

RESERVE BANK OF VANUATU
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2017**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 2017 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 Alilele
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.
- The accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2017 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 2017 was VT378.125m (2016: VT207.772m) of which VT181.61m was due to foreign exchange gain (2016 foreign exchange gain: VT208.605m).

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.

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS
31 DECEMBER 2017****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 directors did not recommend any transfers to or from fair value and asset revaluation reserves. In addition, the directors approved the transfer of \$181.61 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 doubtful debts, 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.

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS
31 DECEMBER 2017****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 3rd day of May 2018.


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

RESERVE BANK OF VANUATUFINANCIAL STATEMENTS
31 DECEMBER 2017STATEMENT 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 2017;
- (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 2017;
- (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 2017;
- (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 2017;
- (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 3rd day of May 2018.


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



INDEPENDENT AUDITOR'S 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 2017, 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 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and 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.

Emphasis of Matter - comparative information

We draw attention to Note 2(d) to the financial statements which indicate that the comparative information presented as at and for the year ended 31 December 2016 has been restated. Our opinion is not modified in respect of this matter.

Emphasis of Matter – distribution of foreign exchange gains

We draw attention to Note 2(b), 3(b) and 4 to the financial statements. In accordance with its accounting policy, the Bank has recognized realized foreign exchange gains and losses on the bases of translation of financial instruments denominated in foreign currency with original maturity of less than one year. Such realized gains or losses are included in net profit or loss for the year and were transferred to the general reserve and hence may be available for distribution, notwithstanding that the underlying instruments had not settled at balance date.

This position is described in the accounting policy notes of the Bank. We draw your attention to the absence of definitive accounting literature regarding this topic. Other organizations and practitioners could apply an alternate policy. The impact of this policy choice is significant quantitatively in the year.

There is no impact to the net profit or loss for the year ended 31 December 2017. However the allocation does effect the determination of reserves available for distribution to stakeholders. Our opinion is not further modified in respect to this matter.

Directors and management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards 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



INDEPENDENT AUDITOR'S 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

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;
- 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.



**INDEPENDENT AUDITOR'S 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)

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 my 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 my 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 Act [Cap 125], in the manner so required.

KPMG

KPMG

3rd May, 2018
Suva, Fiji

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2017**

	Note	2017 VT,000	2016 VT,000 (Restated) ¹
Revenue			
Interest income	6(a)	917,620	608,299
Net foreign exchange gains	3(b)	181,610	208,605
Other income	6(b)	67,464	71,572
Total revenue		<u>1,166,694</u>	<u>888,476</u>
Expenses			
Interest expense	7	33,286	37,092
Net unrealised losses in foreign securities market prices		58,176	23,525
Personnel expenses	8	335,042	308,214
Other operating expenses	9	362,065	311,873
Total expenses		<u>788,569</u>	<u>680,704</u>
Net profit for the year		378,125	207,772
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	1,177
Total comprehensive income		<u>380,507</u>	<u>208,949</u>

This statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

¹ See note 2 (d) for prior period restatement

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	2017 VT,000	2016 (Restated) ¹ VT,000	2015 (Restated) ¹ VT,000
Assets				
Cash and cash equivalents	10	12,335,548	12,710,794	14,033,146
Investment securities	10	29,323,949	20,180,983	15,113,121
Government securities		314,056	314,056	314,056
Government bonds	11	2,756,401	3,001,281	1,998,870
Other receivables	12	362,550	353,806	253,599
Currency stock (notes and coins)	13(a)	748,970	490,692	479,804
Property, plant and equipment	14	1,549,888	1,576,343	1,349,878
Intangible assets	15	10,773	5,119	4,136
International Monetary Fund (IMF):				
Reserve tranche position	19	641,089	632,277	382,743
Currency subscription	19	2,995,313	2,954,145	2,224,062
Special drawing rights	10, 19	175,362	199,307	217,748
Total Assets		<u>51,213,899</u>	<u>42,418,802</u>	<u>36,371,162</u>
Liabilities				
Other creditors and accruals		174,745	220,287	130,210
Demand deposits	16	30,250,244	23,441,982	18,902,896
Reserve Bank of Vanuatu notes		578,417	303,945	443,652
International Monetary Fund	19	8,077,666	7,968,400	7,320,591
Currency in circulation	13(b)	10,558,908	9,269,997	8,548,899
Employee provisions	18	232,744	253,524	273,196
Total Liabilities		<u>49,872,724</u>	<u>41,458,134</u>	<u>35,619,444</u>
Net Assets		<u>1,341,175</u>	<u>960,668</u>	<u>751,719</u>
Capital and Reserves				
Paid up capital	20	100,000	100,000	100,000
General reserve	4	707,580	511,065	303,293
Fair value reserve	5(a)	26,254	23,872	22,695
Asset revaluation reserve	5(b)	325,731	325,731	325,731
Special retained earnings reserve	5(c)	181,610	-	-
Total Capital and Reserves		<u>1,341,175</u>	<u>960,668</u>	<u>751,719</u>

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 39.

¹ See note 2 (d) for prior period restatement

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	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 2016		100,000	-	22,695	325,731	-	448,426
Impact of prior period error (see note 2[d])		-	303,293	-	-	-	303,293
Balance as at 1 January 2016 (Restated)		100,000	303,293	22,695	325,731	-	751,719
Net Profit for the year		-	207,772	-	-	-	207,772
Other comprehensive income:							
Change in value for available for sale financial assets	5(a)	-	-	1,177	-	-	1,177
Total comprehensive income		-	207,772	1,177	-	-	208,949
Balance as at 31 December 2016		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

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 39.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
		VT,000	Restated VT,000
Cash flows from operating activities			
Interest received		900,432	548,267
Interest paid		(77,577)	(48,068)
Other operating receipts		69,351	65,975
Other operating payments		(621,284)	(401,438)
Purchase of currency stock		(332,084)	(97,244)
Net purchase of Held-to-maturity investments		6,569,677	(2,307,814)
Net movement in International Monetary Fund accounts		(26,035)	(961,176)
Net movement in fair-value through profit or loss investments		(16,903,372)	(2,764,560)
Net movement in available for sale investments		1,134,934	(17,836)
Net cash used in operating activities		(9,285,958)	(5,983,894)
Cash flows from investing activities			
Net redemption/(purchase) of Government bonds		244,880	(1,002,411)
Net movement in staff loans		29,151	(7,396)
Purchase of property, plant and equipment		(48,207)	(289,310)
Purchase of computer software		(3,071)	(1,973)
Proceeds from sale of property plant & equipment		5,438	5,740
Net cash provided from/(used in) investing activities		228,191	(1,295,350)
Cash flows from financing activities			
Net movement in currency in circulation		1,288,911	721,098
Net movement in commercial banks deposits		7,769,041	4,165,282
(Payments to)/Receipts from Government		(970,151)	373,648
Net movement in IMF credit facilities		109,266	647,809
Net movement in international institutions and agencies deposits		9,372	156
Net movement in Reserve Bank of Vanuatu notes		274,472	(139,707)
Net movement in loans and advances to commercial bank		20,000	(20,000)
Net cash provided by financing activities		8,500,911	5,748,286
Net decrease in cash and cash equivalents		(556,856)	(1,530,957)
Cash and cash equivalents at the beginning of the financial year		12,710,794	14,033,146
Effects of exchange rate changes on foreign currency balances	3(b)	181,610	208,605
Cash and cash equivalents at the end of the financial year	10	12,335,548	12,710,794

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 39.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****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 and current central bank best practice. Net income includes both realized and unrealized gains and losses, except for prudence only net realized gains should be available for distribution.

The financial statements were authorized for issue by the Board of Directors on
..... 2018.

(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 Reserve Bank of Vanuatu Act [CAP 125] ("RBV Act"), except where the RBV Act requires different accounting treatment in which case the RBV Act takes precedence.

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:

- Available-for-sale financial assets are measured at fair value.
- Fair-value-through-profit or loss financial assets are measured at fair value.
- Held-to-maturity financial assets are measured at amortized costs.
- Land and buildings classified as Property, plant and equipment are measured at fair value.

(a) Accounting of Foreign Exchange gains or losses

For purposes of determining realized and unrealized foreign exchange gains and losses on the financial instruments, the Bank accounts foreign exchange gains or losses on financial instruments with original maturity less than 12 months as realized and unrealized for those financial instruments with original maturity more than 12 months.

(b) Functional and presentation currency

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(c) Changes in accounting policy and disclosures

The accounting policies are consistent with those of the previous financial year.

(d) Prior period error

During the financial year, the following material prior period error was identified and prior period comparatives were restated. The effect of the restatement on the financial statements is summarized below:

IMF assets and liabilities

International Monetary Fund (IMF) during the year directed the Bank to record all IMF related assets and liabilities in the Bank's balance sheet i.e. reserve tranche position, currency subscriptions and securities. The Bank in prior years recorded only Special drawing rights holding, special drawing rights allocation, No.1 account, No.2 account, rapid credit facility and rapid finance facility.

Additionally, Reserve Tranche Position/quota increases that were recorded in the Government Securities NIB account should be reversed against Government Contribution Reserve Tranche Position liability account. These balance sheet accounts also recorded all foreign currency revaluation of IMF assets and liabilities rather than recognizing in profit or loss. As a result, the Government Securities NIB account should have only included the accounting losses incurred in prior years by the Bank that had been funded by Vanuatu Government via provisional notes and any redemption of these notes. The Bank has restated its financial statements to correct this misstatement.

	Effect on 2016 VT,000	Effect on 2015 VT,000
<i>Increase/ (decrease) in profit</i>		
Decrease in Net foreign exchange gains	(17,846)	303,293
	<u>(17,846)</u>	<u>303,293</u>
<i>Increase/(decrease) in net assets</i>		
Decrease in Government Securities	(261,196)	(212,136)
Increase in IMF assets	730,083	2,224,062
Decrease in Due to Government – Notes subscription to IMF (demand deposit)	249,534	382,743
Increase in IMF liabilities	(736,267)	(2,091,376)
Increase/(decrease) in net assets	<u>(17,846)</u>	<u>303,293</u>
<i>Increase/(decrease) in equity</i>		
(Decrease)/increase in general reserve	<u>(17,846)</u>	<u>303,293</u>

(e) New standards and interpretation

i) *New and amended statements adopted by the Bank*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have a material impact on the Bank.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(e) New standards and interpretation (cont'd)

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 2018, 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 9, 'Financial instruments'	IFRS 9, published in July 2014 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carried forward the guidance on recognition and derecognition of financial instruments from IAS 39.	1 January 2018, with early adoption permitted.
IFRS 15, Revenue from contract with customers	IFRS 15 was issued in 2014 by IASB. IFRS 15 contains new requirements for the recognition of revenue and additional disclosures about revenue. It is expected that a significant proportion of the Bank's revenue will be outside the scope of IFRS 15.	1 January 2018, with early adoption permitted.
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, with early adoption permitted

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - 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 income and expense presented in the statement of profit and loss and other comprehensive income include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale investments securities calculated on effective interest basis.

(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 are recognized in profit or loss in accordance with IFRS and current best central bank practice.
- iii) Foreign currency differences arising on retranslation of foreign currency denominated financial instruments with original maturity of less than 12 months are recognized in profit or loss as realized.
- iv) Foreign currency differences arising on retranslation of monetary assets and liabilities denominated in foreign currencies except for 3(b)(iii) are recognized in profit or loss as unrealized.
- v) 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.
- vi) 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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

(b) Foreign currency translation - continued

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.

(d) Financial Assets

Classification

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 of 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 was redeemed during the year.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued****(d) Financial Assets – continued***Recognition and measurement*

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 loss 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.

Impairment

Financial assets not classified at fair value through profit or losses are assessed at each balance sheet date 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.

(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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued****(f) Demand deposit liabilities**

Demand deposits represent funds placed with the Bank by 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 included in Note 16.

(g) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. Currency in circulation comprises notes and coins issued by the Bank and the liability for currency in circulation is recorded at face value in the statement of financial position.

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

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

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

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

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in profit or loss in the year of disposal.

Subsequent costs

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

Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives (in years):

Buildings	40 years
Plant and equipment	3 – 10 years
Motor vehicles	4 years

Leasehold land is amortized over the term of the lease, which presently varies from 30 to 75 years.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(h) Property, plant and equipment - continued***Periodic revaluation*

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values were deemed appropriate. The Board proposes to have such assets revaluation every two years. The next revaluation will be done in 2018.

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 and internally developed computer software. They are carried at historical cost less accumulated amortisation and impairment (if any). Cost of the software includes direct expenses incurred to acquire and bring to use the specific software. Other enhancement cost to the existing software is capitalized only if the benefit will produce additional future economic benefit exceeding more than one year.

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

(j) Currency stock (notes and coins)

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

(k) Income Tax

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

(l) Employee entitlements

Employee remuneration entitlements are determined by the Governor (in consultation with the Board) in terms of Section 10 of the RBV Act. The provision for employees' entitlements to wages and salaries, annual leave 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(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

In addition to the restatement described in note 2(d), where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

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

Section 7 of the RBV Act states that:

- (a) net profit be transferred to the General Reserve until the balance thereof is equal to half the authorized capital;
- (b) once the balance of the General Reserve is equal to half the authorized capital, half the net profit be transferred to the General Reserve until the balance thereof is equal to the authorized capital;
- (c) once the balance of the General Reserve is equal to the authorized capital, 10% of the net profit be transferred to the General Reserve;
- (d) after allocation of the net profit as above, the Board may set up 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 196.515m (2016: VT 207.772m) has been transferred to General Reserve and of which none will be available for distribution (2016: VT nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

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 revalue of land and buildings.

(b) **Special Retained Earnings Reserves**

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued**

6. a) INTEREST INCOME

	2017 (VT'000)	2016 (VT'000)
Overseas Investments	713,819	428,495
Domestic Investments	199,446	175,346
Staff Loans & Advances	4,355	4,458
	<u>917,620</u>	<u>608,299</u>

b) OTHER INCOME

	2017 (VT'000)	2016 (VT'000)
Sundry income	2,047	11,225
Dealing profit	37,879	34,205
Rental income	10,293	11,262
Insurance fee income	10,696	6,291
Net gain on disposal of fixed assets	1,699	3,793
Others	4,850	4,796
	<u>67,464</u>	<u>71,572</u>

7. INTEREST EXPENSE

	2017 (VT'000)	2016 (VT'000)
Interest on Government accounts	18,931	30,134
Interest on Reserve Bank of Vanuatu notes	14,355	6,958
	<u>33,286</u>	<u>37,092</u>

Interest is paid on demand deposits of the Government of Vanuatu operating account which is held with the bank. Interest paid on purchase of bond is accrued interest on a coupon at the time of sale.

8. PERSONNEL EXPENSES

	2017 (VT'000)	2016 (VT'000)
Staff cost	228,978	224,487
Superannuation contribution (VNPF)	7,396	7,075
Staff training	13,671	9,255
Severance pay, long service leave, accrued annual leave and gratuity expense	53,597	52,234
Business travel	31,400	15,163
	<u>335,042</u>	<u>308,214</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued**

9. OPERATING EXPENSES

	2017 (VT'000)	2016 (VT'000)
Auditor's remuneration	6,380	5,108
Depreciation and amortisation	68,339	61,889
Funds managers'	5,274	4,507
Amortisation of currency	73,806	86,356
Communication expenses	23,308	16,859
Corporate social responsibility	4,905	465
Repairs and Maintenance	15,325	12,135
License and Membership fees	17,259	12,398
Maintenance and other Contract agreements	11,523	10,934
IMF Charges	29,510	4,914
Other Currency expenses	215	319
Other expenses	106,221	95,989
	<u>362,065</u>	<u>311,873</u>

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 2017, the value of the external reserves was 84% (2016: 80%).

External assets consists of the following:

	2017 (VT'000)	2016 (VT'000)
Cash	27,928	10,250
Current and call accounts	9,215,879	6,394,781
Short term deposits	3,091,741	6,305,763
Total cash and cash equivalents	<u>12,335,548</u>	<u>12,710,794</u>
Treasury notes, term deposits, bonds and bills:		
- Financial assets at fair value through profit and loss	21,810,889	4,965,693
- Held-to-maturity financial assets	7,513,060	14,082,738
- Available for sale financial assets	-	1,132,552
Total investment securities	<u>29,323,949</u>	<u>20,180,983</u>
IMF External reserve assets:		
Special drawing rights holdings	175,362	199,307
Reserve tranche position	641,089	632,277
Total IMF external reserve assets	<u>816,451</u>	<u>831,584</u>
Total external assets	<u>42,475,948</u>	<u>33,723,361</u>

External assets are defined by the RBV Act as including any internationally recognized reserve asset. In these financial statements, external assets also include fully convertible foreign currency balances equivalent to VT53.052m (2016: VT11.916m) held with local banks in Vanuatu.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 - continued**

11. GOVERNMENT BONDS

Government bonds held with Reserve Bank

	2017 (VT'000)	2016 (VT'000)
0-3 years	500,770	751,300
4-7 years	7,220	6,610
8-10 years	2,248,411	2,243,371
Balance at the end of the financial year	<u>2,756,401</u>	<u>3,001,281</u>

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

	2017 (VT'000)	2016 (VT'000)
Interest receivable	264,218	202,739
Staff loans and advances	62,676	91,827
Sundry debtors	31,326	26,486
Other	4,330	32,754
	<u>362,550</u>	<u>353,806</u>

13. CURRENCY ACTIVITIES

	2017 (VT'000)	2016 (VT'000)
(a) Currency Stock (notes and coins)		
Balance at the beginning of the financial year	490,692	479,804
Purchase of stock	332,084	97,244
Currency issued into circulation	(73,806)	(86,356)
Balance at the end of the financial year	<u>748,970</u>	<u>490,692</u>
(b) Currency in circulation		
Notes	9,617,280	8,386,074
Coins	941,628	883,923
Total currency in circulation	<u>10,558,908</u>	<u>9,269,997</u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

14. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings (VT'000)	Computer and Office Equipment (VT'000)	Others (VT'000)	WIP (VT'000)	Total (VT'000)
At 1 January 2016					
Cost or valuation	1,490,946	299,068	160,836	32,292	1,983,142
Accumulated depreciation	(252,516)	(280,209)	(100,542)	-	(633,267)
Net book value	1,238,430	18,859	60,294	32,292	1,349,875
Year ended 31 December 2016					
Opening net book value	1,238,430	18,859	60,294	32,292	1,349,875
Additions	-	12,530	8,450	268,330	289,310
Disposals	-	-	(1,944)	-	(1,944)
Transfers/Adjustments	-	-	-	-	-
Depreciation	(34,283)	(12,615)	(14,000)	-	(60,899)
Closing net book value	1,204,147	18,774	52,800	300,622	1,576,342
At 31 December 2016					
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
Disposal	-	(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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

15. INTANGIBLE ASSETS

	Computer Software (VT'000)	WIP (VT,000)	Total (VT'000)
At 1 January 2016			
Cost	44,180	-	44,180
Accumulated amortisation	(40,044)	-	(40,044)
Net book amount	<u>4,136</u>	<u>-</u>	<u>4,136</u>
Year ended 31 December 2016			
Opening net book amount	4,136	-	4,136
Additions	1,973	-	1,973
Amortisation charge	(990)	-	(990)
Closing net book amount	<u>5,119</u>	<u>-</u>	<u>5,119</u>
At 31 December 2016			
Cost	46,153	-	46,153
Accumulated amortization	(41,034)	-	(41,034)
Net book amount	<u>5,119</u>	<u>-</u>	<u>5,119</u>
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	<u>7,424</u>	<u>3,349</u>	<u>10,773</u>
At 31 December 2017			
Cost	49,224	3,349	52,573
Accumulated amortisation	(41,800)	-	(41,800)
Net book amount	<u>7,424</u>	<u>3,349</u>	<u>10,773</u>

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

16. DEMAND DEPOSITS

	2017 (VT'000)	Restated 2016 (VT'000)
Due to commercial banks	23,690,632	15,921,591
Due to government – Vanuatu Government	6,549,335	7,519,486
Due to international institutions and agencies	10,277	905
Balance at the end of the financial year	<u>30,250,244</u>	<u>23,441,982</u>

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 2017 - 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, no amount during the year and as at balance date has been declared to be distributed to the Government of the Republic of Vanuatu as the requirements of the Act were not met.

18. EMPLOYEE PROVISIONS

	2017 (VT'000)	2016 (VT'000)
Opening balance	253,524	273,196
Additional provisions recognized	20,927	63,488
Utilised/ reversals	(53,599)	(83,160)
Closing balance	<u>232,742</u>	<u>253,524</u>

VT 204.21m (2016: VT 217.89m) 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 175.362m (2016: VT199.307m) 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 are disclosed together as capital subscriptions. The IMF maintains such balances in their accounts in both Special Drawing Rights (SDR) and VATU equivalents; the Bank balances are only maintained in VATU.

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

- i) Rapid Credit facility – Financing under this facility carries a Zero interest rate through 2017. It has a grace period of 5 ½ years and a final maturity of 10 years. The first repayment under this facility will commence in December 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 will commence its first repayment under this facility in June 2018 until its maturity in June 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 – continued

19. INTERNATIONAL MONETARY FUND – continued

	2017 (VT'000)	2016 (VT'000) Restated ²
IMF Assets		
Special drawing rights holding	175,362	199,307
Reserve tranche position	641,089	632,277
Currency subscriptions	2,995,313	2,954,145
	<u>3,811,764</u>	<u>3,785,729</u>
IMF Liabilities		
No.1 account	127,442	127,442
No.2 account	350	350
Special drawing rights allocation	2,485,395	2,451,235
Securities	2,867,049	2,827,643
Rapid credit facility	1,298,715	1,280,865
Rapid finance facility	1,298,715	1,280,865
	<u>8,077,666</u>	<u>7,968,400</u>

20. SHARE CAPITAL

	2017 (VT'000)	2016 (VT'000)
Authorised capital at Vatu 1 par value	1,000,000	400,000
Issued and paid-up capital of 100,000,000 Vatu	<u>100,000</u>	<u>100,000</u>

According to the decision of the Government of the Republic of Vanuatu, the Board of Directors during the year was authorized to increase the share capital from VT 400m to VT 1,000m.

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 2017 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).

² See note 2(d) for prior period restated

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - 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 VT199.4m (2016: VT175.2m) of interest income from its investments in Government bonds. Refer to note 7 for interest earned by the Government and note 11 for the Bank's investment in Government bonds at year end.

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 use of the Bank's motor vehicles.

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

	2017 (VT'000)	2016 (VT'000)
Directors sitting allowances	315	345
Directors expenses	3,408	2,112
Executive officers	94,531	127,966
	<u>98,254</u>	<u>130,423</u>

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT8,652m (2016: VT15,184m). 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 2017 was 92 (2016: 85).

23. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance date (2016: nil).

24. COMMITMENTS

There are no capital commitments at balance sheet date (2016: nil)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - 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:

	2017	Restated
	(VT'000)	2016
		(VT'000)
Foreign currency assets		
Cash and cash equivalents	12,307,620	12,700,544
Investment securities	29,323,949	20,180,983
International Monetary Fund (IMF): Special Drawing Rights	3,811,764	3,785,729
	<u>45,443,333</u>	<u>36,667,257</u>
Local currency assets		
Government securities	314,056	314,056
Government bonds	2,756,401	3,001,281
Other receivables	362,550	353,807
	<u>3,433,007</u>	<u>3,669,144</u>
	<u>48,876,340</u>	<u>40,336,401</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - 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:

	2017	Restated 2016
	%	%
Concentration by currency		
AUD	32	30
CNY	1	1
EUR	11	10
GBP	1	1
JPY	1	1
NZD	9	9
SDR	8	9
USD	30	30
VT	7	9
	<u>100</u>	<u>100</u>

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

	2017	2016
	%	%
Concentration by credit rating		
AAA-AA3	49	39
AA	35	41
A1-A3	7	11
N/R	9	9
	<u>100</u>	<u>100</u>

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 2017 - 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 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)
ASSETS							
Cash and cash equivalents	9,243,807	3,100,722	-	-	-	-	12,344,529
Investment securities	-	6,073,041	1,290,758	1,788,879	21,999,558	-	31,152,236
Government securities	314,056	-	-	-	-	-	314,056
Government bonds	-	259,187	508	180,740	3,377,458	-	3,817,893
Other receivables	-	44,168	7,178	9860	40,966	-	102,172
IMF	-	-	-	-	-	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
LIABILITIES							
Other creditors and accruals	97,256	77,489	-	-	-	-	174,745
Demand deposits	30,250,244	-	-	-	-	-	30,250,244
Reserve Bank of Vanuatu Notes	-	580,000	-	-	-	-	580,000
Currency in Circulation	-	-	-	-	-	10,558,908	10,558,908
IMF	-	-	-	-	2,597,430	5,480,236	8,077,666
	30,347,500	657,489	-	-	2,597,430	16,039,144	49,641,563

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

25. FINANCIAL RISK MANAGEMENT POLICIES – continued

Liquidity risk - continued

31 December 2016 Restated	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)
ASSETS							
Cash and cash equivalents	6,394,781	6,305,763	-	-	-	-	12,700,544
Investment securities	-	16,349,958	4,431,312	737,918	323,255	-	21,842,443
Government securities	314,056	-	-	-	-	-	314,056
Government bonds	-	14,600	268,474	179,721	3,842,261	-	4,305,056
Other receivables	-	41,565	12,327	44,040	63,412	-	161,344
IMF	-	-	-	-	-	3,786,386	3,786,386
	6,708,837	22,711,886	4,712,113	961,679	4,228,928	3,786,386	43,109,829
LIABILITIES							
Other creditors and accruals	81,528	138,759	-	-	-	-	220,287
Demand deposits	23,441,982	-	-	-	-	-	23,441,982
Reserve Bank of Vanuatu Notes	-	305,000	-	-	-	-	305,000
Currency in Circulation	-	-	-	-	-	9,269,997	9,269,997
IMF	-	-	-	-	2,561,736	5,406,664	7,968,400
	23,523,510	443,759	-	-	2,561,736	14,676,661	41,205,666

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - 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 2017 and 2016 in Vatu equivalents.

	2017		Restated 2016	
	VT,000	%	VT,000	%
United States dollar	14,028,733	39	11,773,923	45
Australian dollar	15,430,404	42	10,623,467	41
Euro	5,163,827	14	3,896,075	15
British pound	401,272	1	379,679	1
New Zealand dollar	4,634,785	13	2,768,859	11
Other currencies	(3,337,086)	(9)	(3,252,658)	(12)
NET OPEN POSITION	36,321,935		26,189,345	100

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

	2017	2016
VUV/USD	107.52	112.00
VUV/JPY	0.9525	0.9624
VUV/NZD	76.21	78.10
VUV/GBP	144.52	137.68
VUV/AUD	83.82	81.09
VUV/EUR	128.41	118.39
VUV/CAD	85.50	83.10
VUV/CHN	16.46	16.10
VUV/SDR	152.79	150.69

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - continued

25. FINANCIAL RISK MANAGEMENT POLICIES - continued

Market 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:	2017 (VT'000)	2016 (VT'000)
Change in profit/equity due to a 5 per cent appreciation in the reserves - weighted value of VATU	1,816,097	1,309,467
Change in profit/equity due to a 5 per cent depreciation in the reserves - weighted value of VATU	(1,816,097)	(1,309,467)

(i) *Interest rate risk*

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

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

	Carrying Amount	
	2017 (VT'000)	2016 (VT'000)
Fixed rate instruments		
Financial assets		
Cash equivalents	3,091,741	6,305,763
Investment securities	29,323,949	20,180,983
Government bonds	2,756,401	3,001,281
Staff loans and advance	62,676	91,827
Financial liabilities		
Demand deposits	(1,612,362)	(1,785,494)
RBV Notes	(578,417)	(303,945)
	33,043,988	27,490,415
Variable rate instruments		
Financial assets		
Cash at Bank	5,877,859	3,323,767
Financial liabilities		
International Monetary Fund	175,362	199,307
	6,053,221	3,523,074

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 2017 - 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.

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

31 December 2016 (VT'000)	Profit or Loss (VT,000)	
	100bp Increase	100bp Decrease
Fixed rate instruments	(49,657)	49,657

Cash flow sensitivity analysis for variable rate instruments

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

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

31 December 2016 (VT'000)	Profit or Loss (VT,000)	
	100bp Increase	100bp Decrease
Variable rate instruments	35,231	(35,231)

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 2017 - continued**

26. VALUATION OF FINANCIAL INSTRUMENTS - continued

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

	Fair value through profit or loss (VT'000)	Fair value					Total (VT'000)	Total (VT'000)
		Held-to-maturity (VT'000)	Loans and receivables (VT'000)	Other financial liabilities (VT'000)	Level 1 (VT'000)	Level 2 (VT'000)		
31 December 2017								
Financial assets								
Bonds	21,810,889	-	-	-	21,810,889	-	-	21,810,889
Term deposits	-	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	10,269,461	676,606	-	32,756,956	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 2017 - continued

26. VALUATION OF FINANCIAL INSTRUMENTS- continued

	Fair value through profit or loss (VT'000)	Carrying amount					Fair value			
		Held-to- maturity (VT'000)	Available -for-sale (VT'000)	Loans and receivables (VT'000)	Other financial liabilities (VT'000)	Total (VT'000)	Level 1 (VT'000)	Level 2 (VT'000)	Level 3 (VT'000)	Total (VT'000)
31 December 2016										
Restated										
Financial assets										
Bonds	4,965,693	-	-	-	-	4,965,693	4,965,693	-	-	4,965,693
BISIP units	-	-	1,132,552	-	-	1,132,552	1,132,552	-	-	1,132,552
Term deposits	-	9,554,841	-	-	-	9,554,841	-	-	-	-
Negotiable certificate of deposits	-	3,413,381	-	-	-	3,413,381	-	-	-	-
Treasury bills	-	1,114,516	-	-	-	1,114,516	-	-	-	-
Government securities	-	-	-	314,056	-	314,056	-	-	-	-
Government bonds	-	3,001,281	-	-	-	3,001,281	-	-	-	-
Other receivables	-	-	-	353,807	-	353,807	-	-	-	-
	4,965,693	17,084,019	1,132,552	667,863	-	23,850,127	6,098,245	-	-	6,098,245
Financial liabilities										
Demand deposits	-	-	-	-	23,441,982	23,441,982	-	-	-	-
Reserve Bank of Vanuatu Notes	-	303,945	-	-	-	303,945	-	-	-	-
Currency in circulation	-	-	-	-	9,269,997	9,269,997	-	-	-	-
Other creditors and accruals	-	-	-	-	220,287	220,287	-	-	-	-
	-	303,945	-	-	32,932,266	33,236,211	-	-	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 - 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.