RESERVE BANK OF VANUATU

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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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 2018 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:
Simeon Malachi Athy – Chairman
Jimmy Nipo
Anatole Hymak
Marakon Alilee
Letlet August

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 2018 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 profit of the Bank for the year ended 31 December 2018 was VT540.937m (2017: VT378.125m) of which VT120.101m was due to net unrealised foreign exchange gain (2017 net unrealised foreign exchange gain: VT181.61m).

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.

DIRECTORS' REPORT – continued

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. The director recommend a transfer of VT 26.254m from fair value reserve to general reserve. In additional, the directors approved the transfer of VT120.101 million in the statement of profit and loss and other comprehensive income to special retained earnings reserves.

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 may be distributed to the Government of Vanuatu depending on Board approval.

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 was no material movements in provisions during the year apart from the normal amounts set aside for such items as expected credit losses, depreciation and 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.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 13th day of May 2019.

....
Governor (Chairman)

....
Director

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 2018;

(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 2018;

(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 2018;

(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 2018;

(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 13Th day of May 2019.

....
Governor (Chairman)

....
Director

Independent Auditors' Report

To the Board of Directors of Reserve Bank of Vanuatu

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Reserve Bank of Vanuatu ("the Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information as set out in notes 1 to 27.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the financial reporting provisions of the Reserve Bank of Vanuatu [Cap 125].

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Directors' Report and Statement by Directors but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report

To the Board of Directors of Reserve Bank of Vanuatu

Report on the Audit of the Financial Statements (continued)

Responsibilities of Directors and Management

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

In preparing the financial statements, Directors and management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Directors of the Bank are responsible for overseeing the Bank's financial reporting process.

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 auditors' 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 (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

KPMG

Independent Auditors' Report

To the Board of Directors of Reserve Bank of Vanuatu

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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:

i). 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

ii). 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.

KPMG

KPMG

13th May, 2019

Suva, Fiji

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 VT '000	2017 VT '000
Revenue			
Interest income	6(a)	1,181,304	917,620
Net unrealised foreign exchange gains		120,101	181,610
Other income	6(b)	133,997	67,464
Total revenue		1,435,402	1,166,694
Expenses			
Interest expense	7	30,489	33,286
Net unrealised losses in foreign securities market prices		154,871	58,176
Personnel expenses	8	351,912	335,042
Other operating expenses	9	357,193	362,065
Total expenses		894,465	788,569
Net profit for the year		**540,937**	**378,125**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of available for sale financial asset		-	2,382
Total comprehensive income		540,937	380,507

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 48.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018	2017
		VT '000	VT '000
Assets			
Cash and cash equivalents	10	13,227,271	12,335,548
Investment securities	10	33,792,767	29,323,949
Government securities		314,056	314,056
Government bonds	11	2,514,696	2,756,401
International Monetary Fund (IMF):			
Reserve tranche position	19	663,117	641,089
Currency subscription	19	2,995,313	2,995,313
Special drawing rights	10, 19	145,130	175,362
Other receivables	12	434,398	362,550
Currency stock (notes and coins)	13(a)	733,750	748,970
Property, plant and equipment	14	1,537,692	1,549,888
Intangible assets	15	36,490	10,773
Total Assets		56,394,680	51,213,899
Liabilities			
Demand deposits	16	33,248,617	30,250,244
Other creditors and accruals		158,447	174,745
Currency in circulation	13(b)	11,567,067	10,558,908
Reserve Bank of Vanuatu notes		1,368,637	578,417
International Monetary Fund	19	7,916,387	8,077,666
Employee provisions	18	253,413	232,744
Total Liabilities		54,512,568	49,872,724
Net Assets		**1,882,112**	**1,341,175**
Capital and Reserves			
Paid up capital	20	100,000	100,000
General reserve	4	1,154,670	707,580
Fair value reserve	5(a)	-	26,254
Asset revaluation reserve	5(b)	325,731	325,731
Special retained earnings reserve	5(c)	301,711	181,610
Total Capital and Reserves		**1,882,112**	**1,341,175**

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

....

Governor (Chairman) **Director**

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 48.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Paid Up Capital	General Reserve	Fair Value Reserve	Asset Revaluation Reserve	Special Retained Earnings Reserves	Total Capital Reserves
		VT '000	VT '000	VT '000	VT '000	VT '000	VT '000
Balance as at 1 January 2017		100,000	511,065	23,872	325,731	-	960,668
Net Profit for the year		-	196,515	-	-	181,610	378,125
Other comprehensive income;							
Change in value for available for sale financial assets	5(a)	-	-	2,382	-	-	2,382
Total comprehensive income		-	**196,515**	**2,382**	-	**181,610**	**380,507**
Balance as at 31 December 2017		**100,000**	**707,580**	**26,254**	**325,731**	**181,610**	**1,341,175**
Net Profit for the year		-	420,836	-	-	120,101	540,937
Other comprehensive income:							
Transfer of reserves[1]	5(a)	-	26,254	(26,254)	-	-	-
Total comprehensive income		-	447,090	(26,254)	**-**	120,101	540,937
Balance as at 31 December 2018		**100,000**	**1,154,670**	**-**	**325,731**	**301,711**	**1,882,112**

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 48.

[1] BIS Investment pool designated as 'available for sale' under IAS 39 in prior year had been redeemed in 2017. The Directors in 2018 recommended to transfer gains arising from changes in fair value of the instruments recognised in the 'fair value reserve' to the 'general reserve,.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		VT '000	VT '000
Cash flows from operating activities			
Interest received		1,110,653	900,432
Interest paid		(30,489)	(77,577)
Other operating receipts		143,901	69,351
Other operating payments		(589,881)	(621,284)
Purchase of currency stock		(25,781)	(332,084)
Net movement of amortised cost investment securities		(1,199,882)	6,569,677
Net movement in International Monetary Fund accounts		8,204	(26,035)
Net movement in fair-value through profit or loss investments		(3,423,806)	(16,903,372)
Net movement in available for sale investments		-	1,134,934
Net cash used in operating activities		**(4,007,081)**	**(9,285,958)**
Cash flows from investing activities			
Net redemption of Government bonds		241,705	244,880
Net movement in staff loans		(11,102)	29,151
Purchase of property, plant and equipment		(60,859)	(48,207)
Purchase of intangible assets		(26,515)	(3,071)
Proceeds from sale of property plant & equipment		-	5,438
Net cash provided from investing activities		**143,229**	**228,191**
Cash flows from financing activities			
Net movement in currency in circulation		1,008,159	1,288,911
Net movement in commercial banks deposits		5,151,197	7,769,041
Net movement in Government deposits		(2,143,114)	(970,151)
Net movement in IMF credit facilities		(161,279)	109,266
Net movement in international institutions and agencies deposits		(9,710)	9,372
Net movement in Reserve Bank of Vanuatu notes		790,221	274,472
Net movement in loans and advances to commercial bank		-	20,000
Net cash provided by financing activities		**4,635,474**	**8,500,911**
Net increase/(decrease) in cash and cash equivalents		771,622	(556,856)
Cash and cash equivalents at the beginning of the financial year		12,335,548	12,710,794
Effects of exchange rate changes on foreign currency balances	3(b)	120,101	181,610
Cash and cash equivalents at the end of the financial year	10	**13,227,271**	**12,335,548**

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 48.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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 13th May 2019.

(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) New standards and interpretation

i) New and amended statements adopted by the Bank

There are no other amendments or IFRIC interpretations that have been adopted for the first time for the financial year beginning on or after 1 January 2018 that would be expected to have a material impact on the financial statements of the Bank except for the initial application of IFRS 15 and IFRS 9 from 1 January 2018.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued**

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(b) New standards and interpretation – continued

ii) New standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations to existing standards have been published which are relevant to the Bank and are mandatory for accounting periods beginning on or after 1 January 2019, but the Bank does not plan to early adopt them. The impact of these standards and interpretations on the financial statements of the Bank has not yet been fully determined.

Standard/ Interpretation	**Content**	**Applicable for financial years beginning on/ after**
IFRS 16, 'Leases'	IFRS 16 removes the classification of leases as either operating leases or finance leases - for the lessee - effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a frontloaded pattern of expense for most leases, even when they pay constant annual returns. Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating leases.	1 January 2019

(c) Changes in accounting policy and disclosures

Due to the transition methods chosen by the Bank in applying IFRS 9 *Financial Instruments*, comparative information throughout these financial statements has not been restated to reflect its requirements. Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in the financial statements.

i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requires judgement.

The Bank has adopted IFRS 15 using the cumulative effective method with the effect of initially applying this standard recognised at the date of initial application (i.e., 1 January 2018) and applying the requirements to only contracts that are not completed contracts at the date of initial application. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(c) Changes in accounting policy and disclosures – continued

i) IFRS 15 Revenue from Contracts with Customers - continued

The adoption of IFRS 15 *Revenue from Contracts with Customers* did not impact the timing or amount at revenue from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on comparative information is limited to new disclosure requirements of the standards.

ii) IFRS 9 Financial instruments

The Bank has adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities which represents a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9 Financial Instruments, the Bank adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. However, the Bank's approach is to include the impairment in operating expenses.

Additionally, the Bank adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The nature and effects of the key changes to the Bank's accounting policies resulting from adoption of IFRS 9 are summarised below:

a. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI (fair value through other comprehensive income) and FVTPL (fair value through profit or loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of “available for sale”, "held to maturity" and "loans and receivables".

For an explanation of how the Bank classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 3(d).

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies for financial liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(c) Changes in accounting policy and disclosures - continued

ii) IFRS 9 Financial instruments - continued

b. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39 VT '000**	**New carrying amount under IFRS 9 VT '000**
Financial assets				
Cash and cash equivalent	*Loans and receivables*	*Amortised cost*	12,335,548	12,335,548
Foreign bonds	*Fair value through profit or loss*	*Fair value through profit or loss*	21,810,889	21,810,889
Term deposits	*Held-to-maturity*	*Amortised cost*	5,065,266	5,065,266
Negotiable certificate of deposits	*Held-to-maturity*	*Amortised cost*	1,042,725	1,042,725
Treasury bills	*Held-to-maturity*	*Amortised cost*	1,405,070	1,405,070
Government securities	*Loans and receivables*	*Amortised cost*	314,056	314,056
Government bonds	*Held-to-maturity*	*Amortised cost*	2,756,401	2,756,401
Other receivables	*Loans and receivables*	*Amortised cost*	362,550	362,550
International Monetary Fund	*Loans and receivables*	*Amortised cost*	3,811,764	3,811,764
Total financial assets			**48,904,269**	**48,904,269**
Financial liabilities				
Demand deposit	*Other financial liabilities*	*Other financial liabilities*	30,250,244	30,250,244
Reserve Bank of Vanuatu Notes	*Other financial liabilities*	*Other financial liabilities*	578,417	578,417
Currency in circulation	*Other financial liabilities*	*Other financial liabilities*	10,558,908	10,558,908
Other creditors and accruals	*Other financial liabilities*	*Other financial liabilities*	174,745	174,745
International Monetary Fund	*Other financial liabilities*	*Other financial liabilities*	8,077,666	8,077,666
Total financial liabilities			**49,639,980**	**49,639,980**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(c) Changes in accounting policy and disclosures - continued

ii) IFRS 9 Financial instruments – continued

b. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 - continued

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(d). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a) Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost and allowance for impairment was recognised in opening general reserve at 1 January 2018 on transition to IFRS 9.

b) Debt securities that were previously classified as loans and receivables and held-to-maturity are now classified at amortised cost. The Bank intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

No differences has been identified between the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018, due to re-classification and re-measurement.

c. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are generally recognised earlier than under IAS 39 – see note 3(d).

d. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in general reserve as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The determination of the business model within which a financial asset is held is an assessment that has been made on the basis of the facts and circumstances that existed at the date of initial application.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The impact of transition to IFRS 9 as at 1 January 2018 was not considered material by the Bank thus the general reserve at 1 January 2018 had not been adjusted.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

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

Revenue is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a good or service to a customer.

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

Products and services	**Nature, timing of satisfaction of performance obligations and significant payment terms**	**Revenue recognition under IFRS 15 (applicable from 1 January 2018)**
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 recognised.	Revenue and associated costs are recognised 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 recognised.	Revenue and associated costs are recognised when the deals are provided - i.e. when the deal is issued to the customer.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(a) Revenue recognition - continued

Revenue from contracts with customers - continued

Policy applicable before 1 January 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

Revenue from sale of numismatics and dealing profit are recognised at the point of sale.

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Financial Assets

Classification

Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

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 amortised costs.

Policy applicable before 1 January 2018

The Bank classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, and loans and receivables. The classification is dependent on the purpose for which the financial assets are acquired. Management determines the classification of investments at the time of the purchase and re-evaluates such designation on a regular basis. Purchases and sales of investments are recognized on the trade date, which is the date the Bank commits to purchase or sell the asset. Cost of purchase includes transaction costs.

i) *Financial assets at fair value through profit and loss*
This category has two sub categories: financial assets designated as fair value through profit and loss at inception and those that are held for trading. Financial assets are designated at fair value through profit and loss in compliance with the Bank's approved investment guidelines. These relate to the Bank's investments in offshore bonds.

ii) *Held to Maturity financial assets*
Financial assets which management has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. These relate to the Bank's investments in Treasury bills and notes, and term deposits.

iii) *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. These comprise the Bank's 'Government securities', 'Government Bonds' and 'other receivables'.

Vanuatu Government bonds are accounted for as loans and receivables due to the thin secondary market for Government bonds in Vanuatu.

Loans and receivables are initially measured at fair value plus incremental direct costs, and subsequently measured at their amortized costs using the effective interest method.

iv) *Available for Sale financial assets*
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These included the Bank's holdings in the Bank for International Settlements which were redeemed in 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Financial Assets – continued

Recognition and measurement

Financial assets – policy applicable from 1 January 2018

Debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised 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 amortised 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.

Financial assets: Business model assessment – policy applicable from 1 January 2018

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets – continued

Recognition and measurement - continued

Financial assets: Business model assessment – policy applicable from 1 January 2018 - continued

- 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 – policy applicable from 1 January 2018

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:

- 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets – continued

Recognition and measurement - continued

Financial assets: Subsequent measurement and gains and losses – policy applicable from 1 January 2018

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.

Financial assets: Subsequent measurement and gains and losses – policy applicable before 1 January 2018

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Bank commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred, and the bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity assets are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are recorded in profit or loss within ‘net unrealized gains/ (losses) in foreign securities market prices’ in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognized in profit or loss as part of income when the Bank’s right to receive payments is established.

Changes in the fair value of securities classified as available for sale are recognized in equity within the ‘fair value reserve’. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in the fair-value reserves are transferred to general reserve.

The fair values of quoted investments are based on current bid prices as at year end.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets – continued

Impairment

Impairment of financial assets - policy applicable from 1 January 2018

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.

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);

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets – continued

Impairment of financial assets - policy applicable from 1 January 2018 - continued

Measurement of ECLs - continued

- 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 are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: 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.

Impairment of financial assets - policy before 1 January 2018

Financial assets not classified at fair value through profit or loss are assessed at each balance sheet date to determine whether there is objective evidence of impairment.

Loans relating to staff loans are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for bad and doubtful debts. A specific provision is made based on an assessment carried out at year end. Movement in provision is charged to profit or loss. All known bad debts are written off against the provision in the year in which they are recognized. Bad debts, in respect of which no specific provisions have been established, are charged directly to profit or loss.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(d) Financial Assets – continued

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.

Policy applicable from 1 January 2018

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

These non-derivative financial liabilities 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(e) Financial Liabilities – continued

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.

(f) Demand deposit liabilities

Demand deposits represent funds placed with the Bank by the Vanuatu Government, 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 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(h) Property, plant and equipment - continued

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.

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. The next revaluation will be done in 2019.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(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 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 and severance pay, 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.

(n) Rounding

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

(o) Comparatives

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

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 a 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, profit of VT 420.836m (2017: VT 196.515m) has been transferred to the General Reserve and of which VT 100.58m will be available for distribution (2017: VT nil).

5. OTHER RESERVES

(a) **Fair Value Reserve**
This relate to movements in fair value of financial assets held in prior years that were designed as available for sale.

(b) **Asset Revaluation Reserve**
The Bank has established an Asset Revaluation Reserve for revaluation of land and buildings.

(c) **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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

6. a) INTEREST INCOME

	2018 (VT'000)	2017 (VT'000)
Overseas Investment: Short-term	244,759	176,372
Overseas Investments: Long-term	750,658	537,447
Domestic Investments	182,289	199,446
Staff Loans & Advances	3,598	4,355
	1,181,304	917,620

b) OTHER INCOME

	2018 (VT'000)	2017 (VT'000)
Sundry income	1,835	2,047
Dealing profit	30,655	37,879
Rental income	20,313	10,293
Insurance fee income	7,252	10,696
Net gain on disposal of fixed assets	-	1,699
Gains from sale of demonetised coins as scrap metal	69,760	-
Others	4,182	4,850
	133,997	67,464

7. INTEREST EXPENSE

	2018 (VT'000)	2017 (VT'000)
Interest on Government accounts	8,393	18,931
Interest on Reserve Bank of Vanuatu notes	22,096	14,355
	30,489	33,286

Interest is paid on demand deposits of the Government of Vanuatu operating account which is held with the bank.

8. PERSONNEL EXPENSES

	2018 (VT'000)	2017 (VT'000)
Staff costs	249,599	228,978
Superannuation contribution (VNPF)	7,669	7,396
Staff training	15,707	13,671
Severance pay, long service leave, accrued annual leave and gratuity expense	56,908	53,597
Business travel	22,029	31,400
	351,912	335,042

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

9. OPERATING EXPENSES

	2018 (VT'000)	2017 (VT'000)
Auditor's remuneration	4,990	6,380
Amortisation and depreciation	73,853	68,339
Funds managers'	6,069	5,274
Amortisation of currency	41,001	73,806
Communication expenses	23,226	23,308
Corporate social responsibility	6,937	4,905
Repairs and Maintenance	24,550	15,325
License and Membership fees	15,789	17,259
Maintenance and other Contract agreements	11,656	11,523
IMF Charges	41,398	29,510
Other expenses	107,724	106,436
	357,193	362,065

10. EXTERNAL ASSETS

Under Section 22 of the RBV Act, the value of the external reserves (represented by the Bank's external assets) provided for shall not be less than 50% of the total demand liabilities of the Bank. As at 31 December 2018, the value of the external reserves was 86% (2017: 84%) of total demand liabilities.

(a) External assets consist of the following:

	2018 (VT'000)	2017 (VT'000)
Cash	15,448	27,928
Current and call accounts	6,759,619	9,215,879
Short term deposits	6,452,204	3,091,741
Total cash and cash equivalents	13,227,271	12,335,548
Treasury notes, term deposits, bonds and bills:		
- Financial assets at fair value through profit and loss	25,079,824	21,810,889
- Amortised cost	8,712,943	7,513,060
Total investment securities	33,792,767	29,323,949
IMF external reserve assets:		
Special drawing rights holdings	145,130	175,362
Reserve tranche position	663,117	641,089
Total IMF external reserve assets	808,247	831,584
Total external assets	47,828,285	42,475,948

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 – continued

10. EXTERNAL ASSETS - continued

	2018 (VT'000)	2017 (VT,000)
Current and non-current external assets		
Current external assets	29,505,321	21,558,276
Non-current external assets	18,322,964	20,917,672
	47,828,285	42,475,948

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 VT45.82m (2017:VT53.052m) held with local banks in Vanuatu.

11. GOVERNMENT BONDS

Government bonds held with Reserve Bank

	2018 (VT'000)	2017 (VT'000)
0-3 years	302,265	500,770
4-7 years	7,870	7,220
8-10 years	2,204,561	2,248,411
Balance at the end of the financial year	2,514,696	2,756,401

Current and non-current government bonds		
Current external assets	306,215	245,600
Non-current external assets	2,208,481	2,510,801
	2,514,696	2,756,401

These bonds are valued in accordance with note 3(d).The bonds have varying maturity dates with the longest term maturing in 2026. They carry yields ranging from 4.58% - 8.55%.

12. OTHER RECEIVABLES

	2018 (VT'000)	2017 (VT'000)
Interest receivable	334,869	264,218
Staff loans and advances	73,778	62,676
Sundry debtors	20,369	31,326
Other	5,382	4,330
	434,398	362,550

These receivables are expected to be received within one year from the reporting date.

13. CURRENCY ACTIVITIES

	2018 (VT'000)	2017 (VT'000)
(a) Currency Stock (notes and coins)		
Balance at the beginning of the financial year	748,970	490,692
Purchase of stock	25,781	332,084
Currency issued into circulation	(41,001)	(73,806)
Balance at the end of the financial year	733,750	748,970
(b) Currency in circulation		
Notes	10,550,600	9,617,280
Coins	1,016,467	941,628
Total currency in circulation	11,567,067	10,558,908

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

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)
At 1 January 2017					
Cost or valuation	1,490,946	311,598	167,342	300,622	2,270,508
Accumulated depreciation	(286,799)	(292,824)	(114,542)	-	(694,165)
Net book value	1,204,147	18,774	52,800	300,622	1,576,343
Year ended 31 December 2017					
Opening net book value	1,204,147	18,774	52,800	300,622	1,576,343
Additions	15,419	7,631	6,258	15,550	44,858
Disposals	-	(340)	(3,400)	-	(3,740)
Transfers/Adjustments	316,172	-	-	(316,172)	-
Depreciation	(38,838)	(12,240)	(16,495)	-	(67,573)
Closing net book value	1,496,900	13,825	39,163	-	1,549,888
At 31 December 2017					
Cost or valuation	1,822,537	318,889	170,200	-	2,311,626
Accumulated depreciation	(325,637)	(305,064)	(131,037)	-	(761,738)
Net book value	1,496,900	13,825	39,163	-	1,549,888
Year ended 31 December 2018					
Opening net book value	1,496,900	13,825	39,163	-	1,549,888
Additions	369	-	-	60,490	60,859
Disposal	-	-	-	-	-
Transfers from WIP	15,589	20,633	15,225	(51,447)	-
Depreciation	(45,340)	(10,695)	(17,020)	-	(73,055)
Closing net book value	1,467,518	23,763	37,368	9,043	1,537,692
At 31 December 2018					
Cost or valuation	1,838,495	339,522	185,425	9,043	2,372,485
Accumulated depreciation	(370,977)	(315,759)	(148,057)	-	(834,793)
Net book value	1,467,518	23,763	37,368	9,043	1,537,692

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

15. INTANGIBLE ASSETS

	Computer Software (VT'000)	WIP (VT'000)	Total (VT'000)
At 1 January 2017			
Cost	46,153	-	46,153
Accumulated amortisation	(41,034)	-	(41,034)
Net book amount	5,119	-	5,119
Year ended 31 December 2017			
Opening net book amount	5,119	-	5,119
Additions	3,071	3,349	6,420
Amortisation charge	(766)	-	(766)
Closing net book amount	7,424	3,349	10,773
At 31 December 2017			
Cost	49,224	3,349	52,573
Accumulated amortization	(41,800)	-	(41,800)
Net book amount	7,424	3,349	10,773
Year ended 31 December 2018			
Opening net book amount	7,424	3,349	10,773
Additions	20,503	6,012	26,515
Transfer from WIP	9,191	(9,191)	-
Amortisation charge	(798)	-	(798)
Closing net book amount	36,320	170	36,490
At 31 December 2018			
Cost	78,918	170	79,088
Accumulated amortization	(42,598)	-	(42,598)
Net book amount	36,320	170	36,490

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

16. DEMAND DEPOSITS

	2018 (VT'000)	2017 (VT'000)
Due to commercial banks	28,841,829	23,690,632
Due to government – Vanuatu Government	4,406,221	6,549,335
Due to international institutions and agencies	567	10,277
Balance at the end of the financial year	33,248,617	30,250,244

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

17. DISTRIBUTION PAYABLE TO GOVERNMENT OF VANUATU (cont'd)

realized gains from this reserve are available for distribution to the Government depending on Board approval. Accordingly, VT 100.58m (2017: $nil) of the net profits as at balance date is available to be distributed to the Government of the Republic of Vanuatu.

18. EMPLOYEE PROVISIONS

	2018 (VT'000)	2017 (VT'000)
Opening balance	232,744	253,524
Additional provisions recognized	53,051	20,927
Utilised/ reversals	(32,382)	(53,599)
Closing balance	253,413	232,744

VT 212.845 m (2017: VT 204.21m) 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 VT 145.129m (2017: VT 175.362m) 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 SDR 8.5 million under the Rapid Credit Facility (RCF) and SDR 8.5 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 2020 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 until its maturity in June 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 – continued

19. INTERNATIONAL MONETARY FUND – continued

	2018 (VT'000)	2017 (VT'000)
IMF Assets		
Special drawing rights holding	145,130	175,362
Reserve tranche position	663,117	641,089
Currency subscriptions	2,995,313	2,995,313
	3,803,560	3,811,764
IMF Liabilities		
No.1 account	127,442	127,442
No.2 account	255	350
Special drawing rights allocation	2,570,796	2,485,395
Securities	2,867,049	2,867,049
Rapid credit facility	1,343,340	1,298,715
Rapid finance facility	1,007,505	1,298,715
	7,916,387	8,077,666

20. SHARE CAPITAL

	2018 (VT'000)	2017 (VT'000)
Authorised capital at Vatu 1 par value	1,000,000	1,000,000
Issued and paid-up capital of 100,000,000 Vatu	100,000	100,000

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 2018 were Simeon Athy (Chairman), Jimmy Nipo, Anatole Hymak, Letlet August and Marakon Alilee.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - 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 VT182.3m (2017: VT199.4m) 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 VT63.8m (2017: VT86.1m).

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:

	2018 (VT’000)	2017 (VT’000)
Directors sitting allowances	555	315
Directors expenses	4,579	3,408
Executive officers	79,787	94,531
	84,921	98,254

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT9.308m (2017: VT8.652m). 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 full time permanent employees as at 31 December 2018 was 99 (2017: 92).

23. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance date (2017: nil).

24. COMMITMENTS

There are no capital commitments at balance sheet date (2017: nil)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - 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:

	2018 (VT'000)	2017 (VT'000)
Foreign currency assets		
Cash and cash equivalents (excludes cash on hand)	13,211,823	12,307,620
Investment securities	33,792,767	29,323,949
International Monetary Fund (IMF): Special drawing rights / Reserve tranche position / Currency subscriptions	3,803,560	3,811,764
	50,808,150	45,443,333
Local currency assets		
Government securities	314,056	314,056
Government bonds	2,514,696	2,756,401
Other receivables	434,398	362,550
	3,263,150	3,433,007
	54,071,300	**48,876,340**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - 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:

	2018	2017
Concentration by currency	**%**	**%**
AUD	34	32
CNY	1	1
EUR	11	11
GBP	0.5	1
JPY	0.5	1
NZD	10	9
SDR	7	8
USD	30	30
VT	6	7
	100	100

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.

	2018	2017
Concentration by credit rating	**%**	**%**
AAA	50	49
AA+ - AA-	33	35
A+ - A-	11	7
BBB+ - BBB-	-	-
BB+ - BB-	5	-
N/R	1	9
	100	100

Cash

The Bank held cash of VT 6,759,619,402 (2017: VT 9,215,878,489). This cash is held with banks which are rated A- to AAA based on Standards and Poors (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 uses a similar approach of assessment of ECLs for cash to those used for debt securities.

Accordingly, due to short maturities and low credit risk on initial application of IFRS 9, the Bank did not recognized an impairment allowance against cash as at 1 January 2018. The amount of the allowance did not change during 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

25. FINANCIAL RISK MANAGEMENT POLICIES – continued

Credit risk - continued

Debt investment securities

The Bank held debt investment securities of VT 46,877,284,341 (2017: VT 39,297,899,051). The debt investment securities are held with banks and the Vanuatu Government. Debt investment securities held with the banks and Vanuatu Government are rated BB+ to AAA based on Standards and Poors (S & P) credit ratings. The Bank monitors changes in credit risk by tracking published extern credit ratings but when extern 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 consider 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.

On initial application of IFRS 9, the Bank assessed impairment allowance against debt investment securities as at 1 January 2018 but did not recognize it as the Bank considered the impairment allowance not to be material. The amount of the allowance did not change during 2018.

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
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

25. 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 2018	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)
ASSETS								
Cash and cash equivalents	6,775,067	6,476,619	-	-	-	-	13,251,686	13,227,271
Investment securities	-	8,333,219	4,396,653	5,167,982	17,527,772	-	35,425,626	33,792,767
Government securities	314,056	-	-	-	-	-	314,056	314,056
Government bonds	-	53	4,648	479,098	2,867,277	-	3,351,076	2,514,696
Other receivables *	-	34,185	8,434	16,868	48,457	-	107,944	99,529
IMF	-	-	-	-	-	3,803,560	3,803,560	3,803,560
	7,089,123	14,844,076	4,409,735	5,663,948	20,443,506	3,803,560	56,253,948	53,751,879
LIABILITIES								
Other creditors and accruals	10,322	148,125	-	-	-	-	158,447	158,447
Demand deposits	33,248,617	-	-	-	-	-	33,248,617	33,248,617
Reserve Bank of Vanuatu Notes	-	1,370,000	-	-	-	-	1,370,000	1,368,638
Currency in Circulation	-	-	-	-	-	11,567,067	11,567,067	11,567,067
IMF	-	167,918	167,918	335,835	1,679,174	5,565,542	7,916,387	7,916,387
	33,258,939	1,686,043	167,918	335,835	1,679,174	17,132,609	54,260,518	54,259,156

*** -** excludes interest receivables

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

25. FINANCIAL RISK MANAGEMENT POLICIES – continued

Liquidity risk - continued

31 December 2017	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)
ASSETS								
Cash and cash equivalents	9,243,807	3,100,722	-	-	-	-	12,344,529	12,335,548
Investment securities	-	6,073,041	1,290,758	1,788,879	21,999,558	-	31,152,236	29,323,949
Government securities	314,056	-	-	-	-	-	314,056	314,056
Government bonds	-	259,187	508	180,740	3,377,458	-	3,817,893	2,756,401
Other receivables *	-	44,168	7,178	9,860	40,966	-	102,172	98,332
IMF	-	-	-	-	-	3,811,764	3,811,764	3,811,764
	9,557,863	9,477,118	1,298,444	1,979,479	25,417,982	3,811,764	51,542,650	48,640,050
LIABILITIES								
Other creditors and accruals	97,256	77,489	-	-	-	-	174,745	174,745
Demand deposits	30,250,244	-	-	-	-	-	30,250,244	30,250,244
Reserve Bank of Vanuatu Notes	-	580,000	-	-	-	-	580,000	580,000
Currency in Circulation	-	-	-	-	-	10,558,908	10,558,908	10,558,908
IMF	-	-	-	-	2,597,430	5,480,236	8,077,666	8,077,666
	30,347,500	657,489	-	-	2,597,430	16,039,144	49,641,563	49,641,563

*** -** excludes interest receivables

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 - 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 2018 and 2017 in Vatu equivalents.

	2018		2017	
	VT,000	**%**	**VT,000**	**%**
United States dollar	15,658,977	37	14,028,733	39
Australian dollar	17,994,006	43	15,430,404	42
Euro	5,820,085	14	5,163,827	14
British pound	403,731	1	401,272	1
New Zealand dollar	5,293,379	13	4,634,785	13
Other currencies	(3,187,191)	(8)	(3,337,086)	(9)
NET OPEN POSITION	**41,982,987**	**100**	**36,321,935**	**100**

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

	2018	2017
VUV/USD	113.70	107.52
VUV/JPY	1.0301	0.9525
VUV/NZD	76.34	76.21
VUV/GBP	144.29	144.52
VUV/AUD	80.17	83.82
VUV/EUR	130.14	128.41
VUV/CAD	83.47	85.50
VUV/CHN	16.54	16.46
VUV/SDR	158.04	152.79

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

25. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

(i) Foreign exchange risk – continued

Sensitivity analysis

A reasonably possible strengthening (weakening) of the Bank's major currencies at 31 December would have affected the measurement of the Bank's foreign currency reserves. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast investment liquidation and acquisitions.

Impact of:	**2018 (VT'000)**	**2017 (VT'000)**
Change in profit/equity due to a 5 per cent appreciation in the reserves - weighted value of VATU	2,099,149	1,816,097
Change in profit/equity due to a 5 per cent depreciation in the reserves - weighted value of VATU	(2,099,149)	(1,816,097)

(ii) Interest rate risk

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

The interest rate profile of the Bank's interest-bearing financial instruments at 31 December was:

	Carrying Amount	
Fixed rate instruments	**2018 (VT'000)**	**2017 (VT'000)**
Financial assets		
Cash equivalents	6,452,204	3,091,741
Investment securities	33,792,767	29,323,949
Government bonds	2,514,696	2,756,401
Staff loans and advance	73,778	62,676
Financial liabilities		
Demand deposits	(153,972)	(1,612,362)
RBV Notes	(1,368,638)	(578,417)
	41,310,835	**33,043,988**
Variable rate instruments		
Financial assets		
Cash at Bank	5,197,818	5,877,859
International Monetary Fund	145,130	175,362
	5,342,948	**6,053,221**

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

25. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market Risk - continued

(ii) Interest rate risk – continued

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 yield of these offshore bonds at the reporting date would affect the profit or loss.

A change of 100 basis points (bp) in yield rates 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.

	Profit or Loss	
31 December 2018	**100bp**	**100bp**
(VT'000)	**Increase**	**decrease**
Fixed rate instruments	(250,798)	250,798

	Profit or Loss	
31 December 2017	**100bp**	**100bp**
(VT'000)	**Increase**	**Decrease**
Fixed rate instruments	(218,109)	218,109

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.

	Profit or Loss	
31 December 2018	**100bp**	**100bp**
(VT'000)	**Increase**	**decrease**
Variable rate instruments	53,442	(53,442)

	Profit or Loss	
31 December 2017	**100bp**	**100bp**
(VT'000)	**Increase**	**Decrease**
Variable rate instruments	60,532	(60,532)

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 2018 - 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	Amortised financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)
31 December 2018								
Financial assets								
Cash and cash equivalent	-	13,227,271	-	13,227,271	-	-	-	-
Foreign bonds	25,079,824	-	-	25,079,824	25,079,824	-	-	25,079,824
Term deposits	-	3,710,892	-	3,710,892	-	-	-	-
Negotiable certificate of deposits	-	2,471,582	-	2,471,582	-	-	-	-
Treasury bills	-	1,486,912	-	1,486,912	-	-	-	-
Commercial papers	-	1,043,557	-	1,043,557	-	-	-	-
Government securities	-	314,056	-	314,056	-	-	-	-
Government bonds	-	2,514,696	-	2,514,696	-	-	-	-
Other receivables	-	434,398	-	434,398	-	-	-	-
	25,079,824	25,203,364	-	50,283,188	25,079,824	-	-	25,079,824
Financial liabilities								
Demand deposits	-	-	33,248,617	33,248,617	-	-	-	-
Reserve Bank of Vanuatu Notes	-	1,368,637	-	1,368,637	-	-	-	-
Currency in circulation	-	-	11,567,067	11,567,067	-	-	-	-
Other creditors and accruals	-	-	158,447	158,447	-	-	-	-
	-	1,368,637	44,974,131	46,342,768	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

26. VALUATION OF FINANCIAL INSTRUMENTS- continued

	Fair value through profit or loss	Amortised financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)	(VT'000)
31 December 2017								
Financial assets								
Cash and cash equivalent	-	12,335,548	-	12,335,548	-	-	-	-
Foreign bonds	21,810,889	-	-	21,810,889	21,810,889	-	-	21,810,889
Term deposits	-	5,065,266	-	5,065,266	-	-	-	-
Negotiable certificate of deposits	-	1,042,724	-	1,042,724	-	-	-	-
Treasury bills	-	1,405,070	-	1,405,070	-	-	-	-
Government securities	-	314,056	-	314,056	-	-	-	-
Government bonds	-	2,756,401	-	2,756,401	-	-	-	-
Other receivables	-	362,550	-	362,550	-	-	-	-
	21,810,889	23,281,615	-	45,092,504	21,810,889	-	-	21,810,889
Financial liabilities								
Demand deposits	-	-	30,250,244	30,250,244	-	-	-	-
Reserve Bank of Vanuatu Notes	-	578,417	-	578,417	-	-	-	-
Currency in circulation	-	-	10,558,908	10,558,908	-	-	-	-
Other creditors and accruals	-	-	174,745	174,745				
	-	578,417	40,983,897	41,562,314	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 - continued

27. EVENTS AFTER BALANCE DATE

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, in the opinion of the directors of the Bank, to affect significantly the operations of the Bank, the results of those operations, or the state of the affairs of the Bank, in future financial years.