)
Purchase of currency stock	(	141,481)	(375,547)
Net cash used in operating activities		<u>(163,189)</u>	<u>(209,387)</u>
Cash flows from investing activities			
Net movement in Special drawing rights		5,905	3,597
Net treasury notes and bonds (acquired) / matured	(	1,542,602)	2,037,058
Interest received on Government securities		54	221
Net purchase of Government bonds	(	580)	(301,660)
Net repayments of staff loans	(	5,237)	(27,009)
Purchase of property, plant and equipment	(	25,114)	(24,276)
Purchase of computer software	(	578)	-
Proceeds from sale of property plant & equipment		-	-
Net cash provided by investing activities		<u>(1,568,152)</u>	<u>1,687,931</u>
Cash flows from financing activities			
Currency issued for circulation		1,049,697	556,632
Net movement in commercial banks deposits		2,397,190	966,804
Payments to Government		7,235,859	748,115
Net movement in international institutions and agencies deposits		74,433	(65,705)
Proceeds from issuing Reserve Bank of Vanuatu notes		<u>227,915</u>	<u>(412,328)</u>
Net cash provided by financing activities		<u>10,985,094</u>	<u>1,793,518</u>
Net increase in cash and cash equivalents		9,253,753	3,272,062
Cash and cash equivalents at the beginning of the financial year		15,574,748	12,047,112
Effects of exchange rate changes on foreign currency balances	3(b)	<u>63,857</u>	<u>255,574</u>
Cash and cash equivalents at the end of the financial year	11	<u>24,892,358</u>	<u>15,574,748</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 32.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

(Expressed in 000's Vatu)

1. THE LEGAL FRAMEWORK

The Reserve Bank of Vanuatu ("the Bank") operates under the Reserve Bank of Vanuatu Act [CAP 125] ("RBV Act"). The Bank is an independent legal entity wholly owned by, and reporting to, the Government of the Republic of Vanuatu. The Bank is responsible for ensuring:

- Regulation of the issue, supply, availability and international exchange of the currency of Vanuatu;
- Supervision and regulation of banking business and the extension of credit;
- Advising the Government on banking and monetary matters;
- Promoting monetary stability;
- Promoting a sound financial structure;
- Fostering economic conditions conducive to the orderly and balanced economic development of Vanuatu, and
- Regulation and supervision of domestic and international (offshore) banks.

Section 6 of the RBV Act states that the net profit of the Bank for any financial year shall be determined by the application of International Financial Reporting Standards (IFRS) and current central bank best practice. Net income may include both realised and unrealised gains and losses. However for prudency only net realised gains should be available for distribution.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS**(a) Basis of preparation**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Reserve Bank of Vanuatu Act [CAP 125] ("RBV Act").

The financial statements have been prepared under the historical cost basis as modified by financial assets measured at fair value, with changes in fair value either through profit or loss or other comprehensive income.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

The financial statements are presented in Vanuatu currency (Vatu) which is the Banks presentation and functional currency.

The financial statements were authorised for issue by the Board of Directors on
..... 2016.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(b) Changes in accounting policy and disclosures

i) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that would be expected to have a material impact on the Bank.

ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2015 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Bank, except the following set out below:

Topic	Key Requirements	Effective Date
IFRS 9, 'Financial instruments'	This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Management is in the process of determining the likely impact of this standard.	Annual periods beginning on or after 1 January 2018

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Revenue recognition

Operating revenue is recognized on an accrual basis and includes interest income, gains on foreign securities market prices, profit on foreign exchange dealing with commercial banks and other income.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued**(b) Foreign currency translation**

- i) Transactions in foreign currencies are converted to Vatu at the rates of exchange prevailing on transaction dates. Year-end assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at year end.
- ii) All realized and unrealized gains and losses on foreign currencies are recognized in the statement of profit or loss and other comprehensive income in accordance with the provisions of section 6 of the RBV Act and are included on the computation of the annual profits or losses of the Bank.
- iii) According to Section 7(2) of the RBV Act, the Board may set up other special retain earnings reserves from time to time when required. Such reserves may also be built up by net unrealized gains, and any subsequent realized components would then be available for distribution to the Government of the Republic of Vanuatu.

(c) Coins sold as numismatic items

The Bank sells, or receives royalties on coins which are specially minted or packaged as numismatic items. These coins have not been accounted for as currency in circulation as they were not issued for monetary purposes.

(d) Financial Assets and Liabilities**Financial Assets***Fair value through profit and loss financial assets*

This category has two sub categories: financial assets designated as fair value through profit and loss at inception and those that are held for trading.

The bulk of the Bank's assets and liabilities are designated as fair value through profit and loss in compliance with the Bank's approved investment guidelines. This includes offshore investment securities which includes treasury notes, bonds and bills. These financial assets are carried at fair value through profit and loss and are valued at market bid prices on balance date.

Held to Maturity financial assets

These relate to Vanuatu Government bonds which are held to maturity and are valued in accordance with note 3 (k).

Available for Sale

Available for sale financial assets are those that are designated as available for sale or that is not classified as financial assets at fair value through profit and loss, or held to maturity. Available for sale financial assets include the Bank's shareholding in the Bank for International Settlements. Unrealized gains and losses arising from changes in the fair value are recognized in fair value reserve. When available for sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the statement of profit or loss and other comprehensive income as gains and/or losses.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued**(d) Financial Assets and Liabilities - continued****Financial Liabilities***Demand deposit liabilities*

Demand Deposits include deposits at call. Deposit balances are shown at their amortized cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically. Details of deposits are included in Note 18.

Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favor of the holder. Currency in circulation comprises notes and coins issued by the Bank and the liability for currency in circulation is recorded at face value in the Statement of Financial Position.

Reserve Bank of Vanuatu Notes

Reserve Bank of Vanuatu Notes are valued at amortized cost.

(e) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation, and impairment (if any).

Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives (in years):

- Reserve Bank Building 40
- Plant and equipment 3-10
- Motor vehicles 4

Leasehold land is amortized over the term of the lease, which presently varies from 30 to 75 years.

Assets are depreciated from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognized as an expense when incurred.

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the statement of profit or loss and other comprehensive income in the year of disposal.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued**(f) Intangible assets**

Intangible assets refer to acquired and internally developed computer software. They are carried at historical cost less accumulated amortisation and impairment (if any). Cost of the software includes direct expenses incurred to acquire and bring to use the specific software.

Other enhancement cost to the existing software is capitalized only if the benefit will produce additional future economic benefit exceeding more than one year.

Capitalized acquired software and software development costs are amortized on a straight-line basis over its estimated useful life which is 7 years. Any maintenance cost associated with the software is expensed when incurred.

(g) Currency stock (notes and coins)

Inventories of currency on hand are recognized in the statement of financial position at cost. Costs include the cost of bringing inventories to their present location and condition. When currency is issued into circulation, the value of the inventory is reduced and an expense is recorded in the statement of profit or loss and other comprehensive income. Currency issuance is determined on a first-in-first-out (FIFO) basis.

(h) Income Tax

The Bank is exempt from income tax in accordance with Section 42 of the RBV Act.

(i) Employee entitlements

Employee remuneration entitlements are determined by the Governor (in consultation with the Board) in terms of Section 10 of the RBV Act. The provision for employees' entitlements to wages and salaries, annual leave and other current employee entitlements (that are expected to be paid within twelve months) are accrued at nominal amounts based on current wage and salary rates.

Liabilities for other employee entitlements, which are not expected to be paid or settled within twelve months of reporting date, are accrued in respect of all employees at the present value of future amounts expected to be paid.

Vanuatu National Provident Fund

Employer contributions to the above fund are included as an expense in the statement of profit or loss and other comprehensive income.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include notes and coins held by the Bank, teller's cash, current accounts and cash held on short term deposits.

(k) Vanuatu Government bonds

Due to the present very thin secondary market for Government bonds in Vanuatu, they are accounted for as Held to Maturity by the Bank and are valued at amortized cost.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued**(l) Loan and Advances**

Loans relate to staff loans. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for bad and doubtful debts.

A specific provision is made based on an assessment carried out at year end. Movement in provision is charged to the statement of profit or loss and other comprehensive income. All known bad debts are written off against the provision in the year in which they are recognized. Bad debts, in respect of which no specific provisions have been established, are charged directly to the statement of profit or loss and other comprehensive income.

(m) Rounding

Amounts in the financial statement are rounded to the nearest thousand Vatu unless otherwise stated.

(n) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

Section 7 of the RBV Act required the bank to create and maintain a General Reserve. The purpose of the General Reserve is to provide for events which are contingent and non-foreseeable, including covering exceptional losses on the Bank's holdings of domestic and foreign securities that cannot be absorbed by its other resources; the Reserve also provides for potential losses from fraud and other non-insured losses.

Section 7 of the RBV Act states that:

- (a) net profit be transferred to the General Reserve until the balance thereof is equal to half the authorized capital;
- (b) once the balance of the General Reserve is equal to half the authorized capital, half the net profit be transferred to the General Reserve until the balance thereof is equal to the authorized capital;
- (c) once the balance of the General Reserve is equal to the authorized capital, 10% of the net profit be transferred to the General Reserve;
- (d) after allocation of the net profit as above, the Board will set up a special retain earnings reserve which will be built up by unrealized gains and any subsequent realized components are available for distribution to the General Reserve or to Government as dividends; and
- (e) the balance of the net profit for the financial year remaining after all deductions as above be paid to the Government.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS - continued

In the current year there were no distribution made to the General Reserve since the loss amount of VT154.045m will be covered by a Government non-negotiable market related interest bearing security. (2014: VTNIL).

5. RETAIN EARNINGS RESERVE

In pursuant to Section 7(2) of the RBV Act, a special Retain Earnings Reserve account was set up. Unrealized gains and losses on foreign exchange are recognized in profit from ordinary activities and until such gains or losses are realized, they are not available for distribution to the Vanuatu Government and are transferred from the profits to the Retain Earnings Reserve.

6. OTHER RESERVES**(a) Fair Value Reserve**

In accordance with note 3(d), movements in the fair value of financial assets designated as available for sale are recorded in the Fair Value Reserve.

(b) Asset Revaluation Reserve

Following the revaluation of the Bank's Land and Building in 2007, the Bank has established an appropriate Asset Revaluation Reserve.

7. a) INTEREST INCOME

	2015	2014
Overseas Investments	344,071	331,880
Domestic Investments	144,155	140,751
Staff Loans & Advances	<u>3,374</u>	<u>2,430</u>
	491,600	475,061
	=====	=====

b) OTHER INCOME

	2015	2014
Sundry income	59,122	564
Dealing profit	14,982	1,403
Rental income	9,723	8,873
Insurance fee income	7,685	5,557
Others	<u>6,528</u>	<u>9,629</u>
	98,040	26,026
	=====	=====

The increase in sundry income is attributable to insurance claims receivable in relation to damages sustained by properties owned by the Bank during Cyclone Pam.

8. INTEREST EXPENSE

Interest on Government accounts	7,747	7,814
Interest on Reserve Bank of Vanuatu notes	7,331	11,922
Interest on Purchase of bonds	<u>15,898</u>	<u>2,825</u>
	30,976	22,561
	=====	=====

Interest is paid on demand deposits of the Government of Vanuatu operating account which is held with bank. Interest paid on purchase of bond is the interest payable at the time of purchase, which is the accrued interest on the coupon.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

9. PERSONNEL EXPENSES

Staff cost	229,352	246,508
Superannuation contribution (VNPF)	7,278	7,702
Staff training	11,884	11,683
Severance pay, long service leave, accrued annual leave and gratuity expense	52,250	80,440
Business travels	<u>28,978</u>	<u>17,058</u>
	329,742	363,391
	=====	=====

10. OPERATING EXPENSES

	2015	2014
Auditor's remuneration	1,136	1,547
Depreciation and amortisation	65,135	75,449
Funds managers'	5,184	5,202
Amortisation of currency	138,025	106,045
Communication expenses	18,476	13,062
Gain on disposal of property, plant and equipment	(3,623)	-
Corporate social responsibility	32,507	-
Repairs and Maintenance	51,358	7,698
License and Membership fees	9,293	4,173
Maintenance and other Contract agreements	13,027	15,151
IMF Charges	12,939	2,253
Other Currency expenses	8,827	3,535
Other expenses	<u>78,307</u>	<u>45,467</u>
	430,591	279,582
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

11. EXTERNAL ASSETS

Under Section 22 of the RBV Act, the value of the external reserves (represented by the Bank's external assets) provided for shall not be less than 50% of the total demand liabilities of the Bank. As at 31 December 2015, the value of the external reserves was 86.6% (2014: 81.0%)

(a) External assets consists of the following:

	2015	2014
Cash	15,807	7,483
Current and call accounts	6,621,968	5,467,064
Short term deposits	15,815,324	7,969,509
Negotiable certificate of deposit	<u>2,439,259</u>	<u>2,130,692</u>
Total cash and cash equivalents	24,892,358	15,574,748
Treasury notes, bonds and bills		
- Financial assets at fair value through profit and loss	3,140,370	1,697,729
- Available for sale financial assets	<u>1,113,539</u>	<u>1,033,291</u>
Total Investment Securities	4,253,909	2,731,020
Special drawing rights	<u>217,748</u>	<u>223,653</u>
Total external assets	29,364,015 =====	18,529,421 =====

(b) External assets are defined by the RBV Act as including any internationally recognized reserve asset. In these financial statements, external assets also include fully convertible foreign currency balances equivalent to VT11.976m (2014:VT2.025m) held with local banks in Vanuatu.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

12. GOVERNMENT NON-NEGOTIABLE SECURITIES ISSUED TO THE BANK

	2015	2014
Balance at the beginning of the financial year	372,201	476,906
Additions	154,045	-
Redemption of non-negotiable securities	-	(104,484)
IMF remuneration credit	(54)	(221)
Balance at the end of the financial year	<u>526,192</u>	<u>372,201</u>

13. GOVERNMENT BONDS

Government bonds held with Reserve Bank

0-3 years	799,270	754,180
4-7 years	799,600	843,710
8-10 years	<u>400,000</u>	<u>400,400</u>
	<u>1,998,870</u>	<u>1,998,290</u>

These bonds are valued in accordance with note 3(k). The bonds have varying maturity dates with the longest term maturing in 2023. They carry an average yield of 7.23%

14. OTHER RECEIVABLES

Interest receivable	131,731	102,879
Staff loans and advances	84,431	79,194
Sundry debtors	27,570	475
Other	<u>9,867</u>	<u>9,655</u>
	<u>253,599</u>	<u>192,203</u>

15. CURRENCY ACTIVITIES

(a) Currency Stock (notes and coins)

Balance at the beginning of the financial year	476,348	206,846
Purchase of stock	141,481	375,547
Currency issued into circulation	(138,025)	(106,045)
Balance at the end of the financial year	<u>479,804</u>	<u>476,348</u>

(b) Currency in circulation

Notes	7,657,657	6,688,679
Coins	<u>891,242</u>	<u>810,523</u>
Total currency in circulation	<u>8,548,899</u>	<u>7,499,202</u>

Currency costs are accounted for in accordance with accounting policy in note 3(g).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

16. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Computer and Office Equipment	Others	WIP	Total
At 1 January 2014					
Cost or valuation	1,490,460	270,691	148,247	24,357	1,933,755
Accumulated depreciation	(180,110)	(241,650)	(78,305)	-	(500,065)
Net book value	<u>1,310,350</u>	<u>29,041</u>	<u>69,942</u>	<u>24,357</u>	<u>1,433,690</u>
Year ended 31 December 2014					
Opening net book value	1,310,350	29,041	69,942	24,357	1,433,690
Additions	336	17,125	-	6,815	24,276
Transfers	-	290	-	(290)	-
Depreciation	(36,963)	(26,522)	(6,103)	-	(69,588)
Closing net book value	<u>1,273,723</u>	<u>19,934</u>	<u>63,839</u>	<u>30,882</u>	<u>1,388,378</u>
At 31 December 2014					
Cost or valuation	1,490,796	288,106	148,247	30,882	1,958,031
Accumulated depreciation	(217,073)	(268,172)	(84,408)	-	(569,653)
Net book value	<u>1,273,723</u>	<u>19,934</u>	<u>63,839</u>	<u>30,882</u>	<u>1,388,378</u>
Year ended 31 December 2015					
Opening net book value	1,273,723	19,934	63,839	30,882	1,388,378
Additions	150	10,965	12,589	1,410	25,114
Depreciation	(35,443)	(12,037)	(16,134)	-	(63,614)
Closing net book value	<u>1,238,430</u>	<u>18,862</u>	<u>60,294</u>	<u>32,292</u>	<u>1,349,878</u>
At 31 December 2015					
Cost or valuation	1,490,946	299,071	160,836	32,292	1,983,145
Accumulated depreciation	(252,516)	(280,209)	(100,542)	-	(633,267)
Net book value	<u>1,238,430</u>	<u>18,862</u>	<u>60,294</u>	<u>32,292</u>	<u>1,349,878</u>

The work in progress relates to the RBV Tower Extension project and furniture and fittings for the Bank.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

17. INTANGIBLE ASSETS

The intangible asset relates to the computer software for the Bank's financial system.

	Computer Software	Work In Progress	Total
At 1 January 2014			
Cost	41,975	364	42,339
Accumulated amortisation	(32,630)	-	(32,630)
Net book amount	9,345	364	9,709
Year ended 31 December 2014			
Opening net book amount	9,345	364	9,709
Additions	9	1,254	1,263
Transfers	1,618	(1,618)	-
Amortisation charge	(5,893)	-	(5,893)
Closing net book amount	5,079	-	5,079
At 31 December 2014			
Cost	43,602	-	43,602
Accumulated amortization	(38,523)	-	(38,523)
Net book amount	5,079	-	5,079
Year ended 31 December 2015			
Opening net book amount	5,079	-	5,079
Additions	578	-	578
Amortisation charge	(1,521)	-	(1,521)
Closing net book amount	4,136	-	4,136
At 31 December 2015			
Cost	44,180	-	44,180
Accumulated amortisation	(40,044)	-	(40,044)
Net book amount	4,136	-	4,136

18. DEMAND DEPOSITS

	2015	2014
Due to commercial banks	11,756,309	9,359,119
Due to government – Vanuatu Government	7,145,838	2,516,929
Due to government – Notes subscription to IMF (RTP)	382,743	371,312
Due to international institutions and agencies	749	818
	19,285,639	12,248,178
	=====	=====

19. DISTRIBUTION PAYABLE TO GOVERNMENT OF VANUATU

In accordance with the Reserve Bank of Vanuatu Act [CAP 125] section 7(3), the balance of the earnings available for distribution after allocation/transfer to the General reserve is to be distributed to the Government. Realized gains from the retain earnings reserve are also available for distribution to the Government depending on Board approval.

An amount of VT NIL (2014:VT NIL) is payable to the Government of the republic of Vanuatu.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

20. EMPLOYEE PROVISIONS

	2015	2014
Opening balance	264,100	238,479
Additional provisions recognised	44,003	66,457
Utilised/ reversals	(34,907)	(40,836)
Closing balance	273,196	264,100
	=====	=====

21. INTERNATIONAL MONETARY FUND

- (a) Vanuatu is a member of the International Monetary Fund (IMF) and the Bank has been designated as both the Government's fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Vatu.
- (b) Vanuatu's subscription to the IMF has been met by:
- (i) payment to the IMF out of the Bank's external assets which have been reimbursed by the Government by issue of non-interest bearing securities, refer to Note 12;
 - (ii) the funding of accounts in favour of the IMF in the books of the Bank by the Government.
- (c) (i) Special drawing rights ("SDR") is an interest bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the IMF. As at balance date this Special drawing rights holdings (asset) had a balance of VT 217.748m (2014: VT223.653m) and is included as part of External reserves of the Bank (refer to Note 11).
- (ii) As at 31 December 2015, the Republic of Vanuatu's memberships subscription to the IMF was VT382.743m (2014: VT371.312m) which is shown as Reserve Tranche Position and is included as part of the external assets of the Reserve Bank.
- (d) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No.2 of an amount of VT127,760 million, SDR allocation of VT2,494,505 million and IMF loan facilities of VT2,606,950 million.

In June 2015, the IMF approved and disbursed an amount of SDR8.5 million under the Rapid Credit Facility (RCF) and SDR8.5 million under the Rapid Financing Instrument (RFI) for the purpose of supporting Vanuatu's reserves and balance of payment after extensive damages sustained by a category five tropical cyclone Pam in March 2015.

- i) Rapid Credit facility – Financing under this facility carries a Zero interest rate when it is being disbursed but the rate is reviewed every two years. It has a grace period of 5 1/2 years and a final maturity of 10 years. The first repayment under this facility will commence in December 2020 until its maturity in June 2025.
- ii) Rapid Financing facility - Financing Under this facility currently carries an interest rate of 1.05%. This rate is reviewed by the fund every two years. It has a grace period of three years and equal quarterly repayments in the 4th and 5th year. The first repayment under this facility will commence in June 2018 until its maturity June 2020.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

22. SHARE CAPITAL

	2015	2014
Authorised capital of 400,000,000 Vatu	400,000 =====	400,000 =====
Issued and paid-up capital of 100,000,000 Vatu	100,000 =====	100,000 =====

23. RELATED PARTY INFORMATION

Identity of related parties

The Bank's ultimate parent entity is the Government of the Republic of Vanuatu.

The Board of Directors during the financial year ended 31 December 2015 were Simeon Athy (Chairman), Georges Maniuri (relinquished on 23rd September 2015), Jimmy Nipo, Anatole Hymak, Letlet August (Appointed on 23rd September 2015) and Marakon Alilee.

During the year, key management personnel consisted of the following executives: Simeon Athy (Governor), Peter Tari (Deputy Governor), Nelson Shem (Director Corporate Services), Florinda Aru (Director Accounts and Customers Services), Philip Arubilake (Director Financial Markets), Jerry Niatu (Director Research & Statistic), Noel Vari (Director Financial institution supervision), Dr Michael Hililan (Advisor) and Branar Karae (Assistant to the Governor).

Transactions with related parties

The transactions with the Government of the Republic of Vanuatu include banking services, foreign exchange transactions, purchase of government bonds, registry transactions and distributions as noted in the statement of changes in equity.

The Board of Directors excluding the executive directors are paid a sitting allowance for the services rendered. The Bank also provides non-cash benefits to the Executive Directors and executive officers in addition to their salaries such use of the Bank's motor vehicles.

Total remuneration paid to Directors and key management personnel is as follows:

	2015	2014
Directors sitting allowances	435	510
Executive officers	<u>58,680</u>	<u>69,600</u>
	59,115 =====	70,110 =====

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT17.154m (2014: VT19.982m). The loans attract interest which range from 2% to 6% per annum and are required to be paid in accordance with the Bank's staff loan policies approved by the Board.

24. EMPLOYEES

The number of full time permanent employees as at 31 December 2015 was 86 (2014: 91).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

25. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance sheet date (2014: nil).

26. COMMITMENTS

Capital and other commitments

Capital commitments which are approved and contracted and not provided for in the financial statements

	2015	2014
Property, plant and equipment (Note 16)	-	7,478
Purchase of currency stock (Note 15)	-	-

27. FINANCIAL RISK MANAGEMENT POLICIES

Exposure to operational, credit, liquidity and market risk arises in the normal course of the Bank's operations. The structure of the Bank's statement of financial position is primarily determined by the nature of its statutory functions. At the same time the Bank continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the Bank is regulated by internal guidelines, and closely monitored by the Board.

Operational risk is controlled by a number of internal guidelines, and there is clear segregation of front office and back office activity which are mechanisms for managing operational risk.

Credit risk

The Bank is subject to credit risk exposure. This is the risk that a counter party will be unable to pay amounts in full when due. The Bank's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Bank does not require collateral in respect of financial assets except in respect of loans to staff.

Management has a credit policy in place. Credit risk on transactions in foreign currency reserves is managed through the approval of transactions and placement of funds, the establishment of limits restricting risk and constant monitoring of positions. Counter party limits are set based on credit ratings and are subject to regular review. Currency risk and the exposure in the local currency portfolio is also monitored and managed.

Credit risk on financial assets is minimized by dealing with recognized monetary institutions with minimum acceptable credit ratings and operational limits.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES – continued

Credit risk - continued

The total exposure of credit risk in the Bank's portfolio is as follows:

	2015	2014
Foreign currency assets		
Cash and cash equivalents	24,892,358	15,574,748
Investment securities	4,253,909	2,731,020
International Monetary Fund (IMF):		
Special Drawing Rights	<u>217,748</u>	<u>223,653</u>
	<u>29,364,015</u>	<u>18,529,421</u>
 Local currency assets		
Government securities	372,147	15,574,748
Government bonds	<u>1,998,870</u>	<u>223,653</u>
	<u>2,371,017</u>	<u>2,368,929</u>
	<u>31,735,032</u>	<u>20,898,350</u>
	=====	=====

Based on the country in which the counterparty is resident, the Bank's end of year concentration of credit exposure expressed as a percentage of the total exposure above is as follows:

	2015	2014
	%	%
Australia	17	29
New Zealand	-	-
United States of America	6	23
Switzerland	38	11
United Kingdom	-	1
Singapore	4	12
Hong Kong	35	22
Vanuatu	-	-
Others	<u>-</u>	<u>2</u>
Total financial assets	<u>100</u>	<u>100</u>
	=====	=====

The following table presents the Bank's financial assets based on Standard & Poor's credit rating of the foreign counterparties. AAA is the highest quality rating possible and indicates the counterparty has a strong capacity to pay interest and principal. N/R indicates that the counterparty has not been rated by Standard & Poor's.

	2015	2014
AAA-AA3	37	54
AA	53	24
A1-A3	10	22
N/R	<u>-</u>	<u>-</u>
Total financial assets	<u>100</u>	<u>100</u>
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES – continued**Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting financial obligations. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates and maintaining of the adequate level of liquidity at all times.

The Bank holds a diversified portfolio of cash and cash equivalents plus highly graded Government bonds to support payment obligations and contingent funding in a stressed environment. The Bank's comfortable level of liquidity is equated to 6 months of import cover. An acceptable cash balance is maintained at all times in different current accounts and an emergency fund of about VT200 million is maintained with one of the central banks.

The Bank's assets held for managing liquidity risks comprise of high quality instruments, including commercial papers, particularly Negotiable Certificates of Deposits and Bank Bills, and debt issued by foreign Governments which are easily converted to cash.

The following tables show financial assets and liabilities at year end grouped by contractual maturity.

2015 Maturity Analysis

	0 - 3 months	3 - 6 months	6 – 12 months	Over 1 year	No specific maturity	Total
ASSETS						
<i>Financial Assets:</i>						
Cash and cash equivalents	24,892,358	-	-	-	-	24,892,358
Treasury notes, bonds & bills	537,080	186,813	2,416,477	1,113,539	-	4,253,909
Government securities	-	-	-	526,192	-	526,192
Government bonds	-	-	503,550	1,495,320	-	1,998,870
Other receivables	144	16,524	159,301	76,008	1,622	253,599
Special drawing rights	-	-	-	-	217,748	217,748
<i>Non Financial Assets</i>	-	-	-	-	2,216,561	2,216,561
	25,429,582	203,337	3,079,328	3,211,059	2,435,931	34,359,237
LIABILITIES						
<i>Financial Liabilities:</i>						
Other creditors and accruals	130,210	-	-	-	-	130,210
Demand deposits	476,749	2,556,201	18,492,211	2,606,950	-	24,132,111
Reserve Bank of Vanuatu Notes	443,652	-	-	-	-	443,652
Currency in Circulation	8,548,899	-	-	-	-	8,548,899
<i>Non Financial Liabilities</i>	-	-	-	-	655,939	655,939
	9,599,510	2,556,201	18,492,211	2,606,950	655,939	33,910,811
Net Liquidity Gap	15,830,072	(2,352,864)	(15,412,883)	604,109	1,779,992	448,426

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES - continued

Liquidity risk - continued

2014 Maturity Analysis

	0 - 3 months	3 - 6 months	6 – 12 months	Over 1 year	No specific maturity	Total
ASSETS						
<i>Financial Assets:</i>						
Cash and cash equivalents	15,574,748	-	-	-	-	15,574,748
Treasury notes, bonds & bills	-	134,784	105,944	2,490,292	-	2,731,020
Government securities	-	-	-	370,639	-	370,639
Government bonds	500	100	280	1,997,410	-	1,998,290
Other receivables	32,735	15,476	49,715	92,791	1,486	192,203
Special drawings right	-	-	-	-	223,653	223,653
<i>Non Financial Assets</i>	-	-	-	-	2,242,679	2,242,679
	15,607,983	150,360	155,939	4,951,132	2,467,818	23,333,232
LIABILITIES						
<i>Financial Liabilities:</i>						
Other creditors and accruals	106,346	-	-	-	-	106,346
Demand deposits	433,400	2,075,323	11,915,906	-	-	14,424,629
Reserve Bank of Vanuatu Notes	215,737	-	-	-	-	215,737
Currency in circulation	7,499,202	-	-	-	-	7,499,202
<i>Non Financial Liabilities</i>	-	-	-	-	635,412	635,412
	8,254,685	2,075,323	11,915,906	-	635,412	22,881,326
Net Liquidity Gap	7,353,298	(1,924,963)	(11,759,967)	4,951,132	1,832,406	451,906

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. In respect of the Bank, market risk comprises foreign exchange risk and interest rate risk; and other price risk.

(i) Foreign exchange risk

Foreign exchange risk is the risk the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank attracts foreign exchange risk on holdings of financial assets (principally external assets) and liabilities that are denominated in a currency other than Vatu. The investment guidelines of the Bank set out the approved foreign currencies which it may invest in.

The Bank does not hedge its exposure to exchange fluctuations in these currencies.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

(i) Foreign exchange risk- continued

In accordance with the RBV Act, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserves asset management, are achieved through diversification of investment by entering into transactions in international capital and money markets. Analysis of risks is the process of managing the foreign currency reserves by comparing estimated risk levels with set limits.

The following tables show the currency concentration of the Bank's net exposure to major currencies as at 31 December 2015 and 2014 in Vatu equivalents.

		2015		2014
		%		%
United States dollar	9,607,710	47	8,970,822	57
Australian dollar	6,604,372	32	5,477,298	35
Euro	2,971,448	14	720,682	5
British pound	195,870	1	188,782	1
Other currencies	1,332,621	6	367,085	2
NET OPEN POSITION	20,712,021	100	15,724,669	100

The following significant exchange rates were used at year end to convert foreign currency balances to vatu.

	2015	2014
VUV/USD	110.53	102.72
VUV/JPY	0.9171	0.8598
VUV/NZD	75.66	80.43
VUV/GBP	163.77	159.87
VUV/AUD	80.52	84.07
VUV/EUR	120.84	124.88
VUV/CAD	79.60	88.50
VUV/CHN	17.03	16.56
VUV/SDR	153.34	148.77

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

(ii) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes to market interest rates. The Bank limits interest rate risk by modified duration targets. The benchmark modified duration for the total portfolio is capped at eighteen months. The duration of the portfolio is re-balanced regularly to maintain the target duration.

The interest rates of financial assets and liabilities at the balance sheet date are as follows:

Financial assets:

Cash and current accounts	-	floating interest rates.
Short term deposits	-	fixed interest rates, maturing in 180 days or less.
Treasury notes, bonds and bills	-	fixed interest rates, maturing in 9 years or less.
Vanuatu government bonds	-	fixed interest rates, maturing as detailed in note 13.
Staff loans	-	fixed interest rates, maturing in 20 years or less.

Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less.
Statutory bodies/banks	-	fixed interest rates, maturing in 30 days or less.
Government of Vanuatu	-	fixed interest rates, payable in 30 days or less
Reserve Bank of Vanuatu Notes	-	fixed interest rates, payable in 30 days or less.

All other financial assets or financial liabilities are non-interest bearing.

(iii) Sensitivity to foreign exchange risk and Interest rate risk

The sensitivity of the Bank's financial assets and liabilities to assume across the board changes in interest rates and the exchange rate is shown below:

Impact of:	2015	2014
Change in profit due to a 5% appreciation of the Vatu	1,165,792	907,234
Change in profit/equity due to a rise of 1 percentage point in interest rate	223,485	175,864

A 5% depreciation of the Vatu against the respective currencies and fall of 1 percentage in the Interest rates would have the opposite effect of an equal amount.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

The valuation of the Bank's financial assets and liabilities are discussed below:

Cash and cash equivalents

The reported value of cash and cash equivalents is considered to be its fair value due to the short term nature of the financial assets.

Treasury notes, bonds and bills

Bonds are carried at fair value. Refer to page 30 for details of classification by valuation hierarchy.

Government bonds

The reported value of government bonds is considered to approximate its fair value as they are redeemable on demand.

Demand Deposits

The carrying value of deposits are considered to approximate their fair value as they are payable on demand.

Reserve Bank of Vanuatu Notes

The carrying value of the Reserve Bank of Vanuatu Notes is considered to approximate their fair value as they are redeemable in accordance with the Bank's policy.

Currency in Circulation

The carrying value of Currency in Circulation is considered to be its fair value as reported in the accounts.

Other Financial Assets and Liabilities

The reported values of other financial assets and liabilities are considered to be their fair value.

The table below shows the Banks financial assets carried at fair value by valuation method. There are no financial liabilities carried at fair value at balance date (2014: Nil).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES - continued

The different levels have been defined as follows:

Level 1	Valued using quoted prices (unadjusted) in active markets for identical financial assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.
Level 2	Valued using inputs other than quoted prices included within level 1 that are observable for the financial asset or liability
Level 3	Valued using inputs for the financial asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
As at 31 December 2015				
<i>Assets</i>				
Treasury notes, bonds & bills				
- Financial assets at fair value through profit and loss	3,140,370	-	-	3,140,370
- Available for sale financial assets	1,113,539	-	-	1,113,539
	<u>4,253,909</u>	<u>-</u>	<u>-</u>	<u>4,253,909</u>
As at 31 December 2014				
<i>Assets</i>				
Treasury notes, bonds & bills				
- Financial assets at fair value through profit and loss	1,697,729	-	-	1,697,729
- Available for sale financial assets	1,033,291	-	-	1,033,291
	<u>2,731,020</u>	<u>-</u>	<u>-</u>	<u>2,731,020</u>

29. EVENTS AFTER BALANCE DATE

Subsequent to period end, the Bank entered into a contract with an unrelated party to undertake upgrade works on the Reserve Bank of Vanuatu building. Capital commitments arising out of this contract amount to VT 261m.