

**RESERVE BANK OF VANUATU**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**INDEX**

**Page No.**

1 - 3	Directors' report
4	Statement by directors
5 - 7	Independent Auditor's Report
8	Statement of profit or loss and other comprehensive income
9	Statement of financial position
10	Statement of changes in equity
11	Statement of cash flows
12 - 44	Notes to and forming part of the financial statements

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**RESERVE BANK OF VANUATU****FINANCIAL STATEMENTS**  
**31 DECEMBER 2021****DIRECTORS' REPORT**

In accordance with a resolution of the Board of Directors, the directors herewith submit the financial statements of the Reserve Bank of Vanuatu ("the Bank") for the year ended 31 December 2021 and the auditors' report thereon.

**1. DIRECTORS**

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

	<u>Appointed</u>	<u>Resigned</u>
Andrew Kausiama – Chairman	20/01/2021	-
Simeon Malachi Athy	15/11/2013	-
Serah Obed	07/07/2021	-
Steven Tah	16/03/2021	-
Votausi Mackenzie-Reur	16/03/2021	-

**2. STATE OF AFFAIRS**

In the opinion of the Directors:

- There were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or financial statements; and
- The accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2021 and the accompanying statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows for the year then ended.

**3. 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; and
- (e) to regulate the banking and insurance industry.

**4. TRADING RESULTS**

The net loss of the Bank for the year ended 31 December 2021 was VT769.706m (2020: Profit of VT499.518m) of which VT34.843m was due to net unrealized foreign exchange gain (2020: VT303.192m).

DIRECTORS' REPORT – continued**5. GOING CONCERN**

The Directors believe that the Bank will be able to continue to operate for at least 12 months from the date of this report.

**6. RESERVES**

In accordance with section 7(1) of the Reserve Bank of Vanuatu Act, the Bank is to transfer its profit to the general reserve. As a result of the net loss during the financial year, there were no transfers from the statement of profit and loss and other comprehensive income to special retained earnings reserves (2020: VT150.160m).

**7. DISTRIBUTION TO GOVERNMENT**

In accordance with the Reserve Bank of Vanuatu Act [CAP 125] section 7(3), the balance of the net profit for the financial year remaining after all allocation under section 7(1) and section 7(2) shall be paid to the Government of Vanuatu.

Realized gains (if any) from retained earnings reserve maybe distributed to the Government of Vanuatu depending on Board approval.

Dividends of VT 299.406m was paid out to the Government of Vanuatu (2020: Vt 561.912m).

**8. 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.

**9. PROVISIONS**

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

**10. ASSETS**

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

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

**11. DIRECTORS BENEFIT**

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

DIRECTORS' REPORT – continued**12. 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.

**13. BASIS OF ACCOUNTING**

The Directors believe that the basis of preparation of accounts is appropriate and the Bank will be able to continue its 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.

**14. 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.

**15. 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.

**16. SIGNIFICANT EVENTS**

The rapid spread of COVID-19 served a severe blow to the global economy that was on the cusp of a modest revival after a synchronised slowdown last year. Global growth prospects have weakened markedly as domestic demand collapsed amidst the standstill in international travel and plunge in global trade. Governments responded by introducing stimulus packages to contain the virus and support the economy. On their part, central banks reduced statutory reserve deposit and capital adequacy ratio for the commercial banks.

The Vanuatu economy is not immune to the impact of the Coronavirus. Already showing the effects in 2021, the onset of the pandemic earlier in the year escalated the downturn in economic activity. Given the considerable uncertainties, the extent of the overall damage will depend on how soon and effectively the outbreak is contained globally, the resumption of international travel and ensuing pick-up in tourism-related activities over the coming months.

The Bank has carefully considered the impact of COVID-19 in preparing its financial statement for the year ended 31 December 2021.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 31<sup>st</sup> day of May 2022.

.....  
Director (Chairman)

.....  
Governor


**RESERVE BANK OF VANUATU****FINANCIAL STATEMENTS  
31 DECEMBER 2021****STATEMENT BY DIRECTORS**

In the opinion of the Directors:

- (a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2021;
- (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 2021;
- (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 2021;
- (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 2021;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debt as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank; and
- (g) the financial statements have been appropriately prepared in accordance with International Financial Reporting Standards ("IFRS") and the Reserve Bank of Vanuatu Act [Cap 125].

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 31<sup>st</sup> day of May 2022.

  
.....  
**Director (Chairman)**

  
.....  
**Governor**

## Independent Auditors' Report to the members of Reserve Bank of Vanuatu

### Audit Opinion

We have audited the accompanying financial statements of Reserve Bank of Vanuatu ('the Bank') which comprise the statement of financial position as at 31 December 2021, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements which includes a summary of significant accounting policies and other explanatory notes set out on pages 8 to 44.

In our opinion, the financial statements have been properly prepared in accordance with the provisions of the Reserve Bank of Vanuatu [CAP 125] and give a true and fair view of the financial position of the Bank as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in compliance with International Financial Reporting Standards.

### Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial statements in Vanuatu. We have fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Other Information

Other Information is both financial and non-financial information in Reserve Bank of Vanuatu's annual reporting which is provided in addition to the financial statements and the auditor's report. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

### **Independent Auditors' Report to the members of Reserve Bank of Vanuatu (continued)**

In connection with our audit of the financial statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.

### **Responsibilities of directors for the financial statements**

The directors of the Bank are responsible for:

- the preparation and fair presentation of these financial statements and the information they contain, in accordance with International Financial Reporting Standards and the Reserve Bank of Vanuatu [CAP 125];
- implementing necessary internal controls to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Bank's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. A further description of our responsibilities for the audit of the financial statements is located at the website [https://www.ifac.org/system/files/publications/files/ISA-700-Revised\\_3.pdf](https://www.ifac.org/system/files/publications/files/ISA-700-Revised_3.pdf). This description forms part of our auditor's report.



**Independent Auditors' Report to the members of Reserve Bank of Vanuatu (continued)**

**Report on Other Legal and Regulatory Requirements**

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.

In our opinion:

1. proper books of account have been kept by the Bank, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and
2. to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Reserve Bank of Vanuatu [CAP 125], in the manner so required.

*Law Partners*

**LAW PARTNERS**

**Chartered Accountants**

(Qualified auditors under Section 130 of the Companies Act No. 25 of 2012 of the Republic of Vanuatu)



**Alipate La'au  
Partner**

Port Vila  
31 May 2022

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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021**

	Note	2021 VT '000	2020 VT '000
<b>Revenue</b>			
Interest income	6(a)	1,101,073	1,138,681
Net unrealised foreign exchange gains		34,843	303,192
Other income	6(b)	100,098	94,625
Total revenue		<u>1,236,014</u>	<u>1,536,498</u>
<b>Expenses</b>			
Interest expense	7	35,843	39,002
Net unrealised losses in foreign securities market prices		1,175,033	153,032
Personnel expenses	8	463,444	500,089
Other operating expenses	9	331,400	344,857
Total expenses		<u>2,005,720</u>	<u>1,036,980</u>
Net (loss) / profit for the year		(769,706)	499,518
<b>Other comprehensive income</b>		-	-
Total comprehensive (loss) / income		<u>(769,706)</u>	<u>499,518</u>

This statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 44.


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## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	2021 VT '000	2020 VT '000
<b>Assets</b>			
Cash and cash equivalents	10	11,577,673	11,310,272
Investment securities	10	58,653,693	54,049,323
Government bonds	11	2,323,950	2,218,376
International Monetary Fund (IMF):			
Reserve tranche position	10,19	610,123	601,354
Currency subscription	19	3,097,815	3,097,815
Special drawing rights	10, 19	3,473,170	106,937
Other receivables	12	490,489	534,391
Currency stock (notes and coins)	13(a)	807,766	839,497
Property, plant and equipment	14	1,703,142	1,681,458
Intangible assets	15	63,587	58,343
<b>Total Assets</b>		<u>82,801,408</u>	<u>74,497,766</u>
<b>Liabilities</b>			
Demand deposits	16	53,812,448	48,534,591
Other creditors and accruals		167,110	187,528
Currency in circulation	13(b)	14,600,821	13,462,985
Reserve Bank of Vanuatu notes		2,826,678	3,017,952
International Monetary Fund	19	9,644,772	6,525,406
Employee provisions	18	332,052	282,665
<b>Total Liabilities</b>		<u>81,383,881</u>	<u>72,011,127</u>
<b>Net Assets</b>		<u>1,417,527</u>	<u>2,486,639</u>
<b>Capital and Reserves</b>			
Paid up capital	20	100,000	100,000
General reserve	4	411,536	1,480,648
Asset revaluation reserve	5(a)	325,731	325,731
Special retained earnings reserve	5(b)	580,260	580,260
<b>Total Capital and Reserves</b>		<u>1,417,527</u>	<u>2,486,639</u>

Signed in accordance with the resolution of the Board of Directors.

  
 .....  
**Director (Chairman)**

  
 .....  
**Governor**

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 12 to 44.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Paid Up Capital VT '000	General Reserve VT '000	Asset Revaluation Reserve VT '000	Special Retained Earnings Reserves VT '000	Total Capital Reserves VT '000
Balance as at 1 January 2020		100,000	1,693,202	325,731	430,100	2,549,033
Net Profit for the year		-	349,358	-	150,160	499,518
<i>Other comprehensive income;</i>						
Total comprehensive income		<b>100,000</b>	<b>349,358</b>	<b>-</b>	<b>150,160</b>	<b>499,518</b>
<b>Transaction with Government recognized directly in equity</b>						
<i>Dividend declared and paid out to Government of Vanuatu</i>		-	(561,912)	-	-	(561,912)
<b>Balance as at 31 December 2020</b>		<b>100,000</b>	<b>1,480,648</b>	<b>325,731</b>	<b>580,260</b>	<b>2,486,639</b>
Net loss for the year		-	(769,706)	-	-	(769,706)
<i>Other comprehensive income</i>		-	-	-	-	-
Total comprehensive income		-	-	-	-	-
<b>Transaction with Government recognized directly in equity</b>						
<i>Dividend declared and paid out to Government of Vanuatu</i>		-	(299,406)	-	-	(299,406)
<b>Balance as at 31 December 2021</b>		<b>100,000</b>	<b>411,536</b>	<b>325,731</b>	<b>580,260</b>	<b>1,417,527</b>

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 12 to 44.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 VT '000	2020 VT '000
<b>Cash flows from operating activities</b>			
Interest received		1,101,073	1,131,973
Interest paid		(35,843)	(39,002)
Other operating receipts		(1,018,080)	99,445
Other operating payments		(661,214)	(674,744)
Purchase of currency stock		31,731	(177,999)
Net movement of amortised cost investment securities		(6,126,904)	(5,829,278)
Net movement in International Monetary Fund accounts		(8,769)	56,647
Net movement in fair-value through profit or loss investments		1,522,534	(2,228,938)
<b>Net cash used in operating activities</b>		<b>(5,195,472)</b>	<b>(7,661,896)</b>
<b>Cash flows from investing activities</b>			
Net (acquisition)/redemption of Government bonds		(105,574)	(4,800)
Net movement in staff loans		(12,953)	(74,569)
Purchase of property, plant and equipment		(76,702)	(118,805)
Purchase of intangible assets		(7,580)	(7,131)
Proceeds from sale of property plant & equipment		-	-
<b>Net cash used in investing activities</b>		<b>(202,809)</b>	<b>(205,305)</b>
<b>Cash flows from financing activities</b>			
Net movement in currency in circulation		1,137,836	1,127,845
Net movement in commercial banks deposits		6,171,432	340,316
Net movement in Government deposits		(906,053)	6,320,017
Net movement in international institution & agencies deposits		12,479	-
Net movement in IMF credit facilities		(246,867)	(820,475)
Net movement in Reserve Bank of Vanuatu notes		(238,582)	348,693
Dividend paid to Government of Vanuatu		(299,406)	-
<b>Net cash provided by financing activities</b>		<b>5,630,839</b>	<b>7,316,396</b>
Net increase / (decrease) in cash and cash equivalents		232,558	(550,805)
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>11,310,272</b>	<b>11,557,885</b>
Effects of exchange rate changes on foreign currency balances	3(b)	34,843	303,192
<b>Cash and cash equivalents at the end of the financial year</b>	10	<b>11,577,673</b>	<b>11,310,272</b>

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 12 to 44.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021****1. GENERAL INFORMATION****(a) 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.

The financial statements were authorized for issue by the Board of Directors on 31<sup>st</sup> May 2022.

**(b) Statement of compliance**

The financial statements of the Bank are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the financial reporting provisions of the Reserve Bank of Vanuatu Act [CAP 125] ("RBV Act").

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared under the historical cost basis, and do not take into account changes in money values except for the following material items in the statement of financial position:

- Fair-value-through profit or loss financial assets are measured at fair value.
- Land and buildings classified as property, plant and equipment are measured at fair value.

**(a) Functional and presentation currency**

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

**(b) Standards issued but not yet effective**

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 June 2021 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements. The following new and amended standards are not expected to have a significant impact on the Bank's financial statements:

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021 - continued****(b) Standards issued but not yet effective (continued)**

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the Phase 2 amendments).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Annual Improvements to IFRS Standards 2018–2021.

**3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Revenue recognition**

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

*Interest income and interest expense*

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

*Revenue from contracts with customers*

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(a) Revenue recognition (continued)

*Revenue from contracts with customers*

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Sale of numismatic coins	Sales include the selling of numismatics to the customer. Performance obligation is satisfied when the customer received the numismatic coins. At this point, the revenue is recognized.	Revenue and associated costs are recognized when the goods are provided - i.e. when the numismatic is issued to the customer.
Dealing profit	The income involves the spreads earned by the Bank in buy and sell arrangements (sold deals) and sell and buy back arrangements (bought deals) of foreign currencies. Performance obligation is satisfied when the customer is issued with a deal voucher of the deals. At this point, the revenue is recognized.	Revenue and associated costs are recognized when the deals are provided - i.e. when the deal is issued to the customer

(b) Foreign currency translation

- i) Transactions in foreign currencies are converted to Vatu at the rates of exchange prevailing on transaction dates. Monetary assets and liabilities denominated in foreign currencies at reporting date are retranslated to functional currency at the rates of exchange prevailing at that date.
- ii) Foreign currency differences arising on retranslation of monetary assets and liabilities are recognised in profit or loss in accordance with IFRS.
- iii) Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of transaction.
- iv) According to Section 7(2) of the RBV Act, the Board may set up other special retained earnings reserves from time to time when required. Such reserves may also be built up by net unrealized gains, and any subsequent realized components would then be available for distribution to the Government of the Republic of Vanuatu.

(c) Coins sold as numismatic items

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



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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets***Classification*

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Bank's investment in foreign bonds are classified as FVTPL. All other financial assets are classified as amortized costs.

Debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

4. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets (continued)

Financial assets: Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the performance of the portfolio is evaluated and reported to the Bank's management.
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. The Bank's foreign bonds forming part of its external reserve are managed and evaluated on a fair value basis.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets – continued

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets: Subsequent measurement and gains and losses

*Financial assets at FVTPL*

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

*Financial assets at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Debt investments at FVOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

*Equity investments at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued**Impairment of financial assets*Financial instruments*

The Bank recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward-looking information.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers this to be Baa3 or higher per rating agency Moody's or BBB- or higher per rating agency Standards & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued***Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- ECLs are discounted at the effective interest rate of the financial asset.

*Credit-impaired financial assets*

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a receivable by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

*Presentation of allowance for ECL in the statement of financial position*

Loss allowances for ECL on financial assets measured at amortised cost are presented on the statement of financial position as a deduction from the gross carrying amount of the assets.

*Write-off*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

*Modifications of financial assets*

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognised at fair value.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued***Modifications of financial assets*

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

*Derecognition of financial assets*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**(e) Financial Liabilities***Classification and recognition*

The non-derivative financial liabilities of the Bank include demand deposits, creditors and accruals, and Reserve Bank of Vanuatu notes. Financial liabilities are recognized on the trade date when the Bank becomes a party to the contractual provisions of the instrument.

*Measurement*

These non-derivative financial liabilities are initially measured at fair values less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

*Derecognition of financial liabilities*

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(f) Demand deposit liabilities**

Demand deposits represent funds placed with the Bank by the Vanuatu Government, domestic financial institutions and other organizations. Demand deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. These deposits are at call (except for statutory reserve deposit) and are disclosed in Note 16.

**(g) 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.

**(h) Property, plant and equipment***Recognition and measurement*

Items of property, plant and equipment are initially measured at cost less accumulated depreciation and any accumulated impairment losses except for land and buildings. Land and buildings are initially recognized at cost less accumulated depreciation and subsequently revalued to fair value.

Land acquired by way of lease is stated at an amount equal to the lease premium at the inception of the lease, less accumulated amortization and subsequently revalued to fair value.

Costs include expenditure that is directly attributable to the acquisition of the asset.

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 profit or loss in the year of disposal.

*Subsequent costs*

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Expenditure on repairs and maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognized in profit or loss.

*Depreciation*

Items of property, plant and equipment are depreciated from the date they are available for use. 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:

Buildings	40 years
Plant and equipment	3 – 10 years
Motor vehicles	4 years
Leasehold land is amortized over the term of the lease.	

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(h) Property, plant and equipment – continued***Periodic revaluation*

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values were deemed appropriate.

Any gain on revaluation of leasehold land and buildings is recognised in other comprehensive income and transferred to the Asset Revaluation Reserve while any loss is recognised in profit or loss.

**(i) Intangible assets**

Intangible assets refer to acquired 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 costs to the existing software are capitalized only if the benefit will produce additional future economic benefit exceeding more than one year.

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

**(j) Currency stock (notes and coins)**

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

**(k) Income Tax**

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

**(l) 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, severance pay 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 which comprise of gratuity 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 profit or loss.

**(m) 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 other short-term highly liquid investments with original terms to maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(n) Leases**

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**i. As a lessee**

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(n) Leases (continued)****ii. As a lessor**

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

**(o) Rounding**

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

**(p) Comparatives**

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

**4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS**

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

Section 7 of the RBV Act states that:

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

In the current year, loss of VT769.706m (2020: VT 349.358m) has been transferred to the General Reserve and of which no amount was available for distribution (2020: VT 299.406m).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

5. OTHER RESERVES

(a) **Asset Revaluation Reserve**

The Bank has established an Asset Revaluation Reserve for revaluation of land and buildings.

(b) **Special Retained Earnings Reserves**

The Bank has established a Special Retained Earnings Reserves. Unrealized gains and losses on revaluation of foreign exchange balances are recognized in the statement of profit or loss and other comprehensive income and are transferred to the special retained earnings reserves at the end of the accounting period. Any subsequent realized components are available for distribution to the General Reserve or to Government as dividends.

6. a) INTEREST INCOME

	2021 (VT'000)	2020 (VT'000)
Overseas Investment: Short-term investments	9,625	130,840
Overseas Investments: Long-term investments	915,328	833,325
Domestic Investments	167,027	167,502
Staff Loans & Advances	9,093	7,014
	<u>1,101,073</u>	<u>1,138,681</u>

b) OTHER INCOME

	2021 (VT'000)	2020 (VT'000)
Sundry income	7,562	63
Dealing profit	47,283	46,437
Rental income	34,345	35,239
Insurance fee income	8,468	7,963
Others	2,440	4,922
	<u>100,098</u>	<u>94,625</u>

7. INTEREST EXPENSE

	2021 (VT'000)	2020 (VT'000)
Interest on Government accounts	21,829	31,619
Interest on Reserve Bank of Vanuatu notes	14,014	7,383
	<u>35,843</u>	<u>39,002</u>

Interest is paid only on Government of Vanuatu's operating account which is held with the Bank.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

8. PERSONNEL EXPENSES

	2021 (VT'000)	2020 (VT'000)
Staff costs	342,842	335,380
Superannuation contribution (VNPF)	8,879	10,605
Staff training	2,134	1,645
Severance pay, long service leave, accrued annual leave and gratuity expense	107,610	145,357
Business travel	1,979	7,102
	<u>463,444</u>	<u>500,089</u>

9. OPERATING EXPENSES

	2021 (VT'000)	2020 (VT'000)
Amortisation and depreciation	60,939	75,592
Amortisation of currency	47,308	58,353
Auditor's remuneration	5,149	5,301
Communication expense	26,311	25,013
Corporate social responsibility	8,722	23,598
Funds managers	-	9,549
IMF Charges	1,833	11,029
License and Membership fees	19,600	17,701
Maintenance and other Contract agreements	8,561	10,625
Other expenses	152,977	98,272
	<u>331,400</u>	<u>344,857</u>

10. EXTERNAL ASSETS

Under Section 22 of the RBV Act, the value of the external reserves (represented by the Bank's external assets) for shall not be less than 50% of the total demand liabilities of the Bank. As at 31 December 2021, the value of the external reserves was 117% (2020: 120%) of total demand liabilities.

(a) External assets consist of the following:

	2021 (VT'000)	2020 (VT'000)
Cash	528,535	419,426
Current and call accounts	4,626,862	5,290,902
Negotiable certificates of deposit	-	2,234,801
Short term deposits	6,422,277	3,365,143
<b>Total cash and cash equivalents</b>	<u>11,577,674</u>	<u>11,310,272</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

10. EXTERNAL ASSETS - continued

	2021 (VT'000)	2020 (VT,000)
Treasury notes, term deposits, bonds and bills:		
- Financial assets at fair value through profit and loss	27,710,091	29,232,625
- Amortised cost	30,943,602	24,816,698
<b>Total investment securities</b>	<u>58,653,693</u>	<u>54,049,323</u>
IMF external reserve assets:		
Special drawing rights holdings	3,473,170	106,937
Reserve tranche position	610,123	601,354
<b>Total IMF external reserve assets</b>	<u>4,083,293</u>	<u>708,291</u>
<b>Total external assets</b>	<u>74,314,660</u>	<u>66,067,886</u>

	2021 (VT'000)	2020 (VT,000)
<u>Current and non-current external assets</u>		
Current external assets	46,749,920	42,970,137
Non-current external assets	27,564,740	23,097,749
	<u>74,314,660</u>	<u>66,067,886</u>

External assets are defined by the RBV Act as including any internationally recognized reserve asset. In these financial statements, external assets also include fully convertible foreign currency balances equivalent to VT1,922.623m (2020: VT708.6m) held with local banks in Vanuatu.

11. GOVERNMENT BONDS

Government bonds held with Reserve Bank

	2021 (VT'000)	2020 (VT'000)
0-3 years	100,400	-
4-7 years	3,000	8,600
8-10 years	2,220,550	2,209,776
Balance at the end of the financial year	<u>2,323,950</u>	<u>2,218,376</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021– continued

11. GOVERNMENT BONDS - continued

	2021 (VT'000)	2020 (VT'000)
<u>Current and non-current government bonds</u>		
Current external assets	1,900	5,600
Non-current external assets	2,322,050	2,212,776
	<u>2,323,950</u>	<u>2,218,376</u>

These bonds are valued in accordance with note 3(d). The bonds have varying maturity with the longest term maturing in 2030. They carry yields ranging from 3.50% - 8.55%.

12. OTHER RECEIVABLES

	2021 (VT'000)	2020 (VT'000)
Interest receivable	296,547	336,308
Staff loans and advances	167,827	154,874
Sundry debtors	21,250	37,664
Other	4,865	5,545
	<u>490,489</u>	<u>534,391</u>

13. CURRENCY ACTIVITIES

	2021 (VT'000)	2020 (VT'000)
(a) Currency Stock (notes and coins)		
Balance at the beginning of the financial year	839,497	719,851
Purchase of stock	14,569,091	177,999
Currency issued into circulation	(14,600,822)	(58,353)
Balance at the end of the financial year	<u>807,766</u>	<u>839,497</u>
(b) Currency in circulation		
Notes	13,392,743	12,317,611
Coins	1,208,078	1,145,374
Total currency in circulation	<u>14,600,821</u>	<u>13,462,985</u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

14. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings (VT'000)	Computer and Office Equipment (VT'000)	Others (VT'000)	WIP (VT'000)	Total (VT'000)
<b>At 1 January 2020</b>					
Cost or valuation	1,956,862	383,861	194,531	-	2,535,254
Accumulated depreciation	(416,067)	(327,993)	(160,578)	-	(904,638)
Net book value	1,540,795	55,868	33,953	-	1,630,616
<b>Year ended 31 December 2020</b>					
Opening net book value	1,540,795	55,868	33,956	-	1,636,743
Additions	5	-	-	118,799	118,804
Adjustment to cost	-	-	6,127	-	6,127
Disposal	-	(237)	-	-	(237)
Transfers from WIP	72,598	34,784	11,417	(118,799)	-
Depreciation	(41,427)	(19,899)	(12,526)	-	(73,852)
Closing net book value	1,571,971	70,516	38,974	-	1,681,458
<b>At 31 December 2020</b>					
Cost or valuation	2,029,465	418,408	212,075	-	2,659,948
Accumulated depreciation	(457,494)	(347,892)	(173,104)	-	(978,490)
Net book value	1,571,971	70,516	38,971	-	1,681,458
<b>Year ended 31 December 2021</b>					
Opening net book value	1,571,971	70,516	38,971	-	1,681,458
Additions	59,783	14,929	4,990	-	76,702
Adjustment to cost	5,893	(9,935)	7,626	-	3,584
Disposals	-	-	-	-	-
Transfers from WIP	-	-	-	-	-
Depreciation	(27,353)	(23,057)	(8,192)	-	(58,602)
Closing net book value	1,610,294	52,453	43,395	-	1,703,142
<b>At 31 December 2021</b>					
Cost or valuation	2,095,141	423,402	224,691	-	2,738,310
Accumulated depreciation	(484,847)	(370,949)	(181,296)	-	(1,035,168)
Net book value	1,610,294	52,453	43,395	-	1,703,142

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

15. INTANGIBLE ASSETS

	Computer Software (VT'000)	WIP (VT'000)	Total (VT'000)
<b>At 1 January 2020</b>			
Cost	96,491	-	96,491
Accumulated amortisation	(43,541)	-	(43,541)
Net book amount	<u>52,950</u>	<u>-</u>	<u>52,950</u>
<b>Year ended 31 December 2020</b>			
Opening net book amount	54,823	-	54,823
Additions	-	7,131	7,131
Disposals	(1,872)	-	(1,872)
Transfers from WIP	7,131	(7,131)	-
Amortisation charge	(1,739)	-	(1,739)
Closing net book amount	<u>58,343</u>	<u>-</u>	<u>58,343</u>
<b>At 31 December 2020</b>			
Cost	103,623	-	103,623
Accumulated amortization	(45,280)	-	(45,280)
Net book amount	<u>58,343</u>	<u>-</u>	<u>58,343</u>
<b>Year ended 31 December 2021</b>			
Opening net book amount	58,343	-	58,343
Additions	7,580	-	7,580
Disposals	-	-	-
Transfer from WIP	-	-	-
Amortisation charge	(2,336)	-	(2,336)
Closing net book amount	<u>63,587</u>	<u>-</u>	<u>63,587</u>
<b>At 31 December 2021</b>			
Cost	111,202	-	111,202
Accumulated amortization	(47,615)	-	(47,615)
Net book amount	<u>63,587</u>	<u>-</u>	<u>63,587</u>

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

16. DEMAND DEPOSITS

	2021 (VT'000)	2020 (VT'000)
Due to commercial banks	41,205,180	35,033,748
Due to government – Vanuatu Government	12,594,223	13,500,276
Due to international institutions and agencies	13,046	567
Balance at the end of the financial year	<u>53,812,449</u>	<u>48,534,591</u>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued**

**17. 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. If the Board has set up a 'retained earnings reserve' then only realized gains from this reserve are available for distribution to the Government depending on Board approval. Accordingly, as a result of the net loss as at balance date, no distribution is available to be distributed to the Government of the Republic of Vanuatu (2020: VT 299.64m).

**18. EMPLOYEE PROVISIONS**

	<b>2021</b>	<b>2020</b>
	<b>(VT'000)</b>	<b>(VT'000)</b>
Opening balance	282,665	234,210
Additional provisions recognized	102,619	81,232
Utilised/ reversals	<u>(53,232)</u>	<u>(32,777)</u>
Closing balance	<u>332,052</u>	<u>282,665</u>

VT248.23m (2020: VT 233.45m) of the employee provisions are expected to be realized in the next 12 months from the balance date.

**19. 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 assumed the Republic of Vanuatu's obligation.
- (b) Special drawing rights ("SDR") is an interest bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the IMF. As at balance date this Special drawing rights holdings (asset) had a balance of VT3,473.170m (2020: VT106.937m) and is included as part of External reserves of the Bank (refer to Note 10).
- (c) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No.2 accounts and which are disclosed together as capital subscriptions. The IMF maintains such balances in their accounts in both Special Drawing Rights (SDR) and VATU equivalents; the Bank balances are only maintained in VATU.

In June 2016, the IMF approved and disbursed an amount of SDR8.5 million under the Rapid Credit Facility (RCF) and SDR8.5 million under the Rapid Financing Instrument (RFI) for the purpose of supporting Vanuatu's reserves and balance of payment after extensive damages sustained by a category 5 tropical cyclone Pam in March 2016.

- i) Rapid Credit facility – Financing under this facility carries a Zero interest rate through 2017. It has a grace period of 5 ½ years and a final maturity of 10 years. The first repayment under this facility will commence in December 2021 until its maturity in June 2025.
- ii) Rapid Financing facility – Financing under this facility currently carries a zero interest rate till the end of 2018 at the least. Repayments would take place over a 3¼ to 5-year period. The Bank commenced its first repayment under this facility in 2018 and it matured in June 2021.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021– continued

19. INTERNATIONAL MONETARY FUND – continued

	2021 (VT'000)	2020 (VT'000)
<b>IMF Assets</b>		
Special drawing rights holding	3,473,170	106,937
Reserve tranche position	610,123	601,354
Currency subscriptions	3,097,815	3,097,815
	<u>7,181,108</u>	<u>3,806,106</u>
<b>IMF Liabilities</b>		
No.1 account	589,029	133,231
No.2 account	328	275
Special drawing rights allocation	5,682,328	2,331,753
Securities	2,507,898	2,963,749
Rapid credit facility	865,189	1,096,398
	<u>9,644,772</u>	<u>6,525,406</u>

20. SHARE CAPITAL

	2021 (VT'000)	2020 (VT'000)
Authorised capital at Vatu 1 par value	<u>1,000,000</u>	<u>1,000,000</u>
Issued and paid-up capital of 100,000,000 Vatu	<u>100,000</u>	<u>100,000</u>

21. 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 2021 were;

- Andrew Kausiama - Chairman
- Simeon Malachi Athy
- Serah Obed
- Steven Tahu
- Votausi Mackenzie-Reur

During the year, key management personnel consisted of the following executives:

Name	Current Position
Simeon Malachi Athy	Governor
Noel Vari	Deputy Governor
Dr. Michael Samuel Hililan	Principal Advisor
Simon Tiwok	Advisor, Head of Policy
Lynrose Stephens	Director (Financial Markets)
Philip Arubilake	Director (Research and Statistics)
Marinette Abbil	Director (Financial Regulations)
Gloria Siri	Chief Risk Officer
Sereana Marum	Director (Support Services Department)
Andrea Molisa	Head of Communication

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued**

**21. RELATED PARTY INFORMATION – continued**

*Transactions with related parties*

The transactions with the Government of the Republic of Vanuatu include banking services, foreign exchange transactions, purchase of government bonds, registry transactions and distributions as noted in the statement of changes in equity. During the year, the Bank received VT167m (2020: VT167.5m) of interest income from its investments in Government bonds. Refer to statement of financial position for Government securities, note 7 for interest earned by the Government on their deposits, note 11 for the Bank's investment in Government bonds at year end and note 16 for Government deposits held with the Bank at year end. Interest receivable from Government on bonds as at year end amounted to VT64.8m (2020: VT62.8m).

The Board of Directors excluding the executive directors are paid a sitting allowance for the services rendered. The Bank also incurs general expenses such as venue hire for meetings and air travel expenses and provides non-cash benefits to the Executive Directors and executive officers 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:

	<b>2021</b> <b>(VT'000)</b>	<b>2020</b> <b>(VT'000)</b>
Directors sitting allowances	300	285
Directors expenses	6,828	4,496
Executive officers	103,769	110,671
	<u>110,897</u>	<u>115,452</u>

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT17.986m (2020: VT17.294m). 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.

**22. EMPLOYEES**

The number of fulltime permanent employees as at 31 December 2021 was 96 (2020: 89).

**23. CONTINGENT LIABILITIES**

The Directors are not aware of any contingent liabilities as at the date of signing the Directors Report. (2020: The Bank is defending an action in court brought by an individual. The individual has accused the Bank of using their artistic design on the VT20 coin without appropriate consent. Although liability is not admitted, if the defense against the action is unsuccessful, there could be a payout of VT8.342m as royalty to the plaintiff. Management believes that the defense against the action will be successful).

**24. COMMITMENTS**

There are no capital commitments at balance sheet date (2020: nil)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued**

**25. FINANCIAL RISK MANAGEMENT POLICIES**

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

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

**Credit risk**

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

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

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

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

	<b>2021</b>	<b>2020</b>
	<b>(VT'000)</b>	<b>(VT'000)</b>
<b>Foreign currency assets</b>		
Cash and cash equivalents (excludes cash on hand)	11,049,139	10,890,846
Investment securities	58,653,693	54,049,323
International Monetary Fund (IMF): Special drawing rights / Reserve tranche position / Currency subscriptions	4,083,293	3,806,106
	<u>73,786,125</u>	<u>68,746,275</u>
<b>Local currency assets</b>		
Government bonds	2,323,950	2,218,376
Other receivables	490,489	534,391
	<u>2,814,439</u>	<u>2,752,767</u>
	<b><u>76,600,564</u></b>	<b><u>71,499,042</u></b>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

25. FINANCIAL RISK MANAGEMENT POLICIES – continued

**Credit risk - continued**

The Bank monitors credit risk by currency and sector. An analysis of concentrations of credit risk is shown below:

	2021	2020
	%	%
<b>Concentration by currency</b>		
AUD	38	35
CNY	1	1
EUR	10	10
GBP	0.3	0.6
JPY	0.3	0.4
NZD	11	11
SDR	5.3	5
USD	31.1	34
VT	3	3
	<u>100</u>	<u>100</u>

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

	2021	2020
	%	%
<b>Concentration by credit rating</b>		
AAA	40	40
AA+ - AA-	44	43
A+ - A-	12	13
BB+ - BB-	3	3
N/R	1	1
	<u>100</u>	<u>100</u>

*Cash*

The Bank held cash of VT4,626,862,389 (2020: VT 5,290,902,284). This cash is held with banks which are rated A- to AAA based on Standards and Poor's (S & P) credit ratings.

Impairment on cash has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Bank consider that its cash have low credit risk based on the external credit ratings of the counterparties.

The Bank does not consider the impairment to be material.

The Bank uses a similar approach of assessment of ECLs for cash to those used for debt securities.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****25. FINANCIAL RISK MANAGEMENT POLICIES – continued****Credit risk - continued***Debt investment securities*

The Bank held debt investment securities of VT75,832,505 (2020: VT 65,673,749). The debt investment securities are held with banks and the Vanuatu Government. Debt investment securities held with the foreign sovereign and corporate institutions, and Vanuatu Government are rated A to AAA and BB- respectively based on Standards and Poor's (S & P) credit ratings. The Bank monitors changes in credit risk by tracking published external credit ratings but when external credit ratings are not available or published, the Bank monitors changes in credit risk by remaining available press and regulatory information.

Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis. This is because the Bank considers that its debt investment securities held with banks have low credit risk based on the external credit ratings. Whereas, impairment on debt investment securities held with Government of Vanuatu has been measured on the lifetime expected loss basis except for Government securities which reflects the short maturities of the exposure.

The Bank does not consider the impairment to be material.

**Liquidity risk**

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

The Bank holds a diversified portfolio of cash and cash equivalents plus highly graded Government bonds to support payment obligations and contingent funding in a stressed environment. The Bank's comfortable level of liquidity is equated to 6 months of import cover. A 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
OR THE YEAR ENDED 31 DECEMBER 2021- continued

5. FINANCIAL RISK MANAGEMENT POLICIES – continued

Liquidity risk - continued

The following are contractual maturities of financial assets and financial liabilities at year end. The amounts are gross and undiscounted, and include contractual interest payments.

31 December 2021	On demand (VT'000)	0 - 3 months (VT'000)	3 - 6 months (VT'000)	6 - 12 months (VT'000)	Over 1 year (VT'000)	No specific maturity (VT'000)	Total (VT'000)	Carrying amount (VT'000)
<b>ASSETS</b>								
Cash and cash equivalents	5,155,396	6,422,277	-	-	-	-	11,577,673	11,577,673
Investment securities	-	20,292,568	12,245,369	3,767,927	23,739,154	-	60,045,018	58,653,693
Government bonds	-	-	-	1,939	0	2,386,524	2,387,461	2,323,950
Other receivables *	-	37,793	11,679	23,358	121,112	-	193,942	193,942
IMF	-	-	-	-	-	7,181,108	7,181,108	7,181,108
	5,155,396	26,752,638	12,257,048	3,793,224	23,860,266	9,567,632	81,385,202	79,930,366
<b>LIABILITIES</b>								
Other creditors and accruals	-	168,379	-	-	-	-	168,379	168,379
Demand deposits	53,812,448	-	-	-	-	-	53,812,448	53,812,448
Reserve Bank of Vanuatu Notes	-	2,829,000	-	-	-	-	2,829,000	2,829,000
Currency in Circulation	-	-	-	-	-	14,600,821	14,600,821	14,600,821
IMF	-	-	-	-	-	9,644,772	9,644,772	9,644,772
	53,812,448	2,997,379	-	-	-	24,245,593	81,055,420	81,055,420

\* - excludes interest receivables

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021 - continued

## 25. FINANCIAL RISK MANAGEMENT POLICIES – continued

## Liquidity risk - continued

31 December 2020	On demand (VT'000)	0 - 3 months (VT'000)	3 - 6 months (VT'000)	6 - 12 months (VT'000)	Over 1 year (VT'000)	No specific maturity (VT'000)	Total (VT'000)	Carrying amount (VT'000)
<b>ASSETS</b>								
Cash and cash equivalents	5,710,328	5,599,944	-	-	-	-	11,310,272	11,310,272
Investment securities	-	20,686,880	7,696,616	3,492,820	22,667,316	-	54,543,632	54,049,323
Government bonds	-	4,726	1,260	-	2,832,605	-	2,838,591	2,218,376
Other receivables *	-	43,209	20,413	37,589	81,645	-	182,856	198,083
IMF	-	-	-	-	-	3,806,106	3,806,106	3,806,106
	5,710,328	26,334,759	7,718,289	3,530,409	25,581,566	3,806,106	72,681,457	71,582,160
<b>LIABILITIES</b>								
Other creditors and accruals	-	187,530	-	-	-	-	187,530	187,530
Demand deposits	48,354,591	-	-	-	-	-	48,354,591	48,354,591
Reserve Bank of Vanuatu Notes	-	3,020,000	-	-	-	-	3,020,000	3,017,952
Currency in Circulation	-	-	-	-	-	13,462,985	13,462,985	13,462,985
IMF	-	-	-	-	-	6,525,406	6,525,406	6,525,406
	48,354,591	3,207,530	-	-	-	19,988,391	71,550,512	71,548,464

\* - excludes interest receivables



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

25. 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 foreign exchange risk, 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.

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 table shows the currency concentration of the Bank's net exposure to major currencies as at 31 December 2021 and 2020 in Vatu equivalents.

	2021		2020	
	VT,000	%	VT,000	%
United States dollar	22,950,707	34	21,144,376	35
Australian dollar	29,767,587	45	25,354,135	42
Euro	7,358,570	11	6,942,272	12
British pound	250,794	1	422,605	1
New Zealand dollar	8,269,259	12	7,970,032	13
Other currencies	(1,757,073)	(3)	(1,977,072)	(3)
<b>NET OPEN POSITION</b>	<b>66,839,844</b>	<b>100</b>	<b>59,856,348</b>	<b>100</b>

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

	2021	2020
VUV/USD	112.18	107.66
VUV/JPY	0.9748	1.0435
VUV/NZD	76.65	77.67
VUV/GBP	151.42	146.75
VUV/AUD	81.35	82.79
VUV/EUR	127.08	132.41
VUV/CAD	87.98	84.39
VUV/CHN	17.6	16.51
VUV/SDR	145.41	143.32

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

25. FINANCIAL RISK MANAGEMENT POLICIES - continued

(i) *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 rate profile of the Bank's interest-bearing financial instruments at 31 December was:

	Carrying Amount	
	2021 (VT'000)	2020 (VT'000)
<b>Fixed rate instruments</b>		
<b>Financial assets</b>		
Cash and cash equivalents	10,340,914	8,102,544
Investment securities	58,653,693	54,049,323
Government bonds	2,323,950	2,218,376
Staff loans and advance	167,827	154,874
<b>Financial liabilities</b>		
Demand deposits	(2,782,650)	(3,737,116)
RBV Notes	(2,826,678)	(3,017,952)
	<b>65,877,056</b>	<b>57,770,049</b>
<b>Variable rate instruments</b>		
<b>Financial assets</b>		
Cash and cash equivalents	754,706	3,207,728
International Monetary Fund	3,473,170	106,937
	<b>4,227,876</b>	<b>3,314,665</b>

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

***Fair value sensitivity analysis for fixed instruments***

The Bank accounts for its offshore bonds at fair value through profit or loss. Therefore, a change in the price of these offshore bonds at the reporting date would affect the profit or loss.

A change of 100 basis points (bp) in bond price at the reporting date would have increased (decreased) the profit or loss by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued

25. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

31 December 2021 (VT'000)	Profit or Loss	
	100bp Increase	100bp decrease
Fixed rate instruments	277,101	(277,101)

31 December 2020 (VT'000)	Profit or Loss	
	100bp Increase	100bp Decrease
Fixed rate instruments	292,326	(292,326)

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points (bp) in interest rates at the reporting date would have increased (decreased) equity and the profit or loss by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2021 (VT'000)	Profit or Loss	
	100bp Increase	100bp decrease
Variable rate instruments	42,279	(42,279)

31 December 2020 (VT'000)	Profit or Loss	
	100bp Increase	100bp Decrease
Variable rate instruments	33,147	(33,147)

26. VALUATION OF FINANCIAL INSTRUMENTS

The Bank uses observable market data when measuring fair value of its financial assets. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices in Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

If inputs used to measure the fair value of an asset fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021 - continued**

**26. VALUATION OF FINANCIAL INSTRUMENTS - continued**

The following table shows the carrying amounts and fair values of the Bank's financial assets, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Fair value through profit or loss (VT'000)	Amortised financial assets (VT'000)	Other financial liabilities (VT'000)	Total (VT'000)	Level 1 (VT'000)	Level 2 (VT'000)	Level 3 (VT'000)	Total (VT'000)
<b>31 December 2021</b>								
<b>Financial assets</b>								
Cash and cash equivalent	-	11,577,673	-	11,577,673	-	-	-	-
Foreign bonds	27,710,090	0	-	27,710,090	27,710,090	-	-	27,710,090
Term deposits	-	10,992,949	-	10,992,949	-	-	-	-
Negotiable certificate of deposits	-	13,416,593	-	13,416,593	-	-	-	-
Treasury bills	-	1,490,812	-	1,490,812	-	-	-	-
Commercial papers	-	5,043,249	-	5,043,249	-	-	-	-
Government bonds	-	2,323,950	-	2,323,950	-	-	-	-
Other receivables	-	490,489	-	490,489	-	-	-	-
	27,710,090	45,335,715	-	73,045,805	27,710,090	-	-	27,710,090
<b>Financial liabilities</b>								
Demand deposits	-	-	53,812,448	53,812,448	-	-	-	-
Reserve Bank of Vanuatu Notes	-	2,826,678	-	2,826,678	-	-	-	-
Currency in circulation	-	-	14,600,821	14,600,821	-	-	-	-
Other creditors and accruals	-	-	167,110	167,110	-	-	-	-
	-	2,826,678	68,580,379	71,407,057	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021 - continued

26. VALUATION OF FINANCIAL INSTRUMENTS- continued

	Fair value through profit or loss (VT'000)	Amortised financial assets (VT'000)	Other financial liabilities (VT'000)	Total (VT'000)	Level 1 (VT'000)	Level 2 (VT'000)	Level 3 (VT'000)	Total (VT'000)
31 December 2020								
<b>Financial assets</b>								
Cash and cash equivalent	-	11,310,272	-	11,310,272	-	-	-	-
Foreign bonds	29,232,625	-	-	29,232,625	29,232,625	-	-	29,232,625
Term deposits	-	14,273,458	-	14,273,458	-	-	-	-
Negotiable certificate of deposits	-	4,219,490	-	4,219,490	-	-	-	-
Treasury bills	-	1,430,005	-	1,430,005	-	-	-	-
Commercial papers	-	4,893,745	-	4,893,745	-	-	-	-
Government securities								
Government bonds	-	2,218,376	-	2,218,376	-	-	-	-
Other receivables	-	534,391	-	534,391	-	-	-	-
	29,232,625	38,879,737	-	68,112,363	29,232,625	-	-	29,232,625
<b>Financial liabilities</b>								
Demand deposits	-	-	48,354,591	48,354,591	-	-	-	-
Reserve Bank of Vanuatu Notes	-	3,017,952	-	3,017,952	-	-	-	-
Currency in circulation	-	-	13,462,985	13,462,985	-	-	-	-
Other creditors and accruals	-	-	187,530	187,530	-	-	-	-
	-	3,017,952	62,005,106	65,023,058	-	-	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021- continued****27. SIGNIFICANT EVENTS DURING THE YEAR**

The rapid spread of COVID-19 served a severe blow to the global economy that was on the cusp of a modest revival after a synchronised slowdown last year. Global growth prospects have weakened markedly as domestic demand collapsed amidst the standstill in international travel and plunge in global trade. Governments responded by introducing stimulus packages to contain the virus and support the economy. On their part, central banks reduced statutory reserve deposit and capital adequacy ratio for the commercial banks.

The Vanuatu economy is not immune to the impact of the Coronavirus. Already showing the effects in 2021, the onset of the pandemic escalated the downturn in economic activity. Given the considerable uncertainties, the extent of the overall damage will depend on how soon and effectively the outbreak is contained globally, the resumption of international travel and ensuing pick-up in tourism-related activities over the coming months.

The Bank has carefully considered the impact of COVID-19 in preparing its financial statement for the year ended 31 December 2021.

**28. EVENTS AFTER BALANCE DATE**

Subsequent to year end, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Bank, the results of those operations, or the state of the affairs of the Bank, in subsequent financial years.