

RESERVE BANK OF VANUATU  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003

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**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

	Note	2003	2002
<b>Operating revenue</b>			
Interest income		292,502	301,045
Profit on sale of fixed assets		-	3,254
Other income		4,254	6,665
		-----	-----
Total revenue		296,756	310,964
		=====	=====
<b>Operating expenses</b>			
<i>Personnel expenses</i>			
Salaries and wages		92,041	70,432
Superannuation contribution (VNPF)		4,990	4,226
Staff training		7,796	13,436
Severance pay, long service leave and gratuity expense		19,437	3,523
Other		29,053	25,797
		-----	-----
		153,317	117,414
<i>Other operating expenses</i>			
Auditor's remuneration	7	2,321	1,564
Depreciation and amortisation	12	15,322	12,011
Funds managers' fee		7,775	7,957
Interest expense		11,655	24,661
Loss on sale of bonds		-	8,210
Cost of production of coins		3,755	27,169
Communication expenses		15,239	13,904
Other expenses		50,729	40,660
		-----	-----
		106,796	136,136
		-----	-----
Total expenses		260,113	253,550
		-----	-----
<b>Operating profit</b>		36,643	57,414
		=====	=====
<b>Appropriations</b>			
Transfer to general reserve	2	3,664	5,741
Due to Government of Vanuatu		32,979	51,673
		-----	-----
<b>Unappropriated profits as at 31 December</b>		NIL	NIL
		=====	=====

This statement of profit and loss is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 17.

**STATEMENT OF TRANSFERS TO GOVERNMENT OF VANUATU**

(Expressed in 000's Vatu)

	Note	2003	2002
Appropriation of profits		32,979	51,673
Transfer from revaluation reserve	3	5,444	9,623
		-----	-----
Total transfer to Government of Vanuatu		38,423	61,296
		=====	=====

The statement of transfers to Government of Vanuatu is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 17.

**STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

	Note	Issued & paid up capital	General reserve	Revaluation reserve	Total
<b><u>2003</u></b>					
Balance at beginning of the financial year		100,000	629,737	38,493	768,230
Change in accounting policy with respect to:					
- Gratuity provision	6	-	(63,204)	-	(63,204)
		-----	-----	-----	-----
		100,000	566,533	38,493	705,026
Transfer from profit and loss account					
- Current year profit		-	3,664	-	3,664
Net loss on changes in fair value		-	-	(3,630)	(3,630)
Net foreign exchange loss		-	-	(7,643)	(7,643)
		-----	-----	-----	-----
		100,000	570,197	27,220	697,417
1/5 of the total foreign exchange gain transferred to Government		-	-	(5,444)	(5,444)
		-----	-----	-----	-----
Balance at the end of the financial year		100,000	570,197	21,776	691,973
		=====	=====	=====	=====
<b><u>2002</u></b>					
Balance at the beginning of the financial year		100,000	623,996	9,954	733,950
Transfer from profit and loss account					
- Current year profit		-	5,741	-	5,741
- Net foreign exchange gain		-	-	38,162	38,162
		-----	-----	-----	-----
		100,000	629,737	48,116	777,853
1/5 of the total foreign exchange gain transferred to Government		-	-	(9,623)	(9,623)
		-----	-----	-----	-----
Balance at the end of the financial year		100,000	629,737	38,493	768,230
		=====	=====	=====	=====

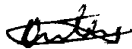
The statement of movements in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 17.

**BALANCE SHEET AS AT 31 DECEMBER 2003**

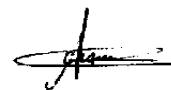
(Expressed in 000's Vatu)

	Note	2003	2002
<b>Capital and reserves</b>			
Issued capital	13	100,000	100,000
General reserve	2	570,197	629,737
Revaluation reserve	3	21,776	38,493
		-----	-----
		691,973	768,230
		-----	-----
<b>Liabilities</b>			
<b>Currency in circulation</b>			
Notes		2,133,795	1,872,334
Coins		425,711	401,320
		-----	-----
		2,559,506	2,273,654
		-----	-----
<b>Other liabilities</b>			
Due to commercial banks		2,269,417	2,205,456
Due to Government of Vanuatu		413,421	425,661
Due to international institutions and agencies		215,891	248,897
Due to statutory body		758	736
Employee provisions		105,941	29,457
Accrued expenses		8,041	9,714
Other creditors		26,725	42,414
		-----	-----
		3,040,194	2,962,335
		-----	-----
Reserve Bank of Vanuatu notes		99,132	323,902
		-----	-----
<b>Total capital, reserves and liabilities</b>		<b>6,390,805</b>	<b>6,328,121</b>
		=====	=====

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 17.



Odo Tevi  
Chairman, Board of Directors and Governor



Director

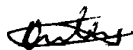
Port Vila, September 2004.

**BALANCE SHEET AS AT 31 DECEMBER 2003**

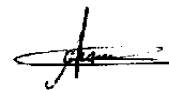
(Expressed in 000's Vatu)

	Note	2003	2002
<b>External assets</b>	4		
International Monetary Fund (IMF)	5		
Reserve tranche position:			
Subscriptions to IMF		434,523	445,023
Less: subscriptions held on behalf of Government of Vanuatu		(434,523)	(445,023)
		-----	-----
		-	-
Special drawing rights department		154,381	150,332
Treasury notes and bonds	8	2,683,336	2,137,845
Cash and cash equivalents	14(a)	1,632,140	2,126,278
		-----	-----
		4,469,857	4,414,455
		-----	-----
<b>Property, plant and equipment</b>	12	59,358	56,469
		-----	-----
<b>Other assets</b>			
Due from Government of Vanuatu		204,774	-
Interest receivable		112,839	116,896
Vanuatu government bonds	10	902,500	902,185
Government securities	9	333,406	338,552
Other receivables	11	308,071	499,564
		-----	-----
		1,861,590	1,857,197
		-----	-----
<b>Total assets</b>		6,390,805	6,328,121
		=====	=====

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 17



Odo Tevi  
Chairman, Board of Directors and Governor



Director

Port Vila, September 2004.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

	Note	2003	2002
<b>Cash flows from operating activities</b>			
Interest received		296,559	261,824
Interest paid		(11,655)	(24,661)
Other operating receipts		4,254	6,665
Other operating payments		(238,500)	(222,654)
		-----	-----
<b>Net cash provided by operating activities</b>	14(b)	50,658	21,174
		-----	-----
<b>Cash flows from investing activities</b>			
<i>Net (increase)/decrease in:</i>			
Subscription to IMF		10,500	19,358
Special drawing rights department		(4,048)	(3,734)
Treasury notes and bonds		(549,121)	(743,714)
Government securities		5,147	6,715
Other receivables		(12,315)	(120,634)
Purchase of property, plant and equipment		(18,211)	(17,696)
Proceeds from sale of property, plant and equipment		-	3,254
		-----	-----
<b>Net cash (used in) / provided by investing activities</b>		(568,048)	(856,451)
		-----	-----
<b>Cash flows from financing activities</b>			
<i>Net increase/(decrease) in:</i>			
Subscriptions held on behalf of the Government		(10,500)	(19,358)
Currency in circulation		285,851	34,980
Due to commercial banks		63,961	6,401
Due to Government of Vanuatu		(12,240)	(371,069)
Due to international institutions and agencies		(33,006)	(23,579)
Due to domestic institutions		22	(48,921)
Reserve Bank of Vanuatu notes		(224,770)	(122,383)
Transfers to Government of Vanuatu	2,3	(38,423)	(61,296)
		-----	-----
<b>Net cash used in financing activities</b>		30,895	(605,225)
		-----	-----
<b>Net (decrease) / increase in cash and cash equivalents</b>		(486,495)	(1,440,502)
<b>Cash and cash equivalents at the beginning of the financial year</b>	14(a)	2,126,278	3,528,618
Effects of exchange rate changes on foreign currency balances	1(c), 3	(7,643)	38,162
		-----	-----
<b>Cash and cash equivalents at the end of the financial year</b>	14(a)	1,632,140	2,126,278
		=====	=====

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 9 to 17.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

**1. Statement of significant accounting policies**

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

**(a) Basis of preparation**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB and the requirements of the Reserve Bank of Vanuatu Act [CAP 125]. They are prepared under the historical cost basis and do not take into account changing money values or, except where stated, current valuations of non-current assets.

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) rounded to the nearest thousand.

**(b) Revenue recognition***Operating revenue*

Operating revenue includes interest income, profit on foreign exchange dealing with commercial banks and sundry income.

**(c) Foreign currency assets and liabilities***Foreign currencies*

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 the year-end.

*Treasury notes and bonds*

Treasury notes and bonds that are dominated in foreign currencies are valued at fair value ('market value').

All gains and losses, both realised and unrealised, arising from the conversion of foreign currencies and changes in the fair value are taken to the Revaluation Reserve (Note 3) in accordance with the provisions of Section 25 of the Reserve Bank of Vanuatu Act [CAP 125] and are not included in the computation of the annual profits or losses of the Bank.

Losses arising from the conversion of foreign currencies and changes in the fair value are set off against any credit balance in the Revaluation Reserve. If the balance of this account is insufficient to cover such losses they are set off against any net profit remaining after the transfer to the General Reserve Account has been made in terms of Section 7 of the Reserve Bank of Vanuatu Act [CAP 125]. If these transfers are not adequate to cover such losses, the Government is required to transfer to the ownership of the Bank non-negotiable non-interest bearing securities to the extent of the deficiency.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

**(c) Foreign currency assets and liabilities (con't)**

Any credit balance in the Revaluation Reserve Account at the end of each year is applied first to the redemption of any non-negotiable non-interest bearing notes previously transferred to the Bank by the Government to cover losses; thereafter one-fifth of any remaining balance is payable to the Government.

In prior years it has been the Bank's policy to only account for foreign exchange gains and losses to the Revaluation Reserve. However based on legal advice, the Bank has decided in 2003 to also account for gains and losses, both realized and unrealized, arising from the changes in the fair values of assets and liabilities that are denominated in foreign currencies, to the Revaluation Reserve.

**(d) 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.

**(e) Non-current assets**

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

**(f) Property, plant and equipment***Acquisitions*

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount.

*Disposal of assets*

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 result in the year of disposal.

*Depreciation*

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:

- Leasehold land - 50-75 years
- Reserve Bank building - 10 years
- Plant and equipment - 3-10 years

Assets are depreciated from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

**(g) Notes and coins**

All purchases of notes and coins are written off in the year of payment.

**(h) Income tax**

The Bank is exempt from all taxes in accordance with Section 42 of the Reserve Bank of Vanuatu Act [CAP 125].

**(i) Employee entitlements**

The provision for employee entitlements comprises severance allowance, gratuity and annual leave and represents the present liability resulting from employees' services to the balance sheet date. The provision has been calculated at nominal amounts based on current wage and salary rates.

*Vanuatu National Provident Fund*

Employers contributions to the above fund are charged against income as incurred.

**(j) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents includes coins, notes, cash at bank, money at call and cash held on short term deposits.

**(k) Vanuatu Government bonds**

Vanuatu Government bonds are valued at cost.

**(l) Comparatives**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

**2. General reserve and distribution of profits**

The requirements of Section 7 of the Reserve Bank of Vanuatu Act [CAP 125] are:

- (a) that half the net profit be transferred to the general reserve until the balance thereof is equal to the authorised capital.
- (b) that once the balance of the general reserve is equal to the authorised capital, 10% of the net profit be transferred to the general reserve.
- (c) that after allocation of the net profit as above, the balance be applied towards the redemption on behalf of the Government of any securities held by the Reserve Bank which have been issued in accordance with Section 25 (2) in addition to those issued pursuant to Section 5 (4).
- (d) that 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 2003**

(Expressed in 000's Vatu)

**3. Revaluation reserve**

At the balance sheet date any credit balance in the Revaluation Reserve is to be applied first towards the redemption of Vanuatu Government securities issued to the Reserve Bank in respect of previous years' losses. If the remaining balance is greater than VT5.0 million, 20% of that balance is to be paid to the Vanuatu Government, to be used for such purposes as the Government, after consultation with the Reserve Bank, may decide. However, if the remaining balance does not exceed VT5.0 million, it is to be paid in full to the Government. Accordingly, the amount due to the Government of Vanuatu at 31 December 2003 of VT413,421 (2002: Vt425,661) includes VT5,444 (2002: Vt9,623) transferred from the revaluation reserve.

**4. External assets**

External assets are defined by the Act as including any internationally recognised reserve asset. In these financial statements, external assets also include fully convertible foreign currency balances equivalent to VT41,768 (2002 – VT12,883) held with local banks in Vanuatu.

**5. International Monetary Fund**

- (a) Vanuatu is a member of the International Monetary Fund (IMF) and the Reserve Bank has been designated as the Government of Vanuatu'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 Reserve Bank's external assets which have been reimbursed by the Government of Vanuatu by issue of non-interest bearing securities;
  - (ii) the funding of accounts in favour of the IMF in the books of the Reserve Bank by the Government of Vanuatu.

**6. Change in accounting policy – Gratuity provision**

During the 2003 financial year, a new policy was introduced entitling all staff to a gratuity. The change in accounting policy has been accounted for retrospectively. An amount of Vt63.2 million relating to the prior years provision was adjusted against the opening balance of the general reserve account.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

<b>7. Auditor's remuneration</b>	<b>2003</b>	<b>2002</b>
Amounts received or due and receivable by the Auditors of the bank for:		
- Auditing the financial statements	1,564	1,564
- Other services	757	-
	-----	-----
	<u>2,321</u>	<u>1,564</u>
	=====	=====
 <b>8. Treasury notes and bonds</b>		
Investment securities – 2003: at market value (2002: at cost)	2,683,336	2,137,845
	-----	-----
	<u>2,683,336</u>	<u>2,137,845</u>
	=====	=====
 <b>9. Government non-negotiable securities issued to the bank</b>		
Balance at beginning of the financial year	338,552	345,268
Encashment of notes	(5,146)	(6,716)
	-----	-----
	<u>333,406</u>	<u>338,552</u>
	=====	=====
 <b>10. Vanuatu government bonds</b>		
<i>Maturities of securities are summarised as follows:</i>		
Not later than 1 year	40,000	299,685
Between 1 and 2 years	-	40,000
Between 2 and 5 years	562,500	-
Later than 5 years	300,000	562,500
	-----	-----
	<u>902,500</u>	<u>902,185</u>
	=====	=====
 <b>11. Other receivables</b>		
<b>Current:</b>		
Advance to commercial bank	100,000	-
Advance to statutory body	-	319,627
Loans to staff	26,778	28,588
Sundry debtors	8,777	7,850
Others	19,751	-
	-----	-----
	<u>155,306</u>	<u>356,065</u>
	=====	=====
 <b>Non-current:</b>		
Loans to staff	152,765	143,499
	-----	-----
	<u>152,765</u>	<u>143,499</u>
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31  
DECEMBER 2003**

(Expressed in 000's Vatu)

<b>12. Property, plant and equipment</b>	<b>2003</b>	<b>2002</b>
Building and land		
At cost		
Building	175,727	163,738
Land	12,702	12,702
Residential properties	15,989	15,913
	-----	-----
	204,418	192,353
Accumulated depreciation	(178,112)	(176,456)
	-----	-----
	26,306	15,897
	-----	-----
Plant and equipment		
At cost	140,878	134,732
Accumulated depreciation	(107,826)	(94,160)
	-----	-----
	33,052	40,572
	-----	-----
Total property, plant and equipment	59,358	56,469
	=====	=====
<i>Movement in property, plant and equipment</i>		
Opening written down value:	56,469	39,231
Additions	18,211	33,786
Disposals	-	(4,537)
Depreciation	(15,322)	(12,011)
	-----	-----
Closing written down value	59,358	56,469
	=====	=====
<b>13. Share capital</b>		
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
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31  
DECEMBER 2003**

(Expressed in 000's Vatu)

**14. Notes to the statement of cash flows**

**(a) Reconciliation of cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank and short term deposits. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	<b>2003</b>	<b>2002</b>
Cash	3,338	2,176
Current and call accounts	708,332	1,419,517
Short term deposits	920,470	704,585
	-----	-----
	<u>1,632,140</u>	<u>2,126,278</u>

**(b) Reconciliation of operating profit to net cash provided by operating activities**

<b>Operating profit</b>	36,643	57,414
<i>Non cash items</i>		
Depreciation	15,322	12,011
Severance pay	19,437	3,523
Profit on sale of premises and equipment	-	(3,254)
<i>Net (increase)/decrease in:</i>		
Interest receivable	4,057	-
Other receivable	(1,281)	(39,221)
	-----	-----
	74,178	30,473
<i>Net increase/(decrease) in:</i>		
Accrued expenses	(23,520)	(9,299)
	-----	-----
Net cash provided by operating activities	<u>50,658</u>	<u>21,174</u>

**15. Related parties**

*Ultimate parent entity*

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

*Directors and executive officers remuneration*

The directors were paid a sitting allowance for services rendered. The Bank also provides non-cash benefits to the Executive Director and executive officers in addition to their salaries.

**NOTE TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

**15. Related parties (con't)**

Total remuneration is included in 'personnel expenses' as follows:

	<b>2003</b>	<b>2002</b>
Directors' fees and remuneration	4,642	6,543
Executive officers	13,978	12,277
	-----	-----
	<u>18,620</u>	<u>18,820</u>
	=====	=====

**16. Employees**

The number of full time permanent employees as at 31 December 2003 was 54 (2002: 51).

**17. Contingent liabilities**

The directors are aware of no contingent liabilities at balance sheet date.

**18. Financial instruments**

Exposure to credit, interest rate and currency risk arises in the normal course of the bank's operations.

The material financial instruments to which the bank has exposure includes:

- (i) external assets
- (ii) other liabilities.

*Credit risk*

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 and the exposure to credit risk is monitored on an ongoing basis.

Credit risk on financial assets is minimised by dealing with recognised monetary institutions.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

**NOTE TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003**

(Expressed in 000's Vatu)

**18. Financial instruments (con't)***Interest rate risk*

The bank's exposure to interest rates and the effective 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 90 days or less.
Treasury notes and bonds	-	fixed interest rates, maturing in 9 years or less.
Vanuatu government bonds	-	fixed interest rates, maturing as detailed in note 10.
Staff loans	-	fixed interest rates, maturing in 20 years 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
- Account No.1		
- Redemption of bonds.		

## Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less.
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All other financial assets or financial liabilities are non-interest bearing.

*Foreign currency risk*

The bank incurs foreign currency risk on holdings of financial assets (principally external assets) that are denominated in a currency other than Vatu. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars, British pounds, Euro and United States dollars.

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

**19. Post balance sheet events**

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