

RESERVE BANK OF VANUATU
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2012**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 2012 and the related Statements of 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:

Odo Tevi – Chairman

Georges Maniuri

Jimmy Nipo

Jack Kilu – resigned on 12 March 2012

Marinette Nial Molisa – resigned on 21 May 2012

Thomas Bayer – appointed on 12 March 2012

Anatole Hymak – appointed 4 December 2012

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 profit of the Bank for the year ended 31 December 2012 was VT108.134m (2011: VT165.288m).

4. RESERVES

An amount of VT10.813m (2011: VT16.529m) was transferred to the General Reserve for the financial year ended 31 December 2012, being 10 percent of the net profit available for distribution for the year.

5. PAYABLE TO GOVERNMENT

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. Realised gains from the Retain Earnings Reserve are also available for distribution to the Government depending on Board approval.

An amount of VT97.321m (2011:VT137.499m) is payable to the Government of the Republic of Vanuatu.

RESERVE BANK OF VANUATU**DIRECTORS' REPORT – continued****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 realised 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.

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.

RESERVE BANK OF VANUATUFINANCIAL STATEMENTS
31 DECEMBER 2012DIRECTORS' REPORT – continued

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. NO UNUSUAL TRANSACTIONS

The results of the Bank's operations during the financial year have not in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this ^{21st} day of August 2013.

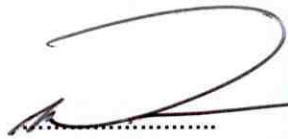

.....
Acting Governor (Chairman)
.....
Director


RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2012**STATEMENT BY DIRECTORS**


In the opinion of the Directors:

- (a) the accompanying statement of 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 2012;
- (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 2012;
- (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 2012; 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 2012.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this
21st day of August 2013.


.....
Acting Governor (Chairman)




.....
Director



Independent Auditor's Report

To the Shareholder of the 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 2012 and the statements of 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 management determines 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.



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 2012, 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.

21 August 2013
Suva, Fiji

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012
(Expressed in 000's Vatu)

	Notes	2012	2011
Operating Revenue			
Interest income	7	602,303	626,399
Net unrealised gains in foreign securities market prices		26,884	77,027
Net foreign exchange gains		56,747	36,674
Other income		<u>34,299</u>	<u>23,424</u>
Total revenue		<u>720,233</u>	<u>763,524</u>
Operating Expenses			
Interest expense	8	19,483	41,992
Personnel expenses	9	316,269	291,297
Other operating expenses	10	<u>276,347</u>	<u>264,947</u>
Total expenses		<u>612,099</u>	<u>598,236</u>
Net profit for the year		108,134	165,288
Other comprehensive income			
Change in value of available for sale financial asset		<u>2,128</u>	<u>9,169</u>
Total comprehensive income		<u>110,262</u>	<u>174,457</u>

This statement of 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 29.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

(Expressed in 000's Vatu)

	Notes	2012	2011
Assets			
Cash and cash equivalents	11	10,819,144	10,419,308
Investment securities	11	5,296,960	5,267,712
Government securities	12	224,489	224,695
Government bonds	13	1,293,810	1,293,810
Other receivables	14	217,057	233,935
Currency stock (notes and coins)	15(a)	277,974	352,768
Property, plant and equipment	16	1,373,645	1,393,398
Intangible assets	17	12,992	18,277
International Monetary Fund (IMF):	21		
Reserve Tranche Position		350,521	359,332
Special Drawing Rights	11	<u>214,263</u>	<u>214,925</u>
Total Assets		<u>20,080,855</u>	<u>19,778,160</u>
Liabilities			
Other creditors and accruals		61,342	65,226
Demand deposits	18	10,841,725	10,116,180
Distribution payable to Vanuatu Government	19	97,321	137,499
Reserve Bank of Vanuatu notes		802,748	1,619,144
Reserve Tranche Position		350,521	359,332
Currency in circulation	15(b)	6,973,217	6,581,483
Employee provisions	20	<u>243,743</u>	<u>201,999</u>
Total Liabilities		<u>19,370,617</u>	<u>19,080,863</u>
Net Assets		<u>710,238</u>	<u>697,297</u>
Capital and Reserves			
Paid up capital	22	100,000	100,000
General Reserve	4	227,342	216,529
Retain Earnings Reserve	5	108,711	108,711
Fair Value Reserve	6(a)	49,388	47,260
Asset Revaluation Reserve	6(b)	<u>224,797</u>	<u>224,797</u>
Total Capital and Reserves		<u>710,238</u>	<u>697,297</u>

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 29.

RESERVE BANK OF VANUATU

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in 000's Vatu)

	Notes	Paid Up Capital	General Reserve	Retain Earnings Reserve	Fair Value Reserve	Asset Revaluation Reserve	Accumulated Profits	Total Capital and Reserves
Balance as at 31 December 2010		100,000	200,000	97,451	38,091	224,797	-	660,339
Net profit for the year		-	-	-	-	-	165,288	165,288
<i>Other Comprehensive Income:</i>								
Change in value of available for sale financial asset	6(a)	-	-	-	9,169	-	-	9,169
Total comprehensive income		-	-	-	9,169	-	165,288	174,457
Transfers out of profit for the year:								
- to General Reserve	4	-	16,529	-	-	-	(16,529)	-
- to Retain Earnings Reserve	5	-	-	11,260	-	-	(11,260)	-
- transfer to distribution payable to Vanuatu Government	4	-	-	-	-	-	(137,499)	(137,499)
Balance as at 31 December 2011		100,000	216,529	108,711	47,260	224,797	-	697,297
Net profit for the year		-	-	-	-	-	108,134	108,134
<i>Other Comprehensive Income:</i>								
Change in value of available for sale financial asset	6(a)	-	-	-	2,128	-	-	2,128
Total comprehensive income		-	-	-	2,128	-	108,134	110,262
Transfers out of profit for the year:								
- to General Reserve	4	-	10,813	-	-	-	(10,813)	-
- to Retain Earnings Reserve	5	-	-	-	-	-	-	-
- transfer to distribution payable to Vanuatu Government	4	-	-	-	-	-	(97,321)	(97,321)
Balance as at 31 December 2012		100,000	227,342	108,711	49,388	224,797	-	710,238

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 29.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in 000's Vatu)

	Notes	2012	2011
Cash flows from operating activities			
Interest received		611,121	633,913
Interest paid	(	24,986)	(38,290)
Other operating receipts		27,273	23,424
Other operating payments	(	389,848)	(360,359)
Net cash provided by operating activities		<u>223,560</u>	<u>258,688</u>
Cash flows from investing activities			
Net movement in Special drawing rights		662	7,702
Net treasury notes and bonds (acquired) / matured	(	236)	(655,617)
Interest received on Government securities		206	1,025
Net purchase of Government bonds		-	(100,160)
Net loans to staff		15,704	(10,595)
Purchase of property, plant and equipment	(	61,428)	(39,993)
Purchase of computer software	(	364)	(191)
Proceeds from sale of property plant & equipment		<u>1,600</u>	<u>2,472</u>
Net cash used in investing activities	(	<u>43,856</u>)	(<u>795,357</u>)
Cash flows from financing activities			
Currency issued for circulation		391,734	700,597
Net movement in commercial banks deposits		720,476	25,278
Payments to Government	(	76,042)	(117,780)
Net movement in international institutions and agencies deposits	(	56,388)	(29,216)
(Payments for matured) / Proceeds for issuing Reserve Bank of Vanuatu notes	(	<u>816,396</u>)	<u>422,579</u>
Net cash provided by financing activities		<u>163,384</u>	<u>1,001,458</u>
Net increase in cash and cash equivalents		343,088	464,789
Cash and cash equivalents at the beginning of the financial year		10,419,308	9,917,845
Effects of exchange rate changes on foreign currency balances	3(b)	<u>56,748</u>	<u>36,674</u>
Cash and cash equivalents at the end of the financial year	11	<u>10,819,144</u> =====	<u>10,419,308</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 29.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**
(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 prudence only net realised gains should be available for distribution.

The financial statements were authorised for issue by the Board of Directors on 21 August 2013.

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(a) Basis of preparation - continued

Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Bank's accounting periods beginning on or after 1 January 2013 or later periods and have not been early adopted. Management has yet to assess whether the adoption of these standards and interpretations will have any significant impact on the Bank's financial statements.

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IAS 19 Amendment	Employee benefits	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRS 7 Amendment	Financial Instruments: Disclosures	1 January 2013
IAS 32 Amendment	Financial Instruments: Presentation	1 January 2013
IFRS 9	Financial instruments: Classification and measurement	1 January 2015

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 recognised 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.

(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 realised and unrealised gains and losses on foreign currencies are recognised in the statement of 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 unrealised gains, and any subsequent realised components would then be available for distribution to the Government of the Republic of Vanuatu.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(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 are 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. Unrealised gains and losses arising from changes in the fair value are recognised 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 comprehensive income as gains and/or losses.

Financial Liabilities

Demand deposit liabilities

Demand Deposits include deposits at call. Deposit balances are shown at their amortised 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 amortised cost.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(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 amortised 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 recognised 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 comprehensive income in the year of disposal.

(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 capitalised only if the benefit will produce additional future economic benefit exceeding more than one year.

Capitalised acquired software and software development costs are amortised 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 recognised 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 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(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 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 amortised cost.

(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 comprehensive income. All known bad debts are written off against the provision in the year in which they are recognised. Bad debts, in respect of which no specific provisions have been established, are charged directly to the statement of 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 with changes in presentation in the current year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

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 authorised capital;
- (b) once the balance of the General Reserve is equal to half the authorised capital, half the net profit be transferred to the General Reserve until the balance thereof is equal to the authorised capital;
- (c) once the balance of the General Reserve is equal to the authorised 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 unrealised gains and any subsequent realised 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.

In the current year VT10.813m (2011:VT16.529m) was transferred out of net profit to the General Reserve.

5. RETAIN EARNINGS RESERVE

In pursuant to Section 7(2) of the RBV Act, a special Retain Earnings Reserve account was set up. Unrealised net gains on foreign exchange are recognised in profit from ordinary activities and until such net gains are realised, 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

7. INTEREST INCOME	2012	2011
Overseas Investments	496,671	525,270
Domestic Investments	102,188	97,315
Staff Loans & Advances	<u>3,444</u>	<u>3,814</u>
	602,303	626,399
	=====	=====
8. INTEREST EXPENSE		
Interest on Government accounts	2,053	989
Interest on Reserve Bank of Vanuatu notes	17,204	27,969
Other	<u>226</u>	<u>13,034</u>
	19,483	41,992
	=====	=====
9. PERSONNEL EXPENSES		
Salaries and wages	166,102	163,791
Superannuation contribution (VNPF)	6,620	6,384
Staff training	19,405	26,296
Severance pay, long service leave, accrued annual leave and gratuity expense	64,147	44,258
Other	<u>59,995</u>	<u>50,568</u>
	316,269	291,297
	=====	=====
10. OPERATING EXPENSES		
Auditor's remuneration	1,546	1,797
Depreciation and amortisation	86,830	85,107
Funds managers' fee	5,122	5,224
Amortisation of currency costs	74,794	54,128
Communication expenses	12,579	14,192
Gain on disposal of property, plant and equipment	(1,600)	(1,751)
Other expenses	<u>97,076</u>	<u>106,250</u>
	276,347	264,947
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - 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 2012, the value of the external reserves was 85.8 % (2011: 84.9%)

(a) External assets consists of the following:

	2012	2011
Cash	10,480	9,129
Current and call accounts	692,222	978,099
Short term deposits	7,579,007	6,786,571
Negotiable certificate of deposit	<u>2,537,435</u>	<u>2,645,509</u>
Total cash and cash equivalents	10,819,144	10,419,308
Treasury notes, bonds and bills		
- Financial assets at fair value through profit and loss	2,874,745	2,802,707
- Available for sale financial assets	<u>2,422,215</u>	<u>2,465,005</u>
Total Investment Securities	5,296,960	5,267,712
Special drawings rights	<u>214,263</u>	<u>214,925</u>
Total external assets	<u>16,330,367</u> =====	<u>15,901,945</u> =====

(b) External assets are defined by the RBV Act as including any internationally recognised reserve asset. In these financial statements, external assets also include fully convertible foreign currency balances equivalent to VT32.743m (2011: VT21.928m) held with local banks in Vanuatu.

12. GOVERNMENT NON-NEGOTIABLE SECURITIES ISSUED TO THE BANK

	2012	2011
Balance at the beginning of the financial year	224,695	225,720
IMF remuneration credit	(206)	(1,025)
Balance at the end of the financial year	<u>224,489</u> =====	<u>224,695</u> =====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
(Expressed in 000's Vatu)

13. GOVERNMENT BONDS	2012	2011
Government bonds held with Reserve Bank	1,293,810	1,293,810
	=====	=====
These bonds which are valued in accordance with note 3(k).		
14. OTHER RECEIVABLES		
Interest receivable	114,141	115,936
Staff loans and advances	91,322	107,026
Sundry debtors	11,122	7,622
Other	472	3,351
	-----	-----
	217,057	233,935
	=====	=====
15. CURRENCY ACTIVITIES		
(a) Currency Stock (notes and coins)		
	2012	2011
Balance at the beginning of the financial year	352,768	406,896
Purchase of stock	-	-
Currency issued into circulation	(74,794)	(54,128)
	-----	-----
Balance at the end of the financial year	277,974	352,768
	=====	=====
(b) Currency in circulation		
Notes	6,223,530	5,876,498
Coins	749,687	704,985
	-----	-----
Total currency in circulation	6,973,217	6,581,483
	=====	=====

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 2012 - continued**
(Expressed in 000's Vatu)

16. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Computer and office equipment	Other	Work in progress	Total
At 1 January 2011					
Cost or valuation	1,337,497	234,849	125,808	-	1,698,154
Accumulated depreciation	(79,111)	(147,479)	(33,910)	-	(260,500)
Net book value	<u>1,258,386</u>	<u>87,370</u>	<u>91,898</u>	<u>-</u>	<u>1,437,654</u>
Year Ended 31 December 2011					
Opening net book value	1,258,386	87,370	91,898	-	1,437,654
Additions	15,156	11,968	12,869	-	39,993
Reversal of costs	(4,055)	-	-	-	(4,055)
Disposals	(176)	-	(545)	-	(721)
Depreciation	(33,378)	(31,500)	(14,595)	-	(79,473)
Closing net book value	<u>(1,235,933)</u>	<u>(67,838)</u>	<u>(89,627)</u>	<u>-</u>	<u>(1,393,398)</u>
At 31 December 2011					
Cost or valuation	1,348,413	246,498	134,567	-	1,729,478
Accumulated depreciation	(112,480)	(178,660)	(44,940)	-	(336,080)
Net book value	<u>1,235,933</u>	<u>67,838</u>	<u>89,627</u>	<u>-</u>	<u>1,393,398</u>
Year Ended 31 December 2012					
Opening net book value	1,235,933	67,838	89,627	-	1,393,398
Additions	32,662	8,998	9,902	9,866	61,428
Depreciation	(33,392)	(31,467)	(16,322)	-	(81,181)
Closing net book value	<u>1,235,203</u>	<u>45,369</u>	<u>83,207</u>	<u>9,866</u>	<u>1,373,645</u>
At 31 December 2012					
Cost or valuation	1,381,075	255,496	144,469	9,866	1,790,906
Accumulated depreciation	(145,872)	(210,127)	(61,262)	-	(417,261)
Net book value	<u>1,235,203</u>	<u>45,369</u>	<u>83,207</u>	<u>9,866</u>	<u>1,373,645</u>
	=====	=====	=====	=====	=====

The Bank owns Land located at Nambatu Lagoon area (Title No.11/OB31/026). During the year, the Bank granted Starfish Limited easement to its Land in exchange for a plot of Land in the La Colline subdivision (Title No. 12/0912/904). At the same time, the Bank acquired a further plot of Land (Title No. 12/0912/908) in the same subdivision for VT10,573,850.

The work in progress relates to RBV Tower Extension Project, Governors Residence Project and furniture & fittings for the Vault.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - 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 2011			
Cost	39,561	-	39,561
Accumulated amortisation	(21,284)	-	(21,284)
Net book value	<u>18,277</u>	<u>-</u>	<u>18,277</u>
Year Ended 31 December 2011			
Opening net book value	23,720	-	23,720
Additions	191	-	191
Amortisation charge	(5,634)	-	(5,634)
Closing net book value	<u>18,277</u>	<u>-</u>	<u>18,277</u>
At 31 December 2011			
Cost	39,561	-	39,561
Accumulated amortisation	(21,284)	-	(21,284)
Net book value	<u>18,277</u>	<u>-</u>	<u>18,277</u>
Year Ended 31 December 2012			
Opening net book value	18,277	-	18,277
Additions	-	364	364
Amortisation charge	(5,649)	-	(5,649)
Closing net book value	<u>12,628</u>	<u>364</u>	<u>12,992</u>
At 31 December 2012			
Cost	39,561	364	39,925
Accumulated amortisation	(26,933)	-	(26,933)
Net book value	<u>12,628</u>	<u>364</u>	<u>12,992</u>
	=====	=====	=====

The work in progress relates to the payroll software project.

18. DEMAND DEPOSITS

	2012	2011
Due to commercial banks	6,029,199	5,308,723
Due to government	2,391,466	2,330,009
Due to international institutions and agencies	<u>2,421,060</u>	<u>2,477,448</u>
	<u>10,841,725</u>	<u>10,116,180</u>
	=====	=====

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. Realised gains from the Retain Earnings Reserve are also available for distribution to the Government depending on Board approval.

An amount of VT97.321m (2011:VT137.499m) 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 2012 - continued**
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20. EMPLOYEE PROVISIONS

	2012	2011
Opening balance	201,999	174,638
Additional provisions recognised	64,707	40,950
Utilised/ reversals	(22,963)	(13,589)
Closing balance	243,743 =====	201,999 =====

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.

22. SHARE CAPITAL

	2012	2011
Authorised capital of 400,000,000 ordinary shares	400,000 =====	400,000 =====
Issued and paid-up capital of 100,000,000 ordinary shares	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 2012 were Odo Tevi (Chairman), Georges Maniuri, Jimmy Nipo, Tom Bayer and Anatole Hymak.

During the year, key management personnel consisted of the following executives: Odo Tevi (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 & Statistics) and Noel Vari (Director Financial institution supervision).

Transactions with related parties

In the normal course of its operations, the Bank enters into transactions with related parties identified above.

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 distribution.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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23. RELATED PARTY INFORMATION - continued

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

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

	2012	2011
Directors sitting allowances	105	405
Executive officers	<u>53,050</u>	<u>47,246</u>
	53,155	47,651
	=====	=====

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT23.233m (2011: VT24.489m). 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 2012 was 84 (2011: 84).

25. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance sheet date (2011: nil).

26. COMMITMENTS

The directors are not aware of any commitments at balance sheet date (2011: nil).

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**

(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES - continued

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 minimised by dealing with recognised monetary institutions with minimum acceptable credit ratings and operational limits.

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

	2012	2011
Foreign currency assets		
Cash and cash equivalents	10,819,144	10,419,308
Investment securities	5,296,960	5,267,712
International Monetary Fund (IMF):		
Special Drawing Rights	<u>214,263</u>	<u>214,925</u>
	<u>16,330,367</u>	<u>15,901,945</u>
Local currency assets		
Government securities	224,489	224,695
Government bonds	<u>1,293,810</u>	<u>1,293,810</u>
	<u>1,518,299</u>	<u>1,518,505</u>
	<u>17,848,666</u>	<u>17,420,450</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:

	2012 %	2011 %
Australia	39	36
New Zealand	1	1
United States of America	3	2
Switzerland	8	8
United Kingdom	5	3
Supranational	31	30
Vanuatu	9	9
Others	<u>4</u>	<u>11</u>
	<u>100</u>	<u>100</u>
	=====	=====

The following table presents the Bank's above credit exposure based on Moody'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 Moody's.

	2012 %	2011 %
AAA – AA3	16	24
A1 – A3	13	7
BAA1 – BAA3	8	9
N/R	<u>63</u>	<u>60</u>
	<u>100</u>	<u>100</u>
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued**
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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 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 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.

2012 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	5,883,802	4,376,287	559,055	-	-	10,819,144
Treasury notes, bonds & bills	-	-	682,677	4,614,283	-	5,296,960
Government securities	-	-	-	224,489	-	224,489
Government bonds	1,293,810	-	-	-	-	1,293,810
Other receivables	37,176	49,129	14,540	116,212	-	217,057
Special drawings rights	-	-	-	-	214,263	214,263
<i>Non Financial Assets</i>	-	-	-	-	2,015,132	2,015,132
	7,214,788	4,425,416	1,256,272	4,954,984	2,229,395	20,080,855
LIABILITIES						
<i>Financial Liabilities:</i>						
Other creditors and accruals	40,351	20,991	-	-	-	61,342
Demand deposits	6,742,575	722	1,813,927	2,284,501	-	10,841,725
Reserve Bank of Vanuatu Notes	802,748	-	-	-	-	802,748
Currency in Circulation	6,973,217	-	-	-	-	6,973,217
<i>Non Financial Liabilities</i>	-	-	-	-	691,585	691,585
	14,558,891	21,713	1,813,927	2,284,501	691,585	19,370,617
Net Liquidity Gap	(7,344,103)	4,403,703	(557,655)	2,670,483	1,537,810	710,238

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 - continued
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27. FINANCIAL RISK MANAGEMENT POLICIES - continued

Liquidity risk - continued

2011 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	9,163,540	1,255,768	-	-	-	10,419,308
Treasury notes, bonds & bills	-	-	-	5,267,712	-	5,267,712
Government securities	-	-	-	224,695	-	224,695
Government bonds	-	-	-	1,293,810	-	1,293,810
Other receivables	126,909	-	-	107,026	-	233,935
Special drawings rights	-	-	-	-	214,925	214,925
<i>Non Financial Assets</i>	-	-	-	-	2,123,775	2,123,775
	9,290,449	1,255,768	-	6,893,243	2,338,700	19,778,160
LIABILITIES						
<i>Financial Liabilities:</i>						
Other creditors and accruals	53,957	11,269	-	-	-	65,226
Demand deposits	5,509,747	736	2,263,774	2,341,923	-	10,116,180
Reserve Bank of Vanuatu Notes	1,619,144	-	-	-	-	1,619,144
Currency in circulation	6,581,483	-	-	-	-	6,581,483
<i>Non Financial Liabilities</i>	-	-	-	-	698,830	698,830
	13,764,331	12,005	2,263,774	2,341,923	698,830	19,080,863
Net Liquidity Gap	(4,473,882)	1,243,763	(2,263,774)	4,551,320	(483,905)	697,297

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 2012 - 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 2012 and 2011 in Vatu equivalents.

	2012 %	2011 %
United States dollar	29	28
Australian dollar	65	62
Euro	2	6
British pound	3	3
Other currencies	1	1
NET OPEN POSITION	100	100

(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 in 90 days or less.
Staff loans	-	fixed interest rates, maturing in 15 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.

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

27. FINANCIAL RISK MANAGEMENT POLICIES – continued

Market Risk - continued

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

The sensitivity of the Bank's financial assets and liabilities to assumed across the board changes in interest rates and the exchange rate with all other variables held constant is shown below:

Impact of:	2012	2011
Change in profit due to a 5% appreciation of the Vatu	785,177	788,564
Change in profit due to a rise of 1 percentage point in interest rate	146,939	137,848

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.

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 29 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 are 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 – continued**
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28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES – continued

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 (2011: Nil).

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 2012				
<i>Assets</i>				
Treasury notes, bonds & bills				
- Financial assets at fair value through profit and loss	2,874,745	-	-	2,874,745
- Available for sale financial assets	-	-	2,422,215	2,422,215
	2,874,745	-	2,422,215	5,296,960
As at 31 December 2011				
<i>Assets</i>				
Treasury notes, bonds & bills				
- Financial assets at fair value through profit and loss	2,802,707	-	-	2,802,707
- Available for sale financial assets	-	-	2,465,005	2,465,005
	2,802,707	-	2,465,005	5,267,712

29. EVENTS AFTER BALANCE DATE

No events have occurred since balance sheet date which would require either disclosure or adjustments in the financial statements.

