RESERVE BANK BLONG VANUATU
RESERVE BANK OF VANUATU

2014 ANNUAL REPORT

Letter to the Minister

The Honourable Minister of Finance and Economic Management
Government Building
PMB 9058
Port Vila

Dear Minister:

Pursuant to Section 42(1) of the Reserve Bank of Vanuatu Act [CAP 125], I have the honour to transmit to you:

(a) A report of the operations of the Reserve Bank of Vanuatu for the Year 2014; and

(b) A copy of the Bank's Annual Statement of accounts for 2014 certified by the Auditors.

Yours faithfully,

Simeon Athy
Governor

Private Mail Bag 9062, Port Vila, Vanuatu. Facsimile: (678) 24231 / Telephone: (678) 23333
Email: resrvbnk@rbv.gov.vu / Website: http://www.rbv.gov.vu

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of Directors

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GOVERNOR'S FOREWORD

The developments in the global economy are showing some positive signs, but the overall picture still remains weak and worrying. Global economic growth in 2014 continued at a moderate pace but remained uneven and weaker than expected. The International Monetary Fund lowered its growth projections three times during the year, projecting global growth for 2014, 2015, and 2016 to drop to 3.3, 3.5, and 3.7 percent, respectively. This year's outcomes reflect the further downgrading of growth forecasts in the emerging and developing economies, particularly China and Russia, and several advanced economies.

Growth performances in the advanced economies were more country-specific during the year. The US economy, driven by improved labour-market conditions, rebounded from a weak first-quarter performance. Growth in the euro area and Japan, however, remained weak: the Japanese economy entered a technical recession in the third quarter, whilst growth in Europe struggled to pick up from low levels.

The emerging markets' performances were similar to those last year. China's economic growth, the main driver of the region's growth, reached 7.4 percent, slightly below the 2014 target of 7.5 percent and the growth figure of 7.7 percent in 2013. These developments contributed to the large currency swings towards the end of 2014, with the US dollar appreciating against the other major currencies while the euro and Japanese yen depreciated.

The year saw global commodities prices, particularly oil prices, fall in the second half of the year, driven by the slowdown in China's economy and other emerging markets, the increase in oil production from the North American oil supplies and the decision of the Organization of the Petroleum Exporting Countries (OPEC) to maintain oil-production levels despite these developments. This decision is forecast to reduce the growth prospects for oil-exporting countries and affect the Russian economy more severely, with the impact of political tensions already having a disastrous effect on the country's economy. Lower global oil prices are expected to lend support to growth in 2015; however, downside risks to growth remain high, requiring more serious attention.

Developments within the local economy revealed the same challenges compared to 2013, but there is slow improvement. Preliminary figures released by the Vanuatu National Statistics Office (VNSO) show that the 2013 GDP reached 2.0 percent, compared to the 1.8 percent and 1.4 percent growth in 2012 and 2011, respectively. GDP figures for 2014 are yet to be officially released; however, the Macroeconomic Committee has forecast the year's real GDP to reach 3.7 percent, supported mainly by the implementation of the Government's public infrastructure projects, which are expected to be implemented beginning in 2015. The Government's fiscal position is sound. The recurrent fiscal position improved at the end of the year, though it was lower than last year's result. Gross fiscal operating balances for 2014 were Vt 171 million lower than the balance of Vt 638 million at year end 2013.

All key monetary-policy targets were met in 2014, despite the persistence of challenging economic conditions. The year-end annual inflation rate stood at 0.8 percent, which was within the Reserve Bank's 0-4 percent official target, and foreign reserves reached 6.4 months, well above the threshold of four months of import cover. The Bank continued its easing monetary policy during the year to boost domestic economic growth. The Reserve Bank lowered its policy rate further from 5.5 percent to 5.25 percent, and reduced its open-market operations activities to inject more liquidity into the system. Consultation with the banking industry and general stakeholders on the adaptation of new RBV policy initiatives, outside of the traditional monetary policy tools, continued over the year. A few facilities were identified after a thorough needs assessment; these facilities will be introduced to the market through the commercial banks in 2015. With the very concessional interests rates offered and through the targeted sectors of the economy, it is the Bank's goal that the new facilities will contribute to the support needed to stimulate the local economy's business activities and growth.

In line with the above focus, the Reserve Bank continued its strong support to the financial inclusion program initiative in 2014. The Bank successfully organised the 2nd National Financial Inclusion Taskforce meeting in May 2014, commenced the dialogue with the Vanuatu Government through the Ministry of Education on the development of an integrated financial-education curriculum and included in 2014, for the first time, the financial-inclusion agenda to the RBV's awareness-program visits to the outer islands. The RBV also partnered with microfinance institutions and other relevant stakeholders in industry to stage the

Regarding financial-sector performance, the banking sector remains sound; however, the impact of the challenging business conditions on the books of the supervised institutions is becoming more evident. Domestic banks are well capitalised, and their aggregate liquidity asset ratio is well above the industry's 5 percent minimum ratio. The banking industry loan assets quality position is also healthy after accommodating for significant loan write-offs this year. The offshore supervised banks reported the same performance at the end of the year. The insurance sector recorded a moderate year, with losses experienced mainly in aviation and personal accident and health.

The continuing challenging economic conditions further affected the Bank's financial results in 2014. However, the Bank ended the year recording a net profit outcome of Vt104.5 million. This is a turnaround from the net financial loss in 2013 of Vt 588.6 million. The Bank used all of the 2014 net profit to clear part of the Government's non-interest, non-negotiable notes issued under section 7(3) of the RBV Act to cover part of the Bank's 2013 financial losses.

Overall, the RBV carried out all its responsibilities in 2014. Notably, in its community support, the Bank continued its awareness program in 2014, educating the public about its purpose and business and its currency-reform program. Moreover, to help meet its targets, the Bank upgraded and strengthened its internal resources. One of these initiatives was the upgrading of the Bank's Kere Library system to the use of Inmagic Text Works and Web Publisher Pro, together with the Maxus Library and Maxus Catalogue. This year saw the Bank farewell seven of its staff, four of whom retired from their duties after serving the Bank for over 20 years.

On behalf of the Board and Management of the Bank, I take this opportunity to thank these outgoing members of the staff for their commitments and long years of service to the Bank and Vanuatu.

I conclude here by taking this opportunity to extend the Bank's huge acknowledgment to its Board for their vision, guidance and support to the Bank in 2014; to the Bank's management for their commitment to the daily running of the Bank's operations; and to the staff overall for their commitment to performing their responsibilities to the highest standards.

Simeon Athy

Governor and Chairman of the Board

ECONOMIC OVERVIEW

International Economy

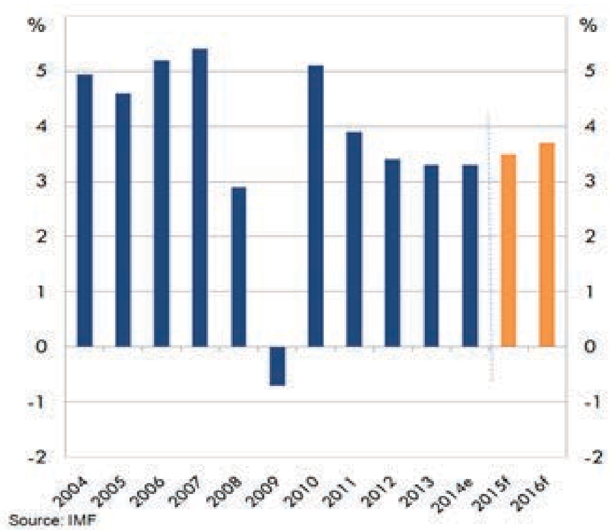
The global economy is estimated by the International Monetary Fund (IMF) to have grown by 3.3 percent in 2014, in line with the growth trend in 2013. Whilst growth continued at a moderate pace, it was more uneven and generally weaker than anticipated. The IMF lowered growth projections for 2014 three times during the year in response to disappointing growth in many advanced and emerging economies. In its latest World Economic Outlook, it revised its growth down to 3.3 percent for 2014, 3.5 percent for 2015, and 3.7 percent for 2016. The downgrades reflected less favourable growth outlooks for the emerging and developing economies, particularly China and Russia, as well as for several advanced economies.

In the advanced economies, growth became more country-specific, diverging between nations over the year. The US economy became the main driver of growth, after a strong rebound from a weak first quarter. The US economy continued to strengthen, with labour market conditions improving over the year. The improvements prompted the Federal Reserve to taper its quantitative-easing stimulus package over the year, with the program concluding in October 2014. In contrast, growth in the euro area and Japan remained notably weak over the year. Japan entered a technical recession in the third quarter, and growth in Europe struggled to pick up from low levels. Growth was uneven across the bloc and unemployment remained worryingly high at around 11.5 percent throughout most of the year. In addition, inflation remained particularly muted in the second half of the year. Large currency movements towards the end of 2014 reflected these developments, with the US dollar strengthening against other major currencies, and the Euro and Japanese yen both depreciating.

Emerging markets continued to adjust to lower potential growth, with the emerging nations in Asia driving the growth. China narrowly missed its official 2014 growth target of 7.5 percent, registering a 7.4 percent growth. This is down from 7.7 percent in 2013, and the slowest pace of growth seen in China in 24 years. The slowdown in activity in China and other emerging markets has been one of the demand-side factors behind the falling global oil prices in the second half of the year. The huge decline in oil prices since July also reflects increases in North American oil supplies and the decision by the Organization of the Petroleum Exporting Countries (OPEC) to maintain production levels. One consequence is reduced growth prospects for countries that rely on oil exports. Economic sanctions resulting from tensions over Ukraine and falling oil prices have already begun to have a disastrous impact on the Russian economy and to cause disruptions to currency markets.

Lower global oil prices are expected to lend support to growth in 2015. However, downside risks to growth remain, including the heightened geopolitical tensions in Ukraine and the Middle East, and increased volatility in global financial markets, especially in emerging markets, that are associated with the expectation of higher interest rates in the US in 2015. Weaker oil and commodity prices are expected to reduce growth prospects for emerging markets, in particular in sub-Saharan Africa and Latin America. Developments in the euro area also remain a concern, as deflation hits the bloc and fears over political instability continue to rise.

Figure 1: World GDP Growth 2004-2016 (percentage change; annual data)



According to CPB World Trade Monitor, world trade volumes increased over the year to November, although Central and Eastern Europe and Latin America experienced sharp declines in trade volumes.

Key Interest Rates

The year saw a continuation of accommodative monetary policy stances and low interest rates in the major advanced economies, with only the Reserve Bank of New Zealand raising interest rates during the year. The European Central Bank continued to ease monetary policy in response to low inflation and anaemic growth in the euro area.

In the United States, the Federal Reserve kept the target range for the federal funds rate at 0 to 1/4 percent throughout the year. The Federal Reserve Open Market Committee reiterated that the federal funds rate is expected to remain around this level until mid-2015. The Federal Reserve concluded its quantitative-easing program in October 2014, after tapering its $85bn monthly purchases by $10bn each month since the beginning of the year. The Federal Reserve implemented this change in monetary policy owing to the strength of the recovery in growth in the US.

In 2014 the European Central Bank (ECB) further eased its monetary policy, with rates reduced to a record low. The ECB cut its main refinancing rate in the euro area first by 10 basis points (from 0.25 to 0.15 percent) in June, and then by a further 10 basis points (from 0.15 to 0.05 percent) in September. The ECB began purchasing covered bonds and asset-backed securities in the fourth quarter of 2014 in an attempt to stave off deflation, with the region having experienced low levels of inflation throughout the year.

The Reserve Bank of New Zealand became the first central bank of the advanced economies to begin increasing rates, raising the official cash rate (OCR) four times during 2014. The first rate hike came in March, with the OCR increasing 25 basis points from 2.5 percent, the level maintained since February 2011, to 2.75 percent. Further increases of 25 basis points followed at the April, June and July meetings, bringing the OCR to 3.50 percent in July. Since July the RBNZ has kept the OCR at 3.50 percent, and has continued to monitor the impact of the earlier rate hikes.

Over the year Reserve Bank of Australia (RBA) held its policy rate at 2.5 percent, where it had been maintained since August 2013. Although labour-market conditions worsened in 2014 and the economy continues to transition from mining to non-mining activity, it continues to grow at a moderate pace and inflation remains contained.

Table 1: Key Interest Rate Indicator

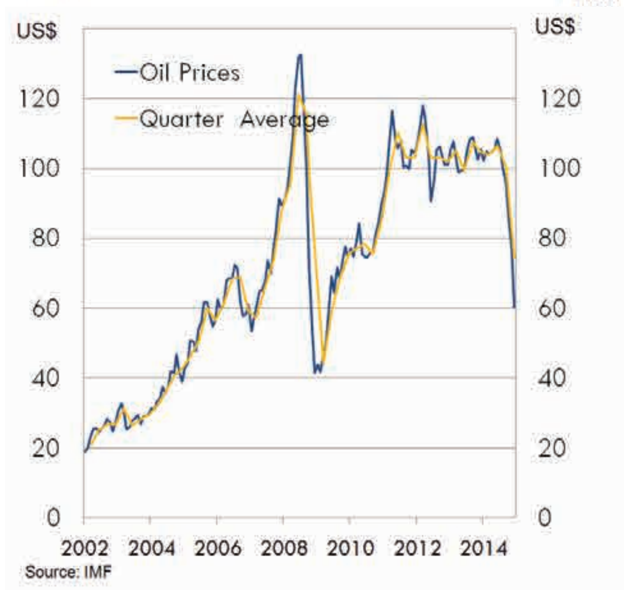
Period	US Fed Funds Rate	Euro Refi Rate	Australia Cash Rate	New Zealand Cash Rate	Vanuatu Rediscount Rate
2013 Q1	0.25	0.75	3.00	2.50	6.00
Q2	0.25	0.50	2.75	2.50	5.50
Q3	0.25	0.50	2.50	2.50	5.50
Q4	0.25	0.25	2.50	2.50	5.50
2014 Q1	0.25	0.25	2.50	2.75	5.50
Q2	0.25	0.15	2.50	3.25	5.50
Q3	0.25	0.05	2.50	3.50	5.50
Q4	0.25	0.05	2.50	3.50	5.25

Sources: Federal Reserve, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand and Reserve Bank of Vanuatu.

Commodity Prices

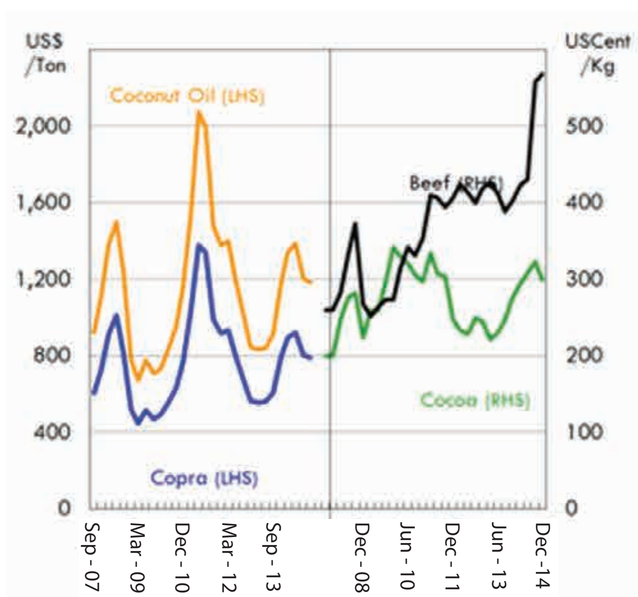
The average oil price in the December quarter of 2014 was $74.55 per barrel, a significant decrease from US$104.51 in the December quarter of 2013. Oil prices peaked in June 2014, before beginning a steep descent: the result of a glut in supply and weak global demand for oil. Increased production in North America and the decision by OPEC to maintain production have been the major factors behind the increase in supply. Primary commodity prices fell over the year.

Figure 2: Average Spot Prices for Crude Oil (monthly data; US$/barrel)



The international prices for Vanuatu's major commodities exports, though lower than last year, remained elevated in 2014. Copra, cocoa, and coconut oil prices saw little pick-up during the previous quarters, and as a result the index of commodity prices, representative of major export commodities, was relatively stable.

Figure 3: Major Export commodity Price 2007- 2014 (monthly data; US$/ton)



Source: World Bank, IMF

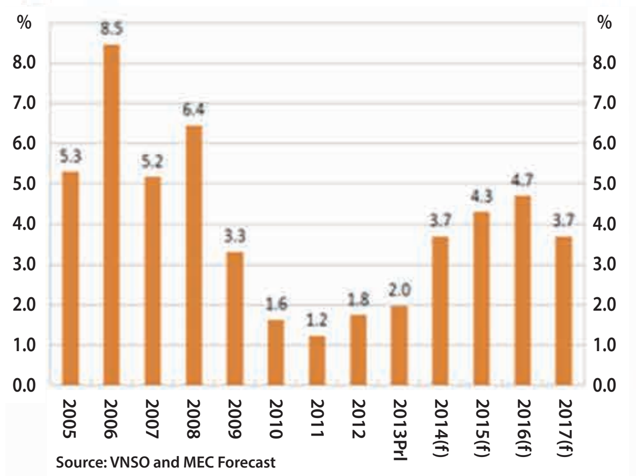
Domestic Economy

The official GDP figures for 2014 are yet to be released by the Vanuatu National Statistics Office (VNSO).

Growth in the domestic economy continued to pick up from a weak growth in 2011 (1.4 percent) and 2012 (1.8 percent). According to the preliminary data released by the VNSO, the economy grew by 2.0 percent in 2013. The growth was attributed mainly to the agriculture sector, which grew by 4.8 percent over the year, contributing to 1.0 percent of the overall growth.

The Macroeconomic Committee forecast real GDP for 2014 to grow by 3.7 percent, under the assumption that public projects would be implemented throughout the year, and that the other large-based projects would begin from 2015 onwards. The agriculture sector is forecast to grow by 2.4 percent, followed by the industry sector by 3.8 percent, driven mainly by the improvement in construction and electricity and water supply, despite the continued weak performance of the manufacturing sector. The services sector is expected to grow by 4.6 percent, with support from all major sectors including retail trade and tourism activity. Looking forward, various planned donor-funded projects are expected to drive growth from 2015 to 2017. This growth is expected to be supported by the pickup in tourism activities and other services sectors. Key partial indicators of domestic consumption, such as private-sector credit, value-added tax (VAT) collections and imports, showed slight improvement over the year.

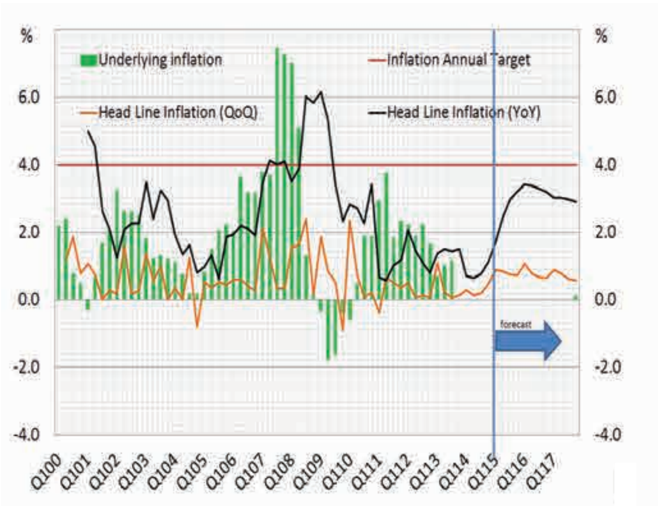
Figure 4: Annual Growth of Real GDP



The annual inflation rate for the quarter ending September 2014 stood at 0.8 percent (0.2 percent quarterly inflation), remaining at the lower end of RBV's explicit 0-4 percent target range.

A number of developments are currently influencing the inflation rate. 1) Changes in international prices for food and fuel in the medium term continue to remain low. 2) Inflation rates for major trading partners are expected to remain subdued despite some inflationary pressures in Australia. Commodity prices have seen some changes, even though low overall, they have remained high for Vanuatu's major export commodities, while crude oil prices have significantly dropped. 3) There has been minimal feed-through of tradable inflation – transmission is very weak (six to eight months) mainly due to domestic competition, which has distorted the price-transmission channel.

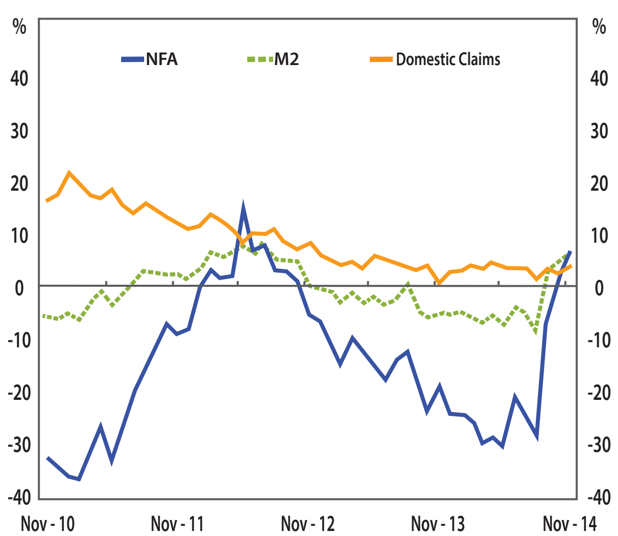
Figure 5: Price Developments



Monetary Developments

Money-supply growth remained weak during the first half of 2014, until August, reflecting subdued economic conditions leading to the slowdown in banking-sector activities. The downward trend in M2 was reflected in persistent declines in net foreign assets (NFA), in particular commercial banks' NFA, and a slowdown in domestic claims.

Figure 6: Determinants of Money Supply (year growth)



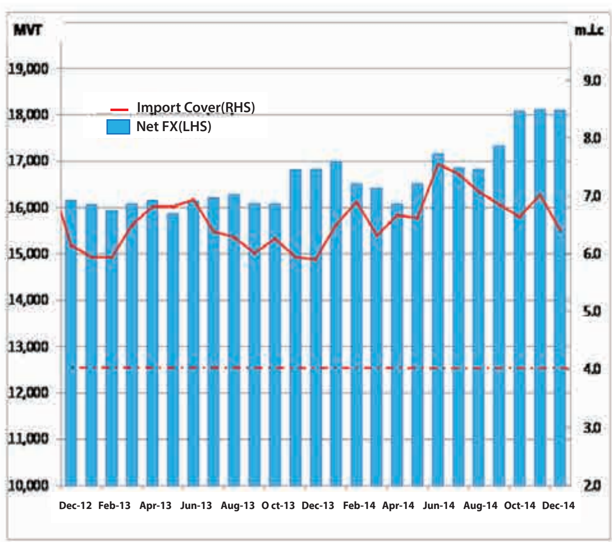
Source: Commercial Banks, Reserve Bank

The decline in net foreign assets was attributed to the combined effects of declines in commercial banks' foreign assets and an increase in their foreign liabilities. The Reserve Bank, in contrast, recorded an increase in its NFA over the year. However, M2 picked up during the last four months of 2014, reflecting in particular the increase in net foreign assets, while domestic claims grew at a slower pace. Over the year to November 2014, NFA rose by 6.7 percent, compared to a decline of 19.2 percent over the year to November 2013, while domestic claims grew by 1.8 percent over the year to November 2013, and by 3.5 percent over the year to November 2014.

External Sector Developments

The developments in the external sector expanded the international reserves by 7.5 percent, from Vt 16.8 billion at end 2013 to Vt 18.1billion at end 2014.

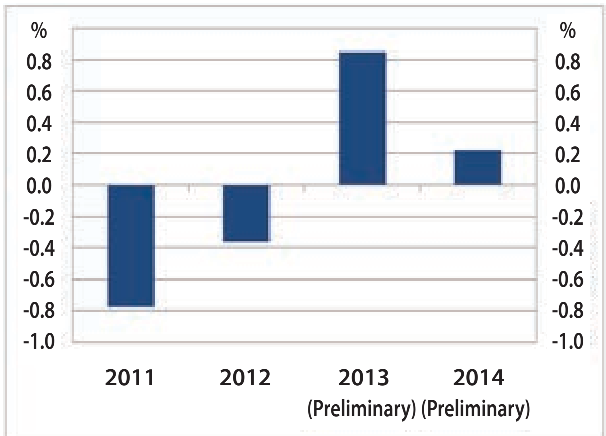
Figure 7: Reserves (FX) and Months of Import Cover



This increase was mainly driven by significant tourism earnings and inflows of grants from donor partners, which reflected extensive bilateral agreements. Foreign direct investment in both equities and real estate via the acquisition of non-financial assets, in contrast, slowed over the first half of 2014 before improving over the second half. During the year, particularly in the latter half, imports continued to expand, reflecting the importation of major infrastructure goods. In addition, repayments of external liabilities scheduled for 2014 were well covered. Overall, the year-end level of foreign reserves was adequate to finance around 6.4 months of import cover.

The Government's recurrent fiscal position improved at the end of 2014, though relatively less than what had been recorded in 2013. Though both revenue and expenditure rose in 2014, the increase in expenditure outweighed that in revenue, explaining the year's trend. Total recurrent revenue collected in 2014 increased by 4.8 percent to Vt 15.3 billion. The better performance reflects the continuous compliance with and enforcement of the current tax regime. However, total recurrent expenditure also increased by 8.3 percent from the level in 2013, to reach Vt 15.1 billion. This reflected the few under-budgeted and unbudgeted items on which the Government spent during the year.

Figure 8: Fiscal Balance as Percent of GDP



The movement in the gross fiscal operating balances resulted in a smaller budget surplus of Vt 171 million at the end of 2014, compared to a surplus of Vt 638 million at the end of 2013.

MONETARY POLICY FORMULATION

In 2014, monetary-policy formulation continued to be articulated as a consequence of the influence of subdued global economic conditions on domestic economic activities. Against the slowdown in domestic economic conditions, the Bank in November 2014 reduced its policy rate from 5.50 percent to 5.25 percent. Overall macroeconomic stability was maintained in 2014, and the two key objectives of the monetary policy were achieved.

2014 inflation remained at a low 0.8 percent, within the Bank's target of 0-4 percent. Similarly, official foreign reserves reached 6.4 months, significantly above the minimum threshold of four months.

The Japan-IMF funding support to the External Sector Statistics project, aimed to strengthen all accounts in the balance of payments and the international investment position continued over the year. This support has boosted training to staff of the external sector and funded two missions by the IMF External Sector expert to the RBV in 2014. Several key recommendations of the mission's report were also undertaken in 2014. The project is expected to be accomplished with the complete data migration using the new manual (BPM6) guide. The output of this migration exercise will be covered in the December Quarterly Economic Review.

To strengthen the HR capacity of the Bank, staff are encouraged to pursue further training both locally and overseas within their areas of responsibilities. In March one staff member attended an overseas training on monetary policy management and operation. Another staff member participated in two trainings (in March and December), both on fiscal analysis and long-term forecasting. The department also sent one of its staff overseas to take part in training on the compilation of monetary and financial statistics. Locally, seven department staff members attended a workshop on government finance statistics in July; four staff members attended a National Statistical Development Strategy workshop (two each in January and July); and six staff members attended a training on the Commonwealth Secretariat Debt Recording Management System in September.

The Monetary Sector commenced reporting monthly monetary statistics using the recommended IMF standardised format in October 2014. The quarterly statistics using the revised format will be published for the first time in the December 2014 quarter report.

An IMF technical-assistance grant provided support in the establishment of the Financial Programming Framework & Policies exercise during the year. Two staff trainings session were undertaken, and couching of two Research and Statistic Department's staff.

MONETARY POLICY IMPLEMENTATION, FOREIGN RESERVE MANAGEMENT AND FINANCIAL INCLUSION

Monetary Policy Implementation

The Reserve Bank continued to maintain a policy stance of easing monetary supply throughout 2014. At its meeting on November 7, 2014, the Board of the Reserve Bank lowered the Bank's policy rate (rediscount rate) further from 5.5 percent to 5.25 percent.

Open-Market Operation

To support its monetary policy stance, the Bank reduced further the amount of the RBV notes it auctioned in its weekly market operations in 2014. Throughout the year, the Bank continued to auction notes with maturity profiles of seven, 14, 28, 63, and 91 days.

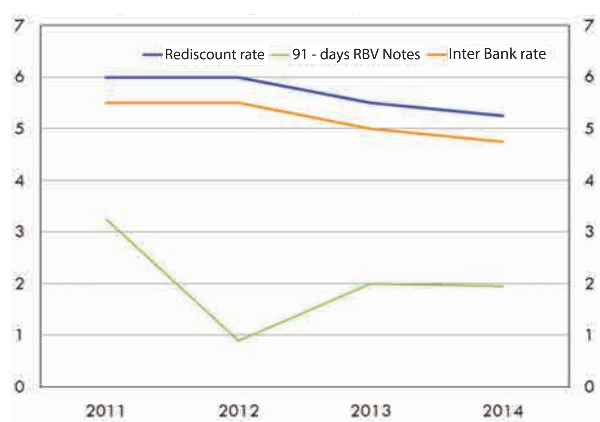
Table 2: RBV Note Auction Results

Year	2012	2013	2014
Number of OMO	49	46	35
Results in Millions of Vatu			
Flotation	12,012	9,725	7,089
Tenders received	28,401	17,368	10,669
Allotments	12,455	9,365	65,863
Outstanding	1,222	630	270

During the year, the Bank conducted a total of 35 open-market operations, compared to 46 open-market operations in 2013. In addition, the Bank significantly reduced the total amount of RBV notes it floated. As a result, the amount of outstanding RBV notes decreased to Vt 270 million from Vt 630 million in 2013, as shown in table 2.

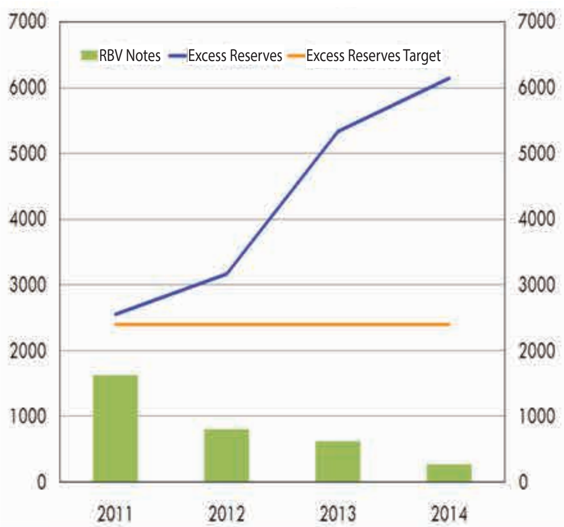
The interest rates on the various categories of RBV notes remained unchanged from the preceding year. On the other hand, the cost of monetary policy declined in 2014, largely reflecting the lower amount and quantity of RBV notes allotted during the year.

Figure 9: Short-Term Interest Rates (percent; year-end position)



Liquidity injections via matured RBV notes as well as new liquidity inflows through the balance of payments in 2014 have caused excess reserves to continue to build up and remain above the Bank's internal target, as illustrated in Figure 10.

Figure 10: Excess Reserves versus Target (levels; Vt millions; year-end positions)



Despite the increase in excess reserves, system liquidity continued to be unevenly distributed amongst the banks during the year. As a result, one bank sought the RBV's overnight lending facility support.

Reserve Requirement

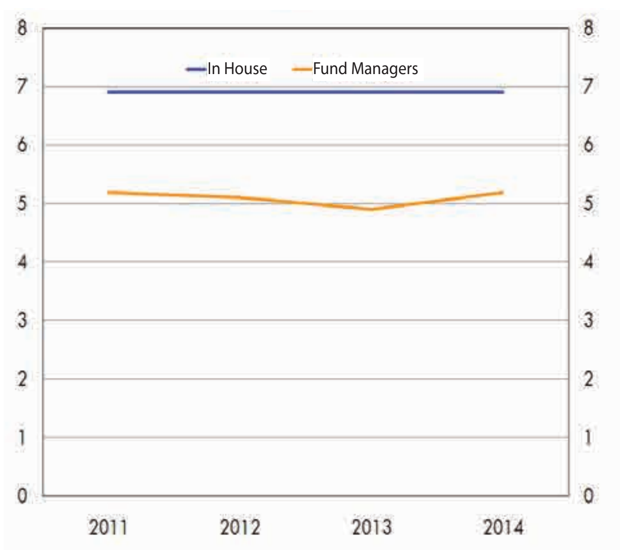
RBV maintained the statutory reserve deposit (SRD) requirement unchanged at 7.0 percent throughout 2014. Despite this, commercial banks' total holding in reserve requirement or SRD rose by Vt 158.9 million due to increases in residents' vatu deposits and foreign-currency demand deposits during the year.

Foreign Exchange Reserve Management

The RBV continued to maintain a comfortable level of foreign-exchange reserves during the year. This has enabled the Bank to continue to meet a number of important policy objectives: providing support for the exchange rate; supplying foreign-currency liquidity to the domestic market to maintain investor confidence during a shortfall ; and servicing the Government's foreign debt and other external payment obligations.

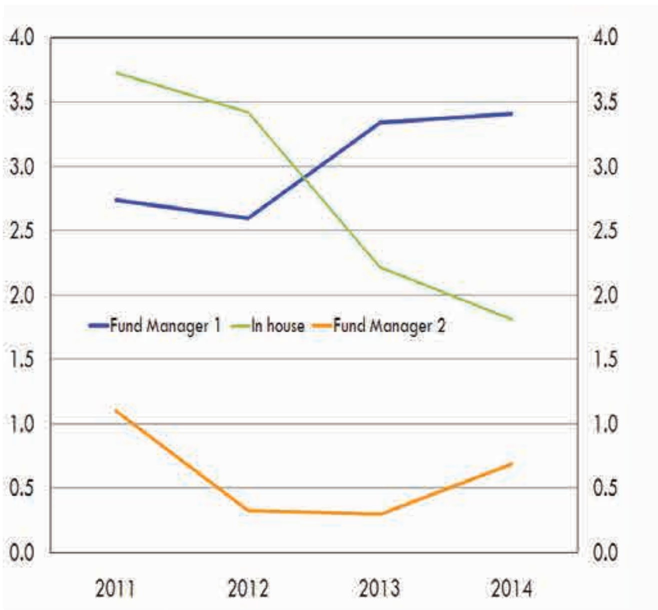
The Bank continued to buy excess foreign exchange in the market and sell the foreign exchange to the market when the market was short of the FX level. With total foreign-exchange purchases continuing to exceed the sales of foreign exchange during the year, the Bank added around Vt 1.4 billion to its total holding of foreign exchange in 2014. The Bank has maintained a healthy level of foreign reserves sufficient to continue to service the Government's external obligations and meet foreign-exchange shortfalls in the market. At the end of 2014, the total investible reserves stood at Vt 18.3 billion. Of the total investible reserves, the Bank continued to manage the bulk of the reserves (85 percent), with the remaining balance of around 15 percent managed by external fund managers. Foreign-exchange reserve management at the RBV is done within the parameters specified in the Bank's Board-Approved Investment Guidelines.

Figure 11: Cost of Managing Funds through Fees and Salaries (levels; Vt million; year-end data)



Foreign-exchange reserve management entails costs from fund managers' fees and salaries of in-house reserve management personnel. In 2014, the total cost of managing the Bank's foreign exchange reserves increased slightly, reflecting a slight increase in external fund managers' fees. In contrast, the cost of in-house fund management has not changed in the last three years.

Figure 12: Rates of Return on Investments (levels; percent; yearly data)



The year 2014 was another challenging year for reserve management at the Bank, as major central banks continued to maintain very accommodative monetary-policy stances. Persistently low interest rates abroad continued to affect the rates of returns on the Bank's foreign investments. The rate of return on in-house managed funds decreased during the year by around 18.5 percent.

Table 3: Major Central Banks' Official Interest Rates

Bank	2012	2013	2014
FED	0/0.25	0/0.25	0/0.25
BOJ	0.1	0.1	0.1
ECB	0.75	0.25	0.05
BOE	0.5	0.5	0.5
RBA	3.0	2.5	2.5
RBNZ	2.5	2.5	3.5

Apart from the Reserve Bank of New Zealand, which raised its official cash rates three times in 2014, the other major central banks kept their interest rates unchanged, or, in the case of the European Central Bank, reduced them (Table 3). There remains a degree of economic uncertainty facing many major economies. While the US is showing some progress, with the Fed expected to raise interest rates in 2015, Japan and the euro area are still facing risks of deflation.

Exchange Rates

Table 4: Vatu Exchange Rates

FCY	31-Dec-13	30-Jun-14	31-Dec-14	Annual % Change
USD	97.26	94.32	102.72	5.61
EUR	134.20	128.72	124.88	-6.94
AUD	86.64	88.77	84.07	-2.97
NZD	79.77	82.78	80.43	0.83
GBP	160.51	160.69	158.87	-1.02
JPY	0.9252	0.9297	.8598	-7.07

Table 4 shows the vatu exchange rates continuing to mirror the bilateral movements between the major foreign currencies in the global foreign-exchange market. The year 2014 saw further volatilities in the foreign-exchange market, resulting in a mixed performance of the local currency against major currencies. At the close of the year, the vatu depreciated against the US dollar and New Zealand dollar by 5.6 percent and 0.83 percent, respectively. On the other hand, the local currency appreciated against the euro (6.9 percent), Australian dollar (3.0 percent), British pound (1.0 percent), and Japanese yen (7.1 percent).

Government Bonds

During 2014, the Bank issued a total amount of Vt 1,262.8 million in Government bonds, representing an increase of around Vt 263 million over the total amount in 2013. Government bonds issued during 2014 have maturities of two, three, and four years.

Financial Inclusion

As part of its shared efforts to continue promoting financial inclusion in Vanuatu, the Bank carried out the following activities in 2014:

The Bank successfully organised the 2nd National Financial Inclusion Taskforce (NFIT) meeting in May 2014. NFIT members representing various stakeholder organisations met in the Reserve Bank conference room to determine financial-inclusion initiatives, and the developments to move them forward. A set of key action items was endorsed b: (1) Supportive Policy and Regulatory Framework; (2) Financial Consumer Protection; and (3) Financial Education/Literacy and Competency. Most of the key action items are expected to be implemented in the next one to three years.

The Bank took Action Item (3), above, further by establishing a partnership arrangement with the Ministry of Education in promoting the idea to the schools throughout the country. An official letter and briefing note were sent to the Minister of Education to highlight the importance of integrating financial education into the core school curriculum of the country as a strategic and sustainable approach to raising the financial competencies and personal money-management skills of schoolchildren.

The Bank also partnered with microfinance institutions and other relevant stakeholders in Port Vila to organise the 4th Microfinance Trade Show in Port Vila on August 2014. The Bank, through its departments' representatives, developed brochures and posters on the roles and functions of the Reserve Bank, including financial inclusion, and disseminated the information to the general public.

As part of its Central Banking Awareness Program to the islands, the Bank this year added the Financial Inclusion initiative as a new topic on its awareness agenda. The main focus was to provide information to the communities and rural population about the basic financial products and services offered by financial institutions, and how these services can be accessed by the rural communities to improve their livelihoods and welfare.

Although the Bank worked consistently to achieve its Financial Inclusion initiatives, the following tasks remained yet unfinished:

- Developing a Payment System Act; Strengthening the financial consumer protection disclosure forms;
- Extending client protection to clients of non-supervised financial institutions;
- Working with relevant authorities to enact appropriate regulations for consumer protection, competition, data protection and minimum disclosure;
- Conducting surveys on financial access and demand for financial services and financial competency;
- Achieving standardisation and accreditation of informal financial-literacy programs for adults; and
- Setting up a Consumer Complaints Unit within the Reserve Bank.

BANKING SECTOR AND FINANCIAL INSTITUTION DEVELOPMENT

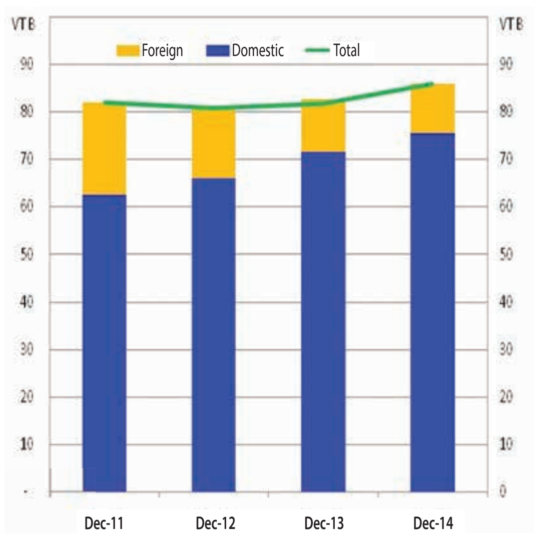
Domestic Banks

The domestic banking sector remains sound and continues to operate effectively. It is well capitalised, and the aggregated liquidity ratio is above the required regulatory minimum liquidity asset ratio of 5 percent. The amount in non-performing loans is relatively high, although it had reduced notably as at December 2014.

Private-sector credit continued to demonstrate slow growth, with an annual growth rate of 4.7 percent; however, this was still an improvement over the 2013 figure of 3.0 percent. Overall, domestic banking-sector assets continued to be dominated by high-quality assets (standard loans), and earnings remained satisfactory despite the fall in profit before write-offs and provisions in 2014.

Financial Position

Figure 13: Asset Position – Domestic Banks
(levels; Vt billions)



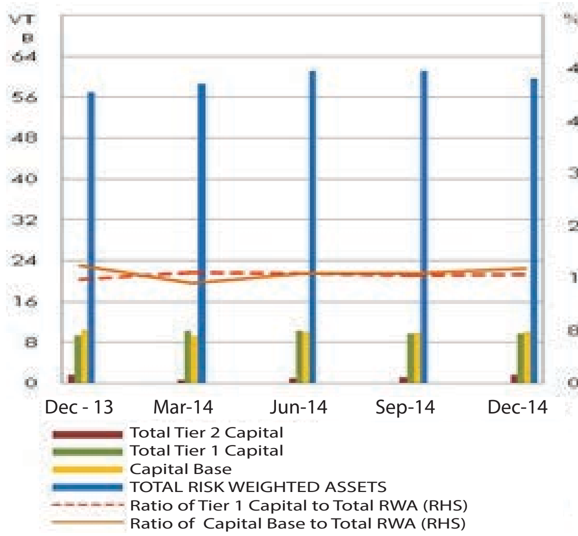
The domestic banking industry over the year ending December 2014 registered a year-on-year growth rate of 5.3 percent to Vt 86.0 billion in total assets, compared to Vt 81.7 billion reported in December 2013. The annual growth was mainly attributable to an increase in domestic assets of 5.3 percent to Vt 75.4 billion, triggered largely by growth in other domestic assets of 22.0 percent to Vt 9.9 billion. Foreign assets, however, dropped slightly by 4.9 percent to Vt 10.7 billion, reflecting mainly the fall in balances due from banks of 16.8 percent to Vt 8.2 billion over the year (Figure 13).

The banking industry's liabilities (less capital) increased by 6.7 percent to Vt 73.5 billion, compared to Vt 68.9 billion as at December 2013. The increase in liabilities is due to 57.1 percent growth in foreign liabilities to Vt 13.1 billion.

In contrast, the banks' domestic liabilities reduced slightly by 0.2 percent to Vt 60.5 billion, from Vt 60.6 billion reported in the previous year.

Capital

Figure 14: Capital Adequacy and Tier 1 Ratio (quarterly data)

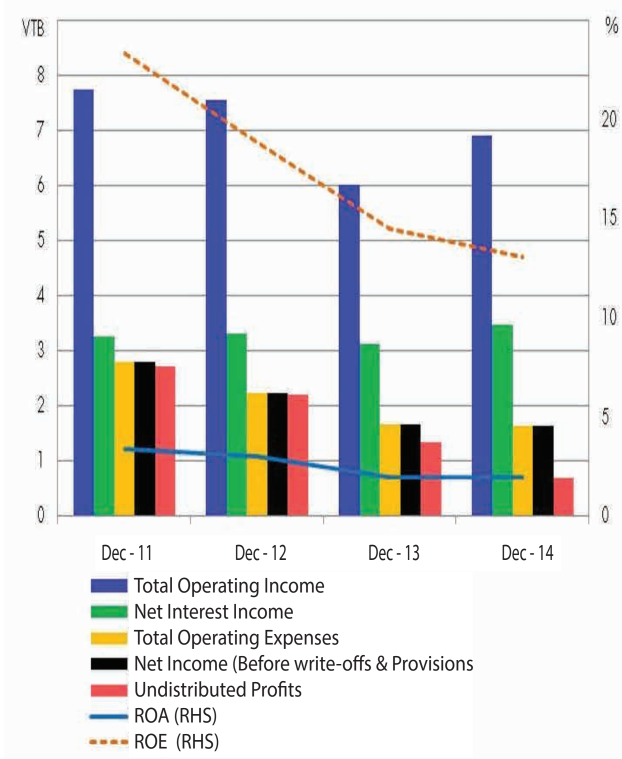


The capitalisation of the banking industry remained well above the minimum regulatory requirement of 12 percent. At the end of December 2014, the commercial banks' consolidated capital adequacy ratio decreased slightly to 17.6 percent from 18.1 percent reported at the end of December 2013; however, the Tier 1 capital ratio to total risk weighted assets ratio increased marginally to 16.7 percent from 15.9 percent in the previous year (Figure 14).

The commercial banks' total risk weighted assets dropped by 1.7 percent to Vt 67.6 billion over the year due to a 2.5 percent fall in off-balance sheet and on-balance sheet risk weighted assets to Vt 61.8 billion.

Financial Performance

Figure 15: Earnings – Domestic Banks (quarterly data)

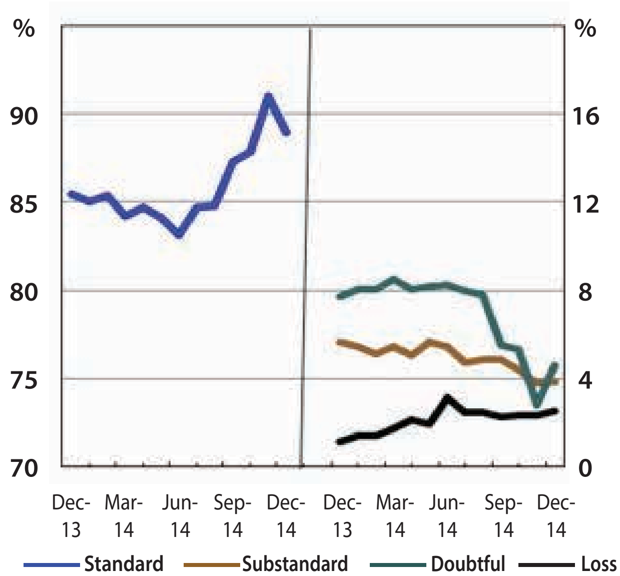


The banking industry profit margin performance contracted over the year 2014. Net income before write-offs and provisions, however, stabilised at Vt 1.7 billion despite the increase in total operating income of 15.0 percent to Vt 6.9 billion (Vt 6.0 billion: 2013). The decline in banking-industry earnings is mostly attributable to a 21.1 percent growth in total operating expenses and growth in provisions over the year. As a result, the undistributed profits plummeted by 48.1 percent to Vt 696.0 million from Vt 1.3 billion in 2013 (Figure15).

The reduction in undistributed profits resulted in the industry's return on assets falling to 1.97 percent from 2.0 percent in 2013. Similarly, the return on equity plunged to 13.1 from 14.5 percent in 2013.

Asset Quality

Figure 16: Asset Quality – Domestic Banks
(share of total loans by loan category)



The quality of the banking-industry assets improved over the year. As at the end of December 2014, non-performing loans[1] stood at Vt 6.4 billion, a decrease of 20.1 percent compared to the previous year (Vt 8.0 billion: Dec-13). Consequently, the ratio of non-performing loans to total loans fell to 11.1 percent from 14.5 percent in the previous year. The improvement is mostly attributed to significant loan write-offs over the reviewed period.

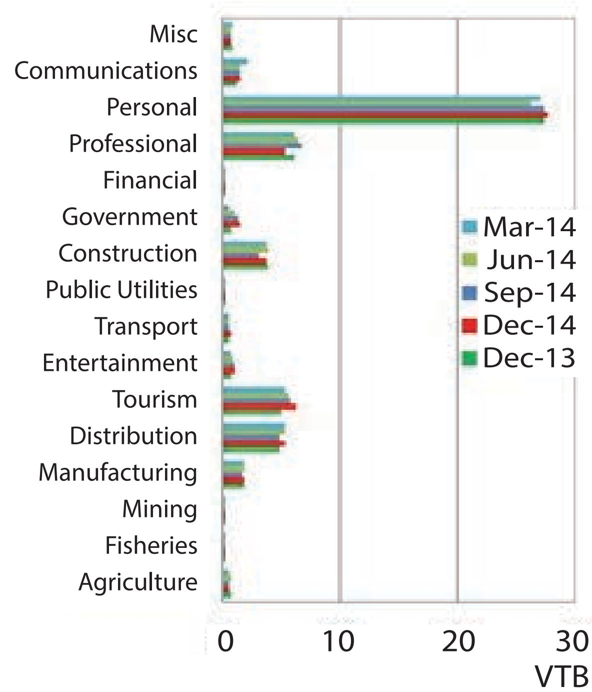
Despite the improvement noted above, the level of loss loans against total loans increased from 1.1 percent to 2.1 percent. In contrast, doubtful loans contracted from 7.7 percent to 4.6 percent. Similarly, substandard loans decreased from 5.7 percent to 3.9 percent. Overall, the banking industry continues to maintain high-quality standard loans representing 88.9 percent of total lending assets (Figure 16).

[1] The category of non-performing loans is made up of substandard, doubtful, and loss loans

On the provisioning side, both specific provisions decreased by 16.0 percent to Vt 1.8 billion (compared to Vt 2.2 billion in December 2013), and general provisions decreased 24.0 percent to Vt 731.7 million (compared to Vt 962.3 million in December 2013). The drop in provisioning reflected the significant loan write-offs over the year.

Private-Sector Lending

Figure 17: Private-Sector Credit from Domestic Banks
(total loans by industry; quarterly data)



The banking industry's total private-sector credit increased slightly, with a year-on-year growth rate of 4.7 percent to Vt 55.7 billion compared to 3.0 percent to Vt 53.2 billion in 2013.

The private sector's five largest lending sectors remained personal (49.7 percent of total private-sector lending), professional and other services (9.6 percent), tourism (11.1 percent), distribution (9.6 percent), and construction (6.5

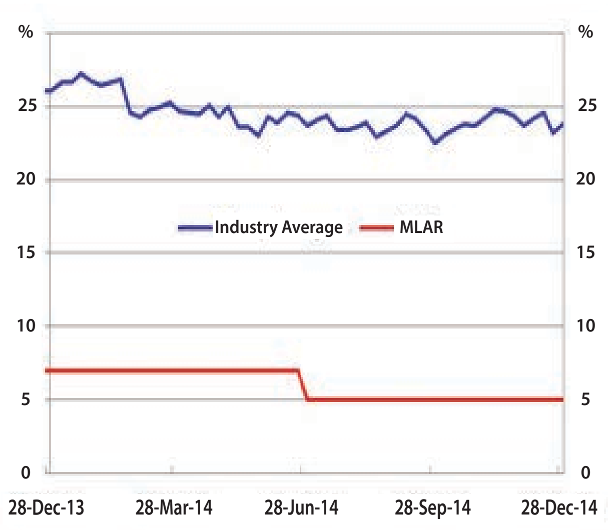
percent).

The personal, tourism, and distribution sectors registered individual annual growth rates of 1.1 percent to Vt 27.7 billion, 24.1 percent to Vt 6.2 billion, and 13.0 percent to Vt 5.3 billion, respectively. Construction and professional and other services, in contrast, contracted, with negative annual growth rates of 4.1 percent to Vt 3.6 billion and 11.9 percent to Vt 5.3 billion, respectively (Figure 17).

The communication sector continued to grow, reporting an increase of 22.1 percent to Vt 1.5 billion over the year. The entertainment, mining, financial and Government sectors also showed annual increases of 38.6 percent to Vt 963.1 million, 43.9 percent to Vt 64.6 million, 845.5 percent to Vt 49.4 million, and 141.4 percent to Vt 1.4 billion, respectively. In contrast, agriculture, fisheries, manufacturing, and the public sector contracted as at December 2014.

Liquidity position

Figure 18: Liquid Asset Ratio – Domestic Banks (quarterly data)



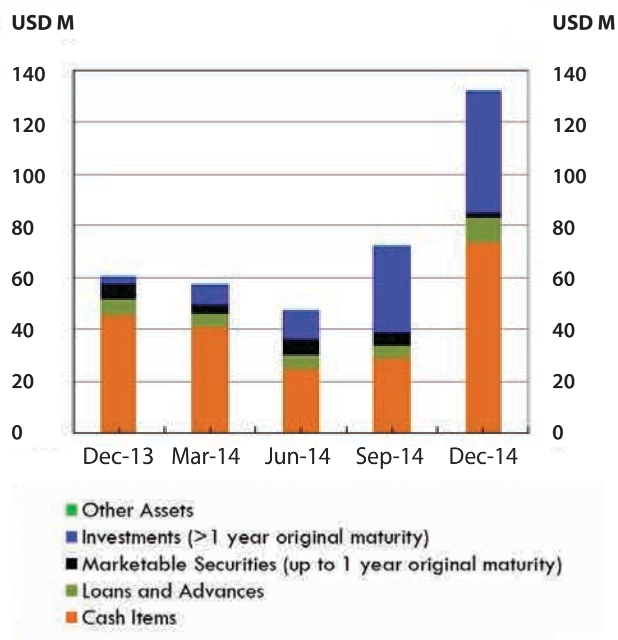
The banking sector's liquidity conditions continued to be favourable over the year. The industry's liquid asset ratio remains well above the minimum regulatory requirement of 5 percent, although the average liquidity ratio dropped to 23.8 percent at the end of December 2014, compared to 26.1 percent at the end of December 2013. Although liquidity is high, the uneven distribution continues to be a challenge. The regulatory minimum liquidity asset ratio fell from 7 percent to 5 percent beginning July 2014 (Figure 18).

International Banks

Financial Position

The international banking industry's financial position reported significant growth over the year. Total assets registered year-on-year growth of 119.3 percent to USD 132.8 million, compared to USD 60.5 million reported in December 2013. The growth was attributed to increases in assets: cash items rose 62.9 percent to USD 73.6 million, loans and advances rose 50.5 percent to USD 9.4 million, investments rose 1,427.6 percent to USD 47.2 million, and other assets rose 39.4 percent to USD 308 thousand. In contrast, marketable securities fell by 61.4 percent to USD 2.2 million. Cash items remained the core component of banks' balance sheet, representing 55.5 percent of total assets, followed by investments, which made up 46.7 percent of total assets (Chart 19).

Figure 19: Offshore Banking Industry – Total Assets (USD millions; annual data)



Sources: UIBL, AMBL, PPBL

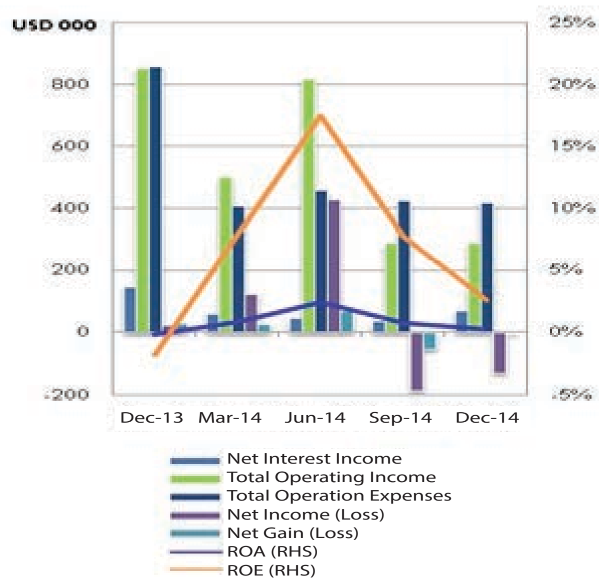
Total liabilities (excluding capital) increased by 121.0 percent to USD 120.5 million, due mainly to a 121.6 percent increase in deposits to USD 120.3 million. Accrued liabilities also increased, rising 24.1 percent to USD 175 thousand over the year.

Statement of Financial Performance

The offshore banking industry's financial performance improved during the year, achieving a yearly profit of USD 233 thousand, compared to the previous year's loss of USD 109 thousand. This mainly reflected a fall in total operating expenses of 43.3 percent to USD 1.7 million (compared to USD 3.0 million in December 2013). Interest expense fell by 75.5 percent to USD 266 thousand, and non-interest expense fell by 25.2 percent to USD 1.4 million. The decline in total operating expenses outweighed the reduction in total operating income reported over the year, which fell by 29.3 percent to USD 1.9 million. This decline was mainly in the areas of banks' interest income, which fell by 68.5 percent to USD 473 thousand, and non-interest income (services charges, commissions and fees), which fell by 20.5 percent to USD 1.4 million.

Net gains on foreign exchange and securities also declined during the reviewed period, falling by 80.3 percent to USD 44 thousand (Figure 20).

Figure 20: Offshore Banking Industry Earnings (USD millions; annual data)

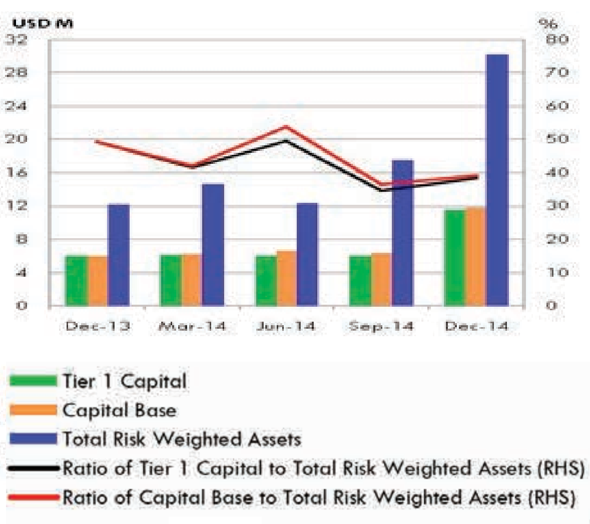


Capital

The international banking industry reported significant growth in its capital position over the financial year ending December 2014. Its total capital base grew by 95.1 percent to USD 11.8 million. The growth was driven by an increase in Tier 1 capital by 91.5 percent to USD 11.6 million, reflecting increases in paid-up capital by 109.5 percent to USD 10.2 million. A slight decline of 0.4 percent to USD 1.3 million was noted in retained earnings. Tier 2 capital also increased to USD 233 thousand in 2014 (compared to USD 12 thousand in December 2013), reflecting the profit made during the year (Figure 21).

For the year under review, the international banking industry continued to be well capitalised: it registered its capital adequacy ratio at 39.1 percent, down from 49.4 percent in 2013, with Tier 1 capital at 38.3 percent, down from 49.3 percent. This movement reflected an increase in total risk weighted assets of 146.5 percent to USD 30.1 million, owing mainly to increases in risk weighted on- and off-balance sheet assets of 194.9 percent to USD 27.0 million. Operational risk weighted assets remained stable at USD 3.1 million.

Figure 21: Offshore Banking Industry – Capital (USD millions and percent; annual data)



Insurance-Sector Developments

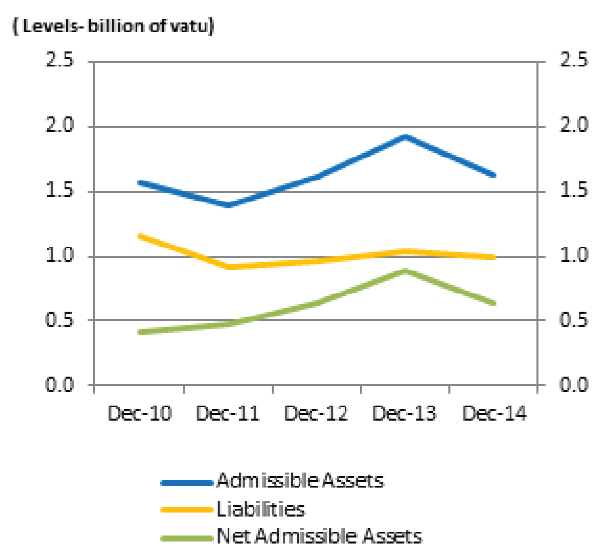
Introduction

The domestic insurance industry had a moderate year (2014), with losses experienced mainly in aviation and personal accident and health. Despite the slight reduction in underwriting results and slight increase in loss ratio, there was no considerable impact on the overall performance of the industry. No major catastrophic events occurred during the year. The industry is well regulated and continues to maintain its role of providing financial security and minimizing the effects of economic losses.

Domestic Insurers

Financial Position

Figure 22: Admissible Asset Position

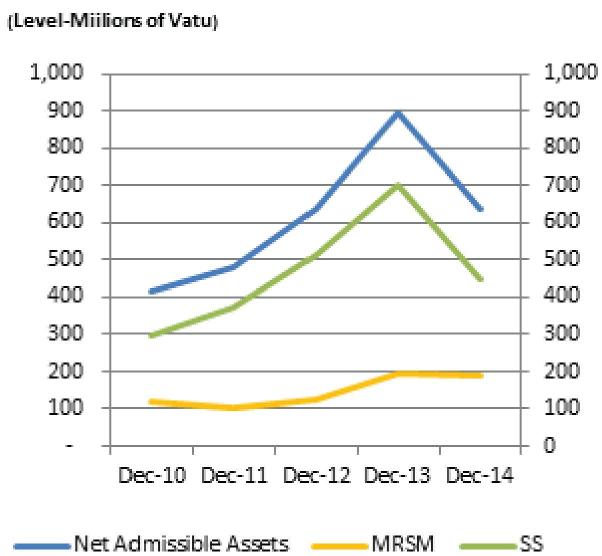


The admissible assets for the domestic market declined at the end of December 2014 by 16 percent, from Vt 1.9 billion in December 2013 to Vt 1.6 billion. The decline was attributed mainly to a 20 percent decline in cash and cash equivalents, from Vt 1.5 billion in December 2013 to Vt 1.2 billion, and a 74 percent decline in amounts due from reinsurers from Vt 5 million in December 2013 to Vt 1.3 million.

Liabilities in the domestic market also decreased from Vt 1.03 billion in 2013 to Vt 990 million in December 2014, a decline of 4 percent. The decline was mainly due to a 30 percent decline in gross outstanding claims, from Vt 155 million to Vt 109 million in December 2014, and a 39 percent decline in contingency, from Vt 5.9 million in December 2013 to Vt 3.5 million.

Margin of Solvency

Figure 23: Margin of Solvency



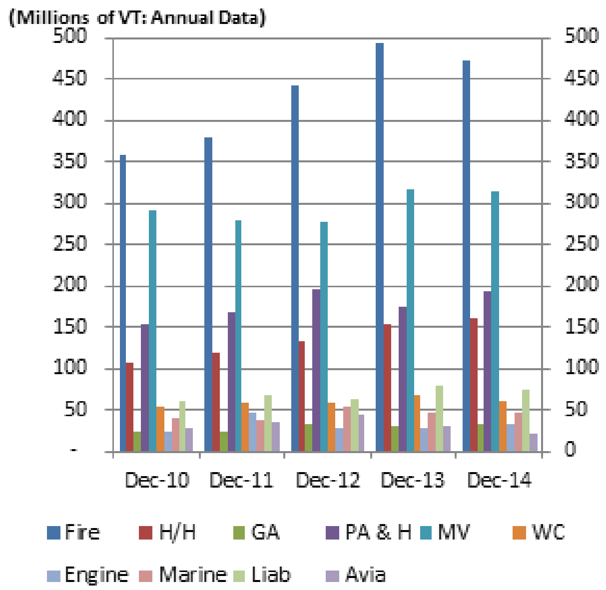
MRSM – Minimum Required Solvency Margin
SS – Solvency Surplus

At the end of December 2014 domestic net assets (surplus assets) declined by 29 percent to Vt 638 million, compared to Vt 894 million in December 2013. The minimum required solvency margin increased by 7 percent to Vt 191 million, compared to Vt 178 million in December 2013. Solvency surplus also declined by 37 percent to Vt 446 million, from Vt 715 million in December 2013.

Annual Domestic Industry Performance

Gross Premium (GP)

Figure 24: General Insurance Business Classes



The total gross premium in the domestic insurance market declined by 1 percent to Vt 1.40 billion, from Vt 1.41 billion in 2013. The decline was triggered by drops in fire, aviation, workers' compensation and liability. Fire was the largest class written with a gross premium of Vt 471 million, followed by motor with a gross premium of Vt 314 million; they represented 33 percent and 22 percent of total gross premiums respectively.

All other classes recorded increases in gross premiums. Personal health and accident recorded the largest increase, 11 percent to Vt 193 million (from Vt 173 million in 2013), followed by householders, with an increase of 6 percent to Vt 161 million (from Vt 152 million in December 2013).

Reinsurance Cessions

Reinsurance expenses fell by 2 percent to Vt 379 million from Vt 388 million in 2013. Classes that contributed to this decline were fire, workers' compensation, general accident and marine. Workers' compensation recorded the largest decline, 44 percent, followed by general accident, which fell by 24 percent. Classes that experienced increases in reinsurance in 2014 were householders, which rose to Vt 75 million from Vt 64 million, motor, which rose to Vt 21 million from Vt 17 million, and engineering, which rose to Vt 13 million from Vt 10 million.

Net Earned Premium

Total net earned premium increased by 10 percent to Vt 987 million from Vt 893 million in 2013. Motor vehicle and fire earnings continued to dominate the distribution in the industry, with Vt 287 million (representing 29 percent of net earned premium) and Vt 203 million (representing 20 percent) respectively.

Aviation declined by 34 percent to Vt 15 million from Vt 23 million in 2013; householders also recorded a decline, falling 4 percent to Vt 74 million from Vt 77 million in 2013.

Claims

The gross claims for the industry in 2014 were recorded at Vt 297 million, compared to Vt 253 million in 2013, an increase of 17 percent. Classes that contributed largely to this increase were personal accident and health, motor, and workers' compensation. Personal accident and health increased by 86 percent to Vt 138 million, from Vt 74 million in 2013. Motor claims increased by 27 percent to Vt 107 million, from Vt 84 million in 2013. Workers Compensation increased by 128 percent to Vt 16 million from Vt 7 million in 2013. Marine, engineering, liability and aviation recorded declines in gross claims.

Net Loss Ratio

The overall net loss ratio for the industry in 2014 was 32 percent, compared to 27 percent in 2013. While other classes incurred increases in net losses, marine, liability and general accident recorded improvement in net loss ratios.
Underwriting and Management Expense Ratio
The industry underwriting and management expense ratio declined to 15 percent, compared to 16 percent in 2013. All classes showed a marginal increase; workers' compensation recording the highest increase, 9 percent, while householders declined by 4 percent.

Combine Ratio

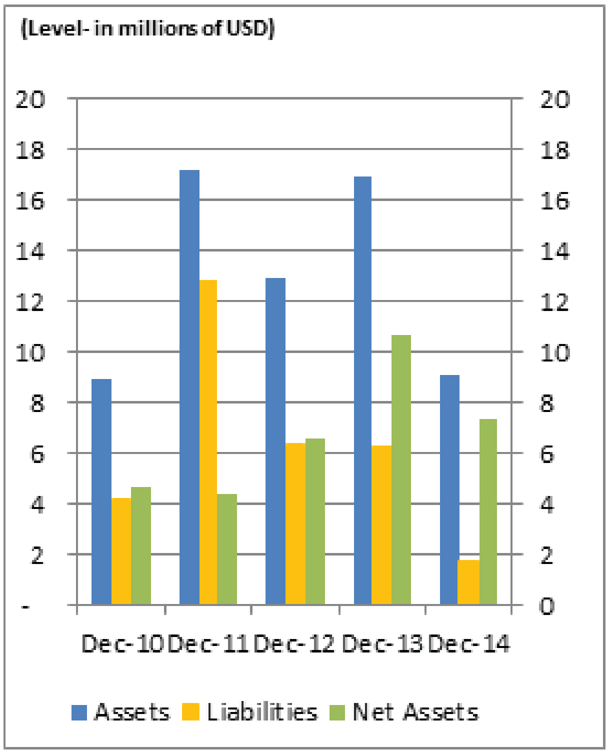
The combine ratio for the industry was 47 percent, an increase from 43 percent in 2013. This indicates that in 2014, the domestic insurance industry had incurred slightly greater losses. Marine, liability, general accident and fire recorded improved combine ratios in 2014; the other classes recorded losses.

Underwriting Results

The underwriting results were 54 percent (Vt 528 million) in 2014, compared to 57 percent (Vt 513 million) in 2013. The decline was attributed to the reduction in gross premiums and increase in loss ratio and combine ratio. Classes that improved their underwriting results were marine, fire, liability and general accident. All other classes recorded declines.

Captives & and International Insurers

Figure 25: Financial Position

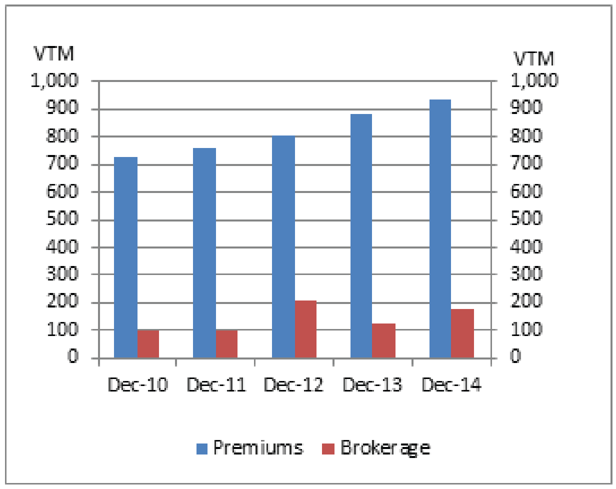


The offshore insurance industry experienced a dramatic decline in its assets of 36 percent to USD 10.2 million (from USD 16 million in 2013). The decline is attributed mainly to a decline in investments made by captives of 92 percent to USD 250 thousand (from USD 3 million in 2013). Liabilities also recorded a decline of 73 percent to USD 1.7 million (from USD 6.2 million in 2013). Net assets also declined by 20 percent from USD 10.6 million in 2013 to USD 8.5 million in 2014.

Classes of business transacted were largely in the order of funeral benefits, general and product liabilities, crime insurance, heavy equipment, erection and contractors all risks, marine, industrial special risks, directors and officers, freight forwarding and storage extension.

Insurance Brokers

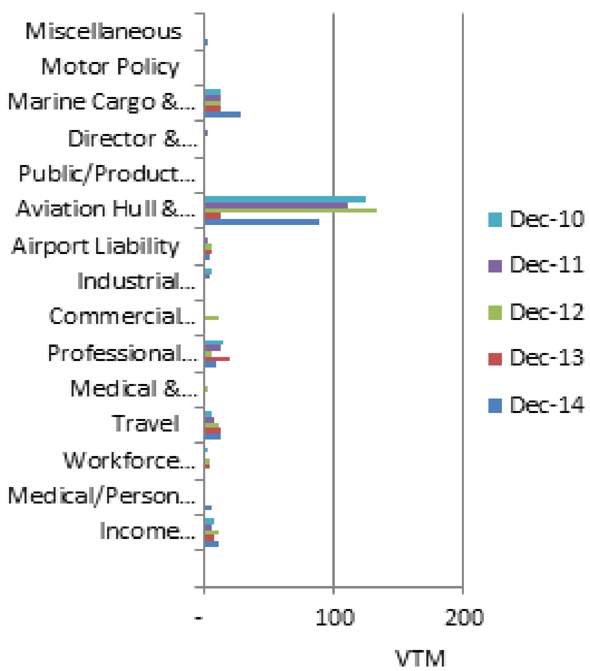
Figure 26: Domestic Broker Business



The total premiums transacted through brokers for the domestic market were Vt 931.7 million, an increase of 5.3 percent from Vt 884.2 million as at end of December 2013. The individual classes of business with significant premium amounts were industrial special risks at Vt 237 million, followed by motor vehicle (private/public) at Vt 138.4 million, medical and repatriation at Vt 115.2 million, combined commercial package at Vt 101 million and household at Vt 94.5 million. The rest of the premiums were spread across other classes such as workers' compensation, public/product liability, business interruption, aviation and marine hull. Overall, commercial lines (comprising fire and perils, industrial special risks and business interruption constitute the highest amount of premium at Vt 542.3 million.

The total brokerage paid to brokers as at end of December 2014 was Vt 179.5 million, an increase of 45 percent from Vt 123.1 in 2013. The increase in brokerage reflects the increase in total premiums.

Figure 27: Offshore Broker Business



The total premium remitted offshore through brokers in 2014 shows a significant increase of 118 percent to Vt 168.3 million from Vt 77.1 million in 2013. The spread of premiums comprises aviation (hull, spares, liability) at Vt 89.2 million, followed by marine (hull, cargo, protection and indemnity) at Vt 29 million, income protection at VT 13 million and travel and personal accident at Vt 10 million. The rest of the premium is spread across other classes of business such as professional indemnity, motor fleet and personal accident. A newly introduced product in the offshore class is protection and indemnity, which covers liability losses, and is part of marine cover.

Total brokerage paid to brokers for placement of offshore business in 2014 was Vt 13.5 million, representing an increase of 12 percent from Vt 12 million in 2013. This increase in brokerage reflects the increase in total premiums.

Banking and Customer Services

The Banking and Customer Services operation of the Bank continues to effectively serve its customers. Services, in particular those provided to the Government, include facilitating the process of deposits, over-the-counter encashment, registry and fund transfers. In addition, it also processes and monitors transactions by commercial banks and other financial institutions through their exchange-settlement accounts.

The Clearing facility, which is a mandatory function of the Bank, also continues to operate effectively. This facility provides an avenue for the exchanges and settlement of cheques between all commercial banks on a daily basis under the Bank's supervision. Exchanges are done at 8.00am each morning, except on Fridays, where there is an additional clearing time at 2.00pm to accommodate the increase in the volume of transactions among the banks.

In December 2014 an additional clearing facility was introduced in Luganville, Santo – the country's second-biggest town – to assist with the efficiency of cheque clearance among the town's commercial banks. The facility is on a two-month trial which will end in January 2015, and it will be formalised once all banks are satisfied with its outcome. The facility processes are the same as those at the Port Vila clearing house except that all transaction summaries are forwarded through the head office of each bank in Port Vila for verification before they are send to the Reserve Bank for processing.

Table 5 shows the 11-year summary of transactions conducted through the clearing house from 2004 to 2014.

The number of effects and the value of transactions through the Port Vila clearinghouse has increase nearly every year for the last 11 years.

Table 5: Port Vila Clearing Summary from 2004 to 2014

Period	No. of Effects	Value(MVT)
2004	264,859	31,985
2005	279,162	38,562
2006	286,615	67,548
2007	370,738	60,375
2008	307,298	67,375
2009	400,757	69,356
2010	391,969	72,916
2011	377,826	69,147
2012	352,377	65,546
2013	349,804	63,312
2014	344,253	61,456

A slight decrease was noted in the value of cheques and amount cleared in 2014 from the previous year. However, the number of cheques processed through the Port Vila clearinghouse was still more than 340,000 cheques, and the value of transactions was between Vt 50 million and Vt 60 million.

Settlement

The Bank continues to use the SWIFT payment system as its secure mode of settling payments with its customers and processing settlement instructions between its customers. Settlements are not done in real time; instead, the SWIFT system processes transactions securely and efficiently. The system is also used for:

- processing daily foreign-currency invoice payments,
- processing Government debt repayments,
- receiving and processing settlement instructions from its customers, particularly commercial banks, and
- Confirming and settling the Bank's foreign-currency trades.

During 2014, a mandatory upgrade patch, version 7.0.80, was applied to the system to incorporate recent updates and enhancements to the SWIFT system.

Table 6: Counter Transactions

Period (Year)	Deposits (MVT)	Issues (MVT)	Total (MVT)
2000	4,136	4,143	8,281
2001	3,980	4,098	8,078
2002	3,873	3,902	7,775
2003	3,965	4,235	8,200
2004	3,390	2,864	6,255
2005	3,442	3,773	7,215
2006	4,199	4,719	8,918
2007	4,576	5,311	9,887
2008	5,501	5,772	11,273
2009	5,425	5,636	11,061
2010	5,373	5,836	11,209
2011	5,960	6,676	12,636
2012	6,956	7,458	14,414
2013	6,699	8,039	14,733
2014	7,150	7,941	15,091

Currency Operation

During the year, the Bank continued to perform its function of sole issuer of Vanuatu's currency, the vatu. The year 2014 was particularly exciting as the Bank finally received from France the shipment of Vanuatu's new polymer notes. The Bank continued with its preparations leading up to the launching and issuing of the new Polymer banknotes in the denominations of Vt 200, Vt 1,000 and Vt 2,000 on June 6, 2014.

(a) Launching the Vt 200, Vt 1,000 and Vt 2,000 polymer notes

The highlight of the launch was the exact timing of the banknotes' unveiling: the notes unveiled at 11 a.m. and launched simultaneously in all six provincial headquarters. Members of the Bank's Currency Committee were present at each of the launching ceremonies in all provincial headquarters.

The Honorable Prime Minister and Minister of Finance and Economic Management were accorded the honor of unveiling the new banknotes at the Bank's headquarter. Official guests include representatives of stakeholders, the Government, the private sector, and overseas business partners such as the designers (Innovia Security), printers, and suppliers (Oberthur Fiduciaire) of the polymer notes. Students from selected schools around Port Vila were also invited as future users of the new currency.

(b) Counter Transactions

Total counter transactions increased from the previous year by 2.4 percent to a new high of Vt 15,091 million, pushing the currency in circulation up by Vt 556 million to Vt 7,499 million from VtT 6,943 million in 2013.

Table 7: Counterfeits Summary

Denomination	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
10,000	-	-	-	-	-	-	-	-	-	-	-
5,000	31	9	4	1	-	4	2	2	8	-	61
1,000	42	6	18	3	2	-	1	1	5	-	78
500	3	-	-	-	-	1	-	-	1	-	5
200	2	-	-	-	-	-	-	-	-	-	2
Total	**78**	**15**	**22**	**4**	**2**	**5**	**3**	**3**	**14**	**-**	**146**

The Vt 5,000 note maintained its lead position as the contributing the highest value to currency in circulation at 42 percent, followed by the Vt 1,000 note at 29 percent, a drop of 3 percent from previous year; this was possibly due to the introduction of the Vt 2,000 note, which was in sixth position. The Vt 10,000 note took third position, followed by the Vt 100 note, while the Vt 500 note maintained fifth position ahead of the Vt 2,000 note. The Vt 200 note was seventh, followed by the Vt 50, Vt 20 and Vt 10 notes; the Vt 5, Vt 2, and Vt 1 notes contributed the least value to currency in circulation.

(c) Public Awareness of Currency Matters

During the year the Bank conducted public-awareness and educational programs covering the general central banking business and issues specific to currency matters. The Awareness Team visited communities and schools of the East Santo area, including the offshore islands and selected islands of Tafea Province. The currency-matters program focused on the security features of the new banknotes to combat counterfeiting issues. Media outlets such as the national radio and television broadcasters were also engaged to educate the general public during the introduction of the new family of polymer banknotes about the notes' use and quality maintenance.

(d) Counterfeits

No counterfeits were reported during the year. However, the Bank continues to remind the general public to ensure familiarity with banknote security features to enable instant identification of banknote reproductions, and to report or seek advice on any suspicious-looking banknotes. Commercial banks are also reminded to be vigilant at all times in their cash processing to ensure early detection of fake items in their customers' cash transactions.

It is a criminal offense under the Reserve Bank of Vanuatu Act [CAP 125] to reproduce vatu banknotes or be in possession of their reproductions, and perpetrators can be prosecuted.

(e) Numismatics

The Bank continued to collect commission from sales of collectors' items and to receive royalties from the international sales of commemorative coin proof sets struck under contracted agreements with renowned international mints.

(f) Vatu Coins Review

In continuation of its current review of the vatu currency, and having successfully completed the tender process, the Bank awarded the contract of supplying new vatu coin products to the winning bidder, the Royal Australian Mint. The Bank is now working with the Mint on the coin specifications and designs. The new coins are expected to be launched into public circulation in July 2015 to coincide with country's 35th independence anniversary celebrations.

Budget

The Bank formulates its budget on an annual basis; this is closely monitored by its Management and Information System office. Budget-performance analyses are prepared and reported to the Management team (monthly) and the Board (quarterly) to support decision-making, and a review of the budget performance is done half yearly.

The 2014 budget was formulated with the view that the world economy would continue to recover but that the impacts of low interest rates and volatilities in the international financial markets would continue to be felt on the Bank's offshore investments in 2014. Moreover, it was anticipated that exchange-rate movements would continue to have a big impact on the Bank's accounts.

The Bank's Board approved the 2014 budget with a net deficit balance of Vt 165.14 million. Budgeted revenues were decreased from Vt 726.0 million in 2013 to Vt 541.3 million, and expenditure slightly reduced from Vt 726.0 million to Vt 706.4 million a 25 percent drop in revenue earnings and a 3 percent drop in expenditure budget.

With prudent management the Bank ended the financial 2014 financial year with a net profit of Vt 104.5 million, compared to a loss of Vt 588.6 million in 2013. Actual revenues collected reached Vt770.0 million against the budget of Vt541.3 million; expenses reached Vt665.5 million from a budgeted balance of Vt702.2 million. Overall actual revenues collected exceeded budget by 29 percent, while a budget savings of 5 percent was achieved on the expenses side.

Table 8: 2013 Budget to Actual

	Budget (Vt million)	**Actual (Vt million)**
Revenue	**541.3**	**770.0**
Expenses	**706.4**	**665.5**
Net profit/Loss	**(165.1)**	**104.5**

Revenue

The Bank recorded an operating income of Vt 770.0 million in 2014. This is an increase in revenue of 21 percent from the 2013 result of Vt 636.9 million. Foreign interest earnings and other interest income accounted for 62 percent of the total revenue, while 33 percent is gains from foreign exchange movements and 5 percent from other income.

Expenditure

Total expenditure for the year declined by 45.7 percent from Vt 1,225.5 million in the prior year to Vt 665.5 million. 45 percent of the total expenses in 2013 were from losses incurred on exchange rate movements. For the current year under review no losses were incurred on exchange rate movements except the operationally related expenses.

Operating Profit

Based on the above outcomes the Bank recorded a net operating profit of Vt 104.5 million at the end of the 2014 financial year. This is an increase of Vt 693.1 million compared to the loss of Vt 588.6 million reported in 2013. This is a welcome outcome despite the continuing volatility in global economic conditions.

Payment to Government

No dividend payment was paid to the Government of Vanuatu from this year, in accordance with Section 7(3) of the RBV Act. The net profit of Vt 104.5 million was transferred to cover part of the Government non-interest, non-negotiable bearing security of Vt 252 million that was issued to cover part of the Vt 588.6 million loss incurred in 2013.

Human Resources

Recruitments and Promotions: The Bank recruited seven new staff in 2014: three security officers, a cleaner, a secretary in the Corporate Services Department, a general ledger clerk in the Accounts & Customer Services Department, and an insurance supervisor to the Financial Institutions Supervision Department.

Retirements and Resignations:

The Bank farewelled seven of its staff in 2014. Three had reached their retirement age in 2013; an insurance manager took an early-retirement package in June on medical grounds; in August a security officer left the Bank to join the RSE scheme in Australia after serving the Bank for less than five years; and in December a banking manager took an early-retirement package and a currency officer who had reached his retirement age in 2013 retired.

Training and Development:

Promotion – A senior insurance supervisor was promoted to full-time manager within the Insurance Unit of the Financial Institution Supervision Department following the departure of the outgoing insurance manager. The Bank also filled the human resource manager's position in April through the transfer of the management information system manager from the Accounts & Customer Services Department to the Human Resource Manager's Office. The year also saw the recruitment of a new executive secretary to the Governor's Office in March following the retirement of the outgoing executive secretary.

Staff Training – The Bank continued to emphasise the training and development of its staff. Despite budget constraints, the Bank sent 55 staff members overseas to take part in a number of important central-bank training programs. This excludes the official meetings that are attended by Governor and the Deputy Governor. Locally, in October a number of the Bank's Board members, including the Governor, some members of the Management Team, and the senior staff of the National Bank of Vanuatu, attended a one-day seminar organised by the International Finance Corporation on corporate governance. The seminar took place at the National Bank.

Several staff members enrolled in a number of long-term courses at the University of the South Pacific in 2014 to upgrade their skills and knowledge in their fields. With the support of the Bank, one staff member completed his final unit and graduated with a Bachelor of Commerce in 2014.

The Human Resource Unit undertook an induction session for the new staff of the Bank during the year with the assistance of the Legal Officer. The session assisted the new recruits in understanding the Bank's structure and reporting lines; roles and functions; standards for staff conduct; staff training and development; secrecy and confidentiality; and RBV Act and other legislation administered by the Bank.

The Bank also engaged nine students participating in holiday work, school attachments and school practicals, a record number.

Staff Performance Appraisals:

The Bank successfully completed the annual staff performance review at the end of the year. The outcomes of the review were presented to the Management Committee of the Bank, and implemented in accordance with provisions of the Board-approved remuneration and salary structure of the Bank.

Study Leave:

Five Bank staff took up study leave in 2014 and were awarded full-time scholarships. Two of the staff are undertaking their studies in New Zealand, one at the University of Queensland in Australia, and the third at the University of Jean Monnet in St. Etienne, France. The Bank was pleased to welcome back this year the fifth staff member, who completed his Bachelor's Degree in Economics and Management from the University of the South Pacific.

Legal Counsel

The Legal Counsel is the principal legal advisor to the Bank, and is responsible for internal Bank policies and implementation, contracts, and other legal matters. The Legal Counsel continues to maintain a good working relationship with external lawyers who are engaged at times for second opinions or litigation services. The Legal Counsel has closely worked with external lawyers in reaching an out-of-court settlement for the civil case that had been lodged against the Bank in 2013.

The Legal Counsel is also secretary to the Management and the Reserve Bank Board of Directors, and continued to perform those roles in 2014. Given these responsibilities the Bank continues to support her in capacity-building by sending her to the trainings needed to carry out her tasks to the standard expected.

Board Meetings and Appointments

Nine board meetings were held in 2014. Some changes were made to the Board of Directors membership that saw the Director General of Trade, Mr. Marakon Alilee, appointed as a new member and Director Jimmy Nipo reappointed for a second term on 12 September, 2014.

Policy Development and Reviews

The Legal Counsel also sits on various in-house committees, including the Policy Working Group, which was appointed to develop new policies and review existing ones. The term of the Committee was for a period of six months commencing in October 2013, and ended in March 2014. There has been tremendous progress in terms of reviewing existing policies and developing new ones, which will be brought before the Board for approval in mid-2015.

Information and Communications Technology

The Information and Communications Technology (ICT) Unit is a three-person team including the Acting ICT Manager. The Unit underwent an ICT audit in 2013 by PricewaterhouseCooper. In 2014 the Unit reviewed the audit report, and strategies were put in place to respond to its recommendations. In April 2014, the Bank set up a Policy Review Committee that helped to review the ICT Policy among other Bank policies. 2014 was a difficult year for every Bank department, including the ICT unit. Some of the ICT projects anticipated for 2014, such as specialised trainings for staff members, were not realised.

Network Administration

As part of the ICT's ongoing operations, network management is of the essence and must be maintained and managed.

The onsite data centre housed 12 core servers with a blend of VMware architecture. The infrastructure is mostly Windows 2003, 2008, and 2012 and the centre also have some computers using a Linux-flavoured platform for in-house developed applications.

Network equipment is linked via edge-core switches and HP core switches that connect the two building segments via fibre optics. ICT is looking forward to standardising its network switches to a Cisco device in the near future.

ICT is also responsible for managing day-to-day domain issues such as DNS, DHCP firewall, update services, and Microsoft Exchange email services.

In addition, ICT is also responsible for maintaining and updating its corporate website (www.rbv.gov.vu), and plans are ahead to improve its design and the Bank's presentation on the web.

Data Administration

Similarly, data management cannot be ignored at any cost. RBV corporate data resides on an HP 4000 Store Virtual SAN device with a 16TB storage capacity. Space usage is increasing, as many applications are storage-intensive. An onsite backup system operates daily, and backed-up data is also stored on tape offsite. ICT ensures that data is always safe and secure for corporate use.

Disaster-Recovery Site

In the 2014 fiscal year, ICT was tasked with a major project to implement a backup site that will provide IT services in case of disasters or other unforeseen disruptions to the Bank's live site. It has been a challenging task for the team as it was the first of its kind at the Bank.
Equipment and software were bought from overseas suppliers. To date, the project is on its final stages and should be fully operational before mid-year 2015.

PC Standardising

The ICT Unit had a goal throughout 2014 to standardise all the Bank's PCs to Dell and its printers to HP, as a consistent technology platform which saves time on ongoing installation and maintenance.

Also during the year, the Corporate Services Department and the ICT Unit developed an inventory system to keep track of the installation and location of new PCs and printers around the Bank.

The ICT Unit continues to support the individual departments of the Bank with their ICT needs to provide better service to the Bank's clients as well as a friendly user environment.

User experience

Although almost every Bank staff member is computer literate, the ICT Unit occasionally receives support calls for minor issues, such as printing, email, and network issues.

User Relationship

The ICT Unit has developed a very solid working relationship with other departments during the past years. The ITC team members strongly believe that a consistently good working relationship with the users, where their business needs are acknowledged, is very important. Such a relationship helps ITC understand user problems more easily, which then helps the Unit solve them much more quickly.

The lessons from the ICT audit together with the ICT Policy Review have helped the Unit to better plan and structure itself for 2015.

Library Services

The Bank's Kere Library system was upgraded during the year to using Inmagic Text Works and Web Publisher Pro together with Maxus Library and Maxus Catalogue. The Library continued to focus on providing service to the Bank staff and helping local and international researchers, public communities, and students to access information related to economics, finance, banking, and related topics.

The current online catalogue can be accessed via the Bank's Intranet.

The Library provides:

- A wide-ranging collection on various topics in many different formats;
- A reference service to support staff members' researches;
- A lending service for selected items in the collection;
- Access to a internet browsing, PC, printing, scanning, and photocopying resources;
- Research conducted for Bank staff, outside researchers, and students; and
- A space equipped with study tables available for study, work or research.

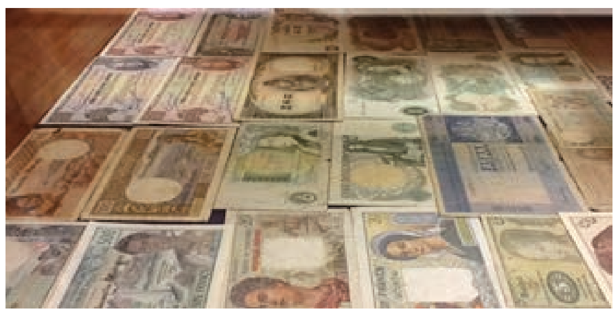
All services are free with the exception of printing, photocopying, and internet access.

Library Collection

The Library currently holds approximately 10,000 publications including 2,613 monographs (books) and 3,000 reports and annual reports of other central banks and international organisations. It also holds over 4,387 journal issues under more than 100 journal titles. The majority of the collection is in English. There are also special collections such as World Bank and IMF publications and RBV in-house publications. The Library also holds over 20 CD-ROMs of world statistics and economic and business data, and CDs of newly published books related to economics, banking, and finance.

The collection also contains:

- The Vanuatu Daily Post newspaper;
- The Independent newspaper;
- Over 15 popular magazines such as Time, The Economist, and Island Business.



Outreach and Exhibitions

The Library is committed to continually improving access to its special collections. The exhibition area is open to the public, providing a series of displays throughout the year on various items, especially old paintings and a display of old coins and notes of the New Hebrides and other countries in the region.

The Library team have also been involved in a number of dynamic programs for school visits and community outreach, and 2014 marked the seventh year of the Bank's Central Banking Awareness.

This year the Banks Awareness Team visited the Eastern Coast of Santo in Sanma Province, Aneityum Island and Tanna Island in Tafea Province.

Security & Upgrade Works

The Bank invested in upgrading its security surveillance system this year, as some of the cameras in the old system, installed in early 2000 by Chubb Security, were no longer working properly.

In 2014, the Bank contracted Vision System, a New Zealand-based security company specialising in CCTV and electrical works, to carry out the upgrading works. These works included upgrading the CCTV system, extending its coverage to the Bank's off-side Disaster Recovery Centre, upgrading the CCTV servers, and installing new cameras.

Vision System installing the new cameras

Setting up the new servers

In other upgrade work, the two main gates at the entrance of the Bank were fitted with automated gate arms that are fully remotely operated.

Upgrades to automate the Bank's two main gates

Maintenance

The Bank carried out preventive, corrective, and planned maintenance during the year. These included:

- Daily and quarterly cleanings
- Landscaping works
- Service-level agreements
- Repairs and maintenance.

The major maintenance works conducted during the year included installation of the new water pump, complete strip service of the air conditioning system, and installation of new submersible pumps and a new proxy card reader for the Financial Markets Department.

AC strip service by Trade Air

Operation Safety Manual

The Bank's Safety Manual emphasises the importance of regular training for those directly involved in the Bank's emergency evacuation plan. The Bank has continued to provide training and regular drills and evacuation exercises. This year the Bank invited Red Cross Vanuatu to provide basic first-aid training for its wardens and security officers.

Asset Management

The Bank continues to improve its Assets Management System. During 2014 the Corporate Services Department began trialing an asset-management process that includes:

- an asset registry
- acquisition and issuance forms
- an asset-disposal registry
- a system for asset-transfer notification
- a Board of Survey report
- depreciation management.

The Bank will review the trial process before formulating a procurement policy to guide the Bank in better managing its assets.

Archive

The Archive project began in 2012 and the Archive Committee and team continued with the project in 2014. Phase 1 of the project focused on the preservation of the old archive files and recording them in an archive registration system. Phase 2 of the project involves the digitalisation of the archive system.

The challenges faced during the course of the project made it impossible to complete both phases; however, the Archive Team managed to complete about 90 percent of phase 1 and successfully launched phase 2.

The project will continue in 2015, which it is anticipated hopefully will see the completion of both phases.

Governor Simeon Athy launching the Bank's new Archive Project

FINANCIAL STATEMENTS

CONTENTS

DIRECTORS' REPORT

In accordance with a resolution of the Board of Directors, the directors herewith submit the Statement of Financial Position of the Bank as at 31 December 2014 and the related Statements of Profit or loss and other comprehensive income, Changes in Equity and Cash Flows for the year ended on that date and report as follows:

1. DIRECTORS

The following were directors of the Bank at any time during the financial year and up to the date of this report:
Simeon Malachi Athy – Chairman
Georges Maniuri
Jimmy Nipo
Thomas Bayer (Relinquished on 12 September 2014)
Anatole Hymak
Marakon Alilee (Appointed on 12 September 2014)

2. PRINCIPAL ACTIVITIES

The Bank's role as a central bank, as defined in the Reserve Bank of Vanuatu Act [CAP 125], is:

(a) to regulate the issue of currency and the supply, availability and international exchange of money;
(b) to promote monetary stability;
(c) to promote a sound financial structure;
(d) to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country;
(e) to regulate the banking and insurance industry.

3. TRADING RESULTS

The operating profit of the Bank for the year ended 31 December 2014 was VT104.484m (2013 net loss: VT588.639m) of which VT255.574m was due to realised exchange rate gain (2013 realised exchange losses: VT418.112m)

4. RESERVES

In accordance with section 7(1) of the Reserve Bank of Vanuatu act, the Bank is to transfer 10% of its profit to the general reserve, but due to the Government non-negotiable non-interest bearing security that was transferred to cover for the remaining loss of 2013, there were no transfers made, but the net profit of VT104.484m is transferred to cover part of this non-interest bearing security of VT252.586m. (2013: Nil)

DIRECTORS' REPORT – continued

5. PAYABLE TO GOVERNMENT

In accordance with the Reserve Bank of Vanuatu Act[CAP 125] section 7(3), the balance of earnings available for distribution after allocation/transfer to the General reserve is to be distributed to the Government.

Realized gains from retained earnings reserve is also available for distribution to the Government depending on Board approval. However due to the Government non-negotiable non-interest bearing security of VT252.586m that was issued to cover for remaining 2013 losses, the total net profit will be used to cover for part of the security. No dividends were paid to the Government of Vanuatu in 2014 due to the loss that had been incurred in 2013.

6. BAD AND DOUBTFUL DEBTS

The directors took reasonable steps before the Bank's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

7. PROVISIONS

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

8. ASSETS

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

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

9. DIRECTORS BENEFIT

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

DIRECTORS' REPORT – continued

10. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the directors are not aware of any matter or circumstances not otherwise dealt with in this re port that has significantly affected the operations of the Bank, the results of those operations or the state of affairs of the Bank.

11. BASIS OF ACCOUNTING

The Directors believe that the basis of preparation of accounts is appropriate and the Bank will be able to continue in operation for at least 12 months from the date of this statement. Accordingly, the Directors believe that the classification and carrying amounts of the assets and liabilities as stated in the accounts to be appropriate.

12. OTHER CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render any amounts stated in the financial statements misleading.

13. NO UNUSUAL TRANSACTIONS

The results of the Bank's operations during the financial year have not in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 2nd day of April 2015.

....
Governor (Chairman)

....
Director

REPUBLIC OF VANUATU
MINISTRY OF FINANCE AND ECONOMIC MANAGEMENT
DIRECTOR GENERAL
RÉPUBLIQUE DE VANUATU

RESERVE BANK OF VANUATU **FINANCIAL STATEMENTS 31 DECEMBER 2014**

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 2014;

(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 2014;

(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 2014; and

(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 2014.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 2nd day of April 2015.

....

Governor (Chairman) **Director**

Independent Auditor's Report

To the Shareholder of the Reserve Bank of Vanuatu

Report on the Financial Statements

We have audited the accompanying financial statements of the Reserve Bank of Vanuatu (the 'Bank'). The financial statements comprise the statement of financial position of the Bank as at 31 December 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors and management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Level 8 Civic Tower, 272 Victoria Parade, Suva, Fiji.
GPO Box 200, Suva, Fiji.
T: (679)3313955 / 3315199, F: (679) 3300981 / 3300947

Independent Auditor's Report - continued

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion:

a) proper books of account have been kept by the Bank, so far as it appears from our examination of those books, and

b) the accompanying financial statements are in agreement with the books of account and to the best of our information and according to the explanations given to us give the information required by the Reserve Bank of Vanuatu Act [CAP 125] in the manner so required.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

Restriction on Distribution or Use

This report is made solely to the Bank's shareholder. Our audit work has been undertaken so that we might state to the Bank's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

2 April 2015
Suva, Fiji

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(Expressed in 000's Vatu)

	Notes	2014	2013
Operating Revenue			
Interest income	7	475,061	477,581
Net unrealised gains in foreign securities market prices		13,357	-
Net foreign exchange gains		255,574	-
Other income		26,026	25,634
Total revenue		770,018	503,215
Operating Expenses			
Interest expense	8	22,561	29,534
Personnel expenses	9	363,391	291,123
Net unrealised losses in foreign securities market prices		-	63,593
Net foreign exchange losses		-	418,112
Other operating expenses	10	279,582	289,492
Total expenses		665,534	1,091,854
Net profit/ (loss) for the year		104,484	(588,639)
Other comprehensive income			
Change in value of available for sale financial asset		(32,585)	9,372
Gains on revaluation of land and buildings		-	100,934
Total comprehensive income		71,899	(478,333)

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 11 to 30.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

(Expressed in 000's Vatu)

	Notes	2014	2013
Assets			
Cash and cash equivalents	11	15,574,748	12,047,112
Investment securities	11	2,731,020	4,787,306
Government securities	12	372,201	476,906
Government bonds	13	1,998,290	1,696,630
Other receivables	14	192,203	268,141
Currency stock (notes and coins)	15(a)	476,348	206,846
Property, plant and equipment	16	1,388,378	1,433,690
Intangible assets	17	5,079	9,709
International Monetary Fund (IMF):	21		
Reserve Tranche Position		371,312	374,182
Special Drawing Rights	11	223,653	227,250
Total Assets		23,333,232	21,527,772
Liabilities			
Other creditors and accruals		106,346	84,570
Demand deposits	18	14,424,629	12,775,415
Distribution payable to Vanuatu Government	19	-	-
Reserve Bank of Vanuatu notes		215,737	628,065
Reserve Tranche Position		371,312	374,182
Currency in circulation	15(b)	7,499,202	6,942,570
Employee provisions	20	264,100	238,479
Total Liabilities		22,881,326	21,043,281
Net Assets		451,906	484,491
Capital and Reserves			
Paid up capital	22	100,000	100,000
General Reserve	4	-	-
Retain Earnings Reserve	5	-	-
Fair Value Reserve	6(a)	26,175	58,760
Asset Revaluation Reserve	6(b)	325,731	325,731
Total Capital and Reserves		451,906	484,491

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 30.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014
(Expressed in 000's Vatu)

	Note	Paid Up Capital	General Reserve	Retain Earnings Reserve	Fair Value Reserve	Asset Revaluation Reserve	Earnings Available for Distribution	Total Capital Reserves
Balance as at 31 December 2012		**100,000**	**227,342**	**108,711**	**49,388**	**224,797**	**-**	**710,238**
Net loss for the year		-	-	-	-	-	(588,639)	(588,639)
Other comprehensive income								
Change in value for available for sale financial assets	6(a)	-	-	-	9,372	-	-	9,372
Gains on revaluation of lands and buildings	16	-	-	-	-	100,934	-	100,934
Total comprehensive income		-	-	-	9,372	100,934	(588,639)	(478,333)
Transfers from reserves and Government								
- from general reserve	4	-	(227,342)	-	-	-	227,342	-
- from retain earnings reserve	5	-	-	(108,711)	-	-	108,711	-
- non interest bearing notes issued by the Vanuatu Government	12	-	-	-	-	-	252,586	252,586
Balance as at 31 December 2013		**100,000**	**-**	**-**	**58,760**	**325,731**	**-**	**484,491**
Net Profit for the year							104,484	104,484
Other comprehensive income								
Change in value for available for sale financial assets	6(a)	-	-	-	(32,585)	-	-	(32,585)
Gains on revaluation of lands and buildings	16	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	(32,585)	-	104,484	71,899
Transfers from reserves and Government								
- from general reserve	4	-	-	-	-	-	-	-
- from retain earnings reserve	5	-	-	-	-	-	-	-
- non interest bearing notes issued by the Vanuatu Government	12	-	-	-	-	-	(104,484)	(104,484)
Balance as at 31 December 2014		**100,000**	**-**	**-**	**26,175**	**325,731**	**-**	**451,906**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 30.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

(Expressed in 000's Vatu)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		476,063	487,843
Interest paid		(22,561)	(29,335)
Other operating receipts		127,971	25,634
Other operating payments		(415,313)	(393,738)
Purchase of currency stock		(375,547)	(109,451)
Net cash provided by / (used in) operating activities		(209,387)	(19,047)
Cash flows from investing activities			
Net movement in Special drawing rights		3,597	(12,987)
Net treasury notes and bonds (acquired) / matured		2,037,058	455,433
Interest received on Government securities		221	169
Net purchase of Government bonds		(301,660)	(402,820)
Net repayments of staff loans		(27,009)	39,137
Purchase of property, plant and equipment		(24,276)	(42,522)
Purchase of computer software		-	(2,414)
Proceeds from sale of property plant & equipment		-	92
Net cash provided by investing activities		1,687,931	34,088
Cash flows from financing activities			
Currency issued for circulation		556,632	(30,647)
Net movement in commercial banks deposits		966,804	2,363,116
Payments to Government		748,115	(719,973)
Net movement in international institutions and agencies deposits		(65,705)	193,226
Proceeds from issuing Reserve Bank of Vanuatu notes		(412,328)	(174,683)
Net cash provided by financing activities		1,793,518	1,631,039
Net increase in cash and cash equivalents		3,272,062	1,646,080
Cash and cash equivalents at the beginning of the financial year		12,047,112	10,819,144
Effects of exchange rate changes on foreign currency balances	3(b)	255,574	(418,112)
Cash and cash equivalents at the end of the financial year	11	15,574,748	12,047,112

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 30.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Expressed in 000's Vatu)

1. THE LEGAL FRAMEWORK

The Reserve Bank of Vanuatu ("the Bank") operates under the Reserve Bank of Vanuatu Act [CAP 125] ("RBV Act"). The Bank is an independent legal entity wholly owned by, and reporting to, the Government of the Republic of Vanuatu. The Bank is responsible for ensuring:

- Regulation of the issue, supply, availability and international exchange of the currency of Vanuatu;
- Supervision and regulation of banking business and the extension of credit;
- Advising the Government on banking and monetary matters;
- Promoting monetary stability;
- Promoting a sound financial structure;
- Fostering economic conditions conducive to the orderly and balanced economic development of Vanuatu, and
- Regulation and supervision of domestic and international (offshore) banks.

Section 6 of the RBV Act states that the net profit of the Bank for any financial year shall be determined by the application of International Financial Reporting Standards (IFRS) and current central bank best practice. Net income may include both realised and unrealised gains and losses. However for prudency only net realised gains should be available for distribution.

The financial statements were authorised for issue by the Board of Directors on ...2... ...April... 2015.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

(a) Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Reserve Bank of Vanuatu Act [CAP 125]("RBV Act").

The financial statements have been prepared under the historical cost basis as modified by financial assets measured at fair value, with changes in fair value either through profit or loss or other comprehensive income.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS - continued

(b) Changes in accounting policy and disclosures

i) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Bank.

ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Bank, except the following set out below:

Topic	Key Requirements	Effective Date
IFRS 9, 'Financial instruments'	This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Management is in the process of determining the likely impact of this standard.	Annual periods beginning on or after 1 January 2018

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Revenue recognition

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

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. Year-end assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at year end.

ii) All realized and unrealized gains and losses on foreign currencies are recognized in the statement of profit or loss and other comprehensive income in accordance with the provisions of section 6 of the RBV Act and are included on the computation of the annual profits or losses of the Bank.

iii) According to Section 7(2) of the RBV Act, the Board may set up other special retain earnings reserves from time to time when required. Such reserves may also be built up by net unrealized gains, and any subsequent realized components would then be available for distribution to the Government of the Republic of Vanuatu.

(c) Coins sold as numismatic items

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

(d) Financial Assets and Liabilities

Financial Assets

Fair value through profit and loss financial assets
This category has two sub categories: financial assets designated as fair value through profit and loss at inception and those that are held for trading.

The bulk of the Bank's assets and liabilities are designated as fair value through profit and loss in compliance with the Bank's approved investment guidelines. This includes offshore investment securities which includes treasury notes, bonds and bills. These financial assets are carried at fair value through profit and loss and are valued at market bid prices on balance date.

Held to Maturity financial assets
These relate to Vanuatu Government bonds which are held to maturity and are valued in accordance with note 3 (k).

Available for Sale
Available for sale financial assets are those that are designated as available for sale or that is not classified as financial assets at fair value through profit and loss, or held to maturity. Available for sale financial assets include the Bank's shareholding in the Bank for International Settlements. Unrealized gains and losses arising from changes in the fair value are recognized in fair value reserve. When available for sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the statement of profit or loss and other comprehensive income as gains and/or losses.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(d) Financial Assets and Liabilities - continued

Financial Liabilities

Demand deposit liabilities
Demand Deposits include deposits at call. Deposit balances are shown at their amortized cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically. Details of deposits are included in Note 18.

Currency in circulation
Currency issued by the Bank represents a claim on the Bank in favor of the holder. Currency in circulation comprises notes and coins issued by the Bank and the liability for currency in circulation is recorded at face value in the Statement of Financial Position.

Reserve Bank of Vanuatu Notes
Reserve Bank of Vanuatu Notes are valued at amortized cost.

(e) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation, and impairment (if any).

Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives (in years):

- Reserve Bank Building 40
- Plant and equipment 3-10
- Motor vehicles 4

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

Assets are depreciated from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognized as an expense when incurred.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(f) Intangible assets

Intangible assets refer to acquired and internally developed computer software. They are carried at historicalcost less accumulated amortisation and impairment (if any). Cost of the software includes direct expenses incurred to acquire and bring to use the specific software.

Other enhancement cost to the existing software is capitalized only if the benefit will produce additional future economic benefit exceeding more than one year.

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

(g) 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 the statement of profit or loss and other comprehensive income. Currency issuance is determined on a first-in-first-out(FIFO) basis.

(h) Income Tax

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

(i) Employee entitlements

Employee remuneration entitlements are determined by the Governor (in consultation with the Board) in terms of Section 10 of the RBV Act. The provision for employees' entitlements to wages and salaries, annual leave and other current employee entitlements (that are expected to be paid within twelve months) are accrued at nominal amounts based on current wage and salary rates.

Liabilities for other employee entitlements, which are not expected to be paid or settled within twelve months of reporting date, are accrued in respect of all employees at the present value of future amounts expected to be paid.

Vanuatu National Provident Fund

Employer contributions to the above fund are included as an expense in the statement of profit or loss and other comprehensive income.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include notes and coins held by the Bank, teller's cash, current accounts and cash held on short term deposits.

(k) Vanuatu Government bonds

Due to the present very thin secondary market for Government bonds in Vanuatu, they are accounted for as Held to Maturity by the Bank and are valued at amortized cost.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – continued

(l) Loan and Advances

Loans relate to staff loans. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for bad and doubtful debts.

A specific provision is made based on an assessment carried out at year end. Movement in provision is charged to the statement of profit or loss and other comprehensive income. All known bad debts are written off against the provision in the year in which they are recognized. Bad debts, in respect of which no specific provisions have been established, are charged directly to the statement of profit or loss and other comprehensive income.

(m) Rounding

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

(n) Comparatives

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

4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

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

Section 7 of the RBV Act states that:

(a) net profit be transferred to the General Reserve until the balance thereof is equal to half the authorized capital;

(b) once the balance of the General Reserve is equal to half the authorized capital, half the net profit be transferred to the General Reserve until the balance thereof is equal to the authorized capital;

(c) once the balance of the General Reserve is equal to the authorized capital, 10% of the net profit be transferred to the General Reserve;

(d) after allocation of the net profit as above, the Board will set up a special retain 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS - continued

In the current year there were no distribution made to the General reserve since the net profit amount of VT104.484m was used to cover for the Government non-negotiable, non-interest bearing security that was issued in 2013 (2013: VT NIL).

5. RETAIN EARNINGS RESERVE

In pursuant to Section 7(2) of the RBV Act, a special Retain Earnings Reserve account was set up. Unrealized gains and losses on foreign exchange are recognized in profit from ordinary activities and until such gains or losses are realized, they are not available for distribution to the Vanuatu Government and are transferred from the profits to the Retain Earnings Reserve.

6. OTHER RESERVES

(a) **Fair Value Reserve**
In accordance with note 3(d), movements in the fair value of financial assets designated as available for sale are recorded in the Fair Value Reserve.

(b) **Asset Revaluation Reserve**
Following the revaluation of the Bank's Land and Building in 2007, the Bank has established an appropriate Asset Revaluation Reserve.

7. INTEREST INCOME

	2014	2013
Overseas Investments	331,880	377,020
Domestic Investments	140,751	98,015
Staff Loans & Advances	2,430	2,546
	475,061	477,581

8. INTEREST EXPENSE

	2014	2013
Interest on Government accounts	7,814	13,393
Interest on Reserve Bank of Vanuatu notes	11,922	12,889
Other	2,825	3,252
	22,561	29,534

9. PERSONNEL EXPENSES

	2014	2013
Salaries and wages	191,396	167,655
Superannuation contribution (VNPF)	7,702	6,700
Staff training	11,683	16,379
Severance pay, long service leave, accrued annual leave and gratuity expense	80,440	31,790
Other	72,170	68,599
	363,391	291,123

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

10. OPERATING EXPENSES

	2014	2013
Auditor's remuneration	1,547	1,546
Depreciation and amortisation	75,449	88,501
Funds managers' fee	5,202	5,851
Amortisation of currency costs	106,045	71,128
Communication expenses	13,062	13,441
Bad debt expense	-	1,954
Gain on disposal of property, plant and equipment	-	92
Loss on revaluation of land	-	513
Other expenses	78,277	106,466
	279,582	289,492

11. EXTERNAL ASSETS

Under Section 22 of the RBV Act, the value of the external reserves (represented by the Bank's external assets) provided for shall not be less than 50% of the total demand liabilities of the Bank. As at 31 December 2014, the value of the external reserves was 81.0 % (2013: 81.1%)

(a) External assets consists of the following:

	2014	2013
Cash	7,483	6,646
Current and call accounts	5,467,064	1,815,802
Short term deposits	7,969,509	9,100,893
Negotiable certificate of deposit	2,130,692	1,123,771
Total cash and cash equivalents	15,574,748	12,047,112
Treasury notes, bonds and bills		
- Financial assets at fair value through profit and loss	1,697,729	2,204,548
- Available for sale financial assets	1,033,291	2,582,758
Total Investment Securities	2,731,020	4,787,306
Special drawings rights	223,653	227,250
Total external assets	18,529,421	17,061,668

(b) 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 VT2.025m (2013:VT11.426m) held with local banks in Vanuatu.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

12. GOVERNMENT NON-NEGOTIABLE SECURITIES ISSUED TO THE BANK

	2014	2013
Balance at the beginning of the financial year	476,906	224,489
Additions 2013	-	252,586
Redemption of non-interest bearing securities	(104,484)	-
IMF remuneration credit	(221)	(169)
Balance at the end of the financial year	372,201	476,906

13. GOVERNMENT BONDS

	2014	2013
Government bonds held with Reserve Bank	1,998,290	1,696,630

These bonds which are valued in accordance with note 3(k).

14. OTHER RECEIVABLES

	2014	2013
Interest receivable	102,879	103,881
Prepayment of currency stock	-	109,451
Staff loans and advances	79,194	52,185
Sundry debtors	475	841
Other	9,655	1,783
	192,203	268,141

15. CURRENCY ACTIVITIES

(a) Currency Stock (notes and coins)

	2014	2013
Balance at the beginning of the financial year	206,846	277,974
Purchase of stock	375,547	-
Currency issued into circulation	(106,045)	(71,128)
Balance at the end of the financial year	476,348	206,846

(b) Currency in circulation

	2014	2013
Notes	6,688,679	6,162,030
Coins	810,523	780,540
Total currency in circulation	7,499,202	6,942,570

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

16. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Computer and Office Equipment	Others	WIP	Total
At 1 January 2013					
Cost or valuation	1,381,075	255,496	144,469	9,866	1,790,906
Accumulated depreciation	(145,872)	(210,127)	(61,262)	-	(417,261)
Net book value	1,235,203	45,369	83,207	9,866	1,373,645
Year ended 31 December 2013					
Opening net book value	1,235,203	45,369	83,207	9,866	1,373,645
Revaluation gains	100,421	-	-	-	100,421
Additions	7,901	15,195	1,281	19,739	44,116
Transfers	1,063	-	2,497	(3,560)	-
Disposals	-	-	-	(1,688)	(1,688)
Depreciation	(34,238)	(31,523)	(17,043)	-	(82,804)
Closing net book value	1,310,350	29,041	69,942	24,357	1,433,690
At 31 December 2013					
Cost or valuation	1,490,460	270,691	148,247	24,357	1,933,755
Accumulated depreciation	(180,110)	(241,650)	(78,305)	-	(500,065)
Net book value	1,310,350	29,041	69,942	24,357	1,433,690
Year ended 31 December 2014					
Opening net book value	1,310,350	29,041	69,942	24,357	1,433,690
Additions	336	17,125	-	6,815	24,276
Transfers	-	290	-	(290)	-
Disposals	-	-	-	-	-
Depreciation	(36,963)	(26,522)	(6,103)	-	(69,588)
Closing net book value	1,273,723	19,934	63,839	30,882	1,388,378
At 31 December 2014					
Cost or valuation	1,490,796	288,106	148,247	30,882	1,958,031
Accumulated depreciation	(217,073)	(268,172)	(84,408)	-	(569,653)
Net book value	1,273,723	19,934	63,839	30,882	1,388,378

The work in progress relates to the RBV Tower Extension project and furniture and fittings for the Bank.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

17. INTANGIBLE ASSETS

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

	Computer Software	Work In Progress	Total
At 1 January 2013			
Cost	39,561	364	39,925
Accumulated amortisation	(26,933)	-	(26,933)
Net book amount	12,628	364	12,992
Year ended 31 December 2013			
Opening net book amount	12,628	364	12,992
Additions	2,414	-	2,414
Amortisation charge	(5,697)	-	(5,697)
Closing net book amount	9,345	364	9,709
At 31 December 2013			
Cost	41,975	364	42,339
Accumulated amortisation	(32,630)	-	(32,630)
Net book amount	9,345	364	9,709
Year ended 31 December 2014			
Opening net book amount	9,345	364	9,709
Additions	9	1,254	1,263
Transfers	1,618	(1,618)	-
Amortisation charge	(5,893)	-	(5,893)
Closing net book amount	5,079	-	5,079
At 31 December 2014			
Cost	43,602	-	43,602
Accumulated amortisation	(38,523)	-	(38,523)
Net book amount	5,079	-	5,079

18. DEMAND DEPOSITS

	2014	2013
Due to commercial banks	9,359,119	8,392,315
Due to government	2,516,929	1,768,814
Due to international institutions and agencies	2,548,581	2,614,286
	14,424,629	12,775,415

19. 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. Realized gains from the retain earnings reserve are also available for distribution to the Government depending on Board approval.

An amount of VT NIL (2013:VT NIL) is payable to the Government of the republic of Vanuatu.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

20. EMPLOYEE PROVISIONS

	2014	2013
Opening balance	238,479	243,743
Additional provisions recognised	66,457	32,580
Utilised/ reversals	(40,836)	(37,844)
Closing balance	264,100	238,479

21. INTERNATIONAL MONETARY FUND

(a) Vanuatu is a member of the International Monetary Fund (IMF) and the Bank has been designated as both the Government's fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Vatu.

(b) Vanuatu's subscription to the IMF has been met by:

(i) payment to the IMF out of the Bank's external assets which have been reimbursed by the Government by issue of non-interest bearing securities, refer to Note 12;

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

22. SHARE CAPITAL

	2014	2013
Authorised capital of 400,000,000 Vatu	400,000	400,000
Issued and paid-up capital of 100,000,000 Vatu	100,000	100,000

23. RELATED PARTY INFORMATION

Identity of related parties

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

The Board of Directors during the financial year ended 31 December 2014 were Simeon Athy (Chairman), Georges Maniuri, Jimmy Nipo, Thomas Bayer (relinquished on 12 September 2014), Anatole Hymak and Marakon Alilee (Appointed on 12 September 2014)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

23. 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.

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

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

	2014	2013
Directors sitting allowances	510	225
Executive officers	69,600	78,539
	70,110	78,764

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT19.982m (2013: VT14.967m). 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.

24. EMPLOYEES

The number of full time permanent employees as at 31 December 2014 was 91 (2013: 89).

25. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance sheet date (2013: nil).

26. COMMITMENTS

Capital and other commitments

Capital commitments which are approved and contracted and not provided for in the financial statements

	2014	2013
Property, plant and equipment (Note 16)	7,478	14,293
Purchase of currency stock (Note 15)	-	160,323

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
(Expressed in 000's Vatu)

27. 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:

	2014	2013
Foreign currency assets		
Cash and cash equivalents	15,574,748	12,047,112
Investment securities	2,731,020	4,787,306
International Monetary Fund (IMF):		
Special Drawing Rights	223,653	227,250
	18,529,421	17,061,668
Local currency assets		
Government securities	370,639	476,906
Government bonds	1,998,290	1,696,630
	2,368,929	2,173,536
	20,898,350	19,235,204

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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27. FINANCIAL RISK MANAGEMENT POLICIES – continued

Credit risk - continued

Based on the country in which the counterparty is resident, the Bank's end of year concentration of credit exposure expressed as a percentage of the total exposure above is as follows:

	2014 %	2013 %
Australia	28	30
New Zealand	-	1
United States of America	24	6
Switzerland	10	8
United Kingdom	1	1
Vanuatu	-	11
Others	37	43
Total financial assets	100	100

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

	2014	2013
AAA-AA3	54	60
AA	24	-
A1-A3	22	18
N/R	-	22
Total financial assets	100	100

27. FINANCIAL RISK MANAGEMENT POLICIES - continued

Liquidity risk

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

The Bank holds a diversified portfolio of cash and cash equivalents plus highly graded Government 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. An acceptable cash balance is maintained at all times in different current accounts and an emergency fund of about VT200 million is maintained with one of the central banks.

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27. FINANCIAL RISK MANAGEMENT POLICIES – continued

Liquidity risk - continued

The Bank's assets held for managing liquidity risks comprise of high quality instruments, including commercial papers, particularly Negotiable Certificates of Deposits and Bank Bills, and debt issued by foreign Governments which are easily converted to cash.

The following tables show financial assets and liabilities at year end grouped by contractual maturity.

2014 Maturity Analysis

	0 - 3 months	3 - 6 months	6 – 12 months	Over 1 year	No specific maturity	Total
ASSETS						
Financial Assets:						
Cash and cash equivalents	15,574,748	-	-	-	-	15,574,748
Treasury notes, bonds & bills	-	134,784	105,944	2,490,292	-	2,731,020
Government securities	-	-	-	370,639	-	370,639
Government bonds	500	100	280	1,997,410	-	1,998,290
Other receivables	32,735	15,476	49,715	92,791	1,486	192,203
Special drawing rights	-	-	-	-	223,653	223,653
Non Financial Assets	-	-	-	-	2,242,679	2,242,679
	15,607,983	150,360	155,939	4,951,132	2,467,818	23,333,232
LIABILITIES						
Financial Liabilities:						
Other creditors and accruals	106,346	-	-	-	-	106,346
Demand deposits	433,400	2,075,323	11,915,906	-	-	14,424,629
Reserve Bank of Vanuatu Notes	215,737	-	-	-	-	215,737
Currency in Circulation	7,499,202	-	-	-	-	7,499,202
Non Financial Liabilities	-	-	-	-	635,412	635,412
	8,254,685	2,075,323	11,915,906	-	635,412	22,881,326
Net Liquidity Gap	**7,353,298**	**(1,924,963)**	**(11,759,967)**	**4,951,132**	**1,832,406**	**451,906**

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FOR THE YEAR ENDED 31 DECEMBER 2014 - continued
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27. FINANCIAL RISK MANAGEMENT POLICIES - continued

Liquidity risk - continued

2013 Maturity Analysis

	0 - 3 months	3 - 6 months	6 – 12 months	Over 1 year	No specific maturity	Total
ASSETS						
Financial Assets:						
Cash and cash equivalents	9,614,789	2,432,323	-	-	-	12,047,112
Treasury notes, bonds &bills	-	-	563,532	4,223,774	-	4,787,306
Government securities	-	-	-	476,906	-	476,906
Government bonds	1,380	148,980	-	1,546,270	-	1,696,630
Other receivables	147,586	22,661	46,232	51,662	-	268,141
Special drawings right	-	-	-	-	227,250	227,250
Non Financial Assets	-	-	-	-	2,024,427	2,024,427
	9,763,755	**2,603,964**	**609,764**	**6,298,612**	**2,251,677**	**21,527,772**
LIABILITIES						
Financial Liabilities:						
Other creditors and accruals	49,840	34,730	-	-	-	84,570
Demand deposits	1,289,884	711	9,046,110	2,438,710	-	12,775,415
Reserve Bank of Vanuatu Notes	628,065	-	-	-	-	628,065
Currency in circulation	6,942,570	-	-	-	-	6,942,570
Non Financial Liabilities	-	-	-	-	612,661	612,661
	8,910,359	**35,441**	**9,046,110**	**2,438,710**	**612,661**	**21,043,281**
Net Liquidity Gap	**853,396**	**2,568,523**	**(8,436,346)**	**3,859,902**	**1,639,016**	**484,491**

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 and 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.

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

Market Risk - continued

(i) ***Foreign exchange risk*- continued**

In accordance with the RBV Act, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserves asset management, are achieved through diversification of investment by entering into transactions in international capital and money markets. Analysis of risks is the process of managing the foreign currency reserves by comparing estimated risk levels with set limits.

The following tables show the currency concentration of the Bank's net exposure to major currencies as at 31 December 2014 and 2013 in Vatu equivalents.

		2014 %		2013 %
United States dollar	8,970,822	57	6,114,208	42
Australian dollar	5,477,298	35	5,386,326	37
Euro	720,682	5	873,458	6
British pound	188,782	1	582,306	4
Other currencies	367,085	2	1,601,340	11
NET OPEN POSITION	**15,724,670**	**100**	**14,557,638**	**100**

(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 rates of financial assets and liabilities at the balance sheet date are as follows:

Financial assets:

Cash and current accounts	-	floating interest rates.
Short term deposits	-	fixed interest rates, maturing in 180 days or less.
Treasury notes, bonds and bills	-	fixed interest rates, maturing in 9 years or less.
Vanuatu government bonds	-	fixed interest rates, maturing as detailed in note 13.
Staff loans	-	fixed interest rates, maturing in 20 years or less.

Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less.
Statutory bodies/banks	-	fixed interest rates, maturing in 30 days or less.
Government of Vanuatu	-	fixed interest rates, payable in 30 days or less
Reserve Bank of Vanuatu Notes	-	fixed interest rates, payable in 30 days or less.

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

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27. FINANCIAL RISK MANAGEMENT POLICIES – continued

Market Risk - continued

(ii) Sensitivity to foreign exchange risk and Interest rate risk

The sensitivity of the Bank's financial assets and liabilities to assumed across the board changes in interest rates and the exchange rate is shown below:

Impact of:	2014	2013
Change in profit due to a 5% appreciation of the Vatu	907,234	955,051
Change in profit/equity due to a rise of 1 percentage point in interest rate	175,864	161,373

A 5% depreciation of the Vatu against the respective currencies and fall of 1 percentage in the Interest rates would have the opposite effect of an equal amount.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.

The valuation of the Bank's financial assets and liabilities are discussed below:

Cash and cash equivalents
The reported value of cash and cash equivalents is considered to be its fair value due to the short term nature of the financial assets.

Treasury notes, bonds and bills
Bonds are carried at fair value. Refer to page 30 for details of classification by valuation hierarchy.

Government bonds
The reported value of government bonds is considered to approximate its fair value as they are redeemable on demand.

Demand Deposits
The carrying value of deposits are considered to approximate their fair value as they are payable on demand.

Reserve Bank of Vanuatu Notes
The carrying value of the Reserve Bank of Vanuatu Notes are considered to approximate their fair value as they are redeemable in accordance with the Bank's policy.

Currency in Circulation
The carrying value of Currency in Circulation is considered to be its fair value as reported in the accounts.

Other Financial Assets and Liabilities
The reported values of other financial assets and liabilities are considered to be their fair value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014 – continued
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28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES– continued

The table below shows the Banks financial assets carried at fair value by valuation method. There are no financial liabilities carried at fair value at balance date (2013: Nil).

The different levels have been defined as follows:

Level 1 Valued using quoted prices (unadjusted) in active markets for identical financial assets or liabilities. A market is regarded as active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Valued using inputs other than quoted prices included within level 1 that are observable for the financial asset or liability

Level 3 Valued using inputs for the financial asset or liability that are not based on observable market data (unobservable inputs)

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Assets				
Treasury notes, bonds & bills				
- Financial assets at fair value through profit and loss	1,697,729	-	-	1,697,729
- Available for sale financial assets	-	-	1,033,291	1,033,291
	1,697,729	-	1,033,291	2,731,020
As at 31 December 2013				
Assets				
Treasury notes, bonds &bills				
- Financial assets at fair value through profit and loss	2,204,548	-	-	2,204,548
- Available for sale financial assets	-	-	2,582,758	2,582,758
	2,204,548	-	2,582,758	4,787,306

29. EVENTS AFTER BALANCE DATE

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