

RESERVE BANK OF VANUATU

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

RESERVE BANK OF VANUATU

FINANCIAL STATEMENTS
31 DECEMBER 2011

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FINANCIAL STATEMENTS
31 DECEMBER 2011

RESERVE BANK OF VANUATU

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 2011 and the related Statements of Comprehensive Income, Distribution, 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

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 2011 was VT165.288m (2010: VT309.716m).

4. RESERVES

An amount of VT16.529m (2010: VT162.265m) was transferred to the General Reserve for the financial year ended 31 December 2011, 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 amount 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 VT137.499m (2010: VT50m) is payable to the Government of the republic of Vanuatu.

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.

RESERVE BANK OF VANUATU

DIRECTORS' REPORT – continued

6. BAD AND DOUBTFUL DEBTS - continued

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.

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
 3rd day of October 2012.



 Governor (Chairman)



 Director

FINANCIAL STATEMENTS
31 DECEMBER 2011

RESERVE BANK OF VANUATU

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 2011;
- (b) the accompanying statement of distribution for the year ended 31 December 2011 is drawn up to reflect amounts transferred to the various reserves and distributable to the Government in line with the Reserve Bank of Vanuatu Act [CAP 125] and or as directed by the Government;
- (c) 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 2011;
- (d) 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 2011; and
- (e) 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 2011.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this
3rd day of October 2012.



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 2011 and the statements of comprehensive income, distribution, 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 2011, 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.

Suva, Fiji

3rd October 2012

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
Chartered Accountants

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011
 (Expressed in 000's Vatu)

	Notes	2011	2010
Operating revenue			
Interest income	7	626,399	566,320
Net unrealised gains in foreign securities market prices		77,027	66,707
Net foreign exchange gains		36,674	207,835
Other income		23,424	15,291
		-----	-----
Total revenue		763,524	856,153
		=====	=====
Operating expenses			
Interest expense	8	41,992	45,721
Personnel expenses	9	291,297	253,737
Other operating expenses	10	264,947	246,979
		-----	-----
Total expenses		598,236	546,437
		=====	=====
Net Profit for the year		165,288	309,716
Other comprehensive income			
Change in value of available for sale financial asset		9,169	(26,662)
		-----	-----
Total comprehensive income		174,457	283,054
		=====	=====

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 32.

STATEMENT OF DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2011
(Expressed in 000's Vatu)

	Notes	2011	2010
Net profit for the year / Amount available for distribution		165,288 =====	309,716 =====
Transfer/ distribution as follows:	4		
Transfer to General Reserves (Section 7(1))		16,529	162,265
Transfer to Retain Earnings Reserve (Section 7(2))	5	11,260	97,451
Payable to Government of Vanuatu (Section 7(3))		137,499	50,000
		----- 165,288 =====	----- 309,716 =====

The statement of distribution 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 2011
(Expressed in 000's Vatu)

Assets	Notes	2011	2010
Cash and cash equivalents	11	10,419,308	9,917,845
Investment securities	11	5,267,712	4,525,900
Government securities	12	224,695	225,720
Government bonds	13	1,293,810	1,193,650
Other receivables	14	233,935	223,879
Currency stock (notes and coins)	15(a)	352,768	406,896
Property, plant and equipment	16	1,393,398	1,437,654
Intangible assets	17	18,277	23,720
International Monetary Fund (IMF):	20		
Reserve Tranche Position		359,332	358,633
Special Drawing Rights	11	214,925	222,627
Total Assets		19,778,160	18,536,524
		=====	=====
Liabilities			
Other creditors and accruals		65,226	27,560
Demand deposits	18	10,253,679	10,237,903
Reserve Bank of Vanuatu notes		1,619,144	1,196,565
Reserve Tranche Position		359,332	358,633
Currency in circulation	15(b)	6,581,483	5,880,886
Employee provisions	19	201,999	174,638
Total Liabilities		19,080,863	17,876,185
		-----	-----
Net Assets		697,297	660,339
		=====	=====
Capital and Reserves			
Paid up capital	21	100,000	100,000
General Reserve	4	216,529	200,000
Retain Earnings Reserve	5	108,711	97,451
Fair Value Reserve	6(a)	47,260	38,091
Asset Revaluation Reserve	6(b)	224,797	224,797
Total Capital and Reserves		697,297	660,339
		=====	=====

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 2011
(Expressed in 000's Vatu)

	Notes	2011	2010
Paid up capital			
Balance as at the end of the year		100,000 =====	100,000 =====
General Reserve			
Balance as at the beginning of the year		200,000	37,735
Transfer from current year profit		16,529	162,265
Balance as at the end of the year	4	216,529 =====	200,000 =====
Retain Earnings Reserve			
Balance as at the beginning of the year		97,451	-
Transfer from current year profit		11,260	97,451
Balance as at the end of the year	5	108,711 =====	97,451 =====
Fair Value Reserve			
Balance as at the beginning of the year		38,091	64,753
Change in value of available for sale financial asset		9,169	(26,662)
Balance as at the end of the year	6(a)	47,260 =====	38,091 =====
Asset Revaluation Reserve			
Balance as at the end of the year	6(b)	224,797 =====	224,797 =====
Total Capital and Reserves		697,297 =====	660,339 =====

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 2011
(Expressed in 000's Vatu)

	Notes	2011	2010
Cash flows from operating activities			
Interest received		633,913	507,155
Interest paid		(38,290)	(45,254)
Other operating receipts		23,424	15,291
Other operating payments		(360,363)	(424,396)
Purchase of currency stock		-	(182,879)
Net cash provided by / (used in) operating activities	22	258,684	(130,083)
Cash flows from investing activities			
Net movement in Special drawing rights		7,702	19,143
Net treasury notes and bonds (acquired) / matured		(655,617)	436,346
Interest received on Government securities		1,025	675
Net purchase of Government bonds		(100,160)	(799,200)
Net loans to staff		(10,595)	(17,771)
Purchase of property, plant and equipment		(39,993)	(56,054)
Purchase of computer software		(191)	-
Proceeds from sale of property plant & equipment		2,472	2,200
Net cash used in investing activities		(795,357)	(414,661)
Cash flows from financing activities			
Currency issued for circulation		700,597	588,838
Net movement in commercial banks deposits		25,278	1,144,304
Payments to Government		(117,780)	(277,705)
Net movement in international institutions and agencies deposits		(29,216)	(447,986)
Proceeds from issuing Reserve Bank of Vanuatu notes		422,579	250,119
Net cash provided by financing activities		1,001,462	1,257,570
Net increase in cash and cash equivalents		464,789	712,826
Cash and cash equivalents at the beginning of the financial year		9,917,845	8,997,184
Effects of exchange rate changes on foreign currency balances	3(b)	36,674	207,835
Cash and cash equivalents at the end of the financial year	11	10,419,308	9,917,845

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 2011**

(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 ^{3rd} October 2012.

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).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - 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 2012 or later periods and have not been early adopted. Adoption of these standards and interpretations will not have any significant impact on the Bank's financial statements.

<u>Standard/ Interpretation</u>	<u>Content</u>	<u>Applicable for financial years beginning on/after</u>
IAS 1 Amendment	Financial statement presentation regarding other comprehensive income	1 July 2012
IAS 19 Amendment	Employee benefits	1 January 2013
IFRS 9 Amendment	Financial instruments: Classification and measurement	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

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 accruals basis and includes interest income, sundry income and profit on foreign exchange dealing with commercial banks.

(b) Foreign currency assets and liabilities

- 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 2011 - 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 favour 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 2011 - 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 2011 - 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 2011 - 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 VT16.529m (2010: VT162.265m) was transferred out of net profit available for distribution 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 gains and losses on foreign exchange are recognised in profit from ordinary activities and until such gains or losses 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 2011 - continued**
(Expressed in 000's Vatu)

7. INTEREST INCOME

	2011	2010
Overseas Investments	525,270	513,878
Domestic Investments	97,315	48,716
Staff Loans & Advances	3,814	3,726
	-----	-----
	626,399	566,320
	=====	=====

8. INTEREST EXPENSE

	2011	2010
Interest on Government accounts	989	10,526
Interest on Reserve Bank of Vanuatu notes	27,969	18,552
Other	13,034	16,643
	-----	-----
	41,992	45,721
	=====	=====

9. PERSONNEL EXPENSES

	2011	2010
Salaries and wages	163,791	161,772
Superannuation contribution (VNPF)	6,384	6,356
Staff training	26,296	10,207
Severance pay, long service leave, accrued annual leave and gratuity expense	44,258	35,696
Other	50,568	39,706
	-----	-----
	291,297	253,737
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

10. OPERATING EXPENSES

	2011	2010
Auditor's remuneration	1,797	1,283
Depreciation and amortisation	85,107	83,726
Funds managers' fee	5,224	6,817
Amortisation of currency costs	54,128	49,837
Communication expenses	14,192	12,533
Bad debt expense	-	3,793
Gain on disposal of property, plant and equipment	(1,751)	(2,200)
Other expenses	106,250	91,190
	-----	-----
	264,947	246,979
	=====	=====

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 2011, the value of the external reserves was 84.8% (2010: 83.7%)

(a) External assets consists of the following:

	2011	2010
Cash	9,129	7,388
Current and call accounts	978,099	1,161,742
Short term deposits	6,786,571	6,356,236
Negotiable certificate of deposit	2,645,509	2,392,479
	-----	-----
Total cash and cash equivalents	10,419,308	9,917,845
Treasury notes, bonds and bills		
- Financial assets at fair value through profit and loss	2,802,707	2,107,883
- Available for sale financial assets	2,465,005	2,418,017
	-----	-----
Total Investment Securities	5,267,712	4,525,900
Special drawings rights	214,925	222,627
	-----	-----
Total external assets	15,901,945	14,666,372
	=====	=====

(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 VT21.928m (2010 – VT19.734m) held with local banks in Vanuatu.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

12. GOVERNMENT NON-NEGOTIABLE SECURITIES ISSUED TO THE BANK

	2011	2010
Balance at the beginning of the financial year	225,720	226,395
IMF remuneration credit	(1,025)	(675)
Balance at the end of the financial year	224,695	225,720
	=====	=====

13. GOVERNMENT BONDS

These bonds which are valued in accordance with note 3(k) have varying maturity dates up to 2019. The maturities are set out below:

	2011	2010
Not later than 1 year	-	50,000
Between 1 and 2 years	300,000	-
Between 2 and 5 years	150,860	300,700
Later than 5 years	842,950	842,950
	1,293,810	1,193,650
	=====	=====

14. OTHER RECEIVABLES

	2011	2010
Interest receivable	115,936	123,449
Staff loans and advances	107,026	96,432
Sundry debtors	7,622	520
Other	3,351	3,478
	233,935	223,879
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

15. CURRENCY ACTIVITIES

(a) Currency Stock (notes and coins)

	2011	2010
Balance at the beginning of the financial year	406,896	273,854
Cost of new currencies	-	182,879
Less: issued into circulation	(54,128)	(49,837)
	-----	-----
Balance at the end of the financial year	352,768	406,896
	=====	=====

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

(b) Currency in circulation

Notes	5,876,498	5,208,001
Coins	704,985	672,885
	-----	-----
Total currency issued	6,581,483	5,880,886
	=====	=====

16. PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant & equipment include:

	2011	2010
Land and Buildings – at valuation	1,348,413	1,337,497
<u>Less: Accumulated depreciation</u>	112,480	79,111
	-----	-----
	1,235,933	1,258,386
	-----	-----
Computer and Office Equipment	246,498	234,849
<u>Less: Accumulated depreciation</u>	178,660	147,479
	-----	-----
	67,838	87,370
	-----	-----
Other	134,567	125,808
<u>Less: Accumulated depreciation</u>	44,940	33,910
	-----	-----
	89,627	91,898
	-----	-----
Total – Cost/Valuation	1,729,478	1,698,154
<u>Less: Accumulated depreciation</u>	336,080	260,500
	-----	-----
	1,393,398	1,437,654
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**

(Expressed in 000's Vatu)

16. PROPERTY, PLANT AND EQUIPMENT - continued

(b) Reconciliation of property, plant & equipment

	Land and Buildings	Computer and Office Equipment	Other	Total
Opening net book amount	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 charge	(33,378)	(31,500)	(14,595)	(79,473)
	-----	-----	-----	-----
Closing net book amount	1,235,933	67,838	89,627	1,393,398
	=====	=====	=====	=====

The amount being reversed represents costs accrued previously which are no longer payable.

17. INTANGIBLE ASSETS

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

	2011	2010
Cost	39,561	39,371
Accumulated amortisation	(21,284)	(15,651)
	-----	-----
Net book amount	18,277	23,720
	=====	=====
Opening net book amount	23,720	29,348
Additions	191	-
Amortisation charge	(5,634)	(5,628)
	-----	-----
Closing net book amount	18,277	23,720
	=====	=====

18. DEMAND DEPOSITS

	2011	2010
Due to commercial banks	5,308,723	5,283,453
Due to government	2,467,508	2,447,786
Due to international institutions and agencies	2,477,448	2,506,664
	-----	-----
	10,253,679	10,237,903
	=====	=====

19. EMPLOYEE PROVISIONS

	2011	2010
Opening balance	174,638	163,830
Additional provisions recognised	40,950	34,440
Utilised/ reversals	(13,589)	(23,632)
	-----	-----
	201,999	174,638
	=====	=====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

20. 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;
 - (ii) the funding of accounts in favour of the IMF in the books of the Bank by the Government.

21. SHARE CAPITAL

	2011	2010
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 =====

**22. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY
OPERATING ACTIVITIES**

	2011	2010
Operating profit	165,288	309,716
<i>Non cash items</i>		
Depreciation and amortisation	85,107	83,724
Bad debts	-	3,792
Cost of currency issued into circulation	54,128	49,837
Reversal of costs of property, plant and equipment	4,055	-
Profit on sale of property, plant and equipment	(1,751)	(2,200)
Gain on changes in fair value	(77,027)	(66,707)
Net foreign exchange gains/ losses	(36,674)	(207,835)
<i>Net (increase)/decrease in assets</i>		
Interest receivable	7,513	(59,166)
Other receivable	(6,975)	(15,491)
Currency payments	-	(133,042)
<i>Net (decrease)/increase in liabilities</i>		
Other creditors and accruals and employee provisions	65,019	(92,711)
 Net cash provided by operating activities	 258,684 =====	 (130,083) =====

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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 2011 were Odo Tevi (Chairman) Georges Maniuri, Jimmy Nipo, Jack Kilu and Marinette Nial Molisa.

During the year, key management personnel consisted of the following executives: Odo Tevi (Governor), Peter Tari (Deputy Governor), Nelson Shem (Director Corporate Services), Branan Karae (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.

The 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 included in 'personnel expenses' is as follows:

	2011	2010
Directors sitting allowances	405	225
Executive officers	46,846	45,087
	<u>47,251</u>	<u>45,312</u>
	=====	=====

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT24.489m (2010: VT18.063m). The loans attract interest which range from 1.5% 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 2011 was 84. (2010: 76).

25. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance sheet date (2010: nil).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

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

At balance sheet date there were no significant concentrations of credit risk.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued
 (Expressed in 000's Vatu)

26. 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 securities to support payment obligations and contingent funding in a stressed environment. The Bank's comfortable level of liquidity is equated to 4 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 assets and liabilities at year end grouped by contractual maturity.

2011 Maturity Analysis

	0 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	No specific maturity	Total
ASSETS						
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
Currency stock (notes and coins)	-	-	-	352,768	-	352,768
Property, plant and equipment	-	-	-	1,393,398	-	1,393,398
Intangible assets	-	-	-	18,277	-	18,277
Special Drawing Rights	-	-	-	-	214,925	214,925
Total	9,290,449	1,255,768	-	8,657,686	214,925	19,418,828
LIABILITIES						
Other creditors and accruals	53,957	11,269	-	-	-	65,226
Demand deposits	5,647,246	736	2,263,774	2,341,923	-	10,253,679
Reserve Bank of Vanuatu Notes	1,619,144	-	-	-	-	1,619,144
Currency in circulation	6,581,483	-	-	-	-	6,581,483
Employee provisions	-	-	-	201,999	-	201,999
Total	13,901,830	12,005	2,263,774	2,543,922	-	18,721,531
Net Liquidity Gap	(4,611,381)	1,243,763	(2,263,774)	6,113,764	214,925	697,297

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT POLICIES - continued

Liquidity risk - continued

2010 Maturity Analysis

	0 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	No specific maturity	Total
ASSETS						
Cash and cash equivalents	9,707,985	163,131	46,729	-	-	9,917,845
Treasury notes, bonds & bills	-	-	93,301	4,432,599	-	4,525,900
Government securities	-	-	-	225,720	-	225,720
Government bonds	50,000	-	-	1,143,650	-	1,193,650
Other receivables	127,446	-	13,352	83,081	-	223,879
Currency stock (notes and coins)	-	-	-	406,896	-	406,896
Property, plant and equipment	-	-	-	1,437,654	-	1,437,654
Intangible assets	-	-	-	23,720	-	23,720
Special Drawing Rights	-	-	-	-	222,627	222,627
Total	9,885,431	163,131	153,382	7,753,320	222,627	18,177,891
LIABILITIES						
Other creditors and accruals	24,972	2,588	-	-	-	27,560
Demand deposits	5,863,286	7,069	2,030,180	2,337,368	-	10,237,903
Reserve Bank of Vanuatu Notes	1,196,565	-	-	-	-	1,196,565
Currency in circulation	5,880,886	-	-	-	-	5,880,886
Employee provisions	9,470	-	-	165,167	-	174,638
Total	12,975,179	9,657	2,030,180	2,502,536	-	17,517,552
Net Liquidity Gap	(3,089,748)	(153,474)	(1,876,798)	5,250,784	222,627	660,339

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

26. FINANCIAL RISK MANAGEMENT POLICIES - continued

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 interest rate risk and foreign currency risk.

(i) Interest rate risk

Interest rate risk refers to the risk that interest rates will move adversely. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued
(Expressed in 000's Vatu)

26. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

(i) Interest rate risk - continued

Assets and liabilities will mature or re-price within the following periods:

Risk	2011 Interest rate	Less than 1 month VT'000'	1 – 3 months VT'000'	3 -12 months VT'000'	Over 1 year VT'000'	Non interest bearing VT'000'	As at 31.12.11 VT'000'
ASSETS							
Cash and cash equivalents		5,191,721	3,962,689	1,255,769	-	9,129	10,419,308
Treasury notes, bonds and bills		2,465,005	-	-	2,802,707	-	5,267,712
Government securities		-	-	-	224,695	-	224,695
Government bonds		-	-	-	1,293,810	-	1,293,810
Other receivables		-	-	-	233,935	-	233,935
Currency stock (notes and coins)		-	-	-	-	352,768	352,768
Property, plant and equipment		-	-	-	-	1,393,398	1,393,398
Intangible assets		-	-	-	-	18,277	18,277
Special Drawings Rights		-	214,925	-	-	-	214,925
Total Assets		7,656,726	4,177,614	1,255,769	4,555,147	1,773,572	19,418,828
LIABILITIES							
Other creditors and accruals		-	-	-	-	65,226	65,226
Demand deposits		-	149,096	-	2,180,913	7,923,670	10,253,679
Reserve Bank of Vanuatu notes		1,619,144	-	-	-	-	1,619,144
Currency in circulation		-	-	-	-	6,581,483	6,581,483
Employee provisions		-	-	-	-	201,999	201,999
Total Liabilities		1,619,144	149,096	-	2,180,913	14,772,378	18,721,531
EQUITY							
Issued Capital		-	-	-	-	100,000	100,000
General Reserve		-	-	-	-	216,529	216,529
Retain Earnings Reserve		-	-	-	-	108,711	108,711
Fair Value Reserve		-	-	-	-	47,260	47,260
Asset Revaluation Reserve		-	-	-	-	224,797	224,797
Total Equity		-	-	-	-	697,297	697,297
Total Equity and Liabilities		1,619,144	149,096	-	2,180,913	15,469,675	19,418,828

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 – continued**
(Expressed in 000's Vatu)

26. FINANCIAL RISK MANAGEMENT POLICIES – continued

Market Risk - continued

(i) Interest rate risk - continued

Assets and liabilities will mature or re-price within the following periods:

2010 Interest rate Risk

	Less than 1 month VT'000'	1 – 3 months VT'000'	3 -12 months VT'000'	Over 1 year VT'000'	Non interest bearing VT'000'	As at 31.12.10 VT'000'
ASSETS						
Cash and cash equivalents	5,729,332	3,971,265	209,860	-	7,388	9,917,845
Treasury notes, bonds and bills	2,418,017	-	93,301	2,014,582	-	4,525,900
Government securities	-	-	-	225,720	-	225,720
Government bonds	-	-	-	1,193,650	-	1,193,650
Other receivables	-	-	123,449	96,433	3,997	223,879
Currency stock (notes and coins)	-	-	-	-	406,896	406,896
Property, plant and equipment	-	-	-	-	1,437,654	1,437,654
Intangible assets	-	-	-	-	23,720	23,720
Special Drawings Rights	-	222,627	-	-	-	222,627
Total Assets	8,147,349	4,193,892	426,610	3,530,385	1,879,655	18,177,891
LIABILITIES						
Other creditors and accruals	-	-	-	-	27,560	27,560
Demand deposits	-	321,992	-	2,075,794	7,840,117	10,237,903
Reserve Bank of Vanuatu notes	1,196,565	-	-	-	-	1,196,565
Currency in circulation	-	-	-	-	5,880,886	5,880,886
Employee provisions	-	-	-	-	174,638	174,638
Total liabilities	1,196,565	321,992	-	2,075,794	13,923,201	17,517,552
EQUITY						
Issued Capital	-	-	-	-	100,000	100,000
General Reserve	-	-	-	-	200,000	200,000
Retain Earnings Reserve	-	-	-	-	97,451	97,451
Fair Value Reserve	-	-	-	-	38,091	38,091
Asset Revaluation Reserve	-	-	-	-	224,797	224,797
Total Equity	-	-	-	-	660,339	660,339
Total Equity and Liabilities	1,196,565	321,992	-	2,075,794	14,583,540	18,177,891

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011 - continued**
(Expressed in 000's Vatu)

26. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

(ii) Foreign Currency risk

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

The Bank attracts foreign currency 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.

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 assets and liabilities as at 31 December 2011 and 2010 in Vatu equivalents.

2011 Foreign Currency Risk

	USD	EUR	AUD	GBP	Other	Total
ASSETS						
Cash and cash equivalents	219,586	644,809	7,012,548	295,486	2,248,670	10,421,099
Treasury notes, bonds & notes	3,611,924	181,686	1,368,382	105,718	-	5,267,710
Other receivables	14,209	1,930	50,112	1,450	13,228	80,928
Special Drawing Rights	-	-	-	-	214,925	214,925
Total Assets	3,845,719	828,425	8,431,042	402,654	2,476,823	15,984,662
LIABILITIES						
Demand deposits	1,899	-	-	-	2,466,704	2,468,603
Total Liabilities	1,899	-	-	-	2,466,704	2,468,603
NET POSITION	3,843,820	828,425	8,431,042	402,654	10,119	13,516,059

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(Expressed in 000's Vatu)

26. FINANCIAL RISK MANAGEMENT POLICIES – continued

Market Risk - continued

(ii) Foreign Currency - continued

2010 Foreign Currency Risk

	USD	EUR	AUD	GBP	Other	Total
ASSETS						
Cash and cash equivalents	321,405	497,372	6,503,094	292,172	2,285,358	9,899,401
Treasury notes, bonds & notes	3,521,784	144,074	755,517	104,525	-	4,525,900
Other receivables	16,335	2,122	-	2,081	71,799	92,337
Special Drawing Rights	-	-	-	-	222,627	222,627
Total Assets	3,859,524	643,568	7,258,611	398,778	2,579,784	14,740,265
LIABILITIES						
Demand deposits	38,273	-	-	-	2,465,149	2,503,422
Total Liabilities	38,273	-	-	-	2,465,149	2,503,422
NET POSITION	3,821,251	643,568	7,258,611	398,778	114,635	12,236,843

(iii) Sensitivity to Foreign Currency Risk

The sensitivity of the Bank's financial assets and liabilities to assumed across-the-board 5% strengthening/weakening of the Vatu against other foreign currencies is shown below:

	2011	2010
USD	(+/-) 192,191	(+/-) 201,118
EUR	(+/-) 41,421	(+/-) 33,870
YEN	(+/-) 67	(+/-) 67
GBP	(+/-) 20,133	(+/-) 20,995
AUD	(+/-) 421,552	(+/-) 385,460
NZD	(+/-) 112,343	(+/-) 114,868
CAD	(+/-) 748	(+/-) 5,688
SDR	(+/-) 109	(+/-) (118,022)

A weakening of the Vatu against the respective currencies would have the opposite effect of an equal amount.

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

27. 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.

Quoted market values represent fair value when a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader.

Financial Assets and Liabilities

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 valued at mark to market.

Government bonds

The reported value of government bonds is considered to be its fair value.

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.

28. EVENTS OCCURRING AFTER BALANCE DATE

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