



# **RESERVE BANK OF VANUATU**



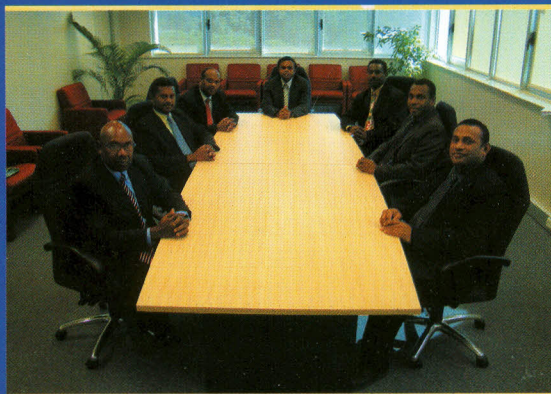
# **annual**

## **REPORT 2008**



## OUR VISION

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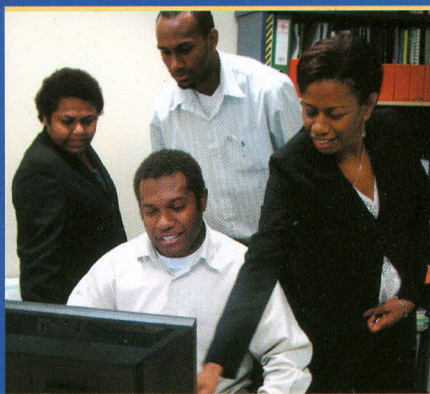


Providing the conditions for Vanuatu to build a strong economy by ensuring confidence and stability in our financial system.

- To regulate the issue, supply, availability and international money exchange.
- To advise the Government on banking and monetary matters.
- To promote monetary stability.
- To promote a sound financial structure.
- To foster financial conditions conducive to the orderly balanced economic development of Vanuatu.
- Section 3, Central Bank of Vanuatu Act [CAP 125].

## PRINCIPAL OBJECTIVES

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- Establish appropriate monetary conditions for price stability.
- Establish financial conditions and adopt policies that will ensure an adequate level of foreign exchange reserves to meet external obligations.
- Provide proactive and sound advice to the Government.
- Develop an internationally reputable financial system.
- Inspire public confidence in the Reserve Bank.
- Meet the currency needs of the public.
- Disseminate timely and quality information.
- Recruit, develop and retain a professional team dedicated to the pursuit of quality practices.
- Ensure sound banking practices so as to provide protection of depositors.

## OUR MISSION

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# LETTER TO THE MINISTER

**The Honourable Minister of Finance**  
**Government Building**  
**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 2008; and
- (b) A copy of the Bank's Annual Statement of accounts for 2008 certified by the Auditors.

Yours faithfully,



Odo Tevi  
**Governor**

Private Mail Bag 062, Port Vila, Vanuatu. Facsimile : (678) 24231 / Telephone : (678) 23333  
Email : [resrvbnk@rbv.gov.vu](mailto:resrvbnk@rbv.gov.vu) / Website: <http://www.rbv.gov.vu>



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## BOARD OF DIRECTORS

A new Board was appointed in June 2008 after the enactment of the Reserve Bank Amendment Act No.5 of 2008 ,with Mr. Jeffery Wilfred (Director General of Agriculture, Livestock and Fisheries) as the Chairperson and the members are Mr. Odo Tevi (Governor), Mr. Pita Sali and Mrs. Ruth Dovo. Note that prior to the amendment, the Governor was by law the Chairman of the Board of Directors.

The Board of Directors sat on five ordinary meetings during the year as required by the Reserve Bank Cap.125 for the Board to meet not less than four times a year.

In its meetings the Board passed resolutions including the approval of, the 2007 accounts, the Revenue and Expenditure Budget for 2008, the revised Reserve Bank organizational structure and the Special Board Report and recommendations by the Human Resource (HR) Consultant Mr. Gordon Turner on the HR Consultation 2007 & 2008.

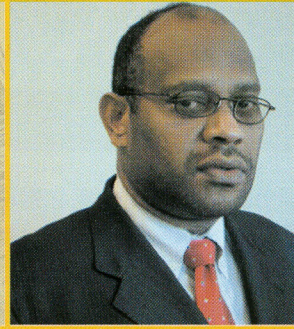
The Board also noted the progress report on the new RBV building and approved budget for remedial works and painting of the existing building. On the 9th of December 2008 the Board passed the Revenue and Expenditure budget for 2009.



# EXECUTIVE MANAGEMENT



**Odo Tevi**  
*Governor*



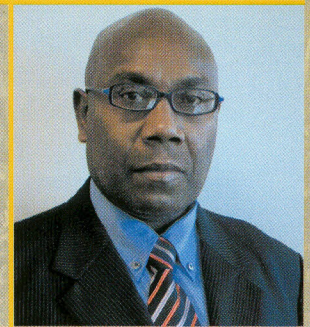
**Peter Tari**  
*Deputy Governor*



**Philip Arubilake**  
*Director of Research  
and Statistics  
Department*



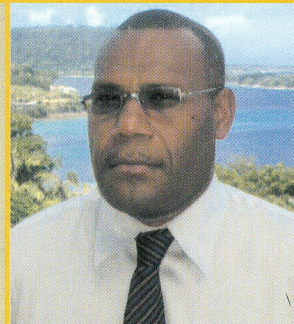
**Branan Karae**  
*Director of  
Accounts  
and Customer  
Services  
Department*



**Nelson Shem**  
*Director of  
Corporate  
Services  
Department*



**Noel Vari**  
*Director of Bank  
Supervision  
Department*



**Michael Hililan**  
*Director of  
Financial Markets  
Department*



## GOVERNOR'S FOREWORD

I am pleased to note that 2008 is another successful year for the Vanuatu economy despite the challenges in the global economy. The domestic economy continues to grow with an estimated growth of about 6.6 percent in 2008 although it showed signs of weakening towards the last quarter of 2008.

The global economy's outlook in 2008 was weakening due to the poor performance on the US sub-prime market. In the second half of 2008, the world economy entered a downward trend, including Vanuatu's major trading partners, however, emerging economies such as India and China remains strong. This situation was short-lived as the global financial crisis hit consumer confidence, leading to tight liquidity in the developed and emerging markets as well. Financial institutions such as banks were unwilling to lend to each other.

It is indeed a challenging period when economists and policy makers puzzled all over the world as the economy is forecast to fall below half a percent in 2009, its lowest rate since World War II. This expectation, prompted a number of stimulus package proposed by a number of governments both in the advanced and emerging market economies with a view to prevent excessive decline in their growth. Towards the end of 2008, central banks around the world aggressively cut interest rates to stimulate confidence and investment in their respective economies. In our neighboring major countries vis a vis Australia and New Zealand have no exception to the trend of falling interest rates. The Reserve Bank of Australia took aggressive action in cutting the cash rate by 100 basis points in October 2008, a further reduction by 75 basis points in November 2008 and another cut of 100 basis points was effected in December 2008, taking the cash rate to 4.25 percent. The Reserve Bank of New Zealand cut rates by 100 basis points in October and a further cut by 150 basis points in December 2008, taking the official cash rate to 5 percent.

The world commodity prices continued trend downward in 2008. Oil price fell to its lowest average price of USD41.53 per barrel at the end December 2008.

Vanuatu has also experienced falling prices in its major commodities. The average price of coconut oil was USD772 per ton and similarly the average copra price fell to USD520 per ton in December 2008.

As I indicated, Vanuatu's domestic economy continued to grow despite the weakening of the world economy in 2008. The growth was supported mainly by the services sector vis-à-vis the tourism sector which indicated a growth of 17 percent in 2008 compared to 2007. The growth in the domestic economy was driven by the private sector. In 2008, private sector credit continued to grow from the 2007 level and registered an increase of 44.6 percent due to the new bank into the market and the general investments by the residents and non-residents.

On the fiscal side, I am pleased to note that the Vanuatu Government has managed to boost revenue collection and at the same time keep the expenditure at budgeted level during the year. During the fiscal year 2008, the government reported a fiscal surplus of VT223.3million. The recorded surplus is substantially higher than the VT 211 million deficits in 2007. This was a reflection of the Government's strong stance in fiscal responsibility and strong performance in economic growth.

The Reserve Bank of Vanuatu monetary policy stance is to maintain its twin objectives for a low and stable inflation and maintaining a sufficient level of international reserves. Towards the end of 2008, inflationary pressures in the economy mounted as high food and transport and communications increased in the final quarter of 2008. This couple with the constraints in the domestic banks vatu liquidity forced the costs of funds to increase substantially to about 10 percent. Inflation in 2008 was recorded a 5.8 percent. In response to these developments, the Reserve Bank of Vanuatu relaxed its monetary policy by reducing its rediscount rate to 6.0 percent from 6.25 percent.



The Bank also reduces its statutory reserve requirement from 10 percent to 8 percent to ease liquidity pressures and to maintain confidence in the economy especially in the face of a sharp global economic downturn. In terms of the Bank's international reserves, the Bank continues to maintain sufficient reserves in 2008, maintaining an import cover of 7.86 months.

One of the main functions of the Reserve Bank is to ensure that the financial system continues to be sound. The Bank continues to conduct its supervisory responsibilities over both the domestic and international banks. Supervision and regulation also extended to cover credit institutions and the Vanuatu National Provident Fund. The banks' total assets during the year stood at Vt43.8 billion; an increase of 35.8 percent from a year ago. This increase is reflected from the growth in private sector lending of 43.9 percent from 2007. In terms of the banks' earnings, the banks have experienced a decline in earnings compared to 2007. Return on Assets (ROA) declined from 2.9 percent to 2.1 percent in 2008. Likewise the Return on Equity (ROE) declined from 24.8 percent to 17.3 percent in 2008.

Banking system continued to be sound in 2008 with a capital adequacy ratio of 28.7 percent with Tier 1 ratio of about 27.9 percent. Liquid Assets Ratio was at 17 percent at end of December 2008, although liquidity adequacy went as low as 10.7 percent in the third quarter, given the increase in lending of the private sector.


On the international banking sector, I wish to report the number of international banks as at end of 2008 stood at 7. Despite the global economic downturn, international banks reported an increase of 3.8 percent in total assets although earnings have slowed down.

The Bank continues to operate during the challenging period of 2008. In December 2008, the new building project was completed and the keys were handed to the Bank. The move to the new building was concluded in December 2008, with the new IT upgrade network. I noted also that IP Connect, registered computer solutions assisted the Bank in configuring of the new VLANs and the relocation of the network to the new building.

The Bank completed its restructuring in 2008 with the review of the staff remunerations. I am pleased to note that given the increasing general pressures on salaries and wages, the Bank has managed to implement a remuneration policy that is competitive to ensure effectiveness of the Bank's operations. The new performance management tool has been implemented successfully in 2008. In 2008, the Bank employed about 72 staff members and is committed to ensure that its human resources are enhanced through appropriate trainings and attachments offered by international organizations such as the International Monetary Fund.

In the financial performance of the Bank, I am very pleased to report that despite the challenging period towards the end of the year, the Bank reported a total income of Vt768.2 million in 2008. This is an increase of 11.8 percent from the preceding year. The expenditure for 2008 was also increased by 3.6 percent as compared to the 2007 financial year, resulting in the Bank's net operating profit of about Vt331.8 million. As per the Reserve Bank Act, the Bank contributed Vt365.6 million to the Government of Vanuatu. This included the net profit of Vt298.6 million after the 10 percent of the net profit was transferred to the capital reserve account of the Bank and 1/5 of credit balance of the revaluation account of Vt67 million.





The Bank will continue to perform its functions and will endeavor to ensure that Vanuatu continues to enjoy macro-economic stability that promotes economic progress. The economy is being forecasted to continue grow in 2009, however at slower rate, due to the slow growth in the world economy.

Last but not the least, I wish to convey my sincere gratitude to the Honorable Minister of Finance, Honorable Sela Molisa for the Government's continuing support to the Bank, the Board of Directors, the Management and the staff of the Reserve Bank for their continuing efforts to meet the Bank's statutory objectives.

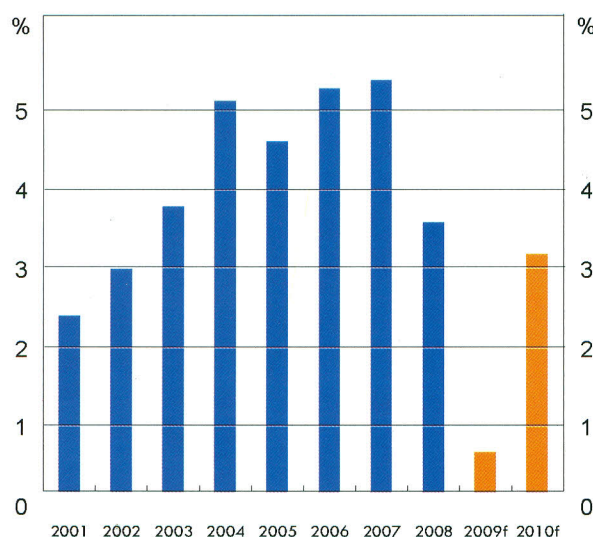
Odo Tevi  
Governor



## INTERNATIONAL ECONOMY

2008 was a year to puzzle economists and policy makers the world over. Initially the International Monetary Fund (IMF) were cautious about their outlook for the global economy based on the poor performance of the sub prime market in the US. A period of optimism then arose as growth in the emerging economies remained strong. This was short lived and growth forecasts entered a downward spiral during the second half of the year, as the European, Australian and New Zealand economies followed the fate of the US. A global crisis in consumer confidence led to tight liquidity situations in the developed countries with banks unwilling to lend to one another as they assess risks. Several major bail out plans have been launched to help the global financial system.

### WORLD GDP GROWTH



Source: IMF

Despite wide-ranging policy actions, financial strains remain, which is having a negative impact on economic activity. World growth is expected to fall to half a per cent in 2009, its lowest rate since World War II. It is expected

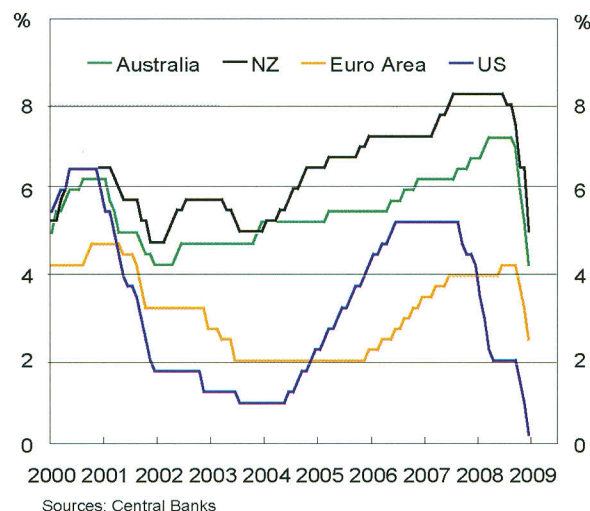
that once confidence is regained towards the end of 2009 that growth will return to 3 per cent in 2010. This outlook is highly uncertain, and the timing and pace of recovery depend on strong policy actions.

## INTEREST RATE

The end of 2008 saw Central Banks the world over taking aggressive action and delivering record breaking cuts to interest rates.

The Federal Reserve took policy rates to an all time low with the historic decision to target a Fed funds rate of 'between 0-0.25%'. The Fed has also made it clear that rates will stay low in the foreseeable future. With conventional interest rate policy exhausted, the Fed will have to turn to more unconventional methods to support the economy.

### POLICY RATES



Sources: Central Banks

The Reserve Bank of Australia also took drastic action cutting the cash rate by 100 basis points in October, a further 75 basis points in November, and another 100 basis points in December taking the cash rate to 4.25 percent.



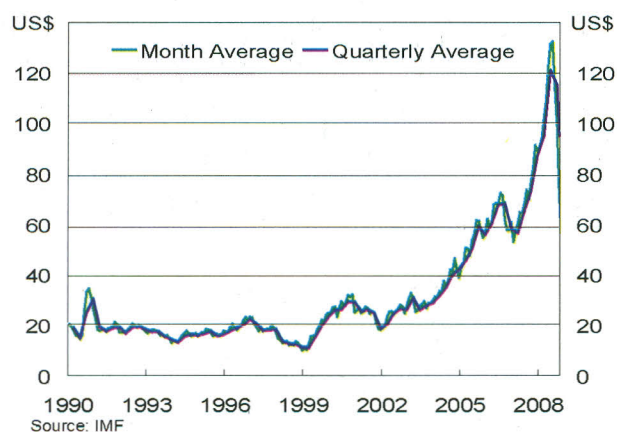
New Zealand was no exception to the trend of falling interest rates. The Reserve Bank of New Zealand cut interest rates by 100 basis points in October and then by a further 150 basis points in December. The official cash rate now stands at 5 per cent.

Due to the persistent tight liquidity in the banking system caused by growth in the private sector credit market (the opposite of the global financial crisis) the Reserve Bank of Vanuatu also reduced the rediscount rate, by 25 basis points, to 6.00 percent.

### COMMODITY PRICES

The price of oil continued on its downward path amid the uncertainty in the global market place. The price has fallen to a third of its \$147 per barrel peak in July to a month average of \$41.53 per barrel at the end of December.

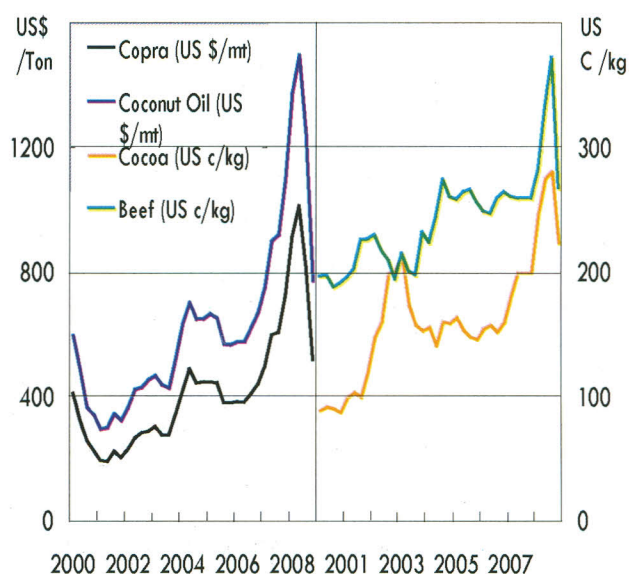
#### AVERAGE SPOT PRICE FOR CRUDE OIL (USD / BARREL)



Vanuatu experienced falling prices for all of its major commodities in 2008. The average price for coconut oil in the world market declined in the second half of 2008 to US\$ 772 per ton.

Similarly, the average copra price fell to US\$520 per ton in the December, beef declined to 268 US Cents per Kg, and cocoa fell to 224.1 US Cents per kg.

#### WORLD PRICE OF MAJOR EXPORT COMMODITIES



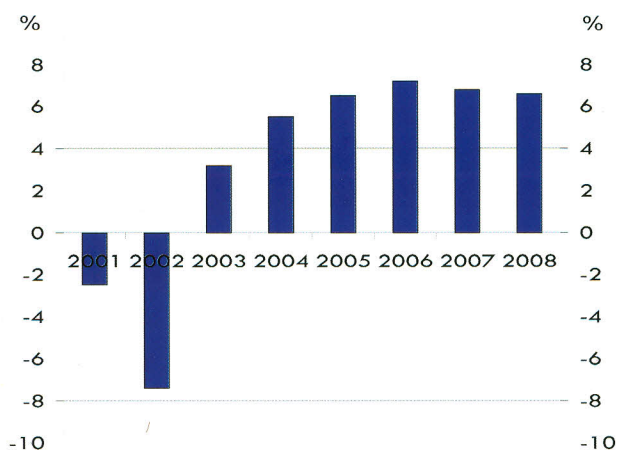
The fall in world commodity prices are expected to filter through to the domestic market placing downward pressure on any future export earnings.

### DOMESTIC ECONOMY

In the past five years growth has averaged 5.9 percent per year. In 2008, the domestic economy continued to grow, with preliminary results for GDP in 2008 by the Economic Research and Expenditure Analysis Unit (EREAU) standing at 6.6 percent.



## GDP GROWTH 2001-2008



Vanuatu's real economy showed some signs of slower growth than normal growth rate, driven by a mixed performance in the agriculture sector. However, annual growth remains positive.

The domestic production sector recorded a drop in output for major commodities, as a result of the falling prices for copra, coconut oil, cocoa and beef. The only exception was kava which experienced an increase in production. This reflected the low domestic commodity price and seasonal patterns in production.

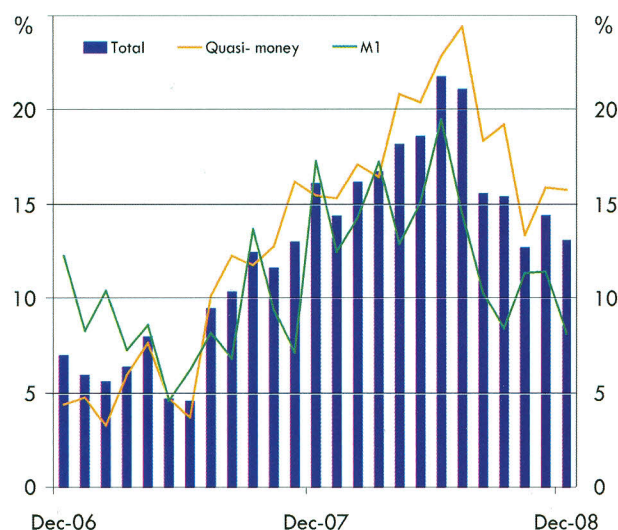
The services sector was supported by another remarkable year for the tourism industry with non-resident visitor arrivals increasing to 196,134, some 17 percent higher than last year.

Lower commodity prices in the world market as a result of the global economic slowdown and the appreciation of the Vatu against the country's major trading partner's currency (AUD and NZD) have placed downward pressure on imported remained high at 5.8 percent.

Overall, the domestic economy is expected to retain positive growth despite a deteriorating global economy.

The high growth money supply witnessed in 2007 continued through to 2008. At the end of December money supply reached VT59872.6 million, 13.2 percent higher than last year. The increase was mainly attributable to net foreign assets and private sector credit. The pickup in the money supply growth during the December quarter reflected the relaxation the RBV's monetary controls during December 2008 as measures to alleviate the tight liquidity conditions that persisted in the banking system over the last two quarters of the year.

## ANNUAL GROWTH IN MONEY SUPPLY



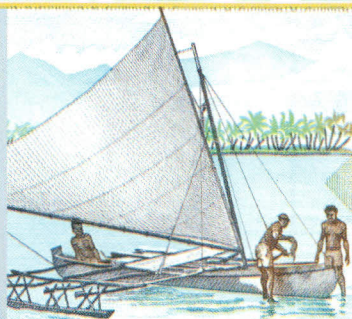
Commercial banks holdings of Net Foreign Assets (NFA) reached VT28,063 million at the end of the year, as commercial banks increased their holdings of foreign assets with non-resident banks. This was slightly lower than the first half of the year which saw NFA increase as commercial banks increased their holdings of foreign assets due to the entrance of Bred Bank.







*"The Pacific's Financier"*



Private sector credit increased by 44.6 percent over the year due to the increased competition for market share among banks; caused by the entry of the new bank. Accordingly, banks have been lending vigorously as interest rates on lending have been reduced for easy access to credit. The expansion in private sector credit reflects the current positive growth in the economy. The leading sectors attaining the largest share of loans during the first two quarters were; housing and land purchases, personal loans, construction, distribution and tourism sectors.

### PRIVATE SECTOR CREDIT



Source: Commercial Banks, Credit Corp, RBV

It should be noted that this annual growth level is not representative. The market share of the credit market in 2007 was shared between 3 banks as compared to 4 banks in 2008; in addition, Credit Corp loans were also included in 2008 data. Further, the highest growth level occurred in December and reflected the relaxation in the monetary controls by the RBV during November and December as measures to alleviate the tight liquidity conditions of Banks.

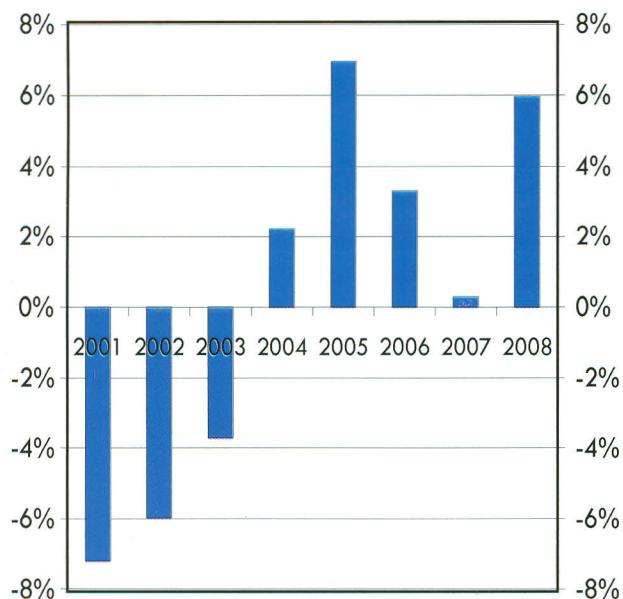
The year of 2008 was yet another healthy year for the Vanuatu government, who managed to boost revenue collection and keep expenditure within the budgeted figures for 2008. Effectively, the government's budget balanced with surpluses during all four quarters of 2008, with the fourth quarter producing a fiscal surplus of VT223.3 million. This is substantially higher than the VT211million deficit seen last year.







### FISCAL BALANCE AS PERCENTAGE OF GDP 2001 - 2008



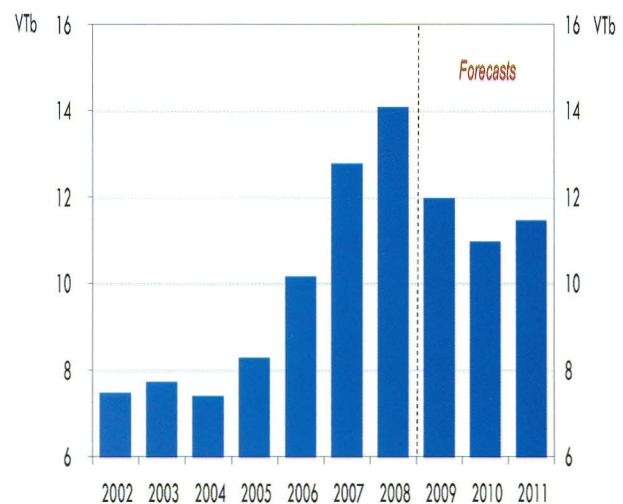
Total revenue for 2008 surpassed expectations and reached VT 16.6 billion, due to improved VAT collection, and higher annual contributions from donors. Meanwhile, total expenditure was VT 15.3 billion, again higher than expected but due to higher levels of development expenditure which increase by over 200 percent as a result of high flows from the Millennium Challenge Corporation.

During 2008 the trade deficit widened by 37 per cent, with imports expanding by more than the international reserves.

The monthly import cover fell to the equivalent of 5.8 months in December. This remains well above the Bank's minimum target level of four months of import cover.

The services account remained in surplus, reflecting the strength of the tourism industry. Tourism earnings were 36 percent higher than 2007 reaching VT16,304 million in 2008.

### TOURISM EARNINGS



The balance in the capital account fell by 14 percent reflecting scheduled project goods funded over the last quarter of 2008. It is projected that aid in kind for capital related goods will be high in 2009 and 2010 as the Millennium Challenge Corporation projects progress.



The financial account remained in surplus. Foreign direct investment inflows expanded significantly caused by increases in new investments and re-invested earnings of current equities.

Balance of payments financing continues to be adequate recording a surplus from the combination of the capital and financial accounts.

The new position reflected an increase in external assets mainly on currency and deposits which offset a growth in liabilities in particular foreign direct investment.

### INTERNATIONAL INVESTMENT POSITION (MTV)

	2006	2007	2008
NET POSITION	-6,828	-5,844	-5,961
ASSETS	63,333	57,713	62,443
DIRECT INVESTMENT	1,573	1,636	1,630
PORTFOLIO INVESTMENT	1,582	1,714	2,220
OTHER INVESTMENT	48,983	42,424	45,615
RESERVES	11,195	11,939	12,979
LIABILITIES	70,161	63,557	68,404
DIRECT INVESTMENT	21,725	24,993	30,526
PORTFOLIO INVESTMENT	1	1	1
OTHER INVESTMENT	48,435	38,563	37,877

By the end of December 2008, Vanuatu's International Investment Position (IIP) had reduced its net borrowing position to VT5820 million, from a revised figure of VT6945 million at end September.



# MONETARY POLICY FORMULATION

The Department of Research and Statistics is one of the main driving forces behind the process of Monetary Policy Formulation at the Reserve Bank of Vanuatu. The Department closely monitors both international and domestic economic developments and the economic variables that have implications on the twin objectives of monetary policy. The Department, through its monthly Policy Coordination Committee (PCC) and timely reporting provides advice to the Monetary Policy Committee (MPC). Decisions on the Monetary Policy Stance of the Bank are made by the Bank's Monetary Policy Committee (MPC).

Monetary policy formulation in 2008 continued to aim at preserving the twin monetary policy objectives of the Bank.

The twin objectives are;

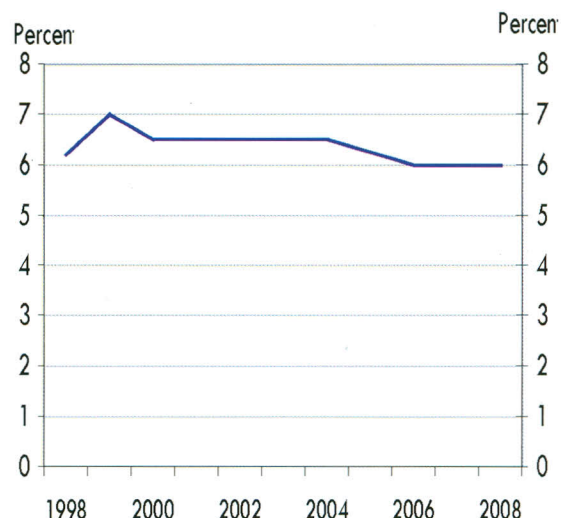
- a) maintaining a low and stable inflation rate, and
- b) maintaining a sufficient level of official foreign exchange reserves.

During 2008, the Bank maintained the same level of requirement for these two variables: That is, to maintain Consumer Price Index (CPI), of 0-4 per cent year on year and have a minimum official foreign exchange reserves in months of import cover of at least 4.0 months.

During the first half of 2008 the Bank maintained its policy rate, the rediscount rate at 6.0 per cent while it continued to regulate monetary conditions through regular open market operations.

However, in the second half of the year monetary conditions changed. Although there was a general tightening of system liquidity, the inflation outcome in the June quarter and inflationary pressures that were building up in the economy led the Bank to tighten monetary policy by raising the official interest rate, the rediscount rate, from 6.0 per cent to 6.25 per cent during September 2008.

## REDISCOUNT RATE



During October the tight system liquidity that had persisted for some months worsened, partly as a result of fast pace of growth in private sector credit (in September the year ended growth rate was 41.0 per cent). In addition, the Government was destroying liquidity by increasing its deposits with the Reserve Bank of Vanuatu, funded by increased revenue collection.

During this period the public demand for currency had also increased. To ease the pressure on liquidity, the Bank reduced the reserve requirement ratio from 10 per cent to 8.0 per cent. Additionally, the Bank introduced a secured advance facility whereby banks in need of liquidity can access liquidity from the Reserve bank through this facility.

Loans through this facility are collateralized by securities of the Government and Reserve Bank of Vanuatu. The interest rate on the new facility was set at 200 basis points above the rediscount rate. The Bank also informed the commercial banks to exercise caution in writing new loans and to manage their liquidity in a prudent manner.

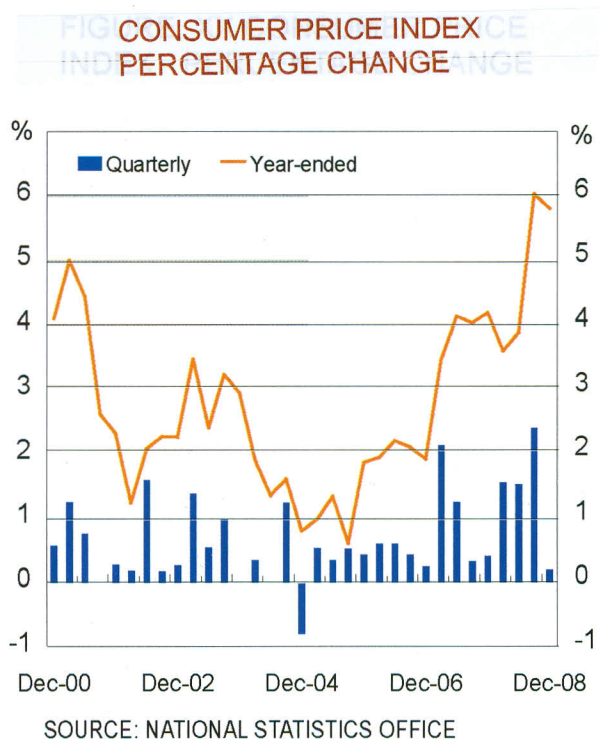


The monetary policy measures that were taken have eased the pressure on liquidity somewhat but was not enough to alleviate all of the pressures on liquidity. This prompted further action during the November 2008 meeting of the Monetary Policy Committee. It was decided the rediscount rate would be maintained at 6.25 percent as private sector credit and the money supply continued to grow robustly. However, it was felt necessary to reduce the interest rate on the secured advance facility to 100 basis points to encourage the banks to use the facility.

In December 2008, following in the wake of the global financial crisis, the Bank reviewed its monetary policy stance and reduced the rediscount rate back from 6.25 per cent to 6.0 per cent. With the aim of ensuring sufficient liquidity in the system, the Bank reduced the reserve requirement ratio further from 8.0 per cent to 5.0 per cent to be effective as on 02 January 2009. In total, the Bank released approximately VT1.5 billion in liquidity into the system through the relaxation of the reserve requirements.

In relation to the operational targets for the twin objectives of monetary policy in 2008 was not an easy year. The Bank continued to preserve its target for official foreign exchange reserves, inflation, on the other hand overshot the target, especially in the third quarter of 2008 due to factors beyond the Bank's controls created in the global market place.

Mounting inflationary pressures in the economy during 2008 saw inflation increase to 5.8 per cent in the final quarter of 2008. Higher food and transport and communication prices were the primary cause for the increase. Despite this increase, it is the Bank's view that inflation pressures will ease in 2009 in line with inflation developments in the trading partner countries.





# MONETARY POLICY IMPLEMENTATION

Monetary policy operations remain one of the key functions of the Reserve Bank of Vanuatu. The core related tasks include reserve management, exchange rates setting, liquidity management and forecasting and money market operations, all aimed at creating appropriate monetary conditions necessary for price stability.

These monetary policy operations functions are administered largely by the Financial Markets Department (FMD) in line with the RBV Board approved Investment Guideline, the Foreign Exchange Dealing Manual, the Open Market Operations Manual and the Open Market Operations Procedures Manual.

The FMD's 2008 Business Plan outlined the core activities for the year with expected outputs geared towards the four broader mission objectives of the Bank which include; (a) establishing monetary conditions for price stability, (b) establishing financial conditions and adopt policies that will ensure adequate level of reserves to meet external obligations, (c) disseminating timely and quality information, and (d) recruiting, developing and retaining a professional human resource team dedicated to the pursuit of quality practices.

In order to determine the progress made by the Department in achieving its key targets for the year, a number of outputs and performance indicators have been identified and imputed into the Business Plan. These expected outcomes and performance indicators are regularly reviewed and reported to the management and the Board of Directors of the Reserve Bank.

In further strengthening the Department's human resource capacity, we were able to acquire an additional staff to the External Markets Unit early in the year, adding the total number of staff of the Department to six, out of a total of eight positions in the Department's structure.

On the domestic front, the Bank pursues its monetary policy objective of price stability mainly through interventions in the domestic money market with its weekly issues of the RBV notes. Additionally, a statutory reserve requirement of ten percent is imposed on commercial banks and was adjusted to eight percent later in the year in response to the tight banking system liquidity. Other standby instruments which the Bank can utilize through its window of last resort operations to fund banks' overnight shortfalls include the repurchase and re-discount facilities. The secured advance facility was introduced towards the end of the year.

The conduct of OMO during 2008 was mainly in line with developments in the domestic money market.

On the external front, the financial meltdown which started in 2007 from the crash in the US sub prime markets had subsequently escalated into a global economic crisis. Massive financial losses and layoffs were unavoidably experienced, leading to drop in demand and output in many of the large economies. As a result, many advanced economies responded through easing of their monetary policies and introduction of fiscal stimulus packages.

Hence, the successive slashing of official interest rates by the world major central banks during the course of the year was a common strategy undertaken to correct the economic downturn.

The financial market's anticipations of the interest rate cuts have subsequently prompted markets rates to fall accordingly. Consequently, the Bank's revenue earnings for the year from its foreign investments have reduced marginally compared to the previous one.



Despite of these market developments, the official reserve level remain comfortable through most of 2008, though we have experienced some net outflow of foreign reserves to meet the increasing importers demand for foreign currencies.

In terms of exchange rate developments, Vatu depreciated slightly against the US dollar during the year, due mainly to increasing demand for US dollar because it seen as a safe haven by most investors during the midst of the financial crisis.

The Bank continued to be vigilant during the year in its monitoring of the developments in the international markets for any likely impacts on the domestic economy. By doing so, the Bank did not foresee any major economic repercussions, thus, a need for revision in the exchange rate policy was not necessary.

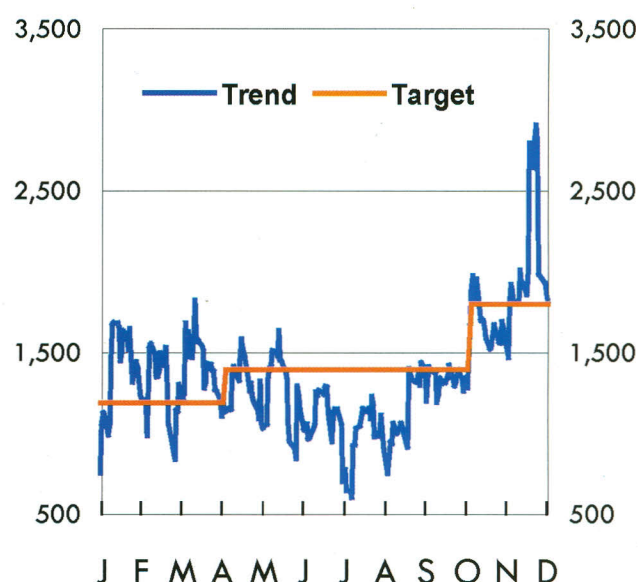
### OPEN MARKET OPERATION (OMO)

Open market operations are conducted on a weekly basis through issue of RBV securities (RBV notes) based on the short-term liquidity projections done by the Domestic Markets Unit (DMU). The policy target for open market operations is the volume of banks' excess reserve level. In 2008 the desired target level was revised upward from VT1,200 million to VT1,400 million in May and again to VT1,800 million in November.

Both upward revisions were undertaken ultimately to accommodate the high demand for liquidity instigated by improvement in government finances and the increasing foreign currency sales to commercial banks.

The gap between the actual excess reserves over the target level is depicted in the graph below.

**ACTUAL VS TARGET EXCESS RESERVES (LEVELS, MILLION S OF VATU, DAILY DATA)**



The peak between November and December reflect the Reserve Bank's policy decision to slash the Statutory Required Deposit (SRD) down to 5 percent from 10 percent, to tackle a tight liquidity situation in the banking system induced by a strong fiscal position and high foreign currency sales from May onward.

Consequently, the Reserve Bank's money market operations rose to high levels. An elevated level of sterilization undertaken by the Reserve Bank is depicted in the table on the next page. During 2008, a total of 42 Open Market Operations were conducted compared to 27 and 25 in 2007 and 2006 respectively. The increase in the number of OMO reflects the Bank's decision to conduct its operations on a weekly basis.

Compared to 2007, flotation rose by 24.2 percent while tenders fell by 9.8 percent.



## OPEN MARKET OPERATIONS

### OPERATIONS IN THE MARKET FOR RESERVE BANK OF VANUATU SECURITIES: 2008 (VT MILLION)

	2006	2007	2008
NUMBER OF OMO	1,573	1,636	1,630
FLOTATION	1,582	1,714	2,220
TENDERS	48,983	42,424	45,615
ALLOTMENTS	11,195	11,939	12,979
OUTSTANDING	70,161	63,557	68,404

At the end of 2008 outstanding RBV notes stood at VT1,295 million, a decrease of 19.1 percent from the end 2007 level largely due to liquidity constraints faced by the banks.

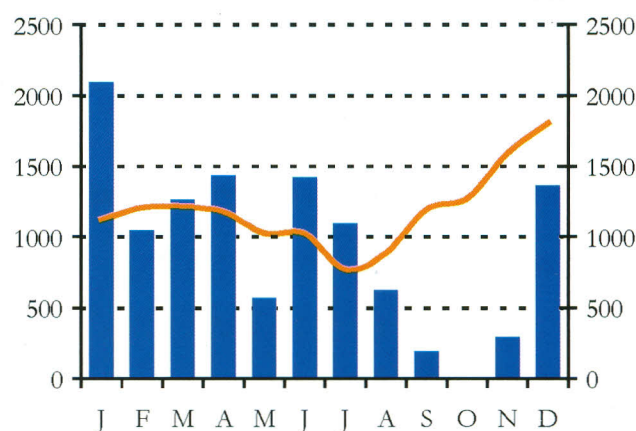
In line with the decision to conduct OMO on a weekly basis, the Bank introduced the 7 days maturity terms, in addition to the 14 days, 28 days, 63 days and 91 days maturity terms, to optimise the impact of sterilization without jeopardising the respective cost structure. Towards the end of the year following the cut in SRD, the bank also re-introduced the 19 days and the 182 days maturity terms.

Securities with longer term maturities were introduced specifically to assist the banks to resort to the Bank's advanced secured facility to take care of their short term liquidity needs.

Total cost for open market operation over 2008 was recorded at VT39.4 million compared to VT59.7 million in 2007. The decrease was due mainly to the fact that yields on RBV notes were relatively lower than in 2007.

The OMOs are currently only opened to commercial banks and during 2008, their participation was quite active despite of the liquidity shortfalls experienced during the second half of the year.

### ACTIVITIES IN OMO DURING 2008 (LEVEL, MILLIONS OF VATU, END OF MONTH DATA)

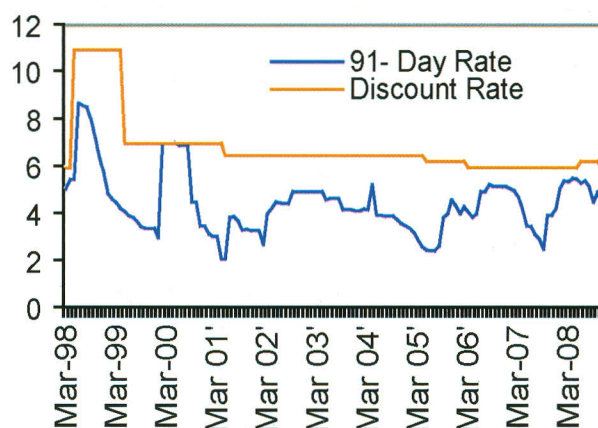


### OPEN MARKET OPERATION (OMO)

Banking system liquidity remained tight during most of 2008 mainly due to improvement in government's financial position with the Bank and liquidity withdrawal through the increase sale of foreign currencies to the commercial banks.

By mid 2008, banking system liquidity fell below VT 1 billion caused by the two mentioned factors coupled with the increase in currency in circulation relating to independence celebration. Consequently, banks participations in the OMO were greatly affected during the second part of the year.

### POLICY AND MARKET INTEREST RATES (MOVEMENT IN POLICY RATE AND 91-DAY RATE)



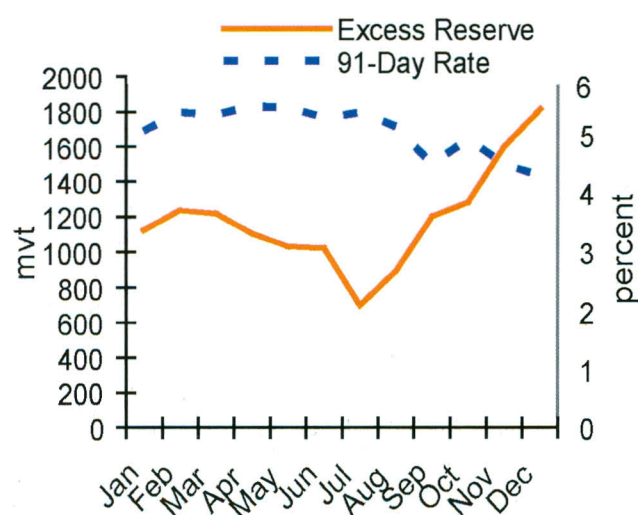


Yields on RBV notes remain high during 2008, largely attributed to the tight liquidity condition. The 91-days RBV note yield fluctuated between 4.30% and 5.50% during the year.

The high demand for liquidity had subsequently prompted the banks to raise their deposit rates, ensued by a rise in their lending rates as well.

As the tight liquidity condition began to ease towards the year end as a result of the reduction in the percentage of SRD, so was the drop on the yields of RBV notes.

**FIG LIQUIDITY AND INTEREST RATES**  
IN 2008



By the last issue of the year, the yield on 91-days RBV note fell to 4.30%.

## INTER BANK MARKET

Inter-bank market activity was quite robust throughout the year and more particularly during the second half of the year when banks face shortage of liquidity. The rates applied on inter-bank borrowing ranged between 5.50% and 6.25% during the year.

## RESERVE MANAGEMENT AND FINANCIAL MARKETS DEVELOPMENTS

The RBV Act (1981) gives the Reserve Bank of Vanuatu the directive to manage Vanuatu's foreign reserves. The primary objectives in managing these reserves are capital preservation (safety), liquidity and return (profitability). The Bank endeavours to ensure that reserves are safe in value and available at short notice to fund its liquidity obligations through funding balance of payments and servicing government debts. The Bank also aims to maximise return whilst taking safety and liquidity into pressing consideration.

The US sub prime mortgage crisis which intensified in mid-2007 developed rapidly into a global financial crisis in 2008.

The global financial crisis deepened in September 2008 when the US government formally took control of the US government-sponsored housing finance agencies, Fannie Mae and Freddie Mac which were experiencing a build-up of expected bad debts weighed down by the sub prime losses.

The turmoil in financial markets strengthened and rapidly extended from credit and money markets into the global financial system. This prompted major central banks, including the Federal Reserve and the European Central Bank to act in unison in unveiling plans to provide liquidity to the banking system. Official interest rates were cut to unparalleled levels as shown in table on the next page.



TABLE.....: CENTRAL BANKS OFFICIAL INTEREST RATES (%)

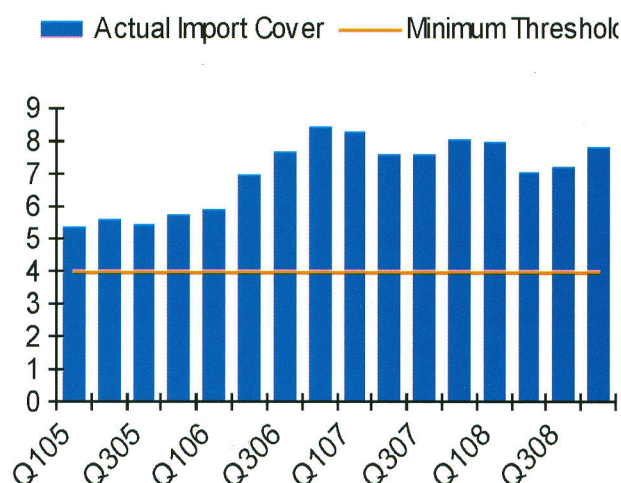
BANK	END 2007	JUNE 2008	DECEMBER 2008
G7 AVERAGE	3.70	2.90	1.25
G11 AVERAGE	4.52	4.28	2.25
FED	4.25	2.00	0/0.25
BOJ	0.50	0.50	0.10
ECB	4.00	4.25	2.50
BOE	5.50	5.00	2.00
RBA	6.75	7.25	4.25
RBNZ	8.25	8.25	5.00

SOURCE : REUTERS

The ongoing financial turmoil prompted the Bank to take a more vigilant approach in its reserve management role. The issue of capital safety is of paramount importance during these crises, and therefore FMD staff are impelled to closely monitor credit ratings of counterparty commercial banks on a weekly basis. FMD had to reduce exposures to a few counterparty commercial banks whose credit ratings had somewhat deteriorated. There was an instance where the Bank had to seize its relationship with one of its counterparty commercial bank whose issuer rating fell below the Bank's threshold as stipulated in the Bank's Investment Guideline.

The Bank continues to maintain sufficient foreign exchange reserves to meet Vanuatu's external obligations and to support the pegged exchange rate throughout 2008. At the end of December 2008, total foreign reserves (excluding IMF holdings) was recorded at USD109.3 million, thus positioning total reserves at 7.86 months of import cover, against a minimum floor of 4 months set by the Bank.

## IMPORT COVER



Of the total investible reserves, approximately 44 percent were held in highly marketable fixed income securities managed by external fund managers while approximately 56 percent is managed in-house by the Reserve Bank of Vanuatu in overnight and short term deposits.

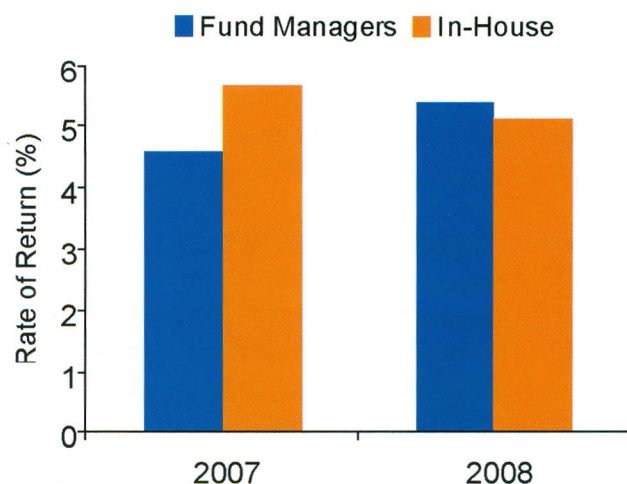
Interest income from external assets slightly decline by 14.3 percent to VT630.9 million in 2008 compared to VT736.5 million in 2007. This drop is a result of declining world interest rates.

Rates of return on external assets continued to be high in 2008 particularly from assets managed by fund managers.

This higher return by fund managers reflected better performance in the fixed income securities market compared to the shorter term investments..

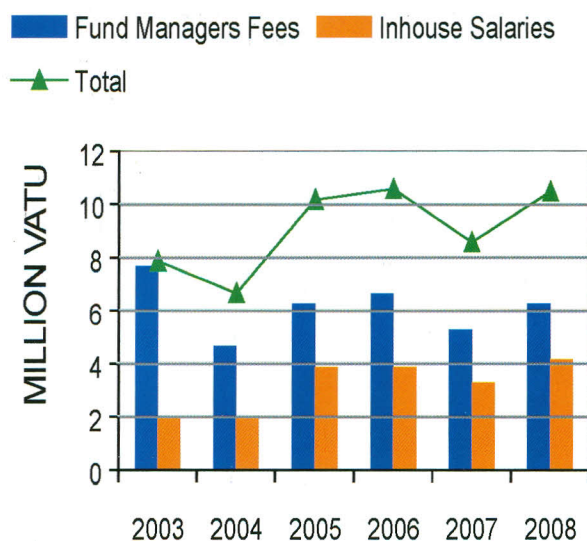


### DISTRIBUTION OF INVESTIBLE RESERVES



Overall, the Bank earned a slightly lower rate of return of 5.08 percent in 2008 compared to 6.18 percent in 2007.

### COST OF MANAGING RESERVES



Offshore Fund Managers fees have increased to VT6 million as the reserves accumulated. Likewise, the costs of in-house salaries have increased in 2008 to 2006 level due to hiring of a new staff member early in the year.

As the financial crises deepened, the US dollar was seen as a safe haven currency by most investors. This caused the USD to appreciate against the VATU by 13.5% bringing the US dollar rate to 112.55 on 31 December 2008 from 99.14 at the beginning of the year. On the other hand, the VATU appreciated against most major currencies over the year. Against the Australian dollar, the VATU appreciated from 86.88 at the beginning of the year to 77.76 by end of the year.

The Euro, Great British pound, Australian dollar and New Zealand dollar also fell heavily against the US dollar towards the end of the year.



# FINANCIAL SYSTEM SUPERVISION

One of the main functions of the Reserve Bank of Vanuatu is to regulate banks. Under the Financial Institutions Act Cap 254, part of that responsibility extends to the licensing and regulation of other Financial Institutions. These functions are performed by the Bank Supervision Department through assessing new applications and making recommendations, recommendations for revocation of license, the monitoring and assessment of the established banks' performances based on collection of information (offsite analysis) and the conducts of on-site reviews, prudential consultations as well as ad hoc meetings with banks' senior managements. These consultations also extend to tripartite meetings between the Department, the banks and their respective external auditors. The Bank Supervision Department continues to conduct its supervisory functions under the Financial Institutions Act Cap 254 and the International Banking Act Cap 280. In addition, there are 11 prudential guidelines that are applicable to domestic commercial banks while 12 are applicable to offshore banks. During the year, the Department reviewed one of the prudential guidelines, while two new ones; the Operational Risk Management Policy and the Disclosures of Interest Rates and Fees and Charges by Financial Institutions Policy are yet to be approved. The Department continues to comprehensively supervise the Vanuatu National Provident Fund. During the year, the Department's onsite visits focused mainly on Operational Risk Reviews. The Department conducted five Prudential Consultations and five Operational Risk reviews on all domestic banks while six Prudential Consultations and six Onsite Risk (Credit, Operational and AML) Reviews were conducted on the six international banks.

A Credit Risk Review was also conducted on the newly established bank. The Department also conducted a Prudential Consultation and a General Risk Review on the newly established Credit Corporation (Vanuatu) Limited, while Prudential Consultation and an Operational Risk Review was conducted on VNPF.

Domestic banks supervised by the Reserve Bank in 2008 were; ANZ (Vanuatu) Limited, Westpac banking Corporation, National Bank of Vanuatu, BRED (Vanuatu) Limited and European Bank Limited. The Bank also supervised Credit Corporation Vanuatu Limited.

The international banks supervised by the Reserve Bank in 2008 include United Investment Bank, Vianka Bank Limited, Garrison Bank Limited, Nautilus International Bank Limited, Financial Partners Bank Limited and United Investment Bank Limited. During the year, the Bank revoked an international bank, while the other one is under the liquidation process.

The individual bank's and the industry's offsite analysis are based on the various data submitted to the Bank on a monthly, quarterly and half yearly basis, while the onsite visits to banks focused on specific areas of risks, which includes credit risks, operational risks and Anti-Money Laundering Risks. In 2008, the Department focused its on-site visit on the Operational Risks of banks.







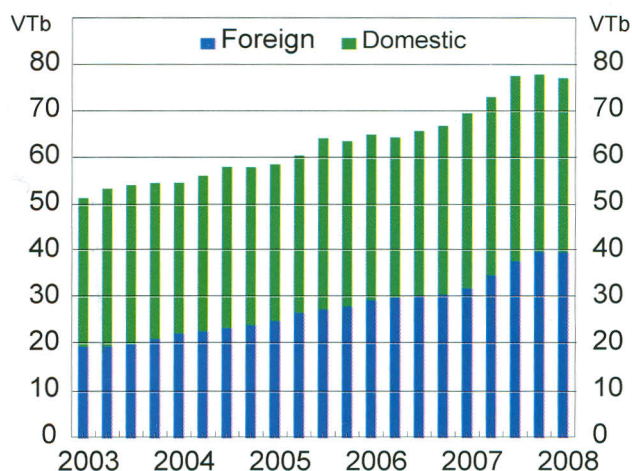
During the year, the Department also conducted the first ever dialogue workshop for international banks. It was a success. Overall, all local and resident directors of international banks, plus one non-resident director attended the workshop. The workshop focused mainly on the International Banking Act Cap 280, the 12 Prudential Guidelines and the Financial Transaction Reporting Act.

Staff of FIU did the presentation on the requirements of the FTRA. The Deputy Governor official opened the workshop. He also closed the workshop and presented participants with certificates of participation.

## DOMESTIC BANKS

### BALANCE SHEET

DOMESTIC INDUSTRY'S TOTAL ASSETS



The domestic banking industry recorded a 21.8 percent increase in total assets over the year ending December 2008 to Vt84.8 billion (2007: Vt69.6 billion). The annual increase reflected the growth in domestic assets with 35.8 percent growth rate to Vt43.81 billion (2007: Vt32.3 billion) and is driven mainly by private sector lending with 43.9 percent growth to Vt32.8 billion (2007: Vt22.8 billion). Foreign assets also increased by 9.7 percent to Vt40.9 billion (2007: Vt37.4 billion) reflecting mainly growth in balances due from banks and financial institutions outside Vanuatu by 5.3 percent to Vt38.3 billion (2007: Vt36.4 billion).

On the liability side (excluding capital), total liabilities increased by 17.4 percent to Vt73.8 billion (2007: Vt62.9 billion). The increase was mainly attributable to growth in domestic liabilities by 17.2 percent to Vt60.1 billion (2007: Vt51.3 billion).

This reflects mainly the growth in both Vatu and Foreign Currency deposits held with banks of 24.9 percent and 7.6 percent to Vt28.5 billion (2007: Vt 22.8 billion) and Vt28.9 billion (2007: Vt26.8 billion) respectively.





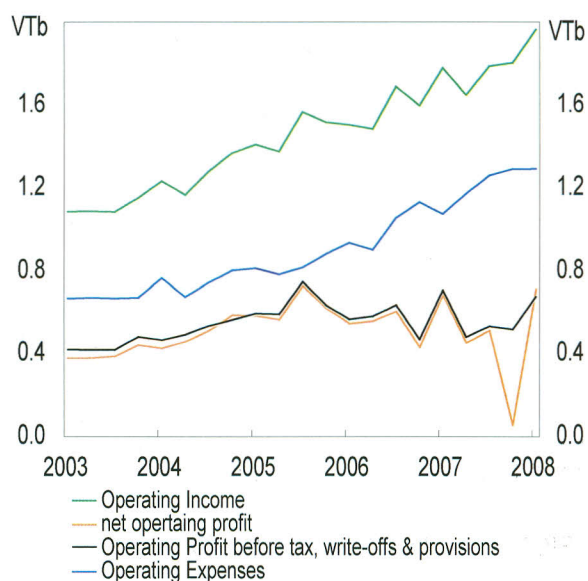
## EARNINGS

Earnings of banking industry over 2008 depicted negative growth as evidenced by net profit with Vt1.7 billion; an annual decreased of 23.8 percent compared to an annual negative growth of 7.3 percent to Vt2.3 billion in 2007. The result was driven by slow growth in non-interest income of 3.8 percent to Vt2.2 billion against 25.2 percent increase to Vt2.7 billion in operating expenses. However, net-interest income depicted an annual increase of 11.5 percent to Vt2.7 billion (2007: Vt2.4 billion).

Provisions for Bad debts also contributed with an annual increase of 344.5 percent to Vt404.0 million (2007: Vt90.9 million). The allocation of provision is necessary in light of current global economic crisis as well as significant growth in total lending over 2008. Total operating income before tax, write-offs & provisions dropped by 7.8 percent to Vt 2.2billion (2007: Vt 2.4 billion).

As a result of the above low earnings during 2008, "Return on Assets" (ROA) dropped from 2.9 percent (2007) to 2.1 percent (2008) and likewise "Return on Equity" (ROE) dropped from 24.8 percent (2007) to 17.3 percent (2008).

## DOMESTIC INDUSTRY EARNINGS



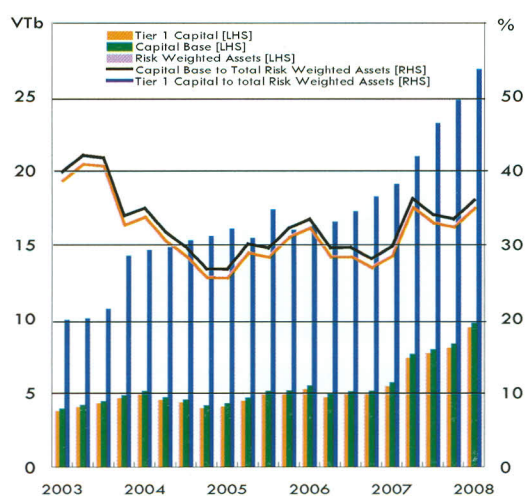
## CAPITAL ADEQUACY

The domestic banking industry capital position continued to be strong, (Refer to Figure x). The capital adequacy ratio as at December 2008 stood at 36.0 percent compared to 29.1 percent in 2007. Tier 1 ratio also improved to 35.0 percent from 28.6 percent over the same period. The improvement noted on both ratios is driven by entry of a new commercial bank, BRED (Vanuatu) Limited into the industry, which saw an increase of 72.4 percent in Tier1 capital to Vt9.38 billion from Vt5.44 billion and over all total capital base by 70.2 percent to Vt9.65 billion from Vt5.67 billion. Growth in Tier 1 capital is attributable to significant increase in paid-up capital by 306.3 percent to Vt3.5 billion from Vt856.0 million in 2007.



Disclosed reserves and retained earnings also contributed with 28.7 percent to Vt5.9 billion from Vt4.6 billion over same period. All commercial banks comply with the minimum 8.0 percent requirement on capital adequacy ratio.

### INDUSTRY'S CAPITAL ADEQUACY



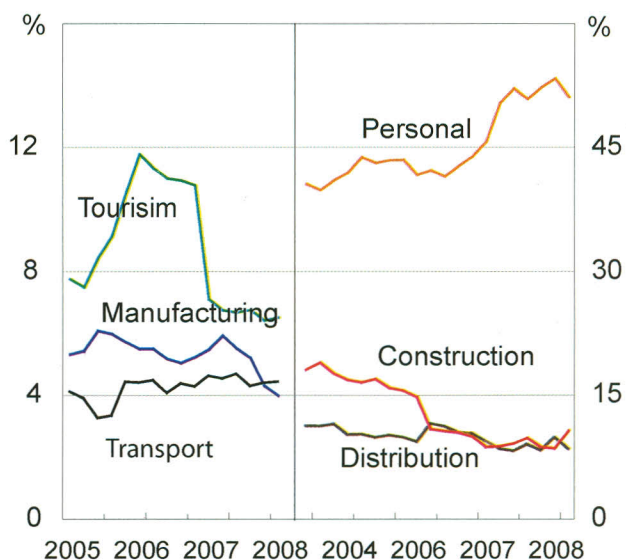
The growth is sourced mainly from all major sectors especially significant growth in personal lending (housing & land) with 42.5 percent to Vt17.4 billion (2007: Vt12.2 billion), construction with 69.6 percent to Vt3.6 billion (2007: Vt2.2 billion), professional and others 55.2 percent to Vt1.6 billion (2007: Vt1.0 billion), transportation 42.2 percent to Vt1.5 billion (2007: Vt1.1 billion), distribution with 49.6 percent to Vt2.9 billion (2007: Vt1.9 billion), and tourism with 40.2 percent to Vt2.2 billion (2007: Vt1.6 billion). Lending towards manufacturing sector declined by 2.2 percent to Vt1.3 billion (2007: Vt1.4 billion)

Personal lending contributes 51.1 percent to total loans, followed by construction with 10.7 percent, distribution with 8.6 percent, tourism 6.5 percent transportation with 4.4 percent and manufacturing with 4.0 percent.



Increasing competition experienced in the banking industry was due to BRED and Credit Corporation (Vanuatu) Limited entry into the market resulted in accelerated growth in lending towards private sector as evidenced by 25.3 percent to Vt34.0 billion in 2008, compared to 13.2 percent to Vt23.4 billion in 2007.

### PRIVATE SECTOR LENDING



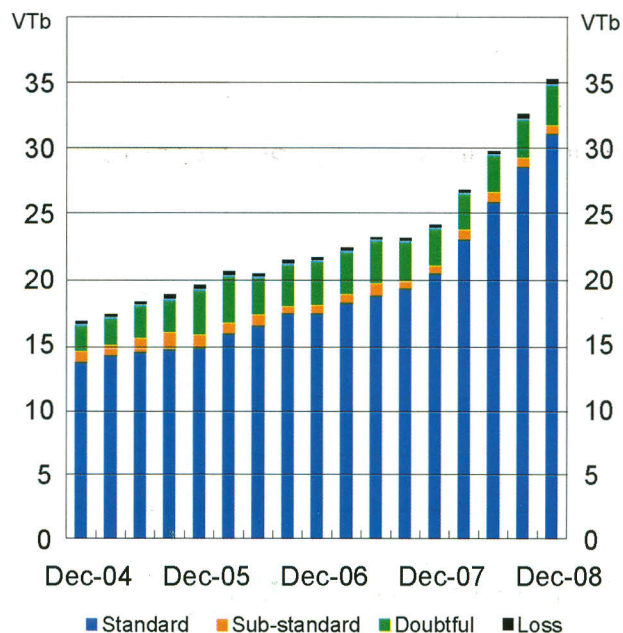


## IMPAIRED ASSET

Domestic banking industry's asset quality deteriorated as evidenced by impaired assets (total of doubtful and loss loans) with an annual increase of 14.9 percent to Vt3.4 billion (2007: Vt3.0 billion) in 2008. The quality of loans deterioration is mainly attributable to migration of loans from one classification to another as evidenced by 9.5 percent annual increase under doubtful loans to Vt3.1 billion (2007: Vt 2.8 billion), and 99.9 percent under loss to Vt365.3 million (2007: Vt182.7 million). Nevertheless, percentage of impaired assets to total loans ratio improved with 9.9 percent compared to 12.5 percent in December reflecting significant growth in volume of lending (denominator) over 2008. Majority of total lending remains to be of high quality loans (standard loans) with 88.1 percent (Vt30.7 billion, substandard loans with 1.9 percent (Vt686.3 million), doubtful loans with 8.9 percent (Vt3.1 billion) and loss with 1.0 percent (Vt365.3 million).

In response to global economic crisis, as well as increase in impaired assets, and growth in total lending over 2008, banking industry, as part of prudential their management strategies increased the specific provisions and general provisions by 61.0 percent to Vt1.4 billion (2007: Vt840.7 million) and 315.9 percent to Vt130.6 million (2007: Vt31.4 million) respectively. Securities held also increased by 59.6 percent to Vt23.5 billion (2007: Vt14.7 billion).

## ASSET QUALITY TOTAL



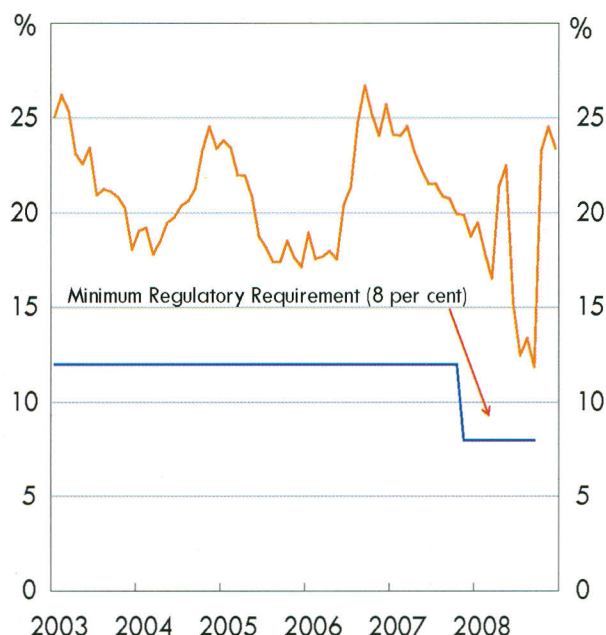
## LIQUID ASSET REQUIREMENT (LAR)

The domestic banking industry's liquidity position as measured through 'Liquid Asset Ratio' (LAR) Plummeted to 10.7 percent beginning of third quarter of the year. During the first quarter of the year, the industry's average LAR was at high as 21 percent, and with entry of the new bank it had increased to 42 percent. But at the beginning of third quarter of the year onwards, it went as low as 10.7 percent. Its worth noting that this liquidity situation was independent of the effects of the global financial crisis rather it was the result of increased competition given the establishment of two new players in the domestic market.

The domestic liquidity crisis gradually improved towards the end of the reviewed period as a result of the relaxation of RBV's monetary policy instruments and injection of new capitals by some banks into the market. The industry's LAR position as at end December 2008 was 17 percent.



## ASSET QUALITY TOTAL



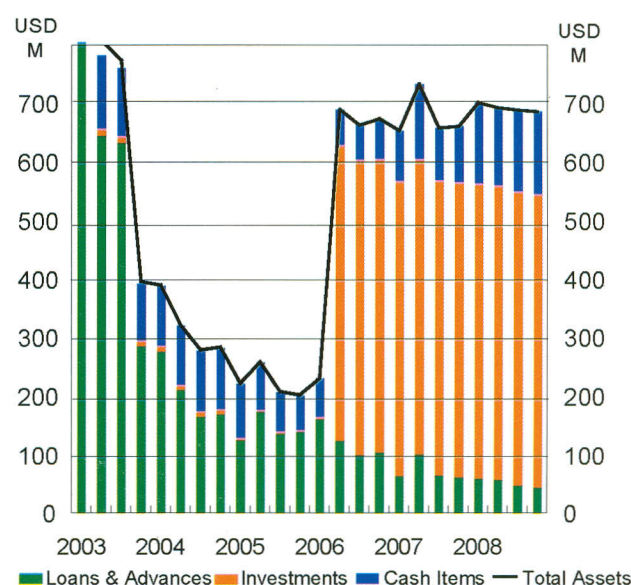
## INTERNATIONAL BANKS

### STATE OF FINANCIAL STATEMENT POSITION

Despite the global economic slow down, the offshore banking industry recorded a growth of 3.8 percent to USD684.7 million in total assets as at 31 December 2008 (2007: USD659.6 million), compared to a negative growth of 2.35 during the previous period. The slow growth is attributable to 46.8 percent growth in cash items to USD137.8 million (2007: USD93.9 million).

Major component of cash items are placements contributing 86.1 percent to USD118.7 million (2007: USD 76.8 million). Loans and Advances depicted negative growth of 28.9 percent to USD43.1 million (2007: 60.6 million) whilst investments depicted a negative growth of 0.3 percent to USD503.2 million (: USD504.9 million). Major component of offshore industry total assets is investment with a contribution of 73.5 percent followed by cash items with 20.1 percent contribution.

## OFFSHORE BANKING INDUSTRY'S TOTAL ASSETS



On the liability side, a growth in total liability of 5.8 percent to USD544.7 million (2007: USD514.9 million), has been reported as a result of 8.2 percent increase in deposits to USD520.1 million (2007: USD480.5 million). Deposits accounted for 95.5 percent of total liabilities (less shareholders equity). Total shareholders equity reduced by 3.2 percent to USD140.0 million (2007: USD144.7 million) reflecting 43.4 percent reduction in issued and fully paid up capital to USD5.4 million (2007: USD9.6 million).

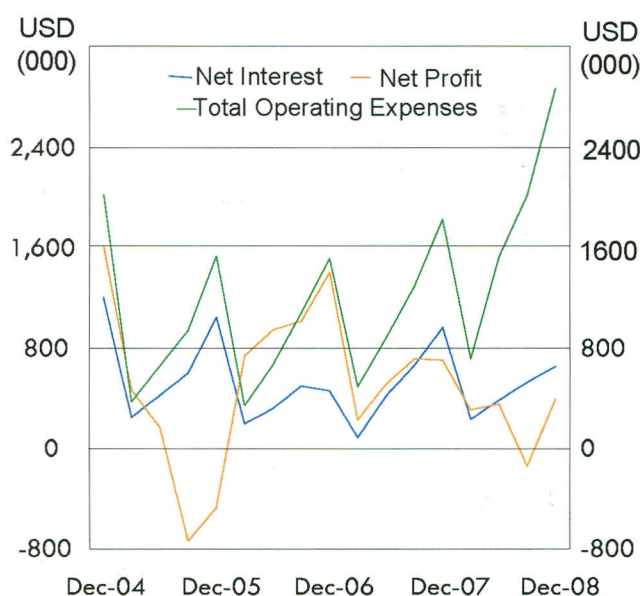
### EARNINGS

The Industry reported a net profit of USD391 thousand, 44.5 percent lower compared to 2007 profit of USD705 thousand. Net interest income dropped by 31.8 percent, whilst non-interest income increased by 73.0 percent, however, overhead expenditures increased by 56.9 percent to USD2.9 million (2007: USD1.8 million), as well as other loss of USD144 thousand (2007: profit – USD111 thousand) also contributed to the low margin earned in 2008.



Low interest margin earned is attributed to low interest income on loans received which had reduced by 82.3 percent to USD355.0 thousand (2007: USD2.0 million). Increase in overhead expenditures is attributable to 49.6 percent increase in other expenditures to USD2.4 million (2007: USD1.6 million).

FIG 1 PROFIT & LOSS



## OTHER FINANCIAL INSTITUTIONS SUPERVISION

### STAFF TRAININGS AND WORKSHOPS

#### VNPF SUPERVISION

The Bank through the department continues its supervisory responsibility on VNPF. Given that VNPF acts as a trustee for the employees' funds, it is important that the Fund is supervised and regulated adequately to ensure that the members' funds are managed soundly and prudently and in the best interest of members. During the year, the Bank conducts its annual Prudential Consultation as well as Operational Risk review on the Fund. The Bank also conducts ad hoc meetings with the managers of the Fund where the need arises. Where issues of concerns are noted during the reviews, there is continuous monitoring of same until issues are sorted out.

### STAFF TRAININGS AND WORKSHOPS

In terms of staff, at the end of the year the Department has one Director, one secretary and three Bank Supervisors. One staff member resigned during the year. The Department continues to emphasize the importance of capacity building and staff development through internal and external trainings. One of the external trainings that the department benefited most from was the Pacific Governance Support Program through AUSAID and APRA. This program is more practical, and participants from other jurisdictions join the host country to conduct onsite review of a particular institution. This program includes scoping exercise to wrap-up meetings, presenting findings and report writings. The Department also benefits from trainings and meetings provided by PFTAC /AFSPC and SEACEN.

The Department also attends series of meetings including the AFSPC.

### ANTI-MONEY LAUNDERING

The Reserve Bank of Vanuatu through the department continues to work closely with relevant authorities, in particular Finance Intelligence Unit to ensure Vanuatu complies with the revised FATF 40 recommendations on combating the financing of terrorism.

Despite the fact that the onsite review of banks for the year focused on Operational Risks, the Department discussed AML issues with banks during the Prudential Consultations. Also during the year, the Department and the Financial Intelligence Unit met to discuss ways to have a more coordinated approach towards the AML on site reviews of banks.



## CORPORATE SERVICES



The Corporate Services Department has the primary responsibility for providing internal support services including: information technology; the Bank's current and future human resources needs; plant & properties; security; and general administration.

### 1. INFORMATION COMMUNICATION TECHNOLOGY UNIT

ICT Unit continues to maintain and to support the computer network infrastructure and users of the Bank. No major projects occurred in the year since the previous year saw the completion of most major network upgrades or implementation of ICT related projects that were scheduled.

In light of recognizing changing work processes, technology changes, need for improved information creation and dissemination methods, a thorough survey was conducted in the Bank in the year by the ICT unit to help it (ICT unit) better understand computer user and operational requirements and therefore suitable ICT services and support can then be provided or recommended. The survey helped the unit develop its short term internal strategic plan for 2009 to 2011. A thorough analysis and review of information and network security policies was conducted and it is aimed that by end of 2009, most ICT policies should become effective in the Bank.

A major task for the year for ICT unit was to co-ordinate the move of the computer network infrastructure from the old Reserve Bank of Vanuatu (RBV) building to the newly built premises. Throughout the year ICT unit worked closely with the building contractor responsible for wiring the new RBV building for data and telecommunications services. In mid December, the computer network with its associated equipment and peripherals was relocated to the new building successfully and is from where the Bank currently operates.

IPConnect, a registered computer solutions company in Sydney Australia helped with the configuration of the new VLANs and the relocation of the network to the new building. This company also provided some network support for the Bank after the major network upgrade in December of 2007.

Schools and non-government organizations frequently write to the Bank seeking assistance by way of old computers donation. Fresh Wota, Sorovanga and Vila North primary schools were identified among others to be not privileged enough to facilitate their offices with workstations for lesson preparation or for preparing administrative documents. ICT Unit identified a few written off PCs and rebuilt them for reasonable use. The Director for Corporate Services handed over the computers to some very delightful headmasters and teaching staff of the three schools. Upon requests and upon availability the Bank continues to donate old computers to needy schools and other non-government or non-profitable organizations.

In terms of staffing capacity in the unit, one staff member resigned to join the new 2008 entrant mobile company to Vanuatu, Digicel. Two new staff members were recruited to the areas of helpdesk and network support. They hold qualifications in Computer Science and Information Systems. This all brought the total number of ICT staff to four. The unit looks to recruit in the area of applications and systems development.

ICT unit continues to work closely with departments on their technology and information needs in meeting their objectives and those of the overall Bank.





## 2. PROPERTY & ASSETS UNIT

Property and Assets Unit is a new unit approved and established under the new bank structure in the Corporate Services Department. The new unit replaces the former Building and Support Services Unit. This also sees the Cleaners moved under the new General Administration Services whilst Security, Driver and Gardener remain under new PA unit.

### REDEVELOPMENT PROJECT

Keys for the New Building were handed to the Deputy Governor by the contractor witness by the Director Corporate Services and Manager Property & Assets on the 7th December 2008. This key handing over marks the completion of the first phase of the redevelopment project.

The second phase of the project which is the renovation of the old building will begin in January 2009. This phase of the project was extended to include the restructuring and repainting of the old building and is estimated to complete by May 2009.

### NEW ELECTRICAL METER

Reserve Bank of Vanuatu has moved from the small power consumer to the larger power consumer after the installation of its new High Voltage Meter and Private Transformer.

South Pacific Electrics, the sub-contractor responsible for all electrical works in the redevelopment project is closely working with UNELCO to complete the installations by early 2009; however, a temporary transformer was supplied by UNELCO for the completion of the new building and will be in use until the new transformer is installed. This new meter will supply both the new and old building after the renovations works are completed. This should also see a reduction in the cost of electricity.

### MOVE TO THE NEW BUILDING

A technical committee consisting of members from each section was set up by management to foresee the planning and move to the new building. It took five months of careful planning and preparing before the actual move to the new building took place.

Management decision put the actual move date to December 11th and 12th of 2008. An instruction was sent out in the media advising of the bank closure so that all staff can assist with the move.





## OPERATION SAFETY MANUAL

Corporate Service Department has finally launched the Safety Operations Manual with a two days training from 13th August to 14th August 2008 conducted by the Consultant Mr. Jim Woodford. The Operation Safety Manual contains detail operations on safety and staffs are encouraged to keep copies handy to look for guidance in an emergency.

During the training, staffs were also given hands on training in putting off a fire by using a fire blanket and extinguishers.

## SECURITY

The Banks Security services continue to grow and more and more measures are being introduced for the safety and security of the banks personals and property. As part of the new building project, more security cameras and sensors are installed as well as new magnetic doors using swipe cards.

These Magnetic doors will be automatically locked and staff will be issue with swipe cards to have access to different levels.

A new security guard house under the existing new building project was also completed and equipped with controls for the main electronic gate and an intercom for communications with the front office and chief security office.

Another major step in the development of human resource was to send the Chief Security officer for a week long attachment training with the Reserve Bank of Fiji in February 2008.

After his return, he initiated the new "After Hour Access Form" which is passed by Management and came into force by March 2008.

## OPERATION SAFETY MANUAL

Other support services operating under the new PA unit are driver and caretaker/gardener.

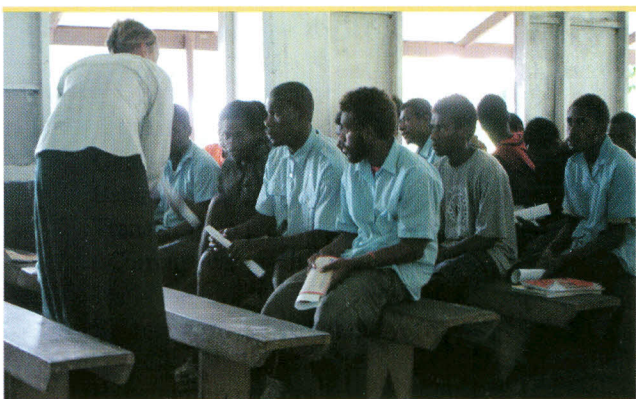
Driver continues to carry out Normal errand and taking care of Bank Vehicle while the Caretaker/ Gardener takes care of the care and maintaining the properties of the Bank.

## 3. GENERAL ADMINISTRATION SERVICES UNIT

The new Office of the General Administration Services (GAS), under the Corporate Services Department, became functional in September 2008. The office assumed the payroll processing, general cleaning of offices, purchasing, Library and the reception.



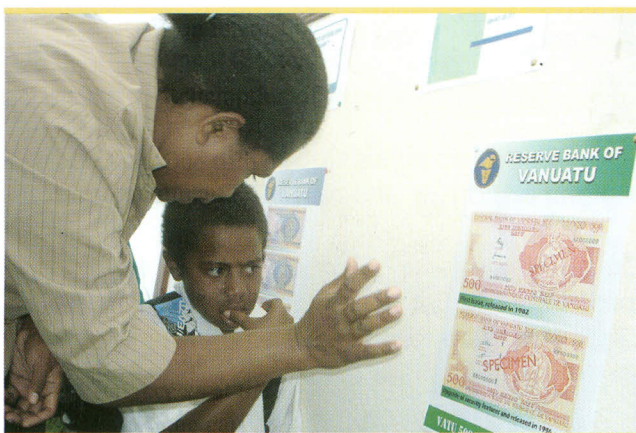




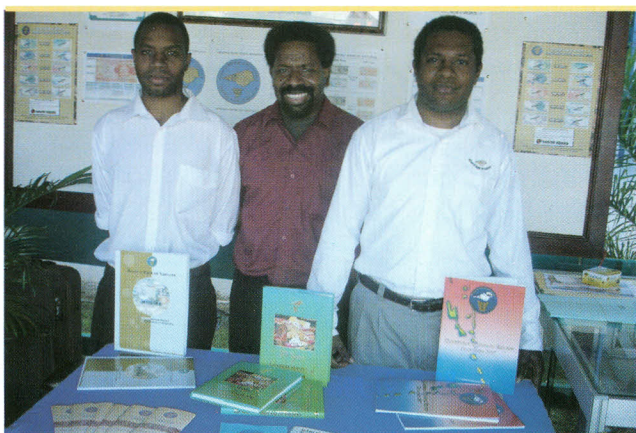
Some of the recommendations of the 2007 Human Resource review report implemented in 2008 were: The Library section previously under the Research and Statistics Department has moved to the Corporate Services Department and including a significant adjustment of the entire Bank staff salary and allowances. Other general administration services included traveling logistics for staff training, Bank's various official representations both locally and overseas.

### **LIBRARY**

The library as part of its program continues to maintain its relationship with other libraries including the IMF and World Bank Joint library to exchange publications. Information sharing is another major task carried out by the library to disseminate information to high schools in Vanuatu. 2008 has been another successful year for the library to conduct Central Banking Awareness to schools; the team visited five (5) secondary schools. The first visit was made to St Patrick's College (Vureas) in Ambae (Penama Province) on 16th April 2008.




The team's second visit was made to four (4) secondary schools in Tanna (Tafea Province), namely Kuataparen Junior Secondary School, Isangel French Junior Secondary School, Lenakel Junior Secondary School and Tafea Bilingual College from 9th to 11th June 2008. While in Tanna the team also visited some business houses to conduct Business Sentiment Survey.



On the 4th July 2008 the central banking awareness team participated at the Ministry of Finance Open Day, this is the first ever exhibition organized by the ministry. The main objective of the open day is to show the public at large the role and functions in which this important Government Ministry is engaged in as far as Vanuatu's financial and economical aspects are concerned. The theme for the Open day was "Demonstrating the Benefits of Good Governance".





Public at large and especially students visited the bank's exhibition booth; questions were raised in regards to monetary and economic situation were answered by the team members. However, the library maintains its continuous service to students who would like to access monetary information.

The Bank employed a total of 72 staff by the end of 2008, of which nine (9) new staff were recruited in 2008 alone. With the advent of the Bank's new structure, it was timely to employ more new staff fresh from the education system.

#### **4. HUMAN RESOURCES UNIT**

The Human Resource unit of the Reserve Bank saw the ushering in of key areas that were identified and introduced with the purpose to improve and enhance staff performance and expand the working lives of all staff.

These new changes were a new robust Performance Management Tool approach which coherently measures and manages staffing performance with the emphasis moving away from disciplinary and highlighting more skill building and trouble shooting areas of under performance. Similarly Human Resources launched the full strength of its new Salary structure whereby all staff were then initiated into their new wage levels in accordance with their qualifications, experience and level of competence.

Further to the above, Human Resources was also successful in incorporating with the help of Bank directives the new Bank organization structure which saw modification in all Departmental structures, the Bank doing away with vertical structures to be replaced by more flatter structures with less hierarchy, more clearer reporting lines. This resulted in some new job titles to replace obsolete titles and also the creation of some other new job titles similarly.

All in all, Human Resources has managed to implement pivotal HR instruments of staffing production which are hoped will engender strong positive results from staff while at the same time motivating and compelling staff to pursue and maintain a quality standard of work for the Reserve Bank.



# ACCOUNTS AND CUSTOMER SERVICES

The Accounts and Customer Services Department of the Reserve Bank is responsible for implementing, on a daily basis, the main delivery functions of the Reserve Bank.

This role covers most of the Bank's back office operations which consist of the customers' accounts maintenance, issuing of customers statements, processing of payments through the Port Vila Clearing House and SWIFT system, and the maintaining of the adequate level of stock and quality of the vatu currency.

The other core responsibilities assumed by the department are the accounting and budgeting functions. As at the end of the year the main customers of the Bank were the Government of Vanuatu, the domestic commercial banks, domestic financial statutory bodies and international financial institutions and agencies.

## 1. BANKING

Banking services offered to the customers during the year increased relatively to the previous year's level. Services offered over the counter in terms of enquiries, commercial banks transactions, processing of Government deposits and the clearing of Government and commercial banks cheques increased generally during the year. The growth is tied largely to the increase in the economic activities in 2008. Contributing largely to this increase came from the entry of a new domestic bank, BRED (Vanuatu) Limited, in the market during the year.

The increase is shown partly below by the transactions carried out through the clearing house, by value terms, recording an increase of 12 per cent from Vt 60,343 billion in 2007 to Vt 67,375 billion in 2008.

### OPERATION OF CLEARING HOUSE

PERIOD	No. OF EFFECTS	VALUE (MVT)
1999	370,352	34,224
2000	398,286	32,622
2001	378,016	34,995
2002	335,462	33,878
2003	263,664	28,230
2004	264,859	31,985
2005	279,162	38,562
2006	286,615	67,548
2007	370,738	60,343
2008	307,298	67,375

The Department's resources were also directed to assisting the Financial Market Department in implementing the Bank's open market operation program during the year as a result of the high liquidity that is experienced in the banking system.

On the project front, the final phase of the SWIFT payment project upgrade to version II was completed during the year with the implementation of the last application - the Relationship Management Application. Further more, the system is now successfully run through the ISP-LL connectivity.

## 1.2 ACCOUNTS

The use of the Bank's new accounting software Epicor, which was put to full use in January 2008, provided a lot of challenges. With a lot of effort inputted by the small team of accounts staff into using the system, it has proved successful during its first year, but learning process continues.



Pricewaterhouse Coopers remain as the Banks external auditor for the third year in a row and should be with the Bank for next two years.

The Bank continues to operate under best practices and reports are being prepared in accordance with International Financial Reporting standards taking into consideration the requirements of the Reserve Bank of Act.

### 1.3 BUDGETING

The budgeting function of the Bank is assumed by the Management Information System Office. This office was set up in October 2006 with one officer with the key role of overseeing the coordination of the Bank's yearly budget formulation and its monitoring.

The budgeting role was previously assumed by the Corporate Services Department and it was merely a routine accounting chore, however, this area has now been strengthened substantially with the establishment of MIS Office. As shown in the table below the 2008 budget results shows a further improvement in the overall budget to expenditure surplus of 17 per cent.

YEAR	BUDGET	ACTUAL SPENDING	BUDGET SURPLUS (%)
2006	342.6	98%	2%
2007	462.4	89%	11%
2008	476.9	83%	17%

With the implementation of the new accounting software system in 2008, the MIS office has embarked on a project to develop a mini budget system for the Bank. The system will work along side the new accounting system to facilitate information dissemination to the various users within the Bank. The new system is planned to be completed in 2009.

As part of strengthening the new office human resource capacity, the MIS Officer attended one short term attachment each at the Reserve Bank of New Zealand and the Reserve Bank of Australia. Both attachments provided the officer the opportunity to exposure himself to two advance central bank budgeting practices.

Trainings conducted by the MIS officer following the attachments were beneficial to the Bank.

### 1.4 CURRENCY OPERATION

The Bank continues to perform its fundamental function of sole issuer of the country's currency. The Bank executes this function through the Currency Office.

During the year, the office implemented few changes to existing policies and undertook some projects in regard to currency issues.

#### a) CURRENCY EXAMINATION

In addition to issuing new currency, the Bank has, since its inception in 1981 been sorting the Vatu notes and coins to maintain a quality condition of the currency. The sorting function separates and withdraws from public circulation, soiled and mutilated notes and coins that are not fit for public use. In order to streamline its activity and allow user participation in managing the quality condition of the Vatu notes and coins, the Bank decided to delegate the function of examination and sorting of Vatu notes to its customers, the commercial banks.



Effective 16 June 2008, the Bank implemented a change of policy to accept only Vatu notes that are already sorted into categories of 'fit' and 'unfit' for reissue in its cash lodgments. At this stage, the Bank still sorts the coins.

### b) COUNTER TRANSACTION

The total value of counter transactions continued to rise from previous years by 14 percent to a new total of VT11,273 million. During the year, the Bank continued to issue more notes and coins into public circulation than its withdrawal taking the total value of currency in circulation to a new peak level of VT5,009.8 million which is an increase of 7 percent from previous year.

COUNTER TRANSACTIONS			
PERIOD (YEAR)	DEPOSITS (MVT)	ISSUES (MVT)	TOTAL (MVT)
2000	4,136	4,143	8,281
2001	3,980	4,098	8,072
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

Denomination wise, the VT5000 continues to maintain the lead position of being the highest value currency in circulation by 47 percent, followed by VT1000 at 34 percent. The VT100 maintained its third position followed by VT500 while the VT200 took fifth position ahead of the VT20, followed by VT50, VT10, VT5, VT2 and VT1.

### c) COUNTERFEITS

The Bank stepped up its awareness program on security features of the Vatu notes by distribution of brochures on the subject to the general public through the commercial banks, participating in the SHEFA Agriculture Show besides the regular awareness in the newspapers.

The Currency Office team had also toured some islands for the awareness campaign. The awareness programs had proved very effective in combating counterfeiting issues in that during the year the Bank confiscated only 4 notes (VT1000) compared to previous years.

COUNTERFEITS SUMMARY					
DENOMINATION	2005	2006	2007	2008	Total
5000	31	10	4	-	45
1000	12	6	18	4	40
500	1	2	-	-	3
200	4	-	-	-	4
Total	48	18	22	4	92

The public is continually reminded to take extra care in dealing with any suspicious looking notes.



#### **d) NUMISMATICS**

The Bank continued to collect commission from sales of collectors' items and also received royalties from the international sales of proof sets of coins which were struck under contracted Agreements with renowned international Mints.

To mark the opening of the new building of the Bank that is planned to be opened in 2009, the Bank started this year on the development of a set of commemorative coins to commemorate the occasion. The coins portray the Reserve Bank's buildings since its inception till to date.

Tenders were sent out to several mints overseas and the project was awarded to Pobjoy Mint in England. The coins are expected to be launched in 2009.

#### **e) OTHER ACTIVITIES**

During the year, the Office undertook an awareness program on the Vatu currency and simultaneously conducted a survey on the two (VT1/VT2) lowest denominations of the Vatu currency. The survey and awareness program were conducted in selected communities in each of the six provinces including the Provincial headquarters and the two main urban centers.

Awareness program focused mainly on educating the general public on the security features of the banknotes while the survey was designed to gauge public opinion on whether the VT1 and VT2 coins are still useful as a medium for financial transaction or have outlived their usefulness.

Pending management's decision, recommendations based on the outcome of the survey will be implemented in the coming years.

#### **f) FINANCIAL PERFORMANCE**

##### **INCOME**

- ✶ The Bank recorded a total income of Vt 768.2 million in 2008. This is compared to Vt 687.3 million reported in 2007. The increase in revenue is driven largely from interest earnings recording a 3.6 per cent growth to Vt 671.3 million over last year.

The growth is also contributed from the net unrealized gains in foreign securities market price recording a more than half increase by 116.1 per cent to Vt 62.4 million in 2008 over last year.

##### **EXPENDITURE**

Total expenditure of the Bank for the year stood at Vt 436.4 million showing a 3.6 per cent increase over the last financial year's level at Vt 421 million.

##### **OPERATING PROFIT**


The net operating profit for 2008 after the deduction of the operating expenses from the income stands at Vt 331.8 million. This is compared to Vt 266.2 million reported in 2007.

##### **PAYMENT TO GOVERNMENT**

A total of Vt 365.6 million will be paid to the Government of Vanuatu based on the 2008 results. This amount consists of the following:

- a) A net profit of Vt 298.6 million after 10 per cent of the net profit of Vt 33.2 million was transferred to the capital reserve account under section 7(1) of the Act and;
- b) 1/5 of the credit balance in the revaluation account of Vt 67 million under section 25 (3) of the Act.





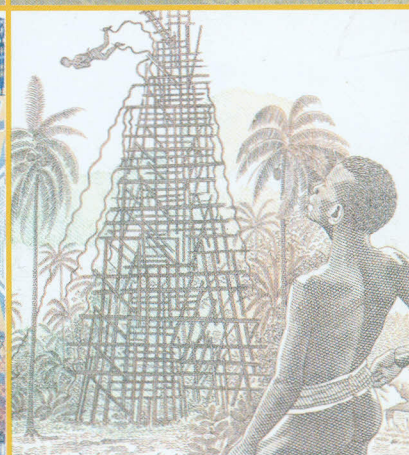
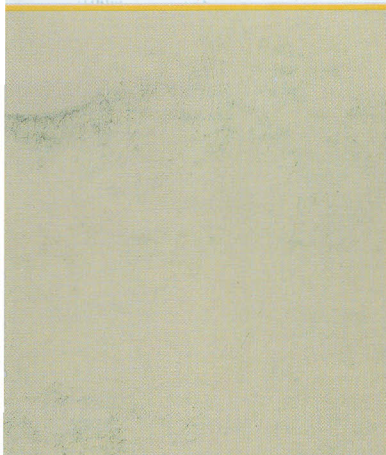
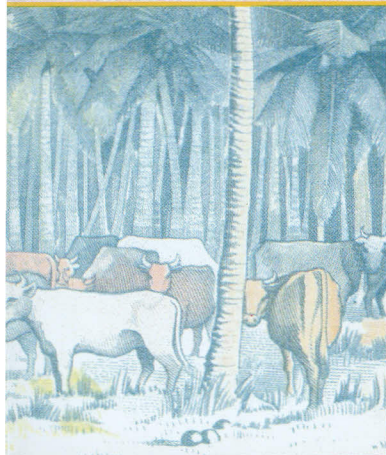
As at year end the Bank's revaluation account stood at Vt 443.8 million. Under section 25 (3) of the RBV Act, Vt 108.9 million of the credit balance was transferred to cover the Vt 108.9 million non interest bearing notes issued by the Government in 2007 under section 25(2) with 1/5 of the remaining balance added to the Government dividend for the year leaving a credit balance in the revaluation account of Vt 267.9 million.

Based on these results no None Interest Bearing Notes was issued by the Government under section 25 (2) of the RBV Act against the revaluation reserve account in 2008.

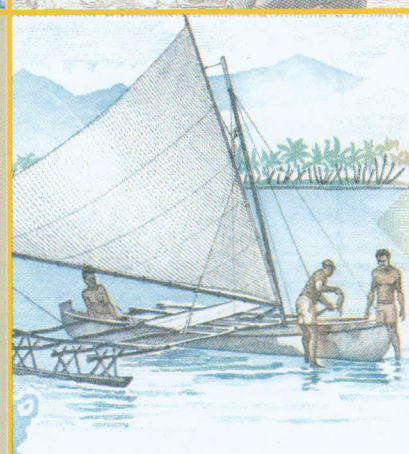


# FINANCIAL STATEMENTS

FOR THE YEAR END 31 DECEMBER 2008



RESERVE BANK OF  
**VANUATU**





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# FINANCIAL STATEMENTS

For the Year ended 31 December 2008

## **DIRECTORS' REPORT**

In accordance with a resolution of the Board of Directors, the directors herewith submit the Balance Sheet of the Bank as at 31 December 2008, and the related Income Statement, Statement of Distribution, Statement of Changes in Equity and Cash Flow Statement 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:

Odo Tevi	- continuing and appointed Chairman from 3 August 2009
Jeffrey Wilfred – Chairman	- up to 18 June 2009
Peter Sali	- up to 18 June 2009
Ruth Dovo	- up to 18 June 2009
George Maniuri	- from 3 August 2009
Jack Kilu	- from 3 August 2009
Marinette Nial Molisa	- from 3 August 2009
Jimmy Nipo	- from 3 August 2009

### **2. PRINCIPAL ACTIVITIES**

The Reserve Bank's role as a central bank, as defined in the Reserve Bank of Vanuatu Act, shall be:

- (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.

### **3. TRADING RESULTS**

The operating income of the Bank for the year ended 31 December 2008 was Vt331.830m (2007: Vt266.217m).

### **4. RESERVES**

In accordance with Section 7(1) of the Reserve Bank of Vanuatu Act, the Bank transferred Vt33.183m to the General Reserves.

### **5. PAYABLE TO GOVERNMENT**

In accordance with the Reserve Bank of Vanuatu Act Section 7(3), the amount of Vt298.647m is payable to the Government of Vanuatu.

### **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.



# FINANCIAL STATEMENTS

For the Year ended 31 December 2008

## **DIRECTORS' REPORT - Continued**

### **8. ASSETS**

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

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

### **9. DIRECTORS BENEFIT**

No director of the Bank has, since the end of the previous financial year, received or become entitled to receive a benefit by reason of 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.

### **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 the report that has significantly affected the operations of the Bank, the results of those operations or the state of affairs of the Bank in subsequent financial years.

### **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 have not in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this day of 21 August 2009.

  
.....

**Director**

  
.....

**Odo Tevi**  
**Chairman, Board of Directors and Governor**



# FINANCIAL STATEMENTS

For the Year ended 31 December 2008

## **STATEMENT BY DIRECTORS**

In the opinion of the Directors:

- (a) the accompanying income statement is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2008,
- (b) the accompanying statement of distribution is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2008,
- (c) the accompanying balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2008,
- (d) 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 2008, and
- (e) the accompanying cash flow statement 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 2008.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this day of 21 August 2009.

  
.....

**Director**

  
.....

**Odo Tevi**  
**Chairman, Board of Directors and Governor**



## **INDEPENDENT AUDIT REPORT**

To the Board of Directors of the Reserve Bank of Vanuatu

### **Scope**

We have audited the accompanying financial statements of the Reserve Bank of Vanuatu which comprise the balance sheet as at 31 December 2008 and the income statement, statement of distribution, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 28.

#### *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 the basis of accounting described in notes 2 and 3 of the financial statements and in the manner required by the Reserve Bank of Vanuatu Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *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 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 and fair presentation of the financial statements 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 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.

### **Audit Opinion**

In our opinion, the accompanying financial statements have been prepared, in all material respects, in accordance with the basis of preparation and the accounting policies described in notes 2 and 3 of the financial statements and in the manner required by the Reserve Bank of Vanuatu Act.

Without qualifying our opinion, we emphasise that the accounting policies used and disclosures made are not intended to, and do not, comply with certain requirements of International Financial Reporting Standards.

Suva, Fiji  
21 August 2009

  
PricewaterhouseCoopers  
Chartered Accountants



# INCOME STATEMENT

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

	Notes	2008	2007
<b>Operating revenue</b>			
Interest income	7	671,317	647,825
Net unrealised gains in foreign securities market prices		62,437	28,896
Other income		34,479	10,585
		<u>768,233</u>	<u>687,306</u>
<b>Operating expenses</b>			
Interest expense	8	69,940	72,908
Personnel expenses	10	235,347	186,941
Other operating expenses	9	131,116	161,240
		<u>436,403</u>	<u>421,089</u>
<b>Total expenses</b>			
		<u>436,403</u>	<u>421,089</u>
<b>Net operating profit</b>		<u>331,830</u>	<u>266,217</u>

This income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 28.



# STATEMENT OF DISTRIBUTION

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

	Notes	2008	2007
Net operating profit		331,830	266,217
Less:			
Redemption of Government's non interest bearing securities issued under Section 25 (2) as required under Section 7 (2) of the RBV Act		-	(25,764)
Amount available for distribution		<u>331,830</u>	<u>240,453</u>
Distribution as follows:	4		
Transfer to General Reserves (Section 7 (1)).		33,183	26,622
Payable to Government of Vanuatu (Section 7 (3))		298,647	213,831
		<u>331,830</u>	<u>240,453</u>

The statement of distribution is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 28.



# BALANCE SHEET

As at 31 December 2008 (Expressed in 000's Vatu)

Assets	Notes	2008	2007
Cash and cash equivalents	11	6,835,927	7,003,559
Investment securities	11	5,432,704	4,362,302
Government securities	12	226,832	411,101
Government bonds	13	393,950	862,500
Advances to account holders		650,000	-
Interest receivable		123,756	220,232
International Monetary Fund (IMF):	18		
Reserve Tranche position			
Currency subscription		434,158	389,707
Special Drawing Rights	11	225,614	186,354
Stock of currency	15(a)	107,250	50,187
Other receivables	14	63,108	168,148
Property, plant and equipment	16	1,210,975	706,006
Intangible assets	17	29,122	28,640
<b>Total Assets</b>		<b>15,733,396</b>	<b>14,388,736</b>
<b>Liabilities</b>			
Accrued expenses		54,999	59,307
Due to statutory body		3	3
Due to commercial banks		4,273,327	4,117,679
Due to Government		3,013,177	1,936,710
Due to international institutions and agencies		164,815	383,179
Reserve Bank of Vanuatu notes		1,275,227	1,590,915
IMF – Notes currency subscription		434,158	389,707
Currency in circulation	15 (b)	5,009,762	4,688,956
Other creditors		79,081	60,104
Employee provisions		88,086	57,504
<b>Total Liabilities</b>		<b>14,392,635</b>	<b>13,284,064</b>
<b>Net Assets</b>		<b>1,340,761</b>	<b>1,104,672</b>
<b>Capital and reserves</b>			
Issued capital	19	100,000	100,000
General reserve	4	673,501	640,318
Revaluation reserve	5	267,898	-
Fair Value Reserve	6(b)	74,565	139,557
Asset Revaluation Reserve	6(a)	224,797	224,797
<b>Total Capital and Reserves</b>		<b>1,340,761</b>	<b>1,104,672</b>



# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008 (Expressed in 000's Vatu)

	Notes	2008	2007
<b>Paid up capital</b>			
Balance as at the beginning of the year		100,000	100,000
Movements during the year		-	-
		-----	-----
Balance as at the end of the year		100,000	100,000
		=====	=====
<b>General reserve</b>			
Balance as at the beginning of the year		640,318	613,696
Transfer from profit and loss account			
- Current year profit (Section 7(1))	4	33,183	26,622
		-----	-----
Balance as at the end of the year		673,501	640,318
		=====	=====
<b>Revaluation reserve</b>			
Balance as at the beginning of the year		-	-
Add: Net (loss)/gain arising during the year from translation of foreign currencies to Vatu (Section 25(1))	5	443,817	(108,945)
Add: Non interest bearing securities issued by the Government (Section 25(2))		-	108,945
Less: Redemption of non interest bearing securities issued by the Government (Section 25(3))		(108,945)	-
Less: One fifth of remaining credit balance payable to Government (Section 25(3))		(66,974)	-
		-----	-----
Balance as at the end of the year		267,898	-
		=====	=====
<b>Fair value reserve</b>			
Balance as at the beginning of the year		139,557	-
Fair value gains/(losses)	6(b)	(64,992)	139,557
		-----	-----
Balance as at the end of the year		74,565	139,557
		=====	=====
<b>Asset revaluation reserve</b>			
Balance as at the beginning of the year		224,797	-
Revaluation of land and buildings		-	224,797
		-----	-----
Balance as at the end of the year		224,797	224,797
		=====	=====
<b>Total capital and reserves</b>		<b>1,340,761</b>	<b>1,104,672</b>
		=====	=====

The statement of movements in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 28.



# CASH FLOW STATEMENT

For the year ended 31 December 2008 (Expressed in 000's Vatu)

	Notes	2008	2007
<b>Cash flows from operating activities</b>			
Interest received		767,793	629,615
Interest paid		(72,858)	(79,543)
Other operating receipts		96,916	10,361
Other operating payments		(348,103)	(304,401)
<b>Net cash provided by operating activities</b>	20	443,748	256,032
<b>Cash flows from investing activities</b>			
<i>Net (increase)/decrease in:</i>			
Special drawing rights		(39,260)	(12,916)
Treasury notes and bonds		(1,072,957)	(1,084,431)
Government securities		121,832	(17,632)
Government Bond		468,550	-
Other receivables		104,872	(62,061)
Advances to Commercial Banks		(650,000)	-
Purchase of property, plant and equipment		(529,925)	(277,572)
Purchase of computer software		(4,061)	(29,146)
Proceeds from sale of property plant & equipment		1,450	225
<b>Net cash used in investing activities</b>		(1,599,499)	(1,483,533)
<b>Cash flows from financing activities</b>			
<i>Net increase/(decrease) in:</i>			
Currency in circulation		320,806	787,227
Due to commercial banks		155,648	97,306
Due to Government		710,845	158,517
Due to international institutions and agencies		(218,364)	31,083
Reserve Bank of Vanuatu notes		(315,688)	(194,381)
<b>Net cash provided by financing activities</b>		653,247	879,752
<b>Net (decrease) in cash and cash equivalents</b>		(502,504)	(347,749)
<b>Cash and cash equivalents at the beginning of the financial year</b>	11	7,003,559	7,460,253
Effects of exchange rate changes on foreign currency balances		334,872	(108,945)
<b>Cash and cash equivalents at the end of the financial year</b>	11	6,835,927	7,003,559

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 28.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 1. THE LEGAL FRAMEWORK

The Reserve Bank of Vanuatu ("the Bank") operates under the Reserve Bank 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 Board shall determine the net profit of the Bank for the current financial year after meeting current expenditures and making such provisions as it views appropriate for bad and doubtful debts, depreciation of assets, contributions to staff and pension funds, and other contingencies.

## 2. BASIS AND FORMAT OF PRESENTATION

### (a) Basis of preparation

The financial statements of the Bank have been prepared in accordance with the Reserve Bank of Vanuatu Act and the Bank's accounting policies are based on International Financial Reporting Standards except where the Act requires a different treatment, as noted in Note 3 (b), in which case the Act takes precedence.

The financial statements have been prepared under the historical cost basis as modified by financial assets and liabilities at fair value through profit or loss and/or fair value reserve.

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) rounded to the nearest thousand.

## 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 and income presentation

#### *Operating revenue*

Operating revenue is recognised on an accruals basis and includes interest income, sundry income and profit on foreign exchange dealing with commercial banks.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## **(b) Foreign currency assets and liabilities**

### *Foreign currencies*

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 the year-end.

All unrealized gains arising from the conversion of foreign currencies are taken to the Revaluation Reserve (Note 5) in accordance with the provisions of Section 25 of the RBV Act and are not included in the computation of the annual profits or losses of the Bank.

Net losses arising from the conversion of foreign currencies are set off against any credit balance in the Revaluation Reserve Account. If the balance of this account is insufficient to cover such losses they are offset against any net profit remaining after the transfer to the General Reserve Account has been made in terms of Section 7 of the RBV Act. If these transfers are not adequate to cover such losses, the Government is required to transfer to the ownership of the Bank, non-negotiable non-interest bearing securities to the extent of the deficiency.

Any credit balance in the Revaluation Reserve at the end of each year is applied first to the redemption of any non-negotiable non-interest bearing securities previously transferred to the Bank by the Government to cover losses; thereafter one-fifth of any remaining balance is payable to the Government.

## **(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 Instruments**

### **Financial Assets**

#### *Fair value through profit or loss financial assets*

These financial assets including offshore investment securities such as treasury notes, bonds and bills are carried at fair value through profit or loss and are valued at market bid prices.

#### *Held to Maturity financial assets*

These relates 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 carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in a reserve. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and/or losses.

### **Financial Liabilities**

#### *Other financial liabilities*

The following are classified as financial liabilities: Due to commercial banks, due to government, due to statutory body and currency in circulation. These are valued at cost.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## (e) Property, plant and equipment

### *Acquisitions*

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount.

### *Disposal of assets*

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 result in the year of disposal.

### *Depreciation*

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      |
| • Leasehold land        | 30 - 75 |
| • Plant and equipment   | 3 - 10  |

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

## (f) Intangible Assets

Intangible assets refer to acquired computer software. They are carried at cost less accumulated amortization and any recoverable amount. 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 software development costs are amortized on a straight-line basis over its estimated useful life of 7 years. Any maintenance cost associated with the software is expensed when incurred.

With effect from January 1, 2008, the software's estimated useful life was revised from 3 years to 7 years. The revised depreciation rate better reflects the useful life of the computer software and the effect is a reduction in the depreciation expense for the year by approximately VT7.382m.

## (g) Notes and coins

The cost of notes and coins are initially capitalized. When currency is issued into circulation, the cost of producing such currency is taken up in the income statement.

## (h) Income Tax

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



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## **(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 employee entitlements comprises severance allowance, gratuity and annual leave and represents the present liability resulting from employees' services to the balance sheet date. The provision has been calculated at nominal amounts based on current wage and salary rates.

### *Vanuatu National Provident Fund*

Employer contributions to the above fund are charged against income as incurred.

## **(j) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents include coins, notes, cash at bank, money at call and cash held on short term deposits.

## **(k) Vanuatu Government bonds**

The Government bonds are valued at amortised cost. Due to the present very thin secondary market for such securities in Vanuatu, they are held to maturity by the Bank. Accordingly, they are classified as "held to maturity".

## **(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 income statement. All known bad debts are written off against provisions 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 income statement.

## **(m) Advances to account holders**

Reserve Bank advances are referred to in section 27(d) of the Reserve Bank Act as advances to account holders that the Reserve Bank may grant for periods not exceeding 6 months secured by instruments such as issued bills and notes.

## **(n) Rounding**

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



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 4. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

The requirements of Section 7 of the RBV Act are:

- (a) that half the net profit be transferred to the general reserve until the balance thereof is equal to the authorised capital.
- (b) that once the balance of the general reserve is equal to the authorized capital, 10% of the net profit be transferred to the general reserve.
- (c) that after allocation of the net profit as above, the balance be applied towards the redemption on behalf of the Government of any securities held by the Reserve Bank which have been issued in accordance with Section 25 (2) in addition to those issued pursuant to Section 5 (4).
- (d) that the balance of the net profit for the financial year remaining after all deductions as above be paid to the Government.

## 5. REVALUATION RESERVE

At the balance sheet date any credit balance in the Revaluation Reserve is to be applied first towards the redemption of Government non interest bearing securities issued to the Bank in respect of previous years' losses. If the remaining balance is greater than VT5 million, 20% of that balance is to be paid to Government, to be used for such purposes as the Government, after consultation with the Bank, may decide. However, if the remaining balance does not exceed VT5 million, it is to be paid in full to Government.

At 31 December 2008, there was a net revaluation gain of Vt443.817 million. According to Section 25(3), any credit balance in the Revaluation Reserve account at the end of the financial year is to be applied first to the securities issued by the Government and one fifth of this balance which is VT66.974 million is payable to the Government to be used for such purposes as the Government decides. The residual net profit is payable to the Government of Vanuatu.

## 6. OTHER RESERVES

### (a) Asset Revaluation Reserve

The reserve relates to the revaluation of the Bank's land and building in 2007.

### (b) Fair value reserve

The reserve is to account for fair value movements arising from changes in the valuation of the investments in the Bank for International Settlements (BIS).



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 7. INTEREST INCOME

	2008	2007
Overseas	630,975	574,476
Domestic	34,717	67,688
Staff loans & advances	5,625	5,661
	<u>671,317</u>	<u>647,825</u>

## 8. INTEREST EXPENSE

	2008	2007
Interest on Government accounts	27,700	19,222
Interest on Reserve Bank of Vanuatu notes	38,826	53,686
Other	3,414	-
	<u>69,940</u>	<u>72,908</u>

## 9. OPERATING EXPENSES

	2008	2007
Auditor's remuneration	3,250	4,303
Depreciation and amortization	26,518	19,519
Funds managers' fee	6,319	6,185
Loss on sale of bonds	-	47,287
Amortisation of currency costs – refer note 15	25,842	22,804
Communication expenses	13,390	12,842
Bad debt expense	168	7,053
Other expenses	55,629	41,247
	<u>131,116</u>	<u>161,240</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 10. PERSONNEL EXPENSES

	2008	2007
Salaries and wages	125,788	89,855
Superannuation contribution (VNPF)	5,074	3,622
Staff training	15,608	20,480
Severance pay, long service leave, annual leave and gratuity expense	42,093	22,866
Other	46,784	50,118
	<u>235,347</u>	<u>186,941</u>

## 11. EXTERNAL ASSETS

Under the provisions of Section 23 of the RBV Act, the value of the External Reserves provided for in Section 22 shall not be less than 50% of the total demand liabilities of the Bank. At 31 December 2008, the value of the external reserves was 89.5% (2007: 90.7%) of total demand liabilities.

(a) External assets consists of the following:

	2008	2007
Cash	5,384	518
Current and call accounts	1,385,447	1,293,790
Short term deposits	5,445,096	5,709,251
Total cash and cash equivalents	<u>6,835,927</u>	<u>7,003,559</u>
Investment securities at market value – bonds	5,432,704	4,362,302
Special drawings rights	225,614	186,354
Total external assets	<u>12,494,245</u>	<u>11,552,215</u>

(b) External assets are defined by the Act as including any internationally recognized reserve asset. In these financial statements, external assets also include fully convertible foreign currency balances equivalent to VT74.333million (2007 – Vt16.615million) held with local banks in Vanuatu.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 12. GOVERNMENT NON-NEGOTIABLE SECURITIES ISSUED TO THE BANK

	2008	2007
Balance at the beginning of the financial year	411,101	339,184
Non interest bearing securities issued by the Government (Section 25(2))	-	108,945
Redemption of non interest bearing securities issued by the Government (Section 25(3))	(108,945)	(25,764)
IMF remuneration credit	(75,324)	(11,264)
Balance at the end of the financial year	<u>226,832</u>	<u>411,101</u>

At 31 December 2007, an amount of Vt108.9 million of non interest bearing securities were issued by the Government to cover for the deficiency in the Revaluation Reserve. These securities were redeemed in 2008 as required under Section 25(3) of the RBV Act.

IMF remuneration credits and revaluation adjustments received of Vt11.264 million in 2007 and Vt75.324 million in 2008 were used to redeem the non interest bearing securities that were issued in accordance with section 37(3) of the RBV Act, whereby the Reserve Bank has been authorized by the Government to make advances in respect of subscription as membership to the International Monetary Fund.

## 13. GOVERNMENT BONDS

These securities which are valued in accordance with note 3(k) of the financial statements, have varying maturity dates up to 2019. The maturities are set out below:

	2008	2007
<i>Maturities of securities are summarised as follows:</i>		
Not later than 1 year	-	562,500
Between 1 and 2 years	-	-
Between 2 and 5 years	350,000	-
Later than 5 years	43,950	300,000
	<u>393,950</u>	<u>862,500</u>

## 14. OTHER RECEIVABLES

	2008	2007
Loans and advances	62,178	83,415
Sundry debtors	654	272
Uncleared cheques	-	84,434
Other	276	27
	<u>63,108</u>	<u>168,148</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 15. CURRENCY ACTIVITIES

### (a) Stock of currency (notes and coins)

	2008	2007
Balance at the beginning of the financial year	50,187	70,329
Cost of new currencies	82,905	2,662
Less: Issued into circulation	(25,842)	(22,804)
	<u>107,250</u>	<u>50,187</u>

Currency costs are treated in accordance with accounting policy in note 3(g).

### (b) Currency issued into circulation during the year

Notes	4,423,785	4,123,739
Coins	585,977	565,217
	<u>5,009,762</u>	<u>4,688,956</u>

## 16. PROPERTY, PLANT AND EQUIPMENT

The depreciation policies adopted are set out in note 3(e).

	Land and Buildings	Computer and Equipment	Other	Work in Progress	Total (VT'000)
<b>Cost/Valuation</b>					
Opening balance	291,900	99,275	38,361	388,909	818,445
Transferred from WIP	388,909	-	-	(388,909)	-
Additions	377,282	86,470	66,173	-	529,925
Disposals	-	-	(18,626)	-	(18,626)
<b>Closing balance 31.12.08</b>	<b>1,058,091</b>	<b>185,745</b>	<b>85,908</b>	<b>-</b>	<b>1,329,744</b>
<b>Accumulated Depreciation</b>					
Opening balance	6,940	74,883	30,616	-	112,439
Revaluation	-	-	-	-	-
Charges for the Year	7,925	10,466	4,548	-	22,939
Disposals	-	-	(16,609)	-	(16,609)
<b>Closing balance 31.12.08</b>	<b>14,865</b>	<b>85,349</b>	<b>18,555</b>	<b>-</b>	<b>118,769</b>
<b>Net Book Value 31.12.08</b>	<b>1,043,226</b>	<b>100,396</b>	<b>67,353</b>	<b>-</b>	<b>1,210,975</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 17. INTANGIBLE ASSETS

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

As at 31 December 2007	Computer Software
Cost	30,080
Accumulated Amortisation	1,440
<b>Net Book Value</b>	<b>28,640</b>
<hr/>	
For the Year Ended 31 December 2008	
Net Book Value at the Beginning of the Year	28,640
Add: Additions	4,061
Less: Amortisation	(3,579)
<b>Net Book Value as at 31 December 2008</b>	<b>29,122</b>
<hr/>	
As at 31 December 2008	
Cost	34,141
Accumulated Amortisation	5,019
<b>Net Book Value</b>	<b>29,122</b>

The accounting policy adopted is set out in note 3(f).

## 18. 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;
  - (ii) the funding of accounts in favour of the IMF in the books of the Bank by the Government.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 19. SHARE CAPITAL

	2008	2007
Authorised capital of 400,000,000 ordinary shares	400,000	400,000
Issued and paid-up capital of 100,000,000 ordinary shares	100,000	100,000

## 20. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2008	2007
<b>Operating profit</b>	331,830	266,217
<i>Non cash items</i>		
Depreciation	26,518	19,519
Bad debts	168	7,053
Amortisation of Currency	25,842	22,804
Profit on sale of property, plant & equipment	567	(225)
Gain/loss on change in fair value	(62,437)	(28,896)
<i>Net (increase)/decrease in assets</i>		
Interest receivable	96,476	(47,105)
Other receivable	105,040	(7,053)
Currency payments	(57,063)	(2,662)
<i>Net (decrease)/increase in liabilities</i>		
Accrued expenses	(23,192)	26,380
<b>Net cash provided by operating activities</b>	443,749	256,032

## 21. RELATED PARTIES

### *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 were Jeffrey Wilfred (Chairman), Odo Tevi, Peter Sali and Ruth Dovo.

During the year, the following executives were identified as key management personnel of the Bank: Odo Tevi (Governor), Peter Tari (Deputy Governor), Nelson Shem (Director Corporate Services), Branan Karae (Director Accounts and Customer Services), Philip Arubilake (Director Research and Statistics), Michael Hililan (Director Financial Markets) and Noel Vari (Director Bank Supervision).



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 21. RELATED PARTIES – continued

### *Transactions with related parties*

In the normal course of its operations, the Bank enters into transactions with related parties identified above.

The transactions with the Government of the Republic of Vanuatu include banking services, foreign exchange transactions and registry transactions.

The Directors are paid sitting allowances for services rendered. The Bank also provides non-cash benefits to the Executive Directors and executive officers in addition to their salaries.

Total remuneration is included in 'personnel expenses' as follows:

	2008	2007
Directors' fees and remuneration	375	675
Executive officers	44,372	12,684
	-----	-----
	44,747	13,359
	=====	=====

## 22. EMPLOYEES

The number of full time permanent employees as at 31 December 2008 was 72 (2007: 66).

## 23. CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities at balance sheet date (2007: nil).

## 24. RISK MANAGEMENT POLICIES

Exposure to operational, credit, liquidity, interest rate, and foreign currency risk arises in the normal course of the Bank's operations. The structure of the Bank's balance sheet is primarily determined by the nature of its statutory functions, rather than commercial considerations. 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 instructions, and closely monitored by the Board.

Operating risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operating risk.

Material financial instruments to which the bank has exposure include:

- (i) External assets
- (ii) Other liabilities.

### **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. Foreign 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.

At balance sheet date there were no significant concentrations of credit risk.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. 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 to meet payments.

The following tables show assets and liabilities at 31 December 2008 (and 2007 comparatives) grouped by remaining contractual maturity.

## 2008 Liquidity Risk

	0 – 3 months	3 – 6 months	6 – 12 months	Over 1 year	No specific maturity	Total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	6,835,927	-	-	-	-	6,835,927
Treasury notes, bonds & bills	-	-	272,475	5,160,229	-	5,432,704
Government securities	-	-	-	226,832	-	226,832
Government bonds	-	-	-	393,950	-	393,950
Advances to account holders	-	650,000	-	-	-	650,000
Interest receivable	82,992	16,734	24,030	-	-	123,756
Special Drawing Rights	-	-	-	-	225,614	225,614
Stock of Currency	-	-	-	107,250	-	107,250
Other receivables	927	3,392	-	58,789	-	63,108
Property, plant and equipment	-	-	-	-	1,210,975	1,210,975
Intangible assets	-	-	-	-	29,122	29,122
<b>Total</b>	<b>6,919,846</b>	<b>670,126</b>	<b>296,505</b>	<b>5,947,050</b>	<b>1,465,711</b>	<b>15,299,238</b>
Accrued expenses	8,275	46,724	-	-	-	54,999
Due to statutory bodies	3	-	-	-	-	3
Due to commercial banks	4,273,327	-	-	-	-	4,273,327
Due to Government	774,539	312,670	1,925,968	-	-	3,013,177
Due to international institutions	37,015	-	-	127,800	-	164,815
Reserve Bank of Vanuatu Notes	1,275,227	-	-	-	-	1,275,227
Currency in circulation	5,009,762	-	-	-	-	5,009,762
Other creditors	32,019	47,062	-	-	-	79,081
Employee provisions	7,308	-	-	80,778	-	88,086
<b>Total</b>	<b>11,417,475</b>	<b>406,456</b>	<b>1,925,968</b>	<b>208,578</b>	<b>-</b>	<b>13,958,477</b>
<b>Net Liquidity (Surplus/Deficit)</b>	<b>(4,497,629)</b>	<b>263,670</b>	<b>(1,629,463)</b>	<b>5,738,472</b>	<b>1,465,711</b>	<b>1,340,761</b>
<b>CUMULATED NET LIQUIDITY</b>						<b>1,340,761</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 2007 Liquidity Risk

	0 – 3 months	3 – 6 months	6 – 12 Months	Over 1 year	No specific maturity	Total
<b>CURRENT ASSETS</b>						
Cash and cash Equivalents	7,003,559	-	-	-	-	7,003,559
Treasury notes, bonds & bills	-	49,380	276,876	4,036,046	-	4,362,302
Government securities	-	-	-	411,101	-	411,101
Government bonds	562,500	-	-	300,000	-	862,500
Interest receivable	87,310	132,880	42	-	-	220,232
Special Drawing Rights	-	-	-	-	186,354	186,354
Stock of currency	-	-	-	50,187	-	50,187
Other receivables	77,530	6,560	-	84,058	-	168,148
Property, plant and equipment	-	-	-	-	706,006	706,006
Intangible assets	-	-	-	-	28,640	28,640
<b>Total (Current)</b>	<b>7,730,899</b>	<b>188,820</b>	<b>276,918</b>	<b>4,881,392</b>	<b>921,000</b>	<b>13,999,029</b>
<b>Liabilities</b>						
Accrued expenses	21,647	-	-	37,660	-	59,307
Due to statutory bodies	3	-	-	-	-	3
Due to commercial banks	4,117,679	-	-	-	-	4,117,679
Due to Government	99,671	1,272,484	564,555	-	-	1,936,710
Due to international institutions	121,089	-	262,090	-	-	383,179
Reserve Bank of Vanuatu Notes	1,590,915	-	-	-	-	1,590,915
Currency in circulation	4,688,956	-	-	-	-	4,688,956
Other creditors	60,104	-	-	-	-	60,104
Employee provisions	-	-	6,045	51,459	-	57,504
	<b>10,700,064</b>	<b>1,272,484</b>	<b>832,690</b>	<b>89,119</b>	<b>-</b>	<b>12,894,357</b>
<b>Net Liquidity(Surplus/Deficit)</b>	<b>(2,969,165)</b>	<b>(1,083,664)</b>	<b>(555,772)</b>	<b>4,792,273</b>	<b>921,000</b>	<b>1,104,672</b>
<b>CUMULATED NET LIQUIDITY</b>						<b>1,104,672</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## Interest rate risk

The bank's exposure to interest rate risk and the effective 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 90 days or less.
Treasury notes and bonds	-	fixed interest rates, maturing in 9 years or less.
Vanuatu government bonds	-	fixed interest rates, maturing as detailed in note 10.
Staff loans	-	fixed interest rates, maturing in 20 years 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
- Account No.1		
- Redemption of bonds.		

### Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less.
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All other financial assets or financial liabilities are non-interest bearing.

## 2008 Interest rate Risk

	Fixed Coupon Instruments-2008				Non interest bearing	As At 31.12.08
	Less than 1 month	1 – 3 months	3 – 12 months	Over 1 year		
<b>ASSETS</b>						
Cash and cash equivalents	4,802,295	1,911,991	121,641	-	-	6,835,927
Treasury notes, bonds and bills	-	-	262,475	5,170,229	-	5,432,704
Government securities	-	-	-	-	226,832	226,832
Government bonds	-	-	-	393,950	-	393,950
Advances to account holders	-	650,000	-	-	-	650,000
Interest receivable	39,832	72,091	11,833	-	-	123,756
Special Drawings Rights	-	-	-	225,614	-	225,614
Stock of currency	-	-	-	-	107,250	107,250
Other receivables	-	-	3,392	58,789	927	63,108
Property, plant and equipment	-	-	-	-	1,210,975	1,210,975
Intangible assets	-	-	-	-	29,122	29,122
	<b>4,842,127</b>	<b>2,634,082</b>	<b>399,341</b>	<b>5,848,582</b>	<b>1,575,106</b>	<b>15,299,238</b>
<b>LIABILITIES</b>						
Accrued expenses	-	-	-	-	54,999	54,999
Due to statutory bodies	3	-	-	-	-	3
Due to commercial banks	-	-	-	-	4,273,327	4,273,327
Due to Government	578,602	-	-	-	2,434,575	3,013,177
Due to international institutions	-	-	-	-	164,815	164,815
Reserve Bank of Vanuatu notes	199,537	1,075,690	-	-	-	1,275,227
Currency in circulation	-	-	-	-	5,009,762	5,009,762
Other creditors	-	-	-	-	79,081	79,081
Employee provisions	-	-	-	-	88,086	88,086
	<b>778,142</b>	<b>1,075,690</b>	<b>-</b>	<b>-</b>	<b>12,104,645</b>	<b>13,958,477</b>
<b>EQUITY</b>						
Issued Capital	-	-	-	-	100,000	100,000
Asset Revaluation Reserve	-	-	-	-	224,797	224,797
Fair Value Reserve	-	-	-	-	74,565	74,565
General Reserve	-	-	-	-	673,501	673,501
Revaluation Reserve	-	-	-	-	267,898	267,898
Total Equity	-	-	-	-	<b>1,340,761</b>	<b>1,340,761</b>
<b>Total Equity and Liabilities</b>	<b>778,142</b>	<b>1,075,690</b>	<b>-</b>	<b>-</b>	<b>13,445,406</b>	<b>15,299,238</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 2007 Interest rate Risk

### Fixed Coupon Instruments-2007

	Less than 1 month	1 – 3 months	3 – 12 months	Over 1 year	Non interest bearing	As At 31.12.08
<b>ASSETS</b>						
Cash and cash equivalents	4,207,938	2,795,621	-	-	-	7,003,559
Treasury notes, bonds and bills	-	39,172	-	4,323,130	-	4,362,302
Government securities	-	-	-	-	411,101	411,101
Government bonds	562,500	-	-	300,000	-	862,500
Interest receivable	87,310	132,922	-	-	-	220,232
Special Drawings Rights	-	-	-	186,354	-	186,354
Stock of Currency	-	-	-	-	50,187	50,187
Other receivables	-	-	2,509	84,058	81,581	168,148
Property, plant and equipment	-	-	-	-	706,006	706,006
Intangible assets	-	-	-	-	28,640	28,640
	<b>4,857,748</b>	<b>2,967,715</b>	<b>2,509</b>	<b>4,893,542</b>	<b>1,277,515</b>	<b>13,999,029</b>
<b>LIABILITIES</b>						
Accrued expenses	-	-	-	-	59,307	59,307
Due to statutory bodies	3	-	-	-	-	3
Due to commercial banks	-	-	-	-	4,117,679	4,117,679
Due to Government	53,835	545,301	-	-	1,337,574	1,936,710
Due to international institutions	-	-	-	-	383,179	383,179
Reserve Bank of Vanuatu notes	896,306	694,609	-	-	-	1,590,915
Currency in circulation	-	-	-	-	4,688,956	4,688,956
Other creditors	-	-	-	-	60,104	60,104
Employee provisions	-	-	-	-	57,504	57,504
	<b>950,144</b>	<b>1,239,910</b>	<b>-</b>	<b>-</b>	<b>10,704,303</b>	<b>12,894,357</b>
<b>EQUITY</b>						
Issued Capital	-	-	-	-	100,000	100,000
Asset Revaluation Reserve	-	-	-	-	139,557	139,557
Fair Value Reserve	-	-	-	-	224,797	224,797
General Reserve	-	-	-	-	640,318	640,318
Revaluation Reserve	-	-	-	-	-	-
Total Equity	-	-	-	-	<b>1,104,672</b>	<b>1,104,672</b>
<b>Total Equity and Liabilities</b>	<b>950,144</b>	<b>1,239,910</b>	<b>-</b>	<b>-</b>	<b>11,808,975</b>	<b>13,999,029</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## Foreign Currency risk

Foreign currency risk is the risk the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on holdings of financial assets (principally external assets) that are denominated in a currency other than Vatu. The currencies giving rise to the risk are disclosed within the investment guidelines of the Bank.

The Bank does not hedge its exposure to exchange fluctuations in these currencies.

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

The following tables show the currency concentration of RBV assets and liabilities as at 31 December 2008 and 2007 comparatives. (In Vatu equivalents)

## 2008 Foreign Currency Risk

	USD	EUR	YEN	GBP	Other	Total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	1,107,747	2,500,948	2,175	283,825	2,935,848	6,830,543
Treasury notes, bonds & bills	3,018,238	2,222,256	90,707	65,725	35,778	5,432,704
Government securities	-	-	-	-	-	-
Government bonds	-	-	-	-	-	-
Advances to account holders	-	-	-	-	-	-
Interest receivable	29,648	32,297	-	1,281	43,609	106,835
Special Drawing Rights	-	-	-	-	225,614	225,614
Stock of Currency	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
<b>Total Assets</b>	<b>4,155,633</b>	<b>4,755,501</b>	<b>92,882</b>	<b>350,831</b>	<b>3,240,849</b>	<b>12,595,696</b>
<b>Current Liabilities</b>						
Accrued expenses	-	-	-	-	-	-
Due to statutory bodies	-	-	-	-	-	-
Due to commercial banks	-	-	-	-	-	-
Due to Government	17,409	-	-	-	-	17,409
Due to international institutions	-	33,774	-	-	-	33,774
Reserve Bank of Vanuatu Notes	-	-	-	-	-	-
Currency in circulation	-	-	-	-	-	-
Other creditors	-	-	-	-	-	-
Employee provisions	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>17,409</b>	<b>33,774</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,183</b>
<b>NET POSITION</b>	<b>4,138,224</b>	<b>4,721,727</b>	<b>92,882</b>	<b>350,831</b>	<b>3,240,849</b>	<b>12,544,513</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 2007 Foreign Currency Risk

	USD	EUR	YEN	GBP	Other	Total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	1,423,592	2,371,330	1,569	341,161	2,865,390	7,003,042
Treasury notes, bonds & bills	2,359,863	1,809,535	64,551	87,604	40,749	4,362,302
Government securities	-	-	-	-	-	-
Government bonds	-	-	-	-	-	-
Interest receivable	79,175	58,593	-	1,951	27,152	166,871
Special Drawing Rights	-	-	-	-	186,354	186,354
Stock of Currency	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
<b>Total Assets</b>	<b>3,862,630</b>	<b>4,239,458</b>	<b>66,120</b>	<b>430,716</b>	<b>3,119,645</b>	<b>11,718,569</b>
<b>Current Liabilities</b>						
Accrued expenses	-	-	-	-	-	-
Due to statutory bodies	-	-	-	-	-	-
Due to commercial banks	-	-	-	-	-	-
Due to Government	-	-	-	-	-	-
Due to international institutions	-	117,781	-	-	-	117,781
Reserve Bank of Vanuatu Notes	-	-	-	-	-	-
Currency in circulation	-	-	-	-	-	-
Other creditors	-	-	-	-	-	-
Employee provisions	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>117,781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,781</b>
<b>NET POSITION</b>	<b>3,862,630</b>	<b>4,121,677</b>	<b>66,120</b>	<b>430,716</b>	<b>3,119,645</b>	<b>11,600,788</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the Year ended 31 December 2008 (Expressed in 000's Vatu)

## 25. 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.

Quoted market values represent fair value when a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader.

### **Financial Assets and Liabilities**

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

#### *Treasury notes, bonds & bills*

The reported value of external reserves is considered to be its fair value due to the short term nature of the financial assets. Bonds are valued at mark to market.

#### *Government bonds*

The reported value of external reserves is considered to be its fair value.

#### *Demand Deposits*

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

#### *Reserve Bank of Vanuatu Notes*

The carrying value of the Reserve Bank of Vanuatu Notes are considered to approximate their fair value as they are redeemable on demand 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 its fair value.

## 26. EVENTS OCCURRING AFTER BALANCE DATE

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





**100 VATU**



**200 VATU**



**500 VATU**



**1000 VATU**



**5000 VATU**

## **RESERVE BANK OF VANUATU**

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**00678 23333**



