

**RESERVE BANK OF VANUATU**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**INDEX**

**Page No.**

1 - 3	Directors' report
4	Statement by directors
5 - 7	Independent Auditor's Report
8	Statement of profit or loss and other comprehensive income
9	Statement of financial position
10	Statement of changes in equity
11	Statement of cash flows
12 - 43	Notes to and forming part of the financial statements

**RESERVE BANK OF VANUATU****FINANCIAL STATEMENTS**  
**31 DECEMBER 2019****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 2019 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  
 Anatole Hymak  
 Marakon Alilee (term expired 12 September, 2019)  
 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 2019 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 2019 was VT767.001m (2018: VT540.937m) of which VT20.147m was due to net unrealised foreign exchange gain (2018: VT120.101m) and VT 108.242m was due to net unrealized gains in foreign securities market prices

**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 2019****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 approved the transfer of VT128.389 and VT 120.101 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.

Dividends of VT 100,082m was paid out to the Government of Vanuatu.

**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.

**RESERVE BANK OF VANUATU****FINANCIAL STATEMENTS  
31 DECEMBER 2019****DIRECTORS' REPORT – continued****12. EVENTS SUBSEQUENT TO BALANCE DATE**

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Bank cannot reasonably estimate the impact these events will have on the Bank's financial position, results of operations or cash flows in the future.

**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.

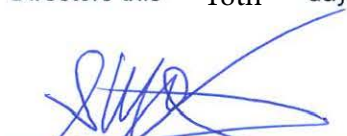
**14. OTHER CIRCUMSTANCES**

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 18th day of May 2020.

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

**RESERVE BANK OF VANUATU****FINANCIAL STATEMENTS**  
**31 DECEMBER 2019****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 2019;
- (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 2019;
- (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 2019;
- (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 2019;
- (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 18th day of May 2020.



.....  
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 2019, 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 2019, 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and 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 and the IESBA Code. 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view 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, management is 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.

Those charged with governance 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;





## 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.

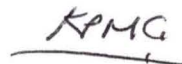
### Report on Other Legal and Regulatory Requirements

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:

- 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
- 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.

18 May , 2020  
Suva, Fiji

  
KPMG  
Chartered Accountants

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR  
ENDED 31 DECEMBER 2019**

	<b>Note</b>	<b>2019 VT '000</b>	<b>2018 VT '000</b>
<b>Revenue</b>			
Interest income	6(a)	1,323,462	1,181,304
Net unrealised foreign exchange gains		20,147	120,101
Net unrealised gain in foreign securities market prices		108,242	-
Other income	6(b)	107,523	133,997
Total revenue		<u>1,559,374</u>	<u>1,435,402</u>
<b>Expenses</b>			
Interest expense	7	33,443	30,489
Net unrealised losses in foreign securities market prices		-	154,871
Personnel expenses	8	391,993	351,912
Other operating expenses	9	366,937	357,193
Total expenses		<u>792,373</u>	<u>894,465</u>
<b>Net profit for the year</b>		<b>767,001</b>	<b>540,937</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Change in fair value of available for sale financial asset		-	-
Total comprehensive income		<u>767,001</u>	<u>540,937</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 43.

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 VT '000	2018 VT '000
<b>Assets</b>			
Cash and cash equivalents	10	11,557,885	13,227,271
Investment securities	10	46,144,139	33,792,767
Government securities		314,057	314,056
Government bonds	11	2,213,576	2,514,696
International Monetary Fund (IMF):			
Reserve tranche position	19	662,907	663,117
Currency subscription	19	3,097,815	2,995,313
Special drawing rights	10, 19	102,031	145,130
Other receivables	12	457,934	434,398
Currency stock (notes and coins)	13(a)	719,851	733,750
Property, plant and equipment	14	1,630,616	1,537,692
Intangible assets	15	52,950	36,490
<b>Total Assets</b>		<b>66,953,761</b>	<b>56,394,680</b>
<b>Liabilities</b>			
Demand deposits	16	41,626,402	33,248,617
Other creditors and accruals		193,834	158,447
Currency in circulation	13(b)	12,335,140	11,567,067
Reserve Bank of Vanuatu notes		2,669,261	1,368,637
International Monetary Fund	19	7,345,881	7,916,387
Employee provisions	18	234,210	253,413
<b>Total Liabilities</b>		<b>64,404,728</b>	<b>54,512,568</b>
<b>Net Assets</b>		<b>2,549,033</b>	<b>1,882,112</b>
<b>Capital and Reserves</b>			
Paid up capital	20	100,000	100,000
General reserve	4	1,693,202	1,154,670
Asset revaluation reserve	5(b)	325,731	325,731
Special retained earnings reserve	5(c)	430,100	301,711
<b>Total Capital and Reserves</b>		<b>2,549,033</b>	<b>1,882,112</b>

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 43.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	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 2018		100,000	707,580	26,254	325,731	181,610	1,341,175
Net Profit for the year		-	420,836	-	-	120,101	540,937
<i>Other comprehensive income;</i>							
Transfer of reserves <sup>1</sup>	5(a)	-	26,254	(26,254)	-	-	-
Total comprehensive income		-	<b>447,090</b>	<b>(26,254)</b>	-	<b>120,101</b>	<b>540,937</b>
<b>Balance as at 31 December 2018</b>		<b>100,000</b>	<b>1,154,670</b>	<b>-</b>	<b>325,731</b>	<b>301,711</b>	<b>1,882,112</b>
Net Profit for the year		-	638,612	-	-	128,389	767,001
Total comprehensive income		-	638,612	-	-	128,389	767,001
<b>Transaction with Government recognized directly in equity</b>							
<i>Dividend declared and paid out to Government of Vanuatu</i>		-	(100,080)	-	-	-	(100,080)
<b>Balance as at 31 December 2019</b>		<b>100,000</b>	<b>1,693,202</b>	<b>-</b>	<b>325,731</b>	<b>430,100</b>	<b>2,549,033</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 43.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 VT '000	2018 VT '000
<b>Cash flows from operating activities</b>			
Interest received		1,328,731	1,110,653
Interest paid		(33,443)	(30,489)
Other operating receipts		87,285	143,901
Other operating payments		(635,770)	(589,881)
Purchase of currency stock		(31,227)	(25,781)
Net movement of amortised cost investment securities		(10,274,477)	(1,199,882)
Net movement in International Monetary Fund accounts		(59,193)	8,204
Net movement in fair-value through profit or loss investments		(1,968,653)	(3,423,806)
<b>Net cash used in operating activities</b>		<b>(11,586,747)</b>	<b>(4,007,081)</b>
<b>Cash flows from investing activities</b>			
Net redemption of Government bonds		301,120	241,705
Net movement in staff loans		(6,527)	(11,102)
Purchase of property, plant and equipment		(159,656)	(60,859)
Purchase of intangible assets		(17,402)	(26,515)
Proceeds from sale of property plant & equipment		3,785	-
<b>Net cash provided from investing activities</b>		<b>121,320</b>	<b>143,229</b>
<b>Cash flows from financing activities</b>			
Net movement in currency in circulation		768,073	1,008,159
Net movement in commercial banks deposits		5,851,603	5,151,197
Net movement in Government deposits		2,526,182	(2,143,114)
Net movement in IMF credit facilities		(570,506)	(161,279)
Net movement in international institutions and agencies deposits		-	(9,710)
Net movement in Reserve Bank of Vanuatu notes		1,300,624	790,221
Dividend paid to Government of Vanuatu		(100,082)	-
<b>Net cash provided by financing activities</b>		<b>9,775,894</b>	<b>4,635,474</b>
Net increase/(decrease) in cash and cash equivalents		(1,689,533)	771,622
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>13,227,271</b>	<b>12,335,548</b>
Effects of exchange rate changes on foreign currency balances	3(b)	20,147	120,101
<b>Cash and cash equivalents at the end of the financial year</b>	10	<b>11,557,885</b>	<b>13,227,271</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 43.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019****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 .....  
...18/05.... 2020.

**(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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019 - continued****2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued****(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 recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognized 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 recognized 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.

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 recognized 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 recognizing 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.

**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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued**

**3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(a) Revenue recognition**

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

*Interest income and interest expense*

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

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

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

*Revenue from contracts with customers*

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

<b>Products and services</b>	<b>Nature, timing of satisfaction of performance obligations and significant payment terms</b>	<b>Revenue recognition under IFRS 15 (applicable from 1 January 2018)</b>
Sale of numismatic coins	Sales include the selling of numismatics to the customer. Performance obligation is satisfied when the customer received the numismatic coins. At this point, the revenue is recognized.	Revenue and associated costs are recognized when the goods are provided - i.e. when the numismatic is issued to the customer.
Dealing profit	The income involves the spreads earned by the Bank in buy and sell arrangements (sold deals) and sell and buy back arrangements (bought deals) of foreign currencies. Performance obligation is satisfied when the customer is issued with a deal voucher of the deals. At this point, the revenue is recognized.	Revenue and associated costs are recognized when the deals are provided - i.e. when the deal is issued to the customer



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued****(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 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued****(d) Financial Assets***Classification*

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income 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 amortized costs.

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

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

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

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

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

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

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

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

Financial assets: Business model assessment

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued**

Financial assets: Business model assessment – continued

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

Financial assets: Business model assessment

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

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

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

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

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

- 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).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued***Recognition and measurement – continued*

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

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

Financial assets: Subsequent measurement and gains and losses*Financial assets at FVTPL*

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

*Financial assets at amortised cost*

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

*Debt investments at FVOCI*

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

*Equity investments at FVOCI*

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

Impairment of financial assets*Financial instruments*

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

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued***Impairment of financial assets - continued*

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);
- 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued***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.

*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.

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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(d) Financial Assets – continued***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.

*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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(h) Property, plant and equipment***Recognition and measurement*

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

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

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

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

*Subsequent costs*

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

*Depreciation*

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

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

*Periodic revaluation*

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

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

**(i) Intangible assets**

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

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



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued****(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.

**(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 2019- 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 638.612m (2018: VT 420.836m) has been transferred to the General Reserve and of which VT 561.91m will be available for distribution (2018: VT 100.58m).

**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 2019- continued**

**6. a) INTEREST INCOME**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Overseas Investment: Short-term investments	305,974	244,759
Overseas Investments: Long-term investments	832,923	750,658
Domestic Investments	179,773	182,289
Staff Loans & Advances	4,792	3,598
	<u>1,323,462</u>	<u>1,181,304</u>

**b) OTHER INCOME**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Sundry income	3,538	1,835
Dealing profit	47,887	30,655
Rental income	35,469	20,313
Insurance fee income	10,890	7,252
Net gain on disposal of fixed assets	3,193	-
Gains from sale of demonetised coins as scrap metal	-	69,760
Others	6,546	4,182
	<u>107,523</u>	<u>133,997</u>

**7. INTEREST EXPENSE**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Interest on Government accounts	12,928	8,393
Interest on Reserve Bank of Vanuatu notes	20,515	22,096
	<u>33,443</u>	<u>30,489</u>

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

**8. PERSONNEL EXPENSES**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Staff costs	269,623	249,599
Superannuation contribution (VNPF)	8,570	7,669
Staff training	16,998	15,707
Severance pay, long service leave, accrued annual leave and gratuity expense	65,746	56,908
Business travel	31,056	22,029
	<u>391,993</u>	<u>351,912</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued**

**9. OPERATING EXPENSES**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Auditor's remuneration	5,780	4,990
Amortisation and depreciation	70,784	73,853
Funds managers'	6,357	6,069
Amortisation of currency	45,126	41,001
Communication expenses	19,521	23,226
Corporate social responsibility	2,974	6,937
Repairs and Maintenance	31,589	24,550
License and Membership fees	14,008	15,789
Maintenance and other Contract agreements	8,458	11,656
IMF Charges	43,936	41,398
Other expenses	118,404	107,724
	<u>366,937</u>	<u>357,193</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 2019, the value of the external reserves was 84% (2018: 86%) of total demand liabilities.

(a) External assets consist of the following:

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Cash	27,784	15,448
Current and call accounts	2,763,107	6,759,619
Short term deposits	8,766,994	6,452,204
<b>Total cash and cash equivalents</b>	<u>11,557,885</u>	<u>13,227,271</u>
Treasury notes, term deposits, bonds and bills:		
- Financial assets at fair value through profit and loss	27,156,719	25,079,824
- Amortised cost	18,987,420	8,712,943
<b>Total investment securities</b>	<u>46,144,139</u>	<u>33,792,767</u>
IMF external reserve assets:		
Special drawing rights holdings	102,031	145,130
Reserve tranche position	662,907	663,117
<b>Total IMF external reserve assets</b>	<u>764,938</u>	<u>808,247</u>
<b>Total external assets</b>	<u>58,466,962</u>	<u>47,828,285</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019– continued**

**10. EXTERNAL ASSETS - continued**

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT,000)</b>
<u>Current and non-current external assets</u>		
Current external assets	39,399,924	29,505,321
Non-current external assets	19,067,038	18,322,964
	<u>58,466,962</u>	<u>47,828,285</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 VT475.4m (2017:VT45.82m) held with local banks in Vanuatu.

**11. GOVERNMENT BONDS**

Government bonds held with Reserve Bank

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT'000)</b>
0-3 years	320	302,265
4-7 years	4,600	7,870
8-10 years	2,208,656	2,204,561
Balance at the end of the financial year	<u>2,213,576</u>	<u>2,514,696</u>
<u>Current and non-current government bonds</u>		
Current external assets	799,320	306,215
Non-current external assets	1,414,256	2,208,481
	<u>2,213,576</u>	<u>2,514,696</u>

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

**12. OTHER RECEIVABLES**

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT'000)</b>
Interest receivable	329,600	334,869
Staff loans and advances	85,538	73,778
Sundry debtors	37,599	20,369
Other	5,197	5,382
	<u>457,934</u>	<u>434,398</u>

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued**

**13. CURRENCY ACTIVITIES**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
(a) Currency Stock (notes and coins)		
Balance at the beginning of the financial year	733,750	748,970
Purchase of stock	30,543	25,781
Currency issued into circulation	(45,126)	(41,001)
Balance at the end of the financial year	<u>719,851</u>	<u>733,750</u>
(b) Currency in circulation		
Notes	11,226,118	10,550,600
Coins	1,109,022	1,016,467
Total currency in circulation	<u>12,335,140</u>	<u>11,567,067</u>

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

**14. PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and Buildings (VT'000)</b>	<b>Computer and Office Equipment (VT'000)</b>	<b>Others (VT'000)</b>	<b>WIP (VT'000)</b>	<b>Total (VT'000)</b>
<b>At 1 January 2018</b>					
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	<u>1,496,900</u>	<u>13,825</u>	<u>39,163</u>	<u>-</u>	<u>1,549,888</u>
<b>Year ended 31 December 2018</b>					
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	<u>1,467,518</u>	<u>23,763</u>	<u>37,368</u>	<u>9,043</u>	<u>1,537,692</u>
<b>At 31 December 2018</b>					
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	<u>1,467,518</u>	<u>23,763</u>	<u>37,368</u>	<u>9,043</u>	<u>1,537,692</u>
<b>Year ended 31 December 2019</b>					
Opening net book value	1,467,518	23,763	37,368	9,043	1,537,692
Additions				163,358	163,358
Disposals			(592)	-	(592)
Transfers from WIP	118,367	44,339	9,695	(172,401)	-
Depreciation	(45,090)	(12,234)	(12,518)	-	(69,842)
Closing net book value	<u>1,540,795</u>	<u>55,868</u>	<u>33,953</u>	<u>-</u>	<u>1,630,616</u>
<b>At 31 December 2019</b>					
Cost or valuation	1,956,862	383,861	194,531	-	2,535,254
Accumulated depreciation	(416,067)	(327,993)	(160,578)	-	(904,638)
Net book value	<u>1,540,795</u>	<u>55,868</u>	<u>33,956</u>	<u>-</u>	<u>1,630,616</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued**

**15. INTANGIBLE ASSETS**

	<b>Computer Software (VT'000)</b>	<b>WIP (VT'000)</b>	<b>Total (VT'000)</b>
<b>At 1 January 2018</b>			
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>
<b>Year ended 31 December 2018</b>			
Opening net book amount	7,424	3,349	10,773
Additions	20,503	6,012	26,515
Transfers from WIP	9,191	(9,191)	-
Amortisation charge	(798)	-	(798)
Closing net book amount	<u>36,320</u>	<u>170</u>	<u>36,490</u>
<b>At 31 December 2018</b>			
Cost	78,918	170	79,088
Accumulated amortization	(42,598)	-	(42,598)
Net book amount	<u>36,320</u>	<u>170</u>	<u>36,490</u>
<b>Year ended 31 December 2019</b>			
Opening net book amount	36,320	170	36,490
Additions	17,403	-	17,403
Transfer from WIP	170	(170)	-
Amortisation charge	(943)	-	(943)
Closing net book amount	<u>52,950</u>	<u>-</u>	<u>52,950</u>
<b>At 31 December 2019</b>			
Cost	96,491	-	96,491
Accumulated amortization	(43,541)	-	(43,541)
Net book amount	<u>52,950</u>	<u>-</u>	<u>52,950</u>

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

**16. DEMAND DEPOSITS**

	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Due to commercial banks	34,693,432	28,841,829
Due to government – Vanuatu Government	6,932,403	4,406,221
Due to international institutions and agencies	567	567
Balance at the end of the financial year	<u>41,626,402</u>	<u>33,248,617</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 2019- 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 561.91 (2018: VT 100.58) of the net profits as at balance date is available to be distributed to the Government of the Republic of Vanuatu.

**18. EMPLOYEE PROVISIONS**

	2019 (VT'000)	2018 (VT'000)
Opening balance	253,413	232,744
Additional provisions recognized	65,746	53,051
Utilised/ reversals	(84,949)	(32,382)
Closing balance	<u>234,210</u>	<u>253,413</u>

VT 233.121 m (2018: VT 212.845m) 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 102.031m (2018: VT 145.129m) 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 2019– continued**

**19. INTERNATIONAL MONETARY FUND – continued**

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT'000)</b>
<b>IMF Assets</b>		
Special drawing rights holding	102,031	145,130
Reserve tranche position	662,907	663,117
Currency subscriptions	3,097,815	2,995,313
	<u>3,862,753</u>	<u>3,803,560</u>
<b>IMF Liabilities</b>		
No.1 account	176,572	127,442
No.2 account	364	255
Special drawing rights allocation	2,569,982	2,570,796
Securities	2,920,319	2,867,049
Rapid credit facility	1,342,915	1,343,340
Rapid finance facility	335,729	1,007,505
	<u>7,345,881</u>	<u>7,916,387</u>

**20. SHARE CAPITAL**

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT'000)</b>
Authorised capital at Vatu 1 par value	1,000,000	1,000,000
Issued and paid-up capital of 100,000,000 Vatu	<u>100,000</u>	<u>100,000</u>

**21. RELATED PARTY INFORMATION**

*Identity of related parties*

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

The Board of Directors during the financial year ended 31 December 2019 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 – Contract ended 28<sup>th</sup> February 2019), Florinda Aru (Director Accounts and Customers Services – contract ended April 30, 2019), Philip Arubilake (Director Financial Markets), Gloria Siri (Director Research & Statistic), Noel Vari (Director Financial institution supervision), Dr Michael Hililan (Advisor), Simon Tiwok (Advisor, Planning and Communications), Sereana Marum (Director Support Services) and Branar Karae (Assistant to the Governor) – Contract ended 6<sup>th</sup> August 2019

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- 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 VT179.8m (2018: VT182.3m) 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 VT62.8m (2018: VT63.8m).

The Board of Directors excluding the executive directors are paid a sitting allowance for the services rendered. The Bank also incurs general expenses such as venue hire for meetings and air travel expenses and provides non-cash benefits to the Executive Directors and executive officers in addition to their salaries such as use of the Bank's motor vehicles.

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

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT'000)</b>
Directors sitting allowances	150	555
Directors expenses	5,098	4,579
Executive officers	70,125	79,787
	<u>75,373</u>	<u>84,921</u>

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT13.695m (2018: VT9.308m). 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 2019 was 91 (2018: 99).

**23. CONTINGENT LIABILITIES**

The directors are not aware of any contingent liabilities at balance date (2018: nil).

**24. COMMITMENTS**

There are no capital commitments at balance sheet date (2018: nil)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued**

**25. FINANCIAL RISK MANAGEMENT POLICIES**

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

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

**Credit risk**

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

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

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

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

	<b>2019</b> <b>(VT'000)</b>	<b>2018</b> <b>(VT'000)</b>
<b>Foreign currency assets</b>		
Cash and cash equivalents (excludes cash on hand)	11,530,101	13,211,823
Investment securities	46,144,139	33,792,767
International Monetary Fund (IMF): Special drawing rights / Reserve tranche position / Currency subscriptions	<u>3,862,753</u>	<u>3,803,560</u>
	<u>61,536,993</u>	<u>50,808,150</u>
<b>Local currency assets</b>		
Government securities	314,057	314,056
Government bonds	2,213,576	2,514,696
Other receivables	<u>458,702</u>	<u>434,398</u>
	<u>2,986,335</u>	<u>3,263,150</u>
	<u><b>64,523,328</b></u>	<u><b>54,071,300</b></u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- 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:

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
<b>Concentration by currency</b>		
AUD	36	34
CNY	1	1
EUR	10	11
GBP	0.7	0.5
JPY	0.5	0.5
NZD	11	10
SDR	6	7
USD	29.8	30
VT	5	6
	<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.

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
<b>Concentration by credit rating</b>		
AAA	56	50
AA+ - AA-	27	33
A+ - A-	12	11
BBB+ - BBB-	-	-
BB+ - BB-	4	5
N/R	1	1
	<u>100</u>	<u>100</u>

*Cash*

The Bank held cash of VT 2,763,106,750 (2018: VT 6,759,619,402). 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****25. FINANCIAL RISK MANAGEMENT POLICIES – continued****Credit risk - continued***Debt investment securities*

The Bank held debt investment securities of VT 61,301,519,739 (2018: VT 46,877,284,341). 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 external credit ratings but when external credit ratings are not available or published, the Bank monitors changes in credit risk by remaining available press and regulatory information.

Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis. This is because the Bank 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.

**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 2019- 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.

<b>31 December 2019</b>	<b>On demand (VT'000)</b>	<b>0 - 3 months (VT'000)</b>	<b>3 - 6 months (VT'000)</b>	<b>6 – 12 months (VT'000)</b>	<b>Over 1 year (VT'000)</b>	<b>No specific maturity (VT'000)</b>	<b>Total (VT'000)</b>	<b>Carrying amount (VT'000)</b>
<b>ASSETS</b>								
Cash and cash equivalents	2,790,891	8,943,960	-	-	-	-	11,734,851	11,557,885
Investment securities	-	16,480,788	7,631,850	4,111,376	19,201,304	-	47,425,318	46,144,139
Government securities	314,057	-	-	-	-	-	314,057	314,057
Government bonds	-	-	-	855,791	2,090,722	-	2,946,513	2,213,576
Other receivables *	-	42,797	12,948	23,843	51,788	-	131,376	128,334
IMF	-	-	-	-	-	3,862,753	3,862,753	3,862,753
	<u>3,104,948</u>	<u>25,467,545</u>	<u>7,644,798</u>	<u>4,991,010</u>	<u>21,343,814</u>	<u>3,862,753</u>	<u>66,414,868</u>	<u>64,220,744</u>
<b>LIABILITIES</b>								
Other creditors and accruals	33,702	160,134	-	-	-	-	193,836	193,836
Demand deposits	41,626,402	-	-	-	-	-	41,626,402	41,626,402
Reserve Bank of Vanuatu Notes	-	2,670,000	-	-	-	-	2,670,000	2,669,261
Currency in Circulation	-	-	-	-	-	12,335,140	12,335,140	12,335,140
IMF	-	167,864	167,864	335,729	1,007,185	5,667,239	7,345,881	7,345,881
	<u>41,660,104</u>	<u>2,997,998</u>	<u>167,864</u>	<u>335,729</u>	<u>1,007,185</u>	<u>18,002,379</u>	<u>64,171,259</u>	<u>64,170,520</u>

\* - excludes interest receivables

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued**

**25. FINANCIAL RISK MANAGEMENT POLICIES – continued**

**Liquidity risk - continued**

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)
<b>ASSETS</b>								
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
<b>LIABILITIES</b>								
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 2019- 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 2019 and 2018 in Vatu equivalents.

	<b>2019</b>		<b>2018</b>	
	<b>VT,000</b>	<b>%</b>	<b>VT,000</b>	<b>%</b>
United States dollar	19,196,092	36	15,658,977	37
Australian dollar	23,113,890	43	17,994,006	43
Euro	6,292,841	12	5,820,085	14
British pound	427,472	1	403,731	1
New Zealand dollar	7,214,166	13	5,293,379	13
Other currencies	(2,728,186)	(5)	(3,187,191)	(8)
<b>NET OPEN POSITION</b>	<b>53,516,275</b>	<b>100</b>	<b>41,982,987</b>	<b>100</b>

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

	<b>2019</b>	<b>2018</b>
<b>VUV/USD</b>	114.21	113.70
<b>VUV/JPY</b>	1.0489	1.0301
<b>VUV/NZD</b>	76.94	76.34
<b>VUV/GBP</b>	149.77	144.29
<b>VUV/AUD</b>	80	80.17
<b>VUV/EUR</b>	127.95	130.14
<b>VUV/CAD</b>	87.43	83.47
<b>VUV/CHN</b>	16.35	16.54
<b>VUV/SDR</b>	157.99	158.04



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- 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.

<b>Impact of:</b>	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
Change in profit/equity due to a 5 per cent appreciation in the reserves - weighted value of VATU	2,675,814	2,099,149
Change in profit/equity due to a 5 per cent depreciation in the reserves - weighted value of VATU	(2,675,814)	(2,099,149)

**(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:

	<b>Carrying Amount</b>	
<b>Fixed rate instruments</b>	<b>2019 (VT'000)</b>	<b>2018 (VT'000)</b>
<b>Financial assets</b>		
Cash equivalents	8,766,944	6,452,204
Investment securities	46,144,140	33,792,767
Government bonds	2,213,576	2,514,696
Staff loans and advance	80,305	73,778
<b>Financial liabilities</b>		
Demand deposits	(871,007)	(153,972)
RBV Notes	2,669,261	(1,368,638)
	<b>59,003,219</b>	<b>41,310,835</b>
<b>Variable rate instruments</b>		
<b>Financial assets</b>		
Cash at Bank	1,378,585	5,197,818
International Monetary Fund	102,031	145,130
	<b>1,480,616</b>	<b>5,342,948</b>

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 2019- 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 2019 (VT'000)	Profit or Loss	
	100bp Increase	100bp decrease
Fixed rate instruments	(271,567)	271,567

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

***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 2019 (VT'000)	Profit or Loss	
	100bp Increase	100bp decrease
Variable rate instruments	14,806	(14,806)

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

**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 2019- 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)
<b>31 December 2019</b>								
<b>Financial assets</b>								
Cash and cash equivalent	-	11,557,885	-	11,557,885	-	-	-	-
Foreign bonds	27,156,719	-	-	27,156,719	27,156,719	-	-	27,156,719
Term deposits	-	6,520,120	-	6,520,120	-	-	-	-
Negotiable certificate of deposits	-	7,048,401	-	7,048,401	-	-	-	-
Treasury bills	-	1,495,413	-	1,495,413	-	-	-	-
Commercial papers	-	3,923,486	-	3,923,486	-	-	-	-
Government securities	-	314,056	-	314,056	-	-	-	-
Government bonds	-	2,213,576	-	2,213,576	-	-	-	-
Other receivables	-	457,934	-	457,934	-	-	-	-
	27,156,719	33,530,871	-	60,687,590	27,156,719	-	-	27,156,719
<b>Financial liabilities</b>								
Demand deposits	-	-	41,626,402	41,626,402	-	-	-	-
Reserve Bank of Vanuatu Notes	-	2,669,261	-	2,669,261	-	-	-	-
Currency in circulation	-	-	12,335,140	12,335,140	-	-	-	-
Other creditors and accruals	-	-	193,834	193,834	-	-	-	-
	-	2,669,261	54,155,376	56,824,637	-	-	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- 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)
<b>31 December 2018</b>								
<b>Financial assets</b>								
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
<b>Financial liabilities</b>								
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	-	1,368,637	44,974,131	46,342,768	-	-	-	-

---

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019- continued****27. EVENTS AFTER BALANCE DATE**

Subsequent to year end, the World Health Organization announced the spread of COVID-19 virus to be a pandemic. The impact of the spread of this virus is disrupting travel and businesses in Vanuatu and throughout the world. It is not clear at the time of finalizing these financial statements, the impact this will have on services provided by the Bank during 2020. Management and the Board are monitoring developments on an ongoing basis. Other than this, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Company, the results of those operations, or the state of the affairs of the Bank, in subsequent financial years.