



Annual Report

2015

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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 2015; and
- (b) A copy of the Bank's Annual Statement of accounts for 2015 certified by the Auditors.

Yours faithfully,



Simeon Athy
Governor

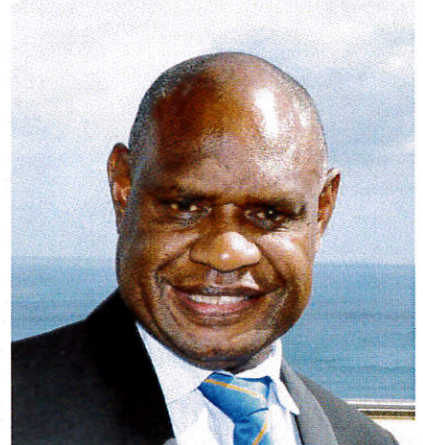
CONTENTS

TOPIC	PAGES
Board of Directors	3
Management Committee	4
Governor's Foreword	5
Economic Overview	7
Monetary Policy Formulation	11
Monetary Policy Implementation, Foreign Reserve Management & Financial Inclusion	12
Banking Sector and Financial Institution Development	15
Insurance - Sector Development	19
Accounts, Banking & Customer Services	23
Human Resources	26
Corporate Services	27
Financial Statements	30

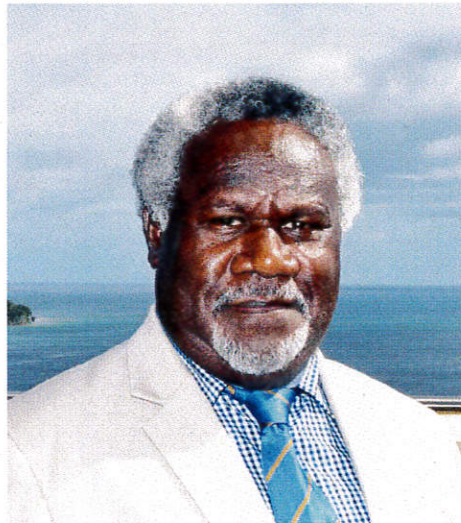
Board of Directors



LETLET AUGUST
Director General, Ministry of
Finance & Economic
Management



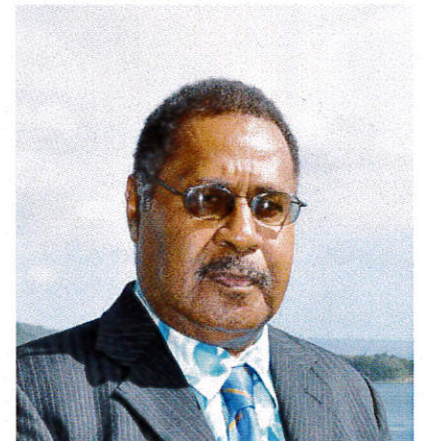
ANATOLE HYMAK
HR Manager
Unelco



SIMEON ATHY
Governor, Chairman Board
of Directors



JIMMY NIPO
Development Program
Coordinator, NZ Aid Program
Zealand High Commission



MARAKON ALILEE
Director General - Ministry of
Trade and Business
Development

Management Committee



SIMEON ATHY
Governor, Chairman
Board of Directors



PETER TARIMERAKALI
Deputy Governor



NELSON SHEM
Director of Corporate
Services Department



FLORINDA ARU
Director of Accounts &
Customer Services
Department



PHILIP ARU
Director of Financial
Markets Department



NOEL VARI
Director of Financial
Institution Supervision
Department



JERRY NIATU
Director of Research

Governor's Foreword

2015 ended with a continued challenging economic performance and an outlook for the near to medium term shows little change to the last two to three years' as the global community continues to deal with ongoing and new challenges. Global economic growth, according to the IMF World Economic Outlook, is expected to reach 3.1 percent, 3.4 percent and 3.6 percent in 2015, 2016 and 2017 respectively. These outputs show a gradual pick-up in global economic activities that accommodates a further slowdown in China's economy, continued low global commodities prices and strains in large emerging markets.

Growth for the emerging markets and developing economies are forecast to reach 4.3 percent and 4.7 percent in 2016 and 2017 respectively (from 4 percent in 2015 – the lowest since the 2008-2009 financial crisis). Robust growth is forecast for India and the rest of emerging economies, the slowdown in the China's economy is forecast to impact heavily on some countries' performances. Moreover, the continued declining trend in global commodities prices will continue to affect the global economic growth outlook. This will affect the already-weak commodities producers, but on the upside could boost demand in oil-exporting countries.

Global interest rates recorded some movements over the period. The Federal Reserve Bank of New York (Fed) left its official rates at 0.25 percent until mid-year, and plans to increase the rate to 0.5 percent to the end of the year to accommodate the improvements reported in some of the key sectors of the US economy. This increase is the first after over seven years of the Fed's accommodating monetary policy stance. In Europe, the European Central Bank (ECB) reduced its official rates to 0.05 percent in 2015 in line with its unconventional policies to halt deflation in the euro zone.

However, there is only limited room for further reductions in rates to stimulate growth, given the modest impact on consumer spending from the implementation of a quantitative easing policy and low fuel prices. Within the region and closer to home, the Reserve Bank of Australia maintained its official cash rates at the lowest level since the first quarter of 2015, with the forecast that the softer economic outlook would leave room for further cuts if need

The Reserve Bank of New Zealand reduced its official cash rates several times during the first three quarters of 2015, down to 2.50 percent in the last quarter in line with the developments in the New Zealand economy. Within the domestic economy, Vanuatu's economic growth was severely affected by the Category 5 Tropical Cyclone Pam that passed through the Central (Shefa Province) and Southern (Tafea Province) parts of the country, causing huge damage and loss to the private and public infrastructures and government services. Estimated damages from the cyclone were more than 60 percent of GDP.

Vanuatu's 2015 GDP figures are yet to be officially released. The Macroeconomic Committee (MEC) forecast in April that the 2015 growth would reach 1.3 percent. The positive growth projection took into account the impact of Cyclone Pam to reflect the inflows from donor funding assistance and the commencement of the donor and government projects in mid-and late 2015.

The Bank achieved its monetary-policy targets in 2015. Inflation pressure picked up in the second quarter of the year, due to food shortages caused from Cyclone Pam. The percentage rose from 1.0 percent in the first quarter to 5.7 percent in the second quarter, and dropped to 1.4 percent in the final quarter. The country's official reserves level has been kept well above the four-months threshold at 8.7 months. The high level of reserves reflects the flow of foreign exchange into the country towards the cyclone recovery program, reconstruction and donor projects and IMF balance-of-payments emergency support. With these outcomes, the Bank continued to maintain an accommodating monetary policy stance in 2015. The Reserve Bank's implementation of its monetary policies in the first quarter of 2015 focused mostly on responding to the impact of Cyclone Pam. The important policies undertaken were:

- (1) linking the Bank's policy interest rates to interest rates on the 91-day RBV notes; (2) allowing the commercial banks to use their Statutory Reserves Deposit (SRD) as collateral for advances under the Bank's Secured Advances Facility; and (3) reducing the SRD ratio from 7 percent to 5 percent. The Bank also introduced a Disaster Recovery Credit Facility and launched the Import Substitution and Export Financing Facility to assist with the support efforts. The Reserve Bank of Vanuatu also provided Vt 40 million in direct financial assistance to the Vanuatu Government, particularly to assist the repair of damaged schools in the six provinces of Vanuatu.

th respect to the health and supervision of the financial institutions, the domestic banking sector is sound. The industry is well capitalised, and the aggregate liquidity ratio maintained above the minimum liquidity asset ratio (LAR) 5 percent. Non-performing loans (NPLs) are relatively high, reflecting the challenging and slow economic conditions and the effect of Cyclone Pam; however, improvement is noted in the categories of doubtful loans and loss loans. The offshore banks' operations were well supervised and remained well capitalised during the year, with a Capital Asset Ratio of 60.8 percent. The domestic insurance industry went through a very challenging year as a result of Cyclone Pam, but the industry absorbed the pressure well. The total estimated claims exposure for the industry as a result of Cyclone Pam stood at VT10.5 billion. In the operations of the Bank, the following developments are highlighted:

Currency management – The new family of Vatu coins (VT5/10/20/50/100) were launched in Port Vila on 14 August 2015. The new Vatu coins were minted and supplied by the Royal Australian Mint. Another lot of counterfeited paper currency (mainly Vt5000 notes) was recorded during the year. The Bank continues to remind the general public to be familiar with banknote security features to help address this concern.

Payment and Settlement – The trial additional clearing facility arrangement established in Luganville, Santo was formalised.

Public awareness – the Reserve Bank of Vanuatu continued its public-awareness programs in 2015. The programs concentrated on the Bank's Currency Reform Program. The awareness team visited schools and communities and took part in the 2015 National Trade Fair show. The Bank's financial performance in 2015 took a further hit from the continuing challenging global economic conditions. As a result, the Bank recorded a net operating loss of VT138.9 million in 2015, a decline of VT242 million from the 2014 profit of VT104.5 million. In compliance with Section 7(3) of the RBV Act, no distributions were made to the Government in 2015.

Despite the huge financial setbacks, it is pleasing to note that the Bank carried out all its functions and goals in 2015 in response to, and despite, the continuing challenging global and domestic economic conditions and the impact of Cyclone Pam. This achievement is made through the dedicated vision and commitments of the Bank Board, Management Committee and staff. With this, I end my remarks here by thanking the Board for its support and vision. I extend the same acknowledgement and appreciation to the Management Committee of the Bank and all the members of the staff for their contributions and commitment in 2015. I also take this opportunity to thank the Government for its continuous support to the Bank.

Simeon Malachi Athy
Governor and Chairman of the Board.

Economic Overview

International Economy

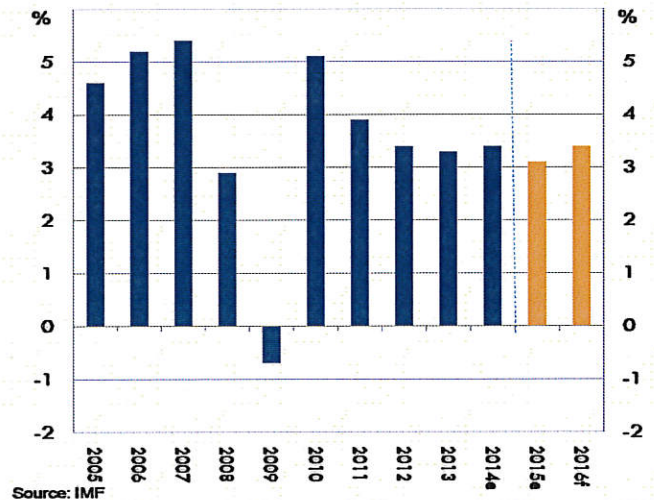
The global economic activity remained subdued in 2015. Growth in emerging markets and developing economies declined for the fifth consecutive year, while a modest recovery continued in advanced economies. Global growth, currently estimated at 3.1 percent in 2015, is projected at 3.4 percent in 2016 and 3.6 percent in 2017. The pickup in global activity is projected to be more gradual than in the October 2015 World Economic Outlook, especially in emerging markets and developing economies. The slowdown and rebalancing of the Chinese economy, lower commodity prices and strains in some large emerging-market economies will continue to weigh on growth prospects in 2016-17.

China is evolving broadly as envisaged, but with a sooner-than-expected slowdown in imports and exports, in part reflecting weaker investment and manufacturing activity. The dramatic decline in imports in a number of emerging markets and developing economies in economic distress is also weighing heavily on global trade. Growth in emerging market and developing economies is projected to increase from 4 percent in 2015 – the lowest since the 2008-09 financial crisis – to 4.3 and 4.7 percent in 2016 and 2017, respectively. Growth in China is expected to slow to 6.3 percent in 2016 and 6.0 percent in 2017, primarily reflecting weaker investment growth as the economy continues to rebalance. India and the rest of emerging Asia are generally projected to continue growing at a robust pace, although with some countries facing strong headwinds from China's economic rebalancing and global manufacturing weakness.

Oil prices have declined markedly since September 2015, reflecting expectations of sustained increases in production by Organization of the Petroleum Exporting Countries (OPEC) members amid continued global oil production in excess of oil consumption.

First and foremost, financial strains in many oil-exporting countries have reduced their ability to smooth the shock, entailing a sizable reduction in their domestic demand. The oil price decline has had a notable impact on investment in oil and gas extraction, also subtracting from global aggregate demand. Commodity markets present both risks and benefits. On the downside, further declines in commodity prices may worsen the outlook for already-vulnerable commodity producers, and increasing yields on energy-sector debt may threaten a broader tightening of credit conditions. On the upside, the recent decline in oil prices may provide a stronger boost to demand in oil

Figure 1: World GDP Growth 2005-2016 (percentage change, annual data)



Key Interest Rates

The Fed rate remained unchanged at 0.25 percent until mid-December. Towards the end of 2015, some major improvements were noticed. Household spending and business fixed investment have been increasing, and the household sector has improved further.

However, Chinese economy downturn had impact on net export of the US economy. Improved labour data and other macroeconomic data prompted the Fed to increase the rate to 0.5 percent on December 2015. After seven years of the most accommodative monetary policy in US history, the Fund rate was increased for the first time from 0.25 percent to 0.5 percent.

The Reserve Bank of Australia left its official cash rate on hold at its historic low reached in the first quarter of 2015. Towards the end of 2015 prospects of improvement in the economy strengthened a little. A soft inflation outlook could leave room for a further cut if needed. Commodity prices declined further. The decline in Australia's terms of trade that had begun more than four years ago therefore continued until the fourth quarter of 2015. The Reserve Bank of New Zealand Official Cash Rate was reduced during three consecutive quarters of 2015. The 3.5 percent of 2014 was reduced to 3.25 percent in the second quarter of 2015, to 2.75 percent in the third quarter and to 2.50 percent in the last quarter. The trend is in line with the movements in the New Zealand economy over 2015. Lower terms of trade, increases in labour supply from net immigration, risks that dairy prices would remain weak for

conditions and weaker output contributed to the cloudy outlook. The New Zealand dollar began to rise in August 2015, partly reversing the depreciation that occurred from the start of the year. This rise in the currency was not helpful in supporting sustainable growth.

In June 2015, the ECB reduced its rate to 0.05 percent. For 2014 and 2015, the ECB's unconventional policies were put in place to halt deflation in the euro zone. The contrast remains between the US and euro economies. Unemployment remains prevalent across Europe and economic recovery is still sluggish despite every stimulus measure implemented by the ECB. Over 2015, the ECB's challenge was to tackle low inflation, currently at 0.1 percent and continuing to be a potential obstacle to stronger growth.

Even if the ECB rate cannot be further cut, though quantitative easing may help to instigate growth. The larger question for Vanuatu is why the euro zone's economy is not responding more to the help it is getting not only from its own central bank but also from the effect that low fuel prices are expected to have on consumer spending.

Table 1: Key Interest-Rate Indicator

Period	US Funds Rate	Fed Refi Rate	Euro Refi Rate	Australia Cash Rate	New Zealand Cash Rate	Vanuatu Rediscount Rate
2014						
Q1	0.25	0.25	2.5	2.75	5.5	
Q2	0.25	0.05	2.5	3.50	5.5	
Q3	0.25	0.05	2.5	3.50	5.5	
Q4	0.25	0.05	2.5	3.50	5.25	
2015						
Q1	0.25	0.05	2.25	3.50	5.25	
Q2	0.25	0.05	2.00	3.25	1.85	
Q3	0.25	0.05	2.00	2.75	1.85	
Q4	0.5	0.05	2.00	2.50	1.85	

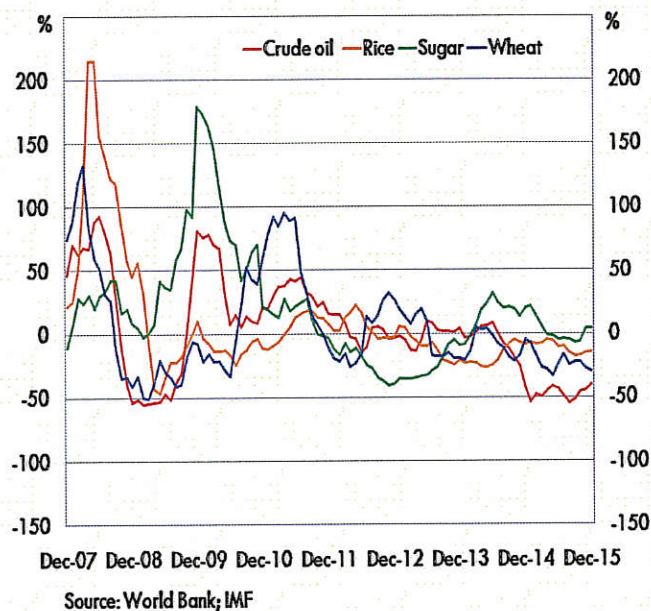
Sources: Federal Reserve Bank, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand

Commodity Prices

Average international prices for Vanuatu's major import commodities continued to remain low throughout 2015. Crude oil prices dropped from \$60.7 per barrel in

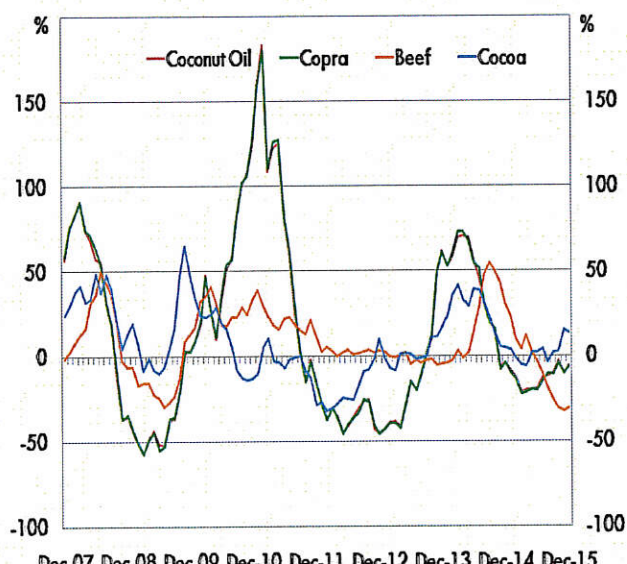
2014 to \$48.5 in 2015, due to a combination of weak global demand and OPEC's determination to maintain production. Other major import commodities such as rice and wheat also dropped over the year, and prices for imported sugar remained lower than during 2014.

Figure 2: Major Import Commodity Prices (annual percentage change, monthly data)



Prices for Vanuatu's major export commodities on the international market remained relatively stable throughout 2015. Copra prices increased 13.6 percent compared to December 2014, while cocoa, coconut oil and beef prices remained low for the entire year compared to the year before.

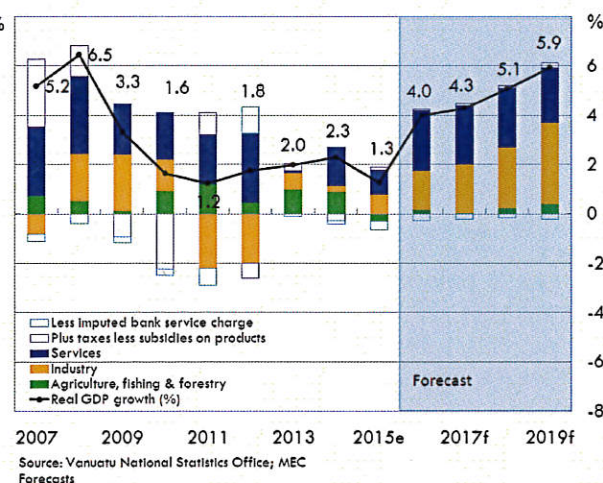
Figure 3: Major Export Commodity Prices (annual percentage change, monthly data)



Domestic Economy

The 2015 official national GDP figures are yet to be released by the Vanuatu National Statistics Office (VNSO). The VNSO revealed an actual growth of 2.3 percent in 2014. This growth was contributed to mainly by the services sector, which contributed 1.6 percentage points to the growth, followed by agriculture and fishing, which contributed 0.9 percentage point, and industry, which contributed 0.2 percentage points.

Figure 4: Annual Growth of Real GDP (sector contribution)



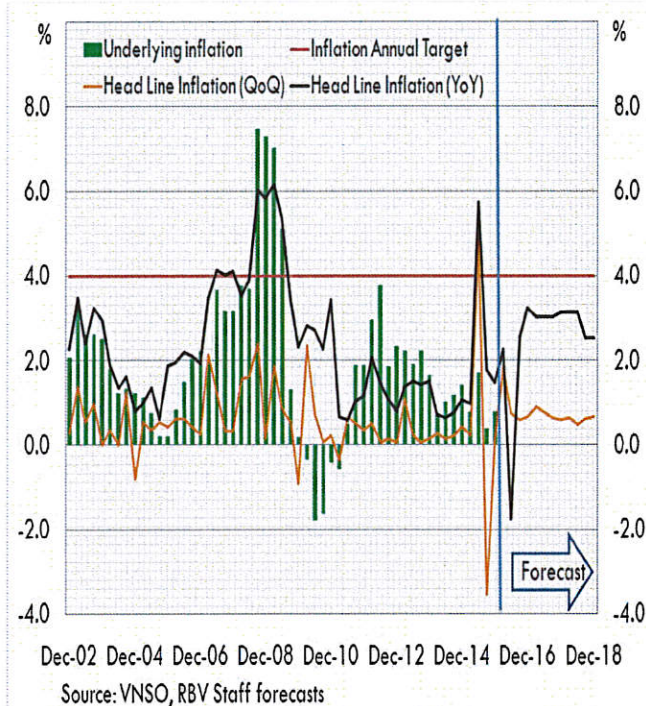
According to the Macroeconomic Committee (MEC) sitting on 3 April 2016, the economy was estimated to have grown by 1.3 percent in 2015. This growth is expected to have been largely driven by the industry sector, which is estimated to have picked up by 10.6 percent, with construction activities estimated to have increased 28.5 percent following the implementation of planned projects that commenced in mid- to late 2015, coupled with private and public reconstruction after the devastation caused by Cyclone Pam. In contrast, the agriculture sector is estimated to have declined by 1.4 percent in 2015, reflecting damages caused by Cyclone Pam. The service sector was estimated to register a minor growth of 1.5 percent (compared to 2.4 percent in the previous year), reflecting severe damages by Cyclone Pam on the tourism industry. Tourism is expected to have fully recovered by mid-2016. Against this background, in 2015 the domestic economy was mainly supported by the industry sector, in particular construction as major donor projects were constructed and reconstruction continued. The domestic economic growth is expected to maintain growth after the pickup in 2011 through to 2017. Partial indicators of domestic consumption, such as value-added tax and private-sector credit, were relatively stable over the year.

Inflation

Annual inflation in 2015 recorded 1.0 percent in the March quarter, and spiked to 5.7 percent in June, as expected

cent in the September quarter and further to 1.4 percent in the December quarter of 2015.

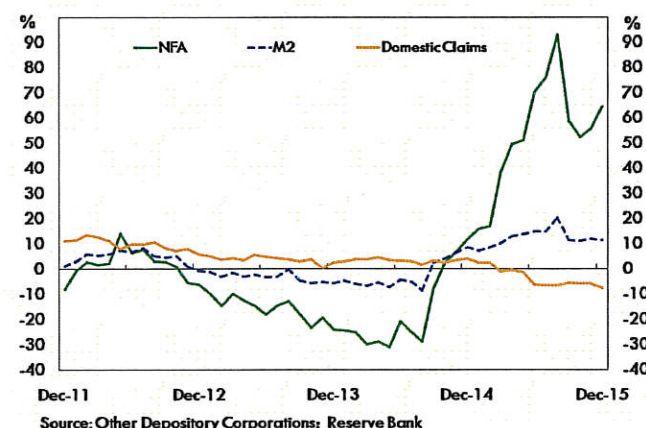
Figure 5: Price Developments.



Monetary Developments

Money growth remained weak during the first three months of 2015, owing to subdued economic conditions. Growth accelerated from April to December 2015, owing mainly to the increase in net foreign assets of the banking system that were associated with huge inflows for cyclone-related recovery, reconstruction and donor projects. However, economic activity continued to slow.

Figure 6: Determinants of Money Supply (year growth)



Net foreign assets (NFA) recorded positive growth throughout 2015. During the first three months of 2015 growth mainly reflected increased NFA holdings of both

the significant growth in NFA was recorded during the post-Cyclone Pam period (the end of March to the end of July). This growth was associated with the ongoing flows of foreign exchange through the banking system for cyclone-related recovery, reconstruction and donor projects that commenced towards the end of the year.

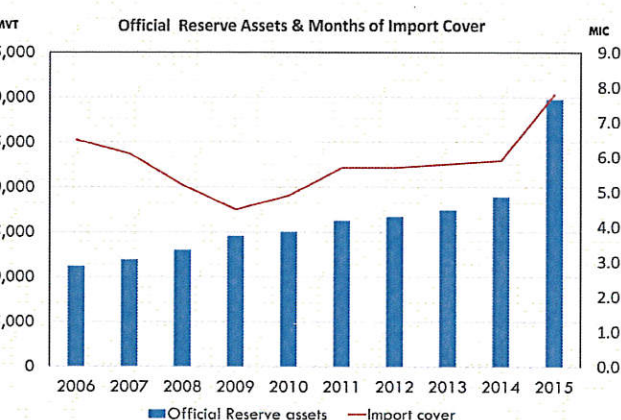
Growth in domestic credit was stagnant throughout 2015, owing mainly to the slowdown already apparent in economic activities, which was exacerbated by the impact of Cyclone Pam from March to the end of the year. At the end of December 2015 lending growth declined by 5 percent, compared to a growth of 4.1 percent at the end of 2014. The downward trend was reflected mainly in the slowdown in private-sector credit, which recorded an annual growth of 2.5 percent in December, compared to 7 percent annual growth in December 2014. The annual growth in the private sector was driven mainly by private consumption, while business loans continued to slow.

External Sector Developments

The RBV formulates its monetary policy with the aim of maintaining official reserves at above the minimum threshold level of four months of import cover.

Foreign-exchange developments from 2014 to 2015 performed well above target: from an average of 6.4 months in 2014 to an average of 8.7 months in 2015.

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



The aftermath of Cyclone Pam saw a rapid influx of assistance in terms of both foreign exchange and in-kind for the Government and non-government organisations. Development partners and international organisations transmitted financial assistance on behalf of the Government to the government accounts at the RBV, while the National Bank of Vanuatu kept funds sourced domestically on behalf of the Government.

During the year, at the request of the RBV to address the immediate balance of payment needs, the IMF supported a request for emergency assistance worth SDR17 million.

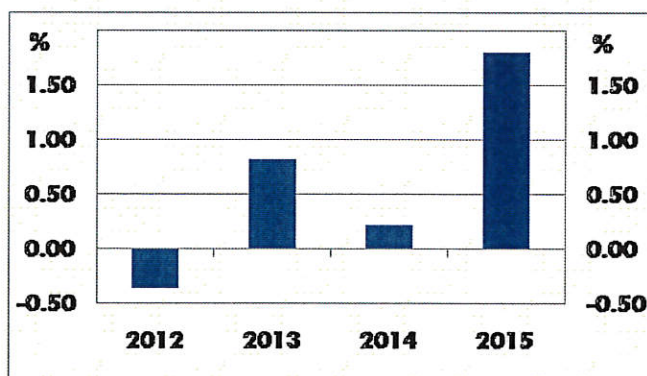
In addition, the commercial banks continued to receive funds for humanitarian assistance on behalf of non-government organisations and had long positions in terms of foreign-currency holdings. This allowed them to finance their customers' international transactions and undertake short-term buy-back arrangements with the RBV.

By the end of December 2015 the Official International Reserves stood at VT 29.7 billion, which is far above the threshold level of four months of imports.

Fiscal Developments

The Government's recurrent fiscal position improved further at the end of 2015, recording a larger surplus than at the end of 2014. Though both revenue and expenditure increased in 2015, the increase in revenue outweighed that in expenditure. Revenue collected in 2015 increased by 13.6 percent to reach VT17.3 billion. The better performance reflected continuing compliance with and enforcement of current taxes and increases in other revenues. Furthermore, in March 2015 budget support of VT359 million was received from the EU, and in April an insurance payout of VT202 million from the World Bank, to support the recovery efforts after Cyclone Pam. Both payments were added to the recurrent revenue, and hence contributed to the higher revenue collected. On the other hand, total recurrent expenditure increased by 4.5 percent from the previous year's level, to reach VT15.8 billion. This reflected some items that had exceeded their budgeted targets and some unbudgeted items that the Government had incurred during the year.

Figure 8: Fiscal Balance as Percent of GDP



The movement in the gross fiscal operating balances resulted in a larger budget surplus of VT 1567.7 million at the end of 2015 than the surplus of VT171.3 million recorded at the end of 2014.

Monetary Policy Formulation

The Bank's Research and Statistics Department (RSD) is responsible for monetary-policy formulation via the Policy Coordinating Committee, which comprises the Director of RSD as the Chairman, statisticians and economists within RSD and the Director of the Bank's Financial Markets Department. The outcome of the Policy Coordinating Committee's assessment of the key economic variables with respect to their impact on the Bank's twin objectives is their advice to the Monetary Policy Committee, which then decides on the Bank's overall monetary-policy stance. Pre-Cyclone Pam monetary-policy formulation continued to be articulated as a consequence of subdued economic conditions, which influenced the slowdown in domestic economic activities. During this period, both objectives of monetary policy were achieved. By the end of the December quarter of 2014, the annual inflation rate had reached 1.1 percent, which is within the Bank's target of 0-4 percent. Similarly, official foreign reserves reached 6.1 months at the end of February 2015, which was significantly above the minimum threshold of 3 months. Against this background, the Bank continued to maintain accommodative monetary policy stances by keeping the Bank's policy rate at 5.25 percent beginning in December 2014.

The Bank undertook a number of policy changes as its immediate response in the aftermath of Cyclone Pam. These responses came in the form of (a) policy initiatives to assist the domestic financial sector with liquidity to support their operations and lending as an investment to encourage growth; (b) a further relaxation of monetary policy to assist with economic recovery; and (c) assistance to the Government's rehabilitation efforts. The policy changes that were approved by the Reserve Bank Board of Directors on the 24th of March 2015 are outlined as follows:

The RBV would provide financial assistance of 100 million, of which VT30 million would be given to the Government for the reconstruction and rehabilitation of schools, and VT10 million would be administered by the Government as direct assistance for the designated needs of the provinces across Vanuatu;

The Statutory Reserve Deposit (SRD) requirement, which comprises reserve deposits of commercial banks as required reserves by the RBV, would be reduced from 7 to 5 percent;

The RBV policy rate would be reduced from 5.25 percent and tied to the 91-day RBV note rate;

- The SRD holdings of commercial banks would be included as part of security for the RBV Secured Advance Facility in addition to the commercial banks' holdings of Government bonds and RBV notes. Interest on the RBV Secured Advance Facility is based on the RBV policy rate plus a penalty component; and
- The RBV would activate its Import Substitution and Export Financing Facility.

Post-Cyclone Pam monetary-policy formulation was focused entirely on the impact of the cyclone and a review of the impact of the bank's policy changes on the economy. Overall, the macroeconomic fundamentals continued to remain sound, with annual inflation at 1.8 percent at the end of the September quarter 2015, and stabilisation in December. The official reserves were sufficient to cover around eight months of import at the end of December 2015. Both objectives were within their respective targets. Based on these assessments, the members of the MPC decided during their June and September quarter meetings in 2015 to remain accommodative, implying that the Bank's policy interest rate would be tied to the 91-day RBV note, which was at 1.85 percent in December 2015, and that the Statutory Deposit ratio would remain at 5.0 percent. The Reserve Bank will be monitoring conditions closely and stands ready to respond if macroeconomic and financial conditions change.

Monetary-Policy Implementation and Foreign-Reserve Management

Monetary-Policy Implementation

In response to the devastating effects of Cyclone Pam in the first quarter of 2015, the Reserve Bank further eased monetary policy and introduced new lending facilities to support the recovery process. Amongst the important policy decisions taken by the Reserve Bank's Board of Directors were:

Link the policy interest rate to the 91-day RBV note interest rate;

Allow commercial banks to use their SRD as collateral for advances under the Bank's Secured Advance Facility; and

Reduce the SRD ratio from 7 percent to 5 percent. In addition, the Bank introduced a Disaster Recovery Credit Facility and launched the Import Substitution and Export Financial Facility.

Open-Market Operation

The Bank maintained its weekly open-market operations throughout 2015, issuing 7-day, 14-day, 28-day, 63-day and 91-day RBV notes. Also, during the year the Bank issued limited amounts of RBV securities in line with its monetary-policy stance.

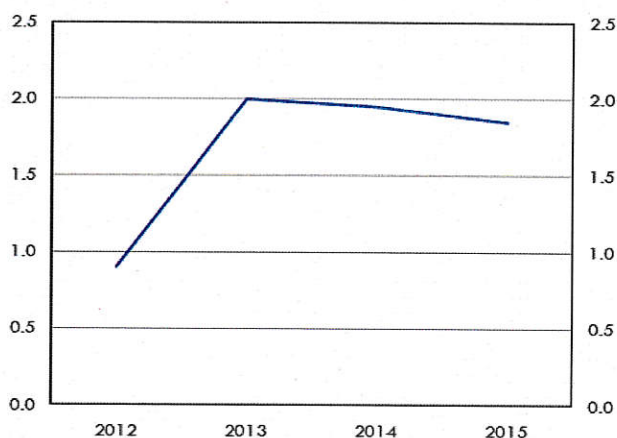
Table 2: Open-Market Operations

Year	2013	2014	2015
Number of OMO	46	35	45
Results in Millions of Vatu			
Floitation	10175	7089	4520
Tenders received	17368	106696	12540
Allotments	9365	5863	4516
Outstanding	855	224.5	445

Forty-five market operations were undertaken in 2015, as compared with 35 in 2014. However, the total amount of RBV notes being floated in the market was significantly

Figure 9: 91-day RBV Note Interest Rates

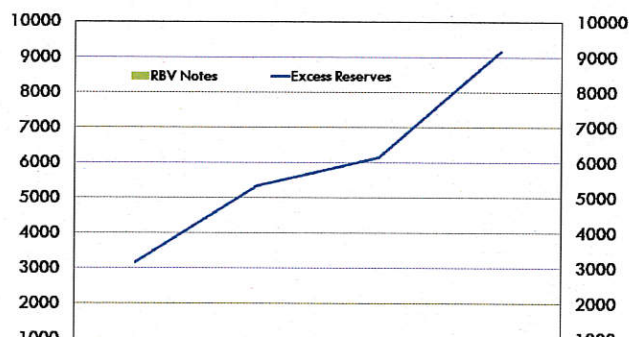
(Percent, year-end position)



The yields on the RBV notes decreased slightly compared with the previous year's yields, remaining below 2.0 percent. Also, the cost of monetary policy declined further in 2015, as lesser amounts in RBV notes were allotted during the year under review.

System liquidity rose sharply in the year under review as a result of the combined effects of the reduction in the SRD ratio and liquidity injections from inflows of foreign exchange into the Bank. Inflows of reinsurance funds following the cyclone contributed much of the increase in excess reserves.

Figure 10: Commercial Bank's Liquidity
(levels, millions of Vatu, year-end positions)



Reserve Requirement

The Bank relaxed the SRD ratio from 7.0 percent to 5.0 percent. This reduction was part of the Bank's overall loosening of monetary controls to help commercial banks manage their liquidity following Cyclone Pam. The Bank also allowed commercial banks to use their SRD as collateral for loans under the secured advance facility.

Reserve Bank of Vanuatu Facilities

During 2015 the Reserve Bank introduced two new facilities: the Import Substitution and Export Financing Facility and the Disaster Reconstruction and Credit Facility.

Import Substitution and Export Financing Facility

The objective of the Import Substitution and Export Financing Facility (ISEFF) is to support businesses in Vanuatu that engage in exports, as well as those that are not in the export sector but are producing goods that substitute for imports. Funds are made available through back-to-back lending at a low interest rate to new or existing businesses in Vanuatu. Funding under this facility is provided by the RBV via the domestic lending institutions (banks). The Bank is allocating a total of VT500 million each year under the facility.

Disaster Reconstruction Credit Facility

Following the passage of Severe Cyclone Pam during March 2015, the Bank introduced the Disaster Reconstruction Credit Facility (DRCF) to assist businesses during natural disasters. As with the ISEFF, the Bank made available VT500 million under the DRCF during the disaster, and the funds are made available via domestic lending institutions.

The Bank will reactivate this facility when there is a disaster, and will keep it active for six months after the disaster.

Foreign-Exchange Reserves Management

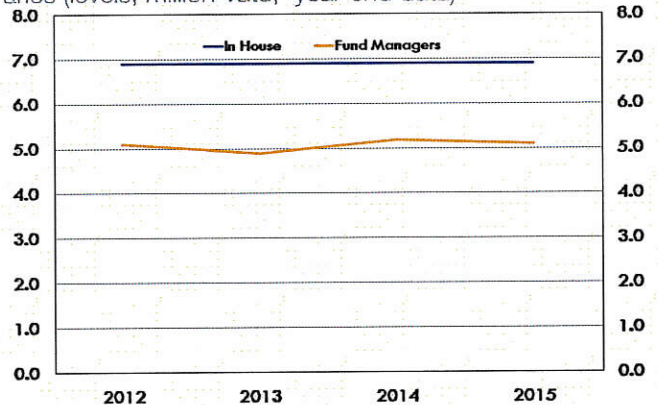
The Bank has continued to maintain sufficient stock of foreign-exchange reserves to continue to meet shortfalls in foreign exchange in the domestic market, and has also serviced the Government's foreign-debt obligations and other external payment during 2015. Following Cyclone Pam, a Post-Disaster Needs Assessment (PDNA) projected a huge deterioration in the country's trade balance, and balance-of-payments problems if external financial assistance were not forthcoming.

Based on this assessment, the Government requested and received financial assistance from the IMF through the IMF's Rapid Credit Facility and Rapid Finance Initiative. Also, Vanuatu received significant external financial assistance to assist in its reconstruction efforts; this, combined with inflows of insurance funds, resulted in a massive increase in the official foreign-exchange reserves. At the end of 2015, total foreign-exchange reserves stood at VT28.8 billion, of which VT22.5 billion was investible.

The level of investible reserves at year-end represented an increase of around VT4.2 billion or 23.0 percent from the level in 2014.

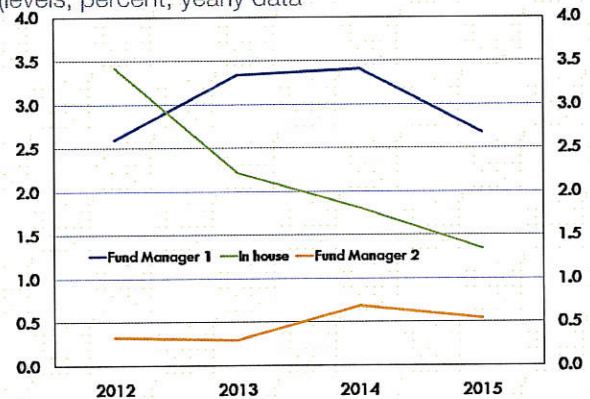
The Bank continued to manage the bulk of the investible reserves (85 percent), and outsourced the remaining balance of around 15 percent to external fund managers. These official foreign-exchange reserves are managed within the parameters of safety and capital growth as specified in the Bank's Board-Approved Investment Guidelines.

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



The costs of managing the foreign-exchange reserve, particularly fund managers' fees, declined slightly in 2015 (Figure 11). The in-house costs of managing the reserves have not changed.

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



The rates of return on the Bank's investments abroad decreased in 2015. Rates of returns on funds managed both in-house and by external fund managers also declined. This was largely due to a global environment of low interest rates that persisted into 2015 as major central banks continued to maintain very accommodative monetary policy stances.

Table 3: Major Central Banks' Official Interest Rates

Bank	2013	2014	2015
FED	0/0.25	0/0.25	0/0.5
BOJ	0.1	0.1	0.1
ECB	0.25	0.05	0.05
BOE	0.5	0.5	0.5
RBA	2.5	2.5	2.0
RBNZ	2.5	3.5	2.5

During 2015, both the RBA and the RBNZ reduced their policy interest rates. The RBA relaxed its policy interest rate further to 2.0 percent, while the RBNZ reduced its interest rate to 2.5 percent. In contrast, the Fed raised its interest rates at the end of the year, as widely anticipated, while other major central banks maintained their policy rates unchanged.

Exchange Rates

Fiji's exchange-rate arrangement is a fixed exchange rate system. The local currency, the Vatu, is pegged to a basket of currencies; the Bank sets the exchange rates of the Vatu against major foreign currencies each morning and provides the rates to commercial banks and the government.

Table 4: VATU Exchange Rates

CY	31-Dec-14	30-Jun-15	31-Dec-15	Annual % Change
USD	102.72	107.95	110.53	7.6
EUR	124.88	121.29	120.84	-3.24
AUD	84.07	82.93	80.52	-4.22
NZD	80.43	73.88	75.66	-5.93
GBP	159.87	169.87	163.77	2.44
JPY	.8598	.8808	.9171	6.66

The year under review continued to show volatilities in the international foreign-exchange market. As a result, the local currency had a mixed performance against major currencies. At the end of 2015, the VATU weakened further against the US dollar by 7.6 percent, after decreasing by 5.61 percent in the preceding year. The local currency also weakened against the Pound and Japanese Yen by 2.4 percent and 6.7 percent respectively, after being up against these two currencies in the previous year. On the other hand, the local currency strengthened further against the Euro (3.2 percent), Australian dollar (4.2 percent) and New Zealand dollar (5.9 percent).

IMF Technical Assistant on Reserve Management

With the massive increase in the official foreign-exchange reserves, the RBV sought technical assistance from the IMF to help the Bank strengthen its reserve management. The IMF technical-assistance mission took place from 28 October to 10 November 2015.

Banking-Sector and Financial-Institution Development

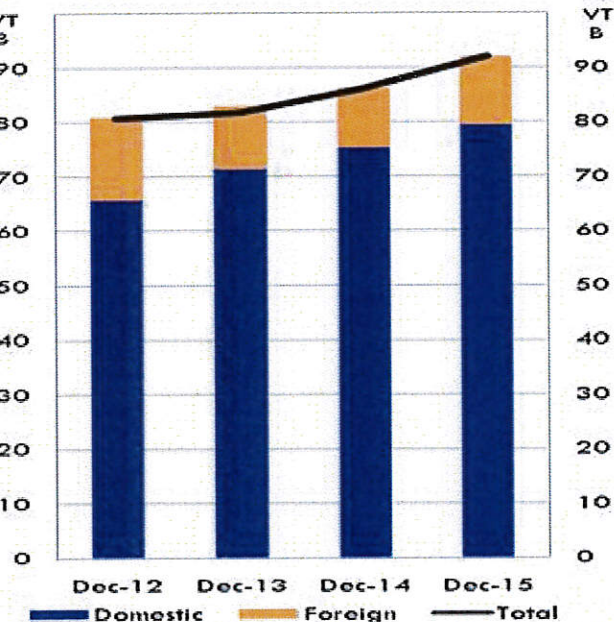
Domestic Banks

The domestic banking sector remains sound and continues to operate effectively. The industry is well capitalised, and the aggregated liquidity ratio is above the required regulatory minimum liquidity asset ratio (LAR) of 5 percent. Non-performing loans (NPLs) are relatively high; however, improvement is noted under the categories of doubtful loans and loss loans.

Private-sector credit continues to demonstrate slow growth as a result of Category 5 Cyclone Pam which hit Vanuatu earlier this year and slow economic developments. Overall, the domestic banking sector assets continue to be dominated by high quality assets (standard loans) and bank earnings remains satisfactory in 2015.

Financial Position

Figure 13: Asset Position – Domestic Banks
(Levels; billions of Vatu)



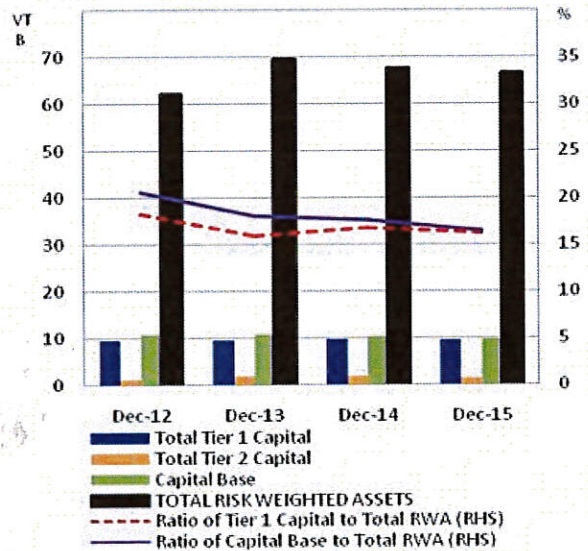
The domestic banking industry over 2015 registered a year-on-year growth rate in total assets of 6.9 percent to VT91.9 billion, compared to VT86.0 billion reported in December 2014. The growth was mainly attributable to an increase in domestic assets by 5.7 percent to VT79.7 billion, triggered largely by the growth in RBV claims of 9.2 percent to VT12.2 billion. Similarly, foreign assets increased significantly by 15.1 percent to VT12.3 billion, mainly reflecting the increase in balances due from banks

The banking-industry liabilities (less capital) also increased by 8.6 percent to VT79.8 billion, compared to VT73.5 billion in December 2014. The increase in liabilities is attributable to 8.5 percent growth in domestic liabilities to VT65.6 billion.

Foreign liabilities also increased by 9.2 percent to VT14.3 billion, compared to VT13.1 billion in 2014.

Capital

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



The capitalisation of the banking industry remained well above the minimum regulatory requirement of 12 percent. The consolidated capital adequacy ratio (CAR) for all commercial banks decreased slightly to 16.4 percent, compared to 17.6 percent in 2014. The Tier 1 capital to total risk-weighted assets ratio also decreased to 16.2 percent, compared to 16.7 percent in 2014 (Figure 14).

The total risk-weighted assets dropped by 1.8 percent to VT66.3 billion over the year due to a 2.2 percent fall in off- and on-balance sheet risk-weighted assets to VT60.3 billion.

Financial Performance

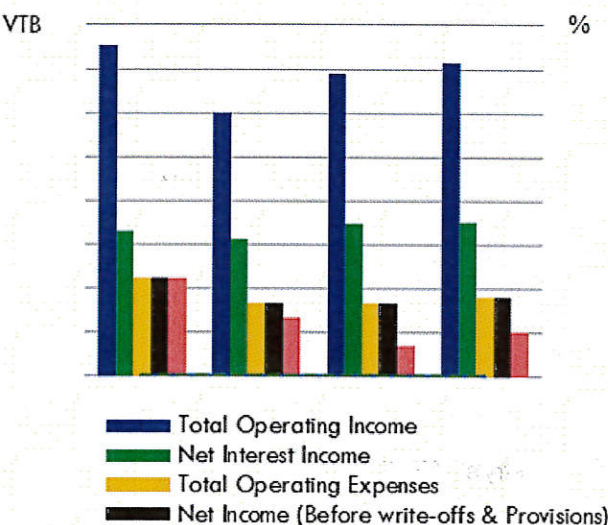
Figure 15: Earnings – Domestic Banks (annual data)

The Tier 1 capital to total risk-weighted assets ratio also decreased to 16.2 percent, compared to 16.7 percent in 2014 (Figure 14).

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Financial Performance

Figure 15: Earnings – Domestic Banks (annual data).



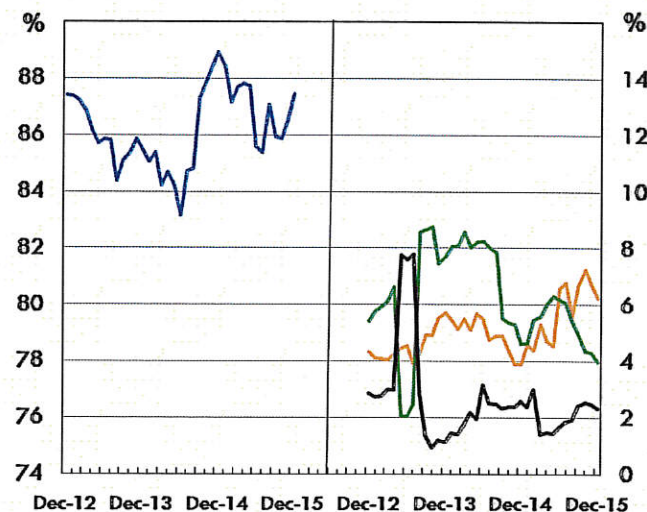
The profitability of the banking industry improved over the year 2015. Net Income before write-offs and provisions recorded a year-on-year increase of 10.1 percent to VT1.8 billion, despite the 1.6 percent year-on-year increase in total operating expenses to VT5.3 billion (from VT5.2 billion in 2014).

The increase in banking-industry earnings is mostly attributable to a 14.9 percent growth in non-interest income to VT1.9 billion. Net interest income also increased slightly, rising by 1.6 percent to VT3.5 billion. Given the above performance, the industry reported VT1.0 billion distributed profit, a year-on-year increase of 45.7 percent in 2015 (from VT696.0 million in 2014) (Figure 15).

Even these figures, the industry's return on assets increased to 2.0 percent, compared to 2014 with 1.9 percent. Similarly, the return on equity improved to 14.6 percent, compared to 12.6 percent in 2014.

Asset Quality

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



The industry's total lending reached VT59.0 billion, with a year-on-year growth rate of 1.1 percent.

The end of December 2015 saw improvement in the quality of the industry's lending book as reflected by the impaired-assets figures, specifically those for doubtful and loss loans. The improvement reflects financial institutions' ongoing book management.

Total impaired assets, however, remained relatively high, recording a year-on-year increase of 16.3 percent to VT7.4 billion (from VT6.4 billion in December 2014). As a result, the ratio of impaired assets to aggregate total loans was registered at 12.6 percent, compared to 11.1 percent in 2014. The increase in impaired assets reflected mostly growth in substandard assets, with a year-on-year growth rate of 65.2 percent to VT3.7 billion.

In contrast, doubtful loans registered a drop of 11.3 percent to VT2.4 billion, while loss loans stood at VT1.4 billion after declining by 7.8 percent.

Overall, the banking industry continued to maintain high-quality standard loans representing 87.4 percent of total lending assets. Substandard, doubtful and loss loans contributed 6.3 percent, 4.0 percent and 2.3 percent respectively (Figure 16).

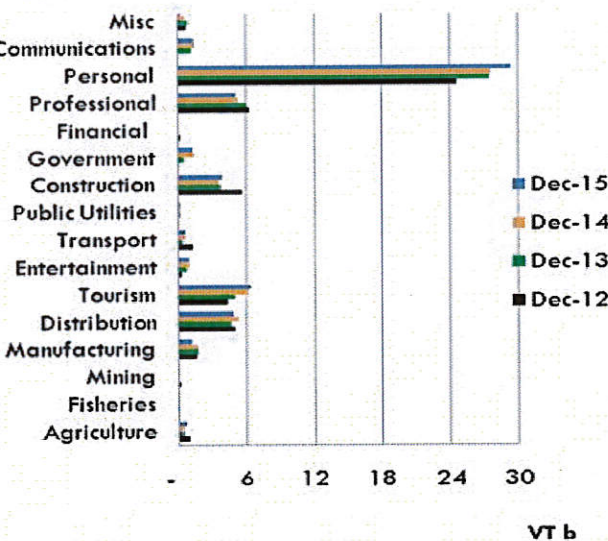
(1) Includes total credits to residents and non-residents.

the period after Cyclone Pam saw growth in the banking industry provisioning level; however, as at December 2015, specific provisioning had decreased slightly by 4.3 percent to VT1.7 billion (from VT1.8 billion in December 2014). The drop in specific provisioning is attributable to significant charge-offs during 2015. General provisioning, on the other hand, increased by 10.4 percent to VT807.7 million (from VT731.7 million in December 2014).

Private-Sector Lending

The industry's private-sector credit continued to register generally slow growth. Over the year ending December 2015, it increased by 1.6 percent to VT56.6 billion.

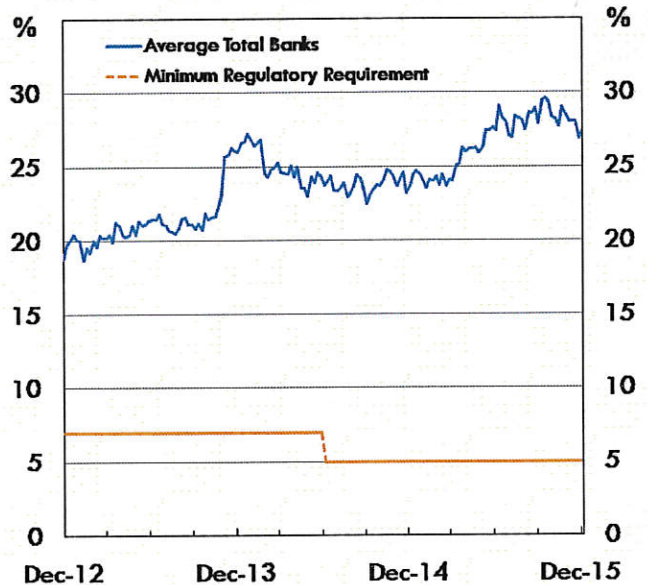
Figure 17: Private-Sector Credit – Domestic Banks (total assets, by industry, annual data)



The increase in private-sector credit is attributable to growth particularly in three of the five largest sectors: the personal, tourism and construction sectors registered year-on-year growth of 6.2 percent to VT29.4 billion, 3.2 percent to VT6.4 billion and 7.6 percent to VT3.9 billion, respectively, while the distribution and professional and other services sectors declined by 5.1 percent to VT5.1 billion and 7.7 percent to VT4.9 billion respectively (Figure 17). These three sectors are part of property development, which was badly affected by Cyclone Pam. As a result, the majority of property investors were given access to rehabilitation loans to renovate or rebuild their damaged properties.

Liquidity Position

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



The banking-sector liquidity conditions continued to be favourable, with the average liquidity ratio increasing to 27.4 percent at the end of December 2015, compared to 23.8 percent at the end of December 2014 (Figure 18).

The industry's LAR, therefore, is well above the regulatory minimum requirement ratio of 5 percent.

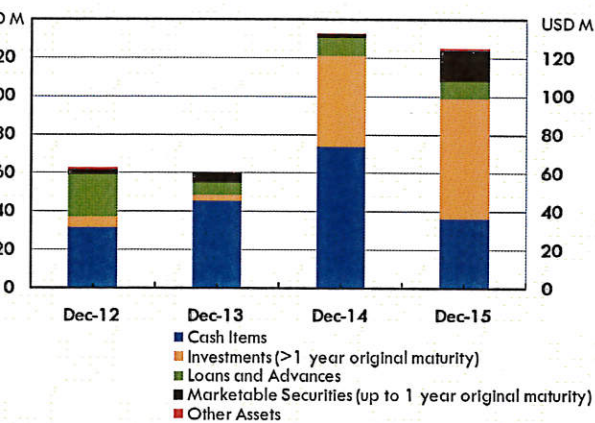
International Banks

The international banking sector's profitability deteriorated, and industry earnings improved. Overall, the industry remains well capitalised, with a capital-asset ratio of 60.8 percent. The balance sheet, on the other hand, contracted 0.15.

Financial Position

The international banking industry balance sheet contracted by 5.7 percent to USD125.3 million by the end of 2015, compared to USD132.8 million reported in December 2014. Total cash items reduced significantly by 10 percent; however, the industry's investment portfolio improved, with long-term investments and marketable securities increasing significantly by 33.0 percent to USD62.8 million and 631.1 percent to USD16.0 million respectively. Other assets increased by 365.1 percent, while loans/advances decreased by 4.8 percent to USD8.9 million (Figure 19).

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

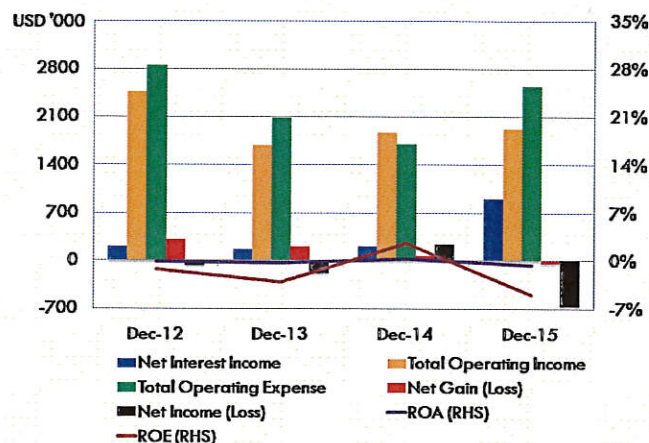


Similarly, total liabilities (excluding capital) contracted by 3.8 percent to USD106.3 million, due mostly to a 12.2 percent decline in deposits to USD105.6 million. Accrued liabilities, in contrast, increased by 89.4 percent to USD332 thousand over the year.

Financial Performance

The industry's profitability deteriorated, and it reported a loss of USD672.3 thousand. Its non-interest income dropped significantly by 35.6 percent to USD899.0 thousand and fell short to offset year-on-year growth of 6 percent under overhead expenditure to USD2.4 million. In contrast, net interest income increased significantly by 336.2 percent to USD903.0 thousand, for a year-on-year increase of 2.5 percent, bringing the total operating income to USD1.9 million (Figure 20).

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

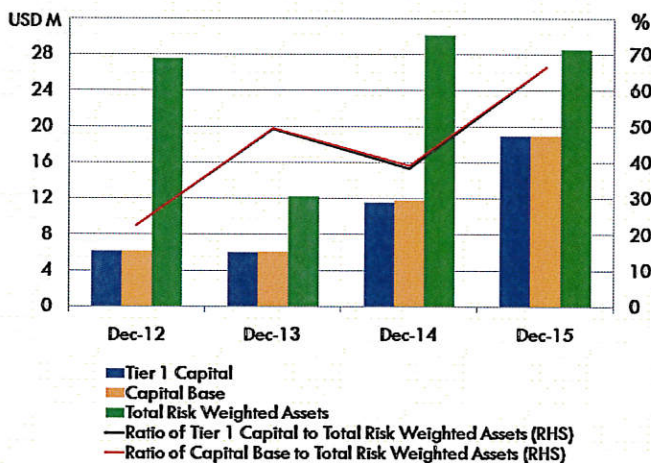


Capital

The international banking capital adequacy ratio (CAR) remained well above the minimum regulatory CAR of 12 percent at 66.7 percent (as compared to 39.1 percent in December 2014). This is a year-on-year increase of 70.5 percent, and reflects a year-on-year increase of 109.0 percent in Tier 1 capital to USD19.0 million (Figure 21).

Capital base, as a result, increased significantly, year-on-year growth rate of 60.8 percent, to USD19.0 million. Total risk-weighted assets also increased slightly by 3.2 percent to USD27.9 million.

Figure 21: Offshore Banking Industry – Capital (millions of USD, percent, annual data).



Others

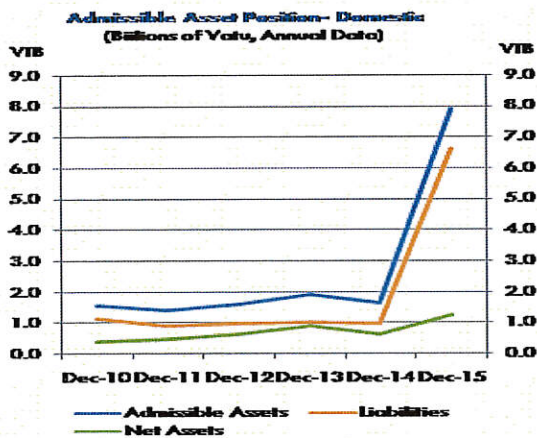
The RBV continues to receive applications and enquiries from investors for both domestic and international banking licenses. Two international banking licenses are also in the process of being revoked. A domestic banking licence was granted to Bank South Pacific (PNG) to take over Westpac Banking Corporation (Vanuatu); however, it was

Insurance-Sector Developments

roduction
The domestic Insurance industry withstood a very challenging year, particularly after Cyclone Pam on 13 and March 2015. Within the industry, major claims were recorded in commercial properties, including some of the ge resorts, and householders, which included private properties, marine and motor. Major losses were mainly the fire and household classes. The total estimated exposure for the industry as a result of Cyclone Pam was 10.5 billion.

reduction in underwriting results and the increase in ss ratio implies slow growth in the overall performance the industry. Despite the impact of Cyclone Pam, the industry responded well, given that it is well supervised and regulated and continues to maintain its role in providing financial security and minimising the effects of economic sses.

Figure 22: Domestic Insurers –Financial Position

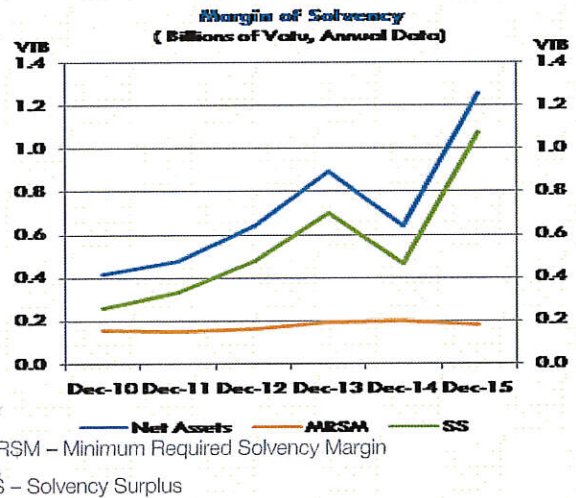


he admissible-asset position of the domestic market for 2015 increased significantly by 384 percent to VT1.6 billion (from VT7.8 billion in December 2014). This was attributed mainly to a 100 percent increase in reinsurance coveries towards Cyclone Pam claims to VT4.3 billion (compared to nil in December 2014), and a 43 percent increase in premiums receivable net of doubtful debts to VT600 million (from VT 418 million in December 2014). Cash and bank deposits increased by 61 percent to VT1.9 billion (from VT1.2 billion in December 2014).

insurance liabilities increased significantly by 569 percent to VT6.6 billion (from VT 990 million in December 2014). This increase is attributed mainly to increases in claim provisions due to Cyclone Pam. This includes a 4,251

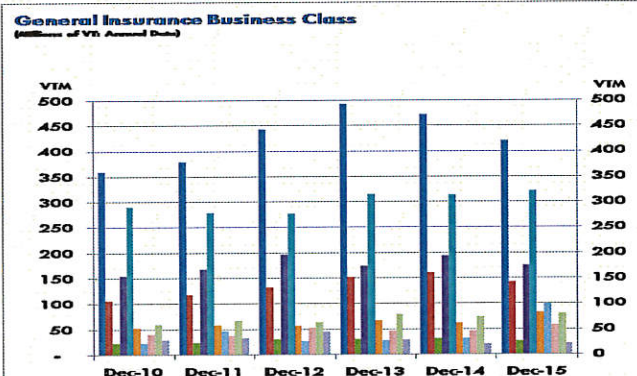
a 1,317 percent increase in IBNR to VT812 million (from VT57 million in December 2014), a 100 percent increase in other liabilities to VT33 million (compared to nil in December 2014), a 76 percent increase in catastrophe claim retention to VT179 million (from VT102 million in December 2014) and a 7.6 percent increase in provision for unexpired risk to VT772 million (from VT718 million in December 2014).

Figure 23: Margin of Solvency



Over 2015, total domestic industry surplus assets (net admissible assets) increased by 96.6 percent to VT1.2 billion (from VT638 million in December 2014). The minimum required solvency margin declined by 62 percent to VT178 million (from VT467 million in December 2014).

Figure 24: Annual Domestic Industry Performance Gross Premium (GP)



The total gross premium in the domestic insurance market increased by 2 percent to VT1.43 billion (from VT1.40 billion in December 2014). This increase was attributable to increases in the following classes: engineering, workers' compensation, marine, liability, aviation and motor.

Other classes recorded declines in gross premiums. General accident recorded the largest decline of 17 percent to VT26 million (from VT32 million in December 2014), followed by both fire and householders of 11 percent, to VT420 million (from VT471 million in December 2014) and VT143 million (from VT161 million in December 2014) respectively. Personal accident and Health also declined by 9 percent to VT175 million (from VT193 million in December 2014).

Despite the decline, fire remains the largest class written, with a gross premium of VT420 million and accounting for 29 percent of total gross premiums, followed by motor with a gross premium of VT322 million and accounting for 22 percent of total gross premium.

Reinsurance Cessions

Reinsurance that is ceded to offshore insurers, which includes both treaty and facultative arrangements, increased by 18 percent to VT449 million (from VT379 million in December 2014). Classes that contributed to this increase were general accident, motor, marine, engineering, fire and household. General accident recorded the largest increase of 143 percent to VT3 million (from VT1.2 million in December 2014), followed by motor, which increased by 41 percent to VT29.9 million (from VT21.2 million in December 2014) and marine, which increased by 40 percent to VT7 million (from VT5 million in December 2014). The increase is largely based on high claims as a result of Cyclone Pam, and the possible increase in reinsurance rates due to the likely occurrence of tropical cyclones in this region.

Classes that experienced declines in reinsurance in 2015 were personal accident and health, which fell by 23 percent to VT1 million (from VT1.3 million in December 2014), workers' compensation, which fell by 24 percent to VT1.6 million (from VT2.1 million in December 2014) and liability, which fell by 2 percent to VT4.5 million (from VT4.6 million in December 2014).

Fire, the largest class, accounted for 67 percent of total reinsurance ceded.

Net Earned Premium (NEP)

Total net earned premiums declined by 4 percent to VT948 million (from VT987 million in December 2014). Classes that contributed to the decline were fire, householders, general accident, liability, personal accident and health and motor. Classes that experienced increases in NEP were engineering, which grew by 89 percent to VT29.7

(from VT60 million in December 2014), marine, which grew by 12.5 percent to VT45.9 million (from VT40.8 million in December 2014) and aviation, which grew by 5 percent to VT16.3 million (from VT 15.5 million in December 2014).

Motor vehicle, personal and health and fire dominated the distribution in the industry, with motor accounting for 29 percent of NEP at VT 278 million, personal accident and health accounting for 19 percent at VT 179 million and fire accounting for 18 percent at VT 168 million.

Claims

The gross claims for the industry in 2015 were recorded at VT9.7 billion, an increase of 3,164 percent over the figure of VT297 million in December 2014. This was mainly due to 770 Cyclone Pam-related claims. Classes that contributed largely to this increase were fire, householders, marine, liability, engineering, and motor. Fire increased by 49,579 percent to VT7.8 billion (from VT15.7 million in December 2014). Householders increased by 3,849 percent to VT1.2 billion (from VT32 million in December 2014). Marine increased by 1,017 percent to VT101 million (from VT11 million in December 2014). Liability increased by 440 percent to VT41 million (from VT12 million in December 2014). Engineering increased by 360 percent to VT20 million (from VT4.4 million in December 2014). Motor increased by 123 percent to VT239 million (from VT107 million in December 2014). General accident experienced a slight decline in gross claims.

Net Loss Ratio

The overall net loss ratio for the industry in 2015 was 86 percent, compared to 32 percent in 2014. Most classes incurred increased net losses, with major increases experienced in fire, marine, personal accident and health, householders and motor. Aviation recorded an improvement in net loss ratio.

Underwriting and Management Expense Ratio

The industry underwriting and management expense ratio increased to 20 percent, compared to 15 percent in 2014. Classes showing increases were fire, householders, motor, liability and personal accident and health. Motor recorded the highest increase with 27 percent, followed by fire with 26 percent. Engineering, general accident and marine recorded declines in expense ratios.

Combine Ratio

The combine ratio for the industry was recorded at 106 percent, an increase from the figure of 47 percent recorded in 2014. This indicates that the domestic insurance industry had indeed incurred a major increase in losses. Aviation recorded an improvement in the combine ratio; general accident remained constant, while other classes recorded high losses.

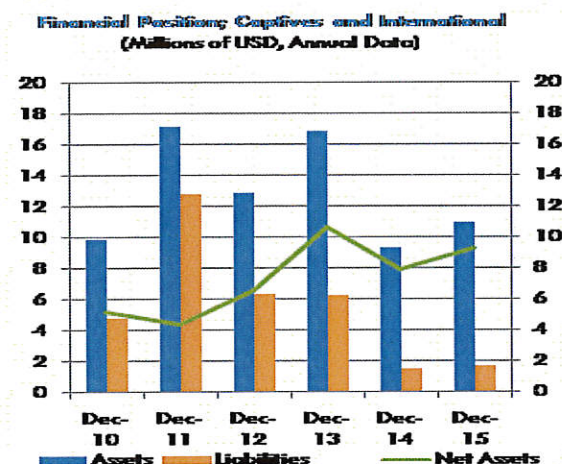
(3) Fire is a standard cover for properties.

Underwriting Results

The increase in reinsurance expense of 20 percent to VT449 million (from VT379 million in December 2014), the high increase of 161 percent in net claims to VT814 million (from VT312 million in December 2014) and a further increase of 20 percent in underwriting expenses to VT192 million (from VT146 million in December 2014) resulted in a net underwriting for the insurance sector.

The overall net combine ratio was 106 percent, hence a decline in the underwriting ratio of 6 percent to VT58 million in 2015 (from VT513 million in 2014). Classes that recorded deterioration in underwriting results during the year were largely fire and marine, and, to a lesser extent, motor. Classes that showed surpluses were general accident, engineering, workers' compensation, liability, householders and personal accident and health.

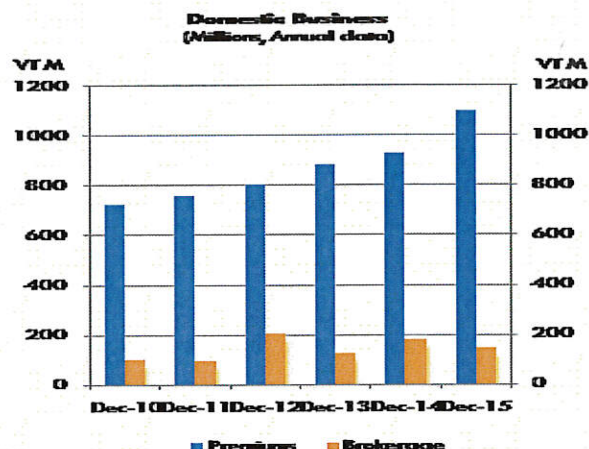
Figure 25: Captives and International Insurers – Financial Position.



The offshore insurance industry experienced an increase in assets of 17.5 percent to USD11 million (from USD9.3 million in December 2014); this increase was mainly due to a new player entering the market. The year also recorded an increase in liabilities of 14.8 percent to USD1.7 million (from USD 1.4 million in December 2014). Net assets increased 18 percent to USD9.3 million (from USD7.8 million in December 2014).

Business transacted was largely in the order of timber and crop insurance, funeral benefits, marine, erection and contractors all risk, directors' and officers' liability, freight forwarding, storage insurance, inland transit, product liability, loan protection and professional indemnity.

Figure 26: Insurance Brokers – Domestic Broker Premium



The total premiums transacted through brokers for the domestic market were recorded at VT1 billion (from VT931.7 million in December 2014), an increase of 17.8 percent.

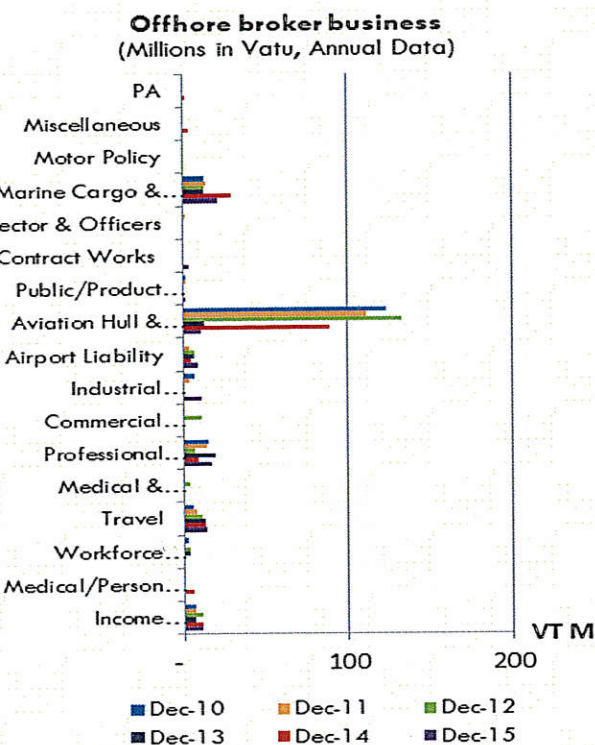
The increase was attributed to the growth in premium placements in the following classes: contract works, 364 percent to VT37.1 million (from VT8 million in December 2014); workers' compensation, 32 percent to VT62.5 million (from VT47.2 million in December 2014); and industrial special risks, 18 percent to VT279.2 million (from VT237 million in December 2014). This increase was attributed to the inclusion of the aviation hull and spares premium of VT111 million in the domestic, rather than offshore, market, as reported in previous years.

In terms of total premium placements in 2015, industrial special risks continue to account for the majority of the premiums transacted, at VT279.2 million, followed by motor vehicle (commercial and private) at VT163 million, aviation hull and spares at VT111 million, medical and repatriation at VT102.9 million, household and contents at VT100.9 million, commercial combined package at VT94.3 million and workers' compensation at VT62.5 million. The rest of the premiums were spread across other classes of business such as public/product liability, contract works, business interruption, marine hull and fire and perils.

Overall, the commercial lines constituted the highest premiums at VT586.9 million, followed by personal lines at VT214 million.

The total brokerage paid to brokers as at the end of December 2015 was recorded at VT147.3 million, a decline of 18 percent (compared to VT179.5 million in December 2014).

Figure 27: Offshore Business According to Risk Type



The total premium remitted offshore through brokers in 2015 declined by 40.1 percent to VT100.7 million (from VT168.3 million in December 2014). The decline was attributed mainly to the reporting of aviation hull and airport liability business under domestic business instead of offshore business. Another contributing factor was the decline in marine hull and cargo business by 28.4 percent to VT20.8 million (from VT29.2 million in December 2014).

In terms of premium placement, marine hull and cargo constituted the highest premium remitted offshore, at VT20.8 million, followed by professional indemnity at VT17.2 million, travel at VT13.9 million and aviation at VT10.9 million. The rest of the premiums were spread across the other classes, such as industrial special risk at VT10.9 million and income protection at VT10.5 million.

Total broker commission paid to brokers in 2015 increased by 27 percent to VT17.1 million (from VT13.5 million in December 2014).

Marine cargo and hull, professional indemnity, travel, income protection and industrial special risks continue to count for the main classes of risks being placed offshore due to favourable terms and conditions offered by offshore insurers.

Accounts, Banking & Customer Services

Banking and Customer Services

The Banking and Customer Services section of the Bank continues to operate effectively to serve its customers. Services especially to the Government include facilitating the process of deposits, over-the-counter encashment, registry and fund transfers. In addition, it processes and monitors commercial-bank and other financial institution transactions 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 supervision of the Reserve Bank of Vanuatu. Exchanges are done at 8.00 a.m. daily; on Fridays there is an additional clearing time at 2.00 p.m. to accommodate for the increase in the volume of transactions among the banks.

The additional clearing facility created in Luganville has now been formalised, and clearances are now done daily, with a summary submitted to the Reserve Bank before 8.00 a.m. each morning. The table below shows the 10-year summary of transactions conducted through the clearinghouse from 2005 to 2015. The number of effects and the value of transactions through the Port Vila Clearinghouse has continued to increase over the last 10 years.

**Table 5: PORT VILA CLEARINGHOUSE
SUMMARY from 2005 to 2015**

Period	No. Of Effects	Value(MVT)
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 2015 from the previous year due to the increased use of electronic payment by all commercial banks. However, the number of cheques and value of transactions processed through the Port Vila Clearinghouse still reached over 330,000 cheques items and 50 to 60 million Vatu, respectively, for 2015.

Settlement

The Settlement Office continues to operate the SWIFT payment system to carry out its functions, including:

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

During this year, a mandatory patch version of 7.1.10 was applied to the system. This upgrade provided the latest changes and enhancements to the SWIFT system. The process was carried out successfully with assistance from the ICT unit, and the Settlement Office is now benefiting from the increased functionality this patch provided.

Currency Operation

The Bank continued to perform its function of sole issuer of the Vatu currency. Following the successful release and circulation of the polymer notes and in continuation of its Vatu currency reform program, the Bank released a new family of Vatu coins as part of the 35th Independence Anniversary celebrations.

(a) The new series of Vatu coins: VT5/10/20/50/100

The new Vatu coin series was minted and supplied by the Royal Australian Mint after the first coins were struck at a historical joint coining ceremony (along with the Cook Islands and Tonga) at the Mint's headquarters in Canberra, Australia on March 4, 2015. Due to circumstances beyond the Bank's control, original plans for the launch date of 28 July 2015 were abandoned and rescheduled to 14 August 2015.

Effective on the launch date, the new coin series was issued into public circulation and the old coins began to be withdrawn from public circulation. Following three months of co-circulation, a demonetisation notice of the old series was published in the Government Gazette on 27

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
2015	7,355	8,329	15,684

The VT5000 note continues as the highest-value currency in public circulation at 38 percent, a 4 percent drop from the previous year, followed by the VT1000 note at 28 percent. The VT10000 note was third at 12 percent, followed by the VT2000 note at 8 percent, the VT200 note at 2.5 percent and the VT100 at 0.2 percent.

The coin denominations made up the remaining portion of the currency in circulation, with the VT50 the most common, followed by the VT20, VT10 and VT5. The demonetised VT2 and VT1 contributed the least value in circulation.

(c) Public Awareness in Currency Matters

During the year the Bank undertook public awareness and education on general central banking issues including currency matters. The year's public-awareness program targeted communities and schools in Central Malekula. Further public awareness on currency matters originally scheduled as part of the official launch of the new Vatu coin series in each province did not eventuate following the postponement of the main program. Media outlets such as the national radio, television and newspapers were engaged to educate the general public on the use and maintenance of polymer banknotes. Publicity and awareness initiatives also focused on the specifications and characteristics of the newly released Vatu coin series to help the public differentiate the new series from the existing series.

(d) Counterfeits

The Bank recorded another lot of counterfeited VT5000 notes, mostly confiscated by commercial banks from their Luganville branches. The counterfeits displayed new features that had not been present in previous counterfeits, and the Bank continues to remind the general public to be familiar with banknote security features to ensure that banknote reproductions are easily identified. The Bank continues to advise the public to report or seek advice on any suspicious-looking Vatu 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 or possess Vatu banknotes, and perpetrators can be prosecuted.

Table 7: Counterfeits Summary

Denomination	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
10000	-	-	-	-	-	-	-	-	-	-	-	-
5000	31	9	4	1	-	4	2	2	8	-	4	65
1000	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	0	4	150

Numismatics

With the release of the new series of Vatu coins, special coin sets of the series were released as collectors' items. The coin set in new and uncirculated condition is sold at VT950 per set, while the Vanuatu 2015 Uncirculated Year set sells at VT2,500.

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

Table 8: 2015 Budget

	Budget million)	(VT Actual million)	(VT
Revenue	575.9	637.3	
Expenses	771.1	791.3	
Net profit/loss	-195.27	-154.0	

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

The 2015 budget was formulated with the view that the world economy would continue to recover, but the low interest rates and volatilities in the international financial markets will continue to affect the Bank's offshore investments in 2015, and exchange-rate movements will continue to have a significant impact on the Bank's accounts.

The bank's 2015 budget stood at a net deficit of VT195.27 million. Budgeted revenues increased 6 percent from VT541.3 million in 2014 to VT575.9 million, while expenditure increased 8 percent from VT706.4 million to VT771.1 million.

Against its actual performance a net loss of VT154.0 million was recorded against a budgeted deficit of VT195.27, compared to a net profit of VT104.5 million in 2014.

Actual revenues were VT637.3 million compared to a budget of VT575.9 million; expenses were VT791.3 million compared to the budgeted amount of VT771.1 million. Actual revenues exceeded budgeted by 8 percent, while

Revenue

The Bank recorded an operating income of VT791.3 million in 2015. This is decline in revenue of 1 percent from the 2014 result of VT799.6. Foreign interest earnings and other interest income accounted for 45 percent of the total revenue, while gains from foreign exchange movements accounted for 22 percent and other income accounted for 33 percent.

Expenditure

Total expenditure for the year increased by 16 percent from VT665.5 million in the prior year to VT791.3million, 12 percent of the total expenses in 2015 is from losses incurred on exchange rate movements.

Operating Profit

The Bank recorded a net operating loss of VT154.0 million for the year 2015. This is a decline of VT258.5 million compared to the profit of VT104.5 million in 2014. Global economic conditions, in particular persistently low interest rates and exchange-rate movements, continue to hinder the Bank's performance.

Payment to Government

No distributions were made to the Government of Vanuatu this year according to Section 7(3) of the RBV Act, due to the net loss that was incurred. A Government non-interest, non-negotiable bearing security will be issued of VT154.0million to cover the loss.

Human Resources & Governor's Office

Learning And Development

Recruitment:

The Bank continues its drive to recruit and resource its human resources at a level that will allow it to continue to deliver its goals and services to the economy and the public. The Bank recruited a new Banking Clerk officer to the Banking Office Team within the Accounts & Customer Services Department.

Termination:

During the year the Bank farewelled four of its staff members. One member reached her retirement age, two were released on medical grounds and an ODI staff member's two-year employment contract with the Bank ended in September 2015.

Deceased staff:

The Bank lost one of its staff in October 2015 who passed away after a long illness. The absence of the deceased is a significant loss to the Financial Markets Department Human Resources team and the Bank overall.

Transfers and Promotions:

A number of promotions took place at the beginning of the year. In February one staff member of the Financial Institution Supervision Department (FISD) was promoted to Manager of the Bank Supervision Unit; two Bank Supervisors were transferred from the Banking Supervision to the Other Financial Institution Supervision Unit; and the Bank promoted a former security officer of the Bank to the position of a Financial Analyst within the Financial Markets department (FMD) after he graduated with a Bachelor's degree in Economics and Management from the University of the South Pacific in Fiji.

Training:

Despite budget constraints, the Bank allocated and sent staff members to 76 overseas training activities in 2015. These included the attendance of the Governor, Deputy Governor and members of the management team at international and business trips and meetings. Some of the training covered the Financial Inclusion program, a new initiative undertaken by the Bank that requires a significant investment in training and promotion within the country.

During the year several staff continued with their studies and enrolments at USP, Port Vila campus to upgrade their skills and knowledge in their different fields of interest.

January 2015 saw the Bank recruiting a record-high number of students on holiday work engagements, school

Staff Performance Appraisals:

The Bank successfully completed another staff performance appraisal review on all its staff members at the end of 2015. The outcome and recommendations of the review were presented to the management committee of the Bank, approved and implemented.

Study Leave:

Three members of the staff continued their studies abroad this year under the overseas full-time scholarship support. Two of the members are studying in New Zealand and one attends the University of Queensland in Australia.

Legal Counsel

The Legal Counsel is the principal legal advisor to the Bank, and is also responsible for internal Bank policies and implementation, contracts and other legal matters. The Legal Counsel also maintains a good working relationship with those external lawyers whose services are required at times for provision of second opinions or litigation services. The Legal Counsel is also secretary to the Management and the Reserve Bank Board of Directors and continues to perform those roles. Given these responsibilities, the Bank continues to support the Legal Counsel in capacity-building by sending her to the necessary trainings needed to carry out her role to the standard expected.

Board

Eight Board meetings were held in 2015, one of which was a major policy meeting held on Aore Island Resort from 25 to the 27 of May, at which the Board approved six new policies and reviewed four.

Changes in Board membership included a change in the Director General of Finance from Director Georges Maniuri to August Letlet and a reappointment of Director Jimmy Nipo for a second term on the Board.

Policy Development and Reviews

The six new policies approved by the Board in 2015 are now being implemented, along with those that have been reviewed. Other policy reviews are yet to be carried out and new policies to be put in place for new initiatives.

Corporate Services

Despite the challenges faced in 2015, the Bank worked to maintain the quality of its services to the Bank community and its customers. Below is a brief report of the events in 2015. Tropical Cyclone Pam, regarded as one of the worst natural disasters in the history of Vanuatu, struck on 13 and 14 March 2015. Many buildings were destroyed by wind speed of up to 300kms/per hour. The Bank's main office building was badly damaged, together with its social building and the Governor's Residence. The damages to the building forced the Bank to close its office for several weeks until all the essential services were restored.

With the assistance of the Insurance Loss Adjuster, the Bank assessed and evaluated the damages caused, and submitted a total damage claim of VT53.3 million, of which VT17.7 million has already been paid by the insurers. The balance of VT17.7 million will be paid once the repair work is completed.

The damages caused by the cyclone also affected the Bank's regular and quarterly cleaning schedules. Despite this, the Bank staff members continued to maintain the building through high maintenance and cleaning work.

The Bank wishes to take this opportunity to thank its staff for their resilience, and the Government, the commercial banks and other stakeholders for their patience and support during the rebuilding process.



Figure 28: A demonstration of resilience after Tropical Cyclone Pam

Landscaping

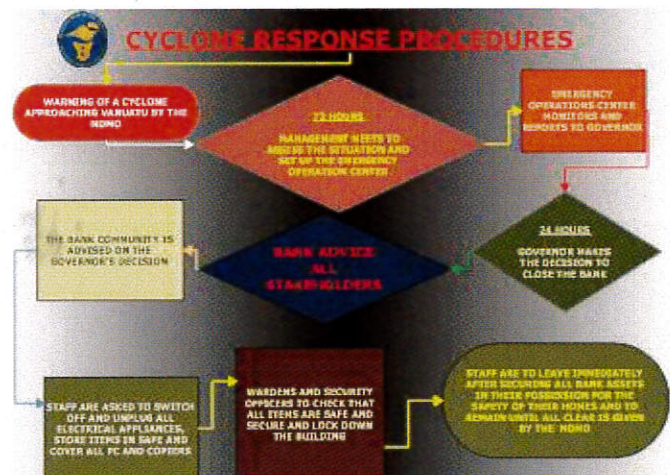
The year 2015 was very difficult, with Cyclone Pam disaster which followed by an El Niño event that destroyed most of the gardens and landscaping. However, the groundskeeper diligently implemented the Bank's replanting and beautification program, and new plants were purchased with supplementary top soil to improve the landscape.

Operation Safety Manual

Cyclone Pam also tested the Bank's operational safety procedures, and weak areas were identified. The Bank took the opportunity to learn from the shortfalls and review and strengthen its procedures manual.

Part of the review saw the Bank develop a more user-friendly flow chart as part of its cyclone-response procedure (Figure 29).

Figure 29: Cyclone-Response Procedures



Community Service

The Bank continued to provide community service to the public, institutions, Government, churches, staff and individuals by donating or hiring out its marquees, chairs and tables.

Assets Registration

The Asset Registry procedure trails that the Bank developed in 2014 continued in 2015. The registry system currently being trialled consists of the following:

- Asset Registry
- Acquisition and Issuances Forms
- Asset Disposal Registry
- Asset Transfer Notification
- Board of Survey Report
- Management of Depreciation

Figures 30 and 31 depict the procedures being trialled; the Bank will likely implement these in 2016.

Figure 30: Asset Acquisition Procedures

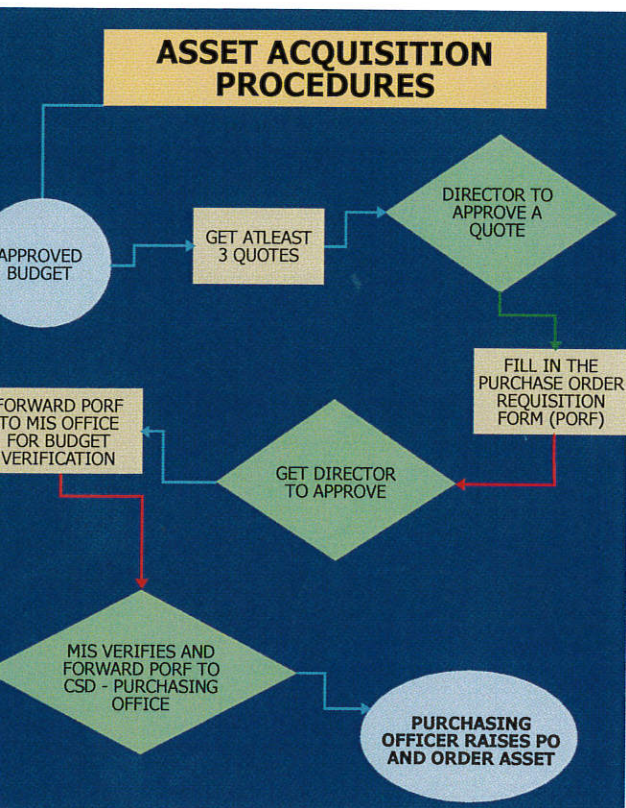
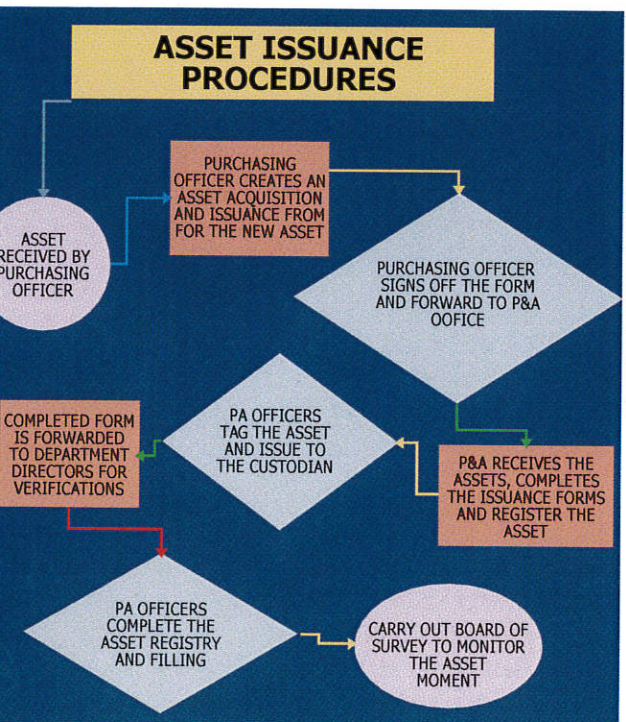


Figure 31: Asset-Issuance Procedures.



The Bank disposed of two vehicles in 2015. The Governor's vehicle was traded in for a new Toyota Prado, and the

Projects

The Bank planned to carry out a number of major projects in 2015: a roof upgrade for the new Reserve Bank building, the fencing of the opposite property, a new staff car park, an uninterruptable power supply for the DRC site, the Archive and the Security Surveillance upgrade.

In preparation for the roof-upgrade project, quotes were obtained from contractors to construct a new car park in the opposite property. Brunet Construction was awarded the contract, and completed the new car park in three weeks.

The Archive project started in 2014 and progressed well into 2015 with the completion of the first phase and the start of the second phase. It is anticipated that the project will be completed in 2016.



Figure 32: Archive team sorting files as part of the second project phase

The roof upgrade is a significant project. The concept was completed in 2014, and after much consultation with the engineers, the Board approved putting the project to tender in April 2015. The China Civil Engineering Construction Company (CCECC) was awarded the contract, with the commencement of the project as of February 2016. It is expected that the project will be completed within eight months.

Security

Security is, as always, an important service within the Bank, and the Security Unit performed extremely well in 2015 in the face of challenges caused by Cyclone Pam. Damages to buildings, security lights and CCTV were part of these challenges. Challenges were also faced during the political crises, which saw officers working long hours to provide physical security. There was no major incident reported during the year.

y
Bank's Kere Library continued to maintain and build collections and provide services to its users, along with maintaining its depository arrangement with the World Bank, the International Monetary Fund and other central banks around the world.

2015 was both a challenging and rewarding year. Due to the passing away of the Librarian in the first quarter, the Assistant Librarian continued to maintain the operation of the library, which included providing continuous service to internal users, the public and school researchers in Port Vila and other islands of Vanuatu.

During the year four schools from rural Vanuatu requested field trips to the Reserve Bank of Vanuatu: Unmet School; North West Malekula (French School); Ekipe School, North Efate (English School); and Lausake School, Emau, North Efate. During these field trips, students attended presentations by members of staff of the Research & Statistics Department on topics such as the role and functions of the RBV, the role of money in the economy, inflation, the GDP and other topics on request.

Special acknowledgement must be made of the former Librarian, the late Mrs. Betsie Bethel, for setting up and running the Kere Library for over 20 years. Much of the library's developments were initiated through her leadership.



Figure 33: The late Betsie Bethel (Librarian) and the Assistant Librarian, Mrs. Betty Williams.

Central Banking Awareness

The Bank's awareness programs in 2015 concentrated on its Currency Reform Program, which coincided with the introduction of the new coins into circulation.

As part of the awareness program, the Bank took part in the 2015 National Trade Fair, with great success. The general public in Port Vila and the surrounding villages have come to understand the reasons why the Bank opted for changes to the notes and coins. The awareness team also made trips to Central Malekula, Ambae and Santo for the similar program.



Figure 34: Awareness Team during the National Trade Fair 2015

FINANCIAL STATEMENTS



CONTENTS

3	Directors' Report
	Statement By Directors
6	Independent Auditor's Report
	Statement Of Profit Or Loss And Other Comprehensive Income
	Statement Of Financial Position
	Statement Of Changes In Equity
	Statement Of Cash Flows
- 32	Notes To And Forming Part Of The Financial Statements

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2015**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 2015 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 (Relinquished on 23rd September 2015)

Jimmy Nipo

Anatole Hymak

Marakon Alilee

Letlet August (Appointment on 23rd September 2015)

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 loss of the Bank for the year ended 31 December 2015 was VT154.045m (2014 net profit: VT104.484m) of which VT63.857m was due to realised exchange rate gain (2014 realised exchange gain: VT255.574m)

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 loss incurred an additional Government non negotiable interest bearing security will be issued to cover the VT154.045m loss. (2014: Nil)

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS
31 DECEMBER 2015****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 loss incurred no distribution has been made in the current year.

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 realized in the ordinary course of business.

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

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.

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS
31 DECEMBER 2015****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 report 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.

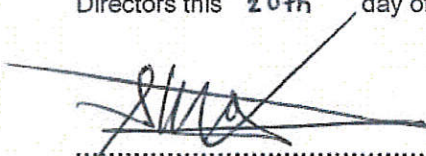
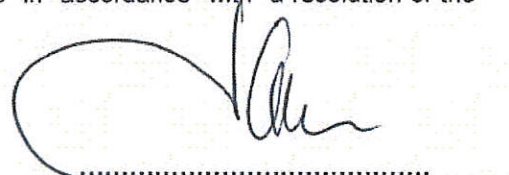
12. OTHER CIRCUMSTANCES

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. UNUSUAL TRANSACTIONS

The results of the Bank's operations during the financial year include substantial movements from Loans made through the IMF [VT 2,606.950m] to assist with the Country's balance of payment needs after severe tropical cyclone PAM and insurance cover received [VT 57.063m] from the Bank's insurer to cover for damages sustained by the Reserve Bank building.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 20th day of June 2016.

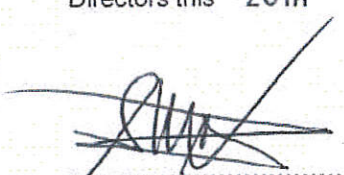

.....
Governor (Chairman)
.....
Director

RESERVE BANK OF VANUATU**FINANCIAL STATEMENTS**
31 DECEMBER 2015**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 2015;
- (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 2015;
- (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 2015; 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 2015.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 20th day of June 2016.


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



Independent Auditor's Report

To the Shareholder of 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 2015 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 the directors and management determine 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.



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 2015, 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.

20 June 2016
Suva, Fiji

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants

RESERVE BANK OF VANUATU

7

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Notes	2015	2014
Operating Revenue			
Interest income	7(a)	491,600	475,061
Net unrealised (losses)/gains in foreign securities market prices		(16,233)	13,357
Net foreign exchange gains		63,857	255,574
Other income	7(b)	<u>98,040</u>	<u>26,026</u>
Total revenue		637,264	770,018
		=====	=====
Operating Expenses			
Interest expense	8	30,976	22,561
Personnel expenses	9	329,742	363,391
Other operating expenses	10	<u>430,591</u>	<u>279,582</u>
Total expenses		791,309	665,534
		=====	=====
Net (loss) / profit for the year		(154,045)	104,484
Other comprehensive income			
Change in value of available for sale financial asset		<u>(3,480)</u>	<u>(32,585)</u>
Total comprehensive income		(157,525)	71,899
		=====	=====

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 32.

RESERVE BANK OF VANUATU

8

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Notes	2015	2014
Assets			
Cash and cash equivalents	11	24,892,358	15,574,748
Investment securities	11	4,253,909	2,731,020
Government securities	12	526,192	372,201
Government bonds	13	1,998,870	1,998,290
Other receivables	14	253,599	192,203
Currency stock (notes and coins)	15(a)	479,804	476,348
Property, plant and equipment	16	1,349,878	1,388,378
Intangible assets	17	4,136	5,079
International Monetary Fund (IMF):	21		
Reserve Tranche Position		382,743	371,312
Special Drawing Rights	11,21(c)	<u>217,748</u>	<u>223,653</u>
Total Assets		<u>34,359,237</u>	<u>23,333,232</u>
Liabilities			
Other creditors and accruals		130,210	106,346
Demand deposits	18	19,285,639	12,248,178
Reserve Bank of Vanuatu notes		443,652	215,737
International Monetary Fund	21(d)	5,229,215	2,547,763
Currency in circulation	15(b)	8,548,899	7,499,202
Employee provisions	20	<u>273,196</u>	<u>264,100</u>
Total Liabilities		<u>33,910,811</u>	<u>22,881,326</u>
Net Assets		<u>448,426</u>	<u>451,906</u>
Capital and Reserves			
Paid up capital	22	100,000	100,000
General Reserve	4	-	-
Retain Earnings Reserve	5	-	-
Fair Value Reserve	6(a)	22,695	26,175
Asset Revaluation Reserve	6(b)	<u>325,731</u>	<u>325,731</u>
Total Capital and Reserves		<u>448,426</u>	<u>451,906</u>

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 32.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

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 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)
Total comprehensive income		-	-	-	(32,585)	-	104,484	71,899
Transfers to reserves and Government 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
Net Loss for the year		-	-	-	-	-	(154,045)	(154,045)
Other comprehensive income		-	-	-	-	-	-	-
Change in value for available for sale financial assets	6(a)	-	-	-	(3,480)	-	-	(3,480)
Gains on revaluation of lands and buildings	16	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	(3,480)	-	(154,045)	(157,525)
Transfers from reserves and Government non-interest bearing notes issued by the Vanuatu government	12	-	-	-	-	-	154,045	154,045
Balance as at 31 December 2015		100,000	-	-	22,695	325,731	-	448,426

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 32.

RESERVE BANK OF VANUATU

10

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in 000's Vatu)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		462,748	476,063
Interest paid	(	30,976)	(22,561)
Other operating receipts		70,733	127,971
Other operating payments	(	524,213)	(415,313)
Purchase of currency stock	(	141,481)	(375,547)
Net cash used in operating activities		<u>(163,189)</u>	<u>(209,387)</u>
Cash flows from investing activities			
Net movement in Special drawing rights		5,905	3,597
Net treasury notes and bonds (acquired) / matured	(	1,542,602)	2,037,058
Interest received on Government securities		54	221
Net purchase of Government bonds	(	580)	(301,660)
Net repayments of staff loans	(	5,237)	(27,009)
Purchase of property, plant and equipment	(	25,114)	(24,276)
Purchase of computer software	(	578)	-
Proceeds from sale of property plant & equipment		-	-
Net cash provided by investing activities		<u>(1,568,152)</u>	<u>1,687,931</u>
Cash flows from financing activities			
Currency issued for circulation		1,049,697	556,632
Net movement in commercial banks deposits		2,397,190	966,804
Payments to Government		7,235,859	748,115
Net movement in international institutions and agencies deposits		74,433	(65,705)
Proceeds from issuing Reserve Bank of Vanuatu notes		<u>227,915</u>	<u>(412,328)</u>
Net cash provided by financing activities		<u>10,985,094</u>	<u>1,793,518</u>
Net increase in cash and cash equivalents		9,253,753	3,272,062
Cash and cash equivalents at the beginning of the financial year		15,574,748	12,047,112
Effects of exchange rate changes on foreign currency balances	3(b)	<u>63,857</u>	<u>255,574</u>
Cash and cash equivalents at the end of the financial year	11	<u>24,892,358</u>	<u>15,574,748</u>

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 32.

RESERVE BANK OF VANUATU

11

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

(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.

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.

The financial statements were authorised for issue by the Board of Directors on
..... 2016.

RESERVE BANK OF VANUATU

12

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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 2015 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 2015 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, 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.

RESERVE BANK OF VANUATU

13

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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.

RESERVE BANK OF VANUATU

14

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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.

RESERVE BANK OF VANUATU

15

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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 historical cost less accumulated amortisation and impairment (if any). Cost of the software includes direct expenses incurred to acquire and bring to use the specific software.

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

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

(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.

RESERVE BANK OF VANUATU

16

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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.

RESERVE BANK OF VANUATU

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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 loss amount of VT154.045m will be covered by a Government non-negotiable market related interest bearing security. (2014: VTNIL).

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. a) INTEREST INCOME

	2015	2014
Overseas Investments	344,071	331,880
Domestic Investments	144,155	140,751
Staff Loans & Advances	<u>3,374</u>	<u>2,430</u>
	491,600	475,061
	=====	=====

b) OTHER INCOME

	2015	2014
Sundry income	59,122	564
Dealing profit	14,982	1,403
Rental income	9,723	8,873
Insurance fee income	7,685	5,557
Others	<u>6,528</u>	<u>9,629</u>
	98,040	26,026
	=====	=====

The increase in sundry income is attributable to insurance claims receivable in relation to damages sustained by properties owned by the Bank during Cyclone Pam.

8. INTEREST EXPENSE

Interest on Government accounts	7,747	7,814
Interest on Reserve Bank of Vanuatu notes	7,331	11,922
Interest on Purchase of bonds	<u>15,898</u>	<u>2,825</u>
	30,976	22,561
	=====	=====

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

RESERVE BANK OF VANUATU

18

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued

(Expressed in 000's Vatu)

9. PERSONNEL EXPENSES

Staff cost	229,352	246,508
Superannuation contribution (VNPF)	7,278	7,702
Staff training	11,884	11,683
Severance pay, long service leave, accrued annual leave and gratuity expense	52,250	80,440
Business travels	<u>28,978</u>	<u>17,058</u>
	329,742	363,391
	=====	=====

10. OPERATING EXPENSES

	2015	2014
Auditor's remuneration	1,136	1,547
Depreciation and amortisation	65,135	75,449
Funds managers'	5,184	5,202
Amortisation of currency	138,025	106,045
Communication expenses	18,476	13,062
Gain on disposal of property, plant and equipment	(3,623)	-
Corporate social responsibility	32,507	-
Repairs and Maintenance	51,358	7,698
License and Membership fees	9,293	4,173
Maintenance and other Contract agreements	13,027	15,151
IMF Charges	12,939	2,253
Other Currency expenses	8,827	3,535
Other expenses	<u>78,307</u>	<u>45,467</u>
	430,591	279,582
	=====	=====

RESERVE BANK OF VANUATU

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued

(Expressed in 000's Vatu)

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 2015, the value of the external reserves was 86.6% (2014: 81.0%)

(a) External assets consists of the following:

	2015	2014
Cash	15,807	7,483
Current and call accounts	6,621,968	5,467,064
Short term deposits	15,815,324	7,969,509
Negotiable certificate of deposit	<u>2,439,259</u>	<u>2,130,692</u>
Total cash and cash equivalents	24,892,358	15,574,748
Treasury notes, bonds and bills		
- Financial assets at fair value through profit and loss	3,140,370	1,697,729
- Available for sale financial assets	<u>1,113,539</u>	<u>1,033,291</u>
Total Investment Securities	4,253,909	2,731,020
Special drawing rights	<u>217,748</u>	<u>223,653</u>
Total external assets	<u>29,364,015</u>	<u>18,529,421</u>

(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 VT11.976m (2014:VT2.025m) held with local banks in Vanuatu.

RESERVE BANK OF VANUATU

20

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

12. GOVERNMENT NON-NEGOTIABLE SECURITIES ISSUED TO THE BANK

	2015	2014
Balance at the beginning of the financial year	372,201	476,906
Additions	154,045	-
Redemption of non-negotiable securities	-	(104,484)
IMF remuneration credit	(54)	(221)
Balance at the end of the financial year	526,192	372,201
	=====	=====

13. GOVERNMENT BONDS

Government bonds held with Reserve Bank

0-3 years	799,270	754,180
4-7 years	799,600	843,710
8-10 years	400,000	400,400
	1,998,870	1,998,290
	=====	=====

These bonds are valued in accordance with note 3(k). The bonds have varying maturity dates with the longest term maturing in 2023. They carry an average yield of 7.23%

14. OTHER RECEIVABLES

Interest receivable	131,731	102,879
Staff loans and advances	84,431	79,194
Sundry debtors	27,570	475
Other	9,867	9,655
	253,599	192,203
	=====	=====

15. CURRENCY ACTIVITIES**(a) Currency Stock (notes and coins)**

Balance at the beginning of the financial year	476,348	206,846
Purchase of stock	141,481	375,547
Currency issued into circulation	(138,025)	(106,045)
Balance at the end of the financial year	479,804	476,348
	=====	=====

(b) Currency in circulation

Notes	7,657,657	6,688,679
Coins	891,242	810,523
Total currency in circulation	8,548,899	7,499,202
	=====	=====

RESERVE BANK OF VANUATU

21

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

16. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings	Computer and Office Equipment	Others	WIP	Total
At 1 January 2014					
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)	-
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
Year ended 31 December 2015					
Opening net book value	1,273,723	19,934	63,839	30,882	1,388,378
Additions	150	10,965	12,589	1,410	25,114
Depreciation	(35,443)	(12,037)	(16,134)	-	(63,614)
Closing net book value	1,238,430	18,862	60,294	32,292	1,349,878
At 31 December 2015					
Cost or valuation	1,490,946	299,071	160,836	32,292	1,983,145
Accumulated depreciation	(252,516)	(280,209)	(100,542)	-	(633,267)
Net book value	1,238,430	18,862	60,294	32,292	1,349,878

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

RESERVE BANK OF VANUATU

22

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - 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 2014			
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 amortization	(38,523)	-	(38,523)
Net book amount	5,079	-	5,079
Year ended 31 December 2015			
Opening net book amount	5,079	-	5,079
Additions	578	-	578
Amortisation charge	(1,521)	-	(1,521)
Closing net book amount	4,136	-	4,136
At 31 December 2015			
Cost	44,180	-	44,180
Accumulated amortisation	(40,044)	-	(40,044)
Net book amount	4,136	-	4,136

18. DEMAND DEPOSITS

	2015	2014
Due to commercial banks	11,756,309	9,359,119
Due to government – Vanuatu Government	7,145,838	2,516,929
Due to government – Notes subscription to IMF (RTP)	382,743	371,312
Due to international institutions and agencies	749	818
	19,285,639	12,248,178
	=====	=====

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.

A sum of Vt NUL (2014) Vt NUL is payable to the Government of the republic of Vanuatu

RESERVE BANK OF VANUATU

23

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued

(Expressed in 000's Vatu)

20. EMPLOYEE PROVISIONS

	2015	2014
Opening balance	264,100	238,479
Additional provisions recognised	44,003	66,457
Utilised/ reversals	(34,907)	(40,836)
Closing balance	273,196	264,100
	=====	=====

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.
- (c) (i) Special drawing rights ("SDR") is an interest bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the IMF. As at balance date this Special drawing rights holdings (asset) had a balance of VT 217.748m (2014: VT223.653m) and is included as part of External reserves of the Bank (refer to Note 11).
- (ii) As at 31 December 2015, the Republic of Vanuatu's memberships subscription to the IMF was VT382.743m (2014: VT371.312m) which is shown as Reserve Tranche Position and is included as part of the external assets of the Reserve Bank.
- (d) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No.2 of an amount of VT127,760 million, SDR allocation of VT2,494,505 million and IMF loan facilities of VT2,606,950 million.

In June 2015, the IMF approved and disbursed an amount of SDR8.5 million under the Rapid Credit Facility (RCF) and SDR8.5 million under the Rapid Financing Instrument (RFI) for the purpose of supporting Vanuatu's reserves and balance of payment after extensive damages sustained by a category five tropical cyclone Pam in March 2015.

- i) Rapid Credit facility – Financing under this facility carries a Zero interest rate when it is being disbursed but the rate is reviewed every two years. It has a grace period of 5 1/2 years and a final maturity of 10 years. The first repayment under this facility will commence in December 2020 until its maturity in June 2025.
- ii) Rapid Financing facility - Financing Under this facility currently carries an interest rate of 1.05%. This rate is reviewed by the fund every two years. It has a grace period of three years and equal quarterly repayments in the 4th

RESERVE BANK OF VANUATU

24

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued

(Expressed in 000's Vatu)

22. SHARE CAPITAL

	2015	2014
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 2015 were Simeon Athy (Chairman), Georges Maniuri (relinquished on 23rd September 2015), Jimmy Nipo, Anatole Hymak, Letlet August (Appointed on 23rd September 2015) and Marakon Alilee.

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

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:

	2015	2014
Directors sitting allowances	435	510
Executive officers	58,680	69,600
	59,115 =====	70,110 =====

The Bank also provides loans to its staff. Total loans owing by the executive officers as at balance date equals VT17.154m (2014: VT19.982m). 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 2015 was 86 (2014: 91).

RESERVE BANK OF VANUATU

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued
(Expressed in 000's Vatu)

25. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance sheet date (2014: nil).

26. COMMITMENTS

Capital and other commitments

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

	2015	2014
Property, plant and equipment (Note 16)	-	7,478
Purchase of currency stock (Note 15)	-	-

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.

RESERVE BANK OF VANUATU

26

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES – continued**Credit risk - continued**

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

	2015	2014
Foreign currency assets		
Cash and cash equivalents	24,892,358	15,574,748
Investment securities	4,253,909	2,731,020
International Monetary Fund (IMF): Special Drawing Rights	<u>217,748</u>	<u>223,653</u>
	<u>29,364,015</u>	<u>18,529,421</u>
Local currency assets		
Government securities	372,147	15,574,748
Government bonds	<u>1,998,870</u>	<u>223,653</u>
	<u>2,371,017</u>	<u>2,368,929</u>
	<u>31,735,032</u>	<u>20,898,350</u>
	=====	=====

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:

	2015	2014
	%	%
Australia	17	29
New Zealand	-	-
United States of America	6	23
Switzerland	38	11
United Kingdom	-	1
Singapore	4	12
Hong Kong	35	22
Vanuatu	-	-
Others	<u>-</u>	<u>2</u>
Total financial assets	<u>100</u>	<u>100</u>
	=====	=====

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

	2015	2014
AAA-AA3	37	54
AA	53	24
A1-A3	10	22
N/R	<u>-</u>	<u>-</u>
Total financial assets	<u>100</u>	<u>100</u>

RESERVE BANK OF VANUATU

27

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

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.

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.

2015 Maturity Analysis

	0 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	No specific maturity	Total
ASSETS						
<i>Financial Assets:</i>						
Cash and cash equivalents	24,892,358	-	-	-	-	24,892,358
Treasury notes, bonds & bills	537,080	186,813	2,416,477	1,113,539	-	4,253,909
Government securities	-	-	-	526,192	-	526,192
Government bonds	-	-	503,550	1,495,320	-	1,998,870
Other receivables	144	16,524	159,301	76,008	1,622	253,599
Special drawing rights	-	-	-	-	217,748	217,748
<i>Non Financial Assets</i>	-	-	-	-	2,216,561	2,216,561
	<u>25,429,582</u>	<u>203,337</u>	<u>3,079,328</u>	<u>3,211,059</u>	<u>2,435,931</u>	<u>34,359,237</u>
LIABILITIES						
<i>Financial Liabilities:</i>						
Other creditors and accruals	130,210	-	-	-	-	130,210
Demand deposits	476,749	2,556,201	18,492,211	2,606,950	-	24,132,111
Reserve Bank of Vanuatu Notes	443,652	-	-	-	-	443,652
Currency in Circulation	8,548,899	-	-	-	-	8,548,899
<i>Non Financial Liabilities</i>	-	-	-	-	655,939	655,939
	<u>9,599,510</u>	<u>2,556,201</u>	<u>18,492,211</u>	<u>2,606,950</u>	<u>655,939</u>	<u>33,910,811</u>

RESERVE BANK OF VANUATU

28

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES - continued**Liquidity risk - continued****2014 Maturity Analysis**

	0 - 3 months	3 - 6 months	6 - 12 months	Over 1 year	No specific maturity	Total
ASSETS						
<i>Financial Assets:</i>						
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 drawings right	-	-	-	-	223,653	223,653
<i>Non Financial Assets</i>	-	-	-	-	2,242,679	2,242,679
	15,607,983	150,360	155,939	4,951,132	2,467,818	23,333,232
LIABILITIES						
<i>Financial Liabilities:</i>						
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
<i>Non Financial Liabilities</i>	-	-	-	-	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

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.

RESERVE BANK OF VANUATU

29

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**

(Expressed in 000's Vatu)

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 2015 and 2014 in Vatu equivalents.

		2015 %		2014 %
United States dollar	9,607,710	47	8,970,822	57
Australian dollar	6,604,372	32	5,477,298	35
Euro	2,971,448	14	720,682	5
British pound	195,870	1	188,782	1
Other currencies	1,332,621	6	367,085	2
NET OPEN POSITION	20,712,021	100	15,724,669	100

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

	2015	2014
VUV/USD	110.53	102.72
VUV/JPY	0.9171	0.8598
VUV/NZD	75.66	80.43
VUV/GBP	163.77	159.87
VUV/AUD	80.52	84.07
VUV/EUR	120.84	124.88
VUV/CAD	79.60	88.50
VUV/CHN	17.03	16.56
VUV/SDR	153.34	148.77

RESERVE BANK OF VANUATU

30

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

27. FINANCIAL RISK MANAGEMENT POLICIES - continued**Market Risk - continued****(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.

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

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

Impact of:	2015	2014
Change in profit due to a 5% appreciation of the Vatu	1,165,792	907,234
Change in profit/equity due to a rise of 1 percentage point in interest rate	223,485	175,864

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.

RESERVE BANK OF VANUATU

31

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

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 is 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.

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 (2014: Nil).

RESERVE BANK OF VANUATU

32

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 - continued**
(Expressed in 000's Vatu)

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES - continued

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 2015				
<i>Assets</i>				
Treasury notes, bonds & bills				
- Financial assets at fair value through profit and loss	3,140,370	-	-	3,140,370
- Available for sale financial assets	1,113,539	-	-	1,113,539
	4,253,909	-	-	4,253,909

As at 31 December 2014				
<i>Assets</i>				
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
	2,731,020	-	-	2,731,020

29. EVENTS AFTER BALANCE DATE

Subsequent to period end, the Bank entered into a contract with an unrelated party to undertake upgrade works on the Reserve Bank of Vanuatu building. Capital commitments arising out of this contract amount to VT 261m.

