

Reserve Bank of Fiji

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**ANNUAL REPORT 2014**

## Our Vision

Leading Fiji to Economic Success

## Our Mission

- Enhance our role in the development of the economy
- Provide proactive and sound advice to Government
- Develop an internationally reputable financial system
- Conduct monetary policy to foster economic growth
- Disseminate timely and quality information
- Recruit, develop and retain a professional team

## Our Values

- Professionalism in the execution of our duties
- Respect for our colleagues
- Integrity in our dealings
- Dynamism in addressing our customers' needs
- Excellence in everything

## The principal purposes of the Reserve Bank shall be

- to regulate the issue of currency, and the supply, availability and international exchange of money;
- to promote monetary stability;
- to promote a sound financial structure;
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country;
- to regulate the insurance industry; and
- to regulate the capital markets and the securities industry.

*Section 4, Reserve Bank of Fiji Act (1983) and the Reserve Bank of Fiji (Amendment) Decree 2009*



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## RESERVE BANK OF FIJI



Governor

31 March 2015

The Honorable Minister for Finance  
Hon. Aiyaz Sayed-Khaiyum  
Minister for Finance  
Ministry of Finance  
Ro Lalabalavu House  
Victoria Parade  
SUVA

Dear Sir

### **RBF Annual Report and Accounts 2014**

In terms of Section 56(1) of the Reserve Bank of Fiji Act 1983, and on behalf of the Reserve Bank of Fiji, I submit the following: -

- (i) A copy of the RBF Accounts for the year ended 31 December 2014 certified by the Auditors.
- (ii) A report on the RBF's Operations for the 2014 fiscal year.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Barry Whiteside'.

**Barry Whiteside**  
Governor

## Our Functions

*The Reserve Bank of Fiji (RBF) is the country's central bank.*

### Monetary Policy

Under Section 4(b) of the RBF Act (1983), the Bank is required to promote monetary stability through low and stable inflation and to maintain an adequate level of foreign reserves. The Bank performs this responsibility through the formulation and implementation of monetary policy. Policy tools include the Overnight Policy Rate (OPR), open market operations (OMO), statutory reserve deposits, and other direct and indirect controls which have been used at various times.

In managing the country's foreign reserves, the Reserve Bank also utilises and administers exchange control policies under the Exchange Control Act (Rev. 1985).

### Financial Stability

Under Section 4(c), the RBF Act requires the Bank to promote a sound financial structure. In undertaking this function, the Bank monitors and takes actions to mitigate against financial system risks, and licenses and supervises institutions in the banking, insurance and superannuation industries, as well as foreign exchange dealers.

In addition to the legislative requirement for these industries, supervised institutions are required to comply with prudential policies and guidelines issued by the Bank. These policies and guidelines complement the Bank's supervisory function with the aim of fostering financial stability and ensuring the soundness of supervised institutions. Supervised institutions are required to comply with the RBF Act, Banking Act (1995), Insurance Act (1998), the Fiji National Provident Fund Decree (2011) and the Exchange Control Act (Rev. 1985).

As part of its mandate to ensure financial stability, macroprudential monitoring is undertaken to maintain systemic stability. The Bank identifies and takes steps to mitigate and counter growing risks in the financial system.

Maintaining financial stability also encompasses the responsibility of combating money laundering and terrorist financing under the Financial Transactions Reporting (FTR) Act (2004) and the FTR Regulations (2007).

To achieve these requirements, the Bank registers and licenses financial institutions and uses a risk based supervision system. The Reserve Bank acts as banker to the commercial banks and provides payment and settlement services through FIJICLEAR. This is administered under the Payment and Settlement Systems Oversight Regulations (2004).

The Bank is also responsible for regulating, supervising and developing the capital markets in Fiji under the Capital Markets Decree (2009).

### Currency

Pursuant to Section 22(1) of the RBF Act, the Bank has the sole right to issue currency in Fiji. The Reserve Bank is the sole entity responsible for the printing of notes and minting of coins and is also responsible for the destruction and disposal of used and unserviceable notes and coins. The Reserve Bank also determines the denominational structure, design, content, material and composition of Fiji's currency, subject to the approval of the Minister for Finance.

### Other

The Reserve Bank provides banking, registry and foreign exchange services to Government and is a lender of last resort to the commercial banks. Policy advice to Government is provided through participation in various committees and on request.

The Bank also drives and facilitates projects in the areas of microfinance, mobile banking, financial literacy, complaints management and local value-adding. In addition, financial system development and financial inclusion initiatives are promoted.

The Bank's organisation structure is illustrated on page 6. Details of the Reserve Bank Board of Directors are provided on page 8 and the roles of the Board, Management and Governance structure are described on pages 10 to 13.

## Governor's Foreword

*Economic activity in Fiji expanded for the fifth consecutive year in 2014 on the back of strong investment and consumption activity, a feat last experienced in the early 1990s. Some important national industries performed well, with tourism achieving record visitor arrivals and sugar continuing its strong recovery phase. The successful conclusion of the general elections in September further boosted confidence in the domestic economy and paved the way for the re-engagement with traditional and multilateral lending and donor agencies.*



The Fijian economy expanded by an estimated 4.5 percent in 2014 with strong contributions from the financial & insurance activities; manufacturing; construction; information & communication; agriculture and the wholesale & retail trade sectors. Aggregate demand remained robust throughout the year as consumption and investment spending expanded, aided by historically low interest rates, improved confidence and the expansionary fiscal stance of the Fijian Government.

Despite the robust economic conditions, the Reserve Bank's monetary policy objectives of an adequate level of foreign reserves and low inflation remained intact throughout 2014. Foreign reserves benefitted from high tourism earnings and inward remittances which reached a new record of \$383.2 million at the end of the year. The low inflation outcome throughout most of 2014 was underpinned by the free primary and secondary school tuition policy of Government and subdued commodity prices internationally. As a result, the Bank was able to continue its accommodative monetary policy stance throughout the year by maintaining the Overnight Policy Rate at 0.5 percent.

Fiji's financial system remained sound and stable in 2014. Given the double-digit growth in private sector credit, the Reserve Bank closely monitored the quality of commercial banks' loan books. Capital positions and earnings of the banking industry were satisfactory in 2014 while non-performing loans remained low by international standards. The insurance industry also met the solvency requirements and recorded satisfactory earnings given that there were no major natural catastrophic events in 2014. The reforms undertaken by the Fiji National Provident Fund continued and progress was noted in its rehabilitated investments.

The Bank also consulted key stakeholders during the year to identify and prioritise the development needs of the financial system. In addition, the Bank partnered with the Fiji Bureau of Statistics and the Pacific Financial Inclusion Programme to conduct a National Demand Survey to establish baseline data relating to access, usage, and quality of financial services and products among Fijians. The Bank continues to recognise the efforts of microfinance achievers in 2014 and continued to reach out to the unbanked population through expositions in the rural areas.

Work also commenced on legislating Fiji's payment system to ensure effectiveness and efficiency. On the

currency front, the Bank issued an improved \$2 coin for circulation to ensure better differentiation with the \$1 coin.

I am pleased to highlight that the Bank hosted a few regional and global meetings in 2014. These included the annual Steering Committee meeting of Pacific Financial Technical Assistance Centre (PFTAC) in Fiji, annual South Pacific Central Bank Governors' Meeting, the 12th Meeting of the Pacific Islands Inclusion Working Group and the 4th Meeting of the Financial Inclusion Strategy Peer Learning Working Group. The latter two are a part of the Alliance for Financial Inclusion, a global body of nearly 100 member countries dedicated to financial inclusion and eradication of poverty.

Capacity building is crucial for the sustainability of the Bank and in 2014 we continued to train staff locally and abroad. After a lapse of 14 years, a bankwide job evaluation exercise was also conducted in 2014 which resulted in the sizing and evaluation of all established positions within the Bank's structure. The Bank also developed a Human Resources Strategic Plan in 2014 to encourage process improvements, increase effectiveness and employee engagement and satisfaction.

In line with the Information Technology (IT) Strategic Plan, the Bank developed the IT Risk Management, Governance and Security Framework and the Server Optimisation Guidelines in 2014 to ensure the prudential management of IT resources.

Risk management is an integral aspect of the Reserve Bank's daily operations. A new Group was established in 2014 to add a second layer of defense in the management of risks. In its first year of operation, a bankwide risk register was compiled and this was reviewed quarterly.

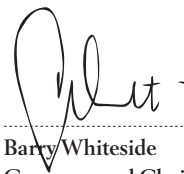
The Bank commenced work to refurbish the exterior of the RBF Building, the first since its opening in July 1984. The new exterior cladding will not change the historical look of the building and is expected to last for another 25 years.

The Bank continued to engage in corporate social responsibility and reach out to the community in 2014. These included the part sponsorship of Fiji Development Bank's Small and Medium Enterprises Award, Investment Fiji's Prime Minister's Exporter of the Year Award for Agriculture and Microfinance Awards. The Bank and staff also made donations either in cash or kind to various charitable organisations.

The divergent and multi-speed monetary policy actions among major global central banks posed a major challenge for the management of foreign reserves in 2014. As a result of the historical low interest rates in our major trading partner countries, income from foreign reserves which is the principal source of revenue for the Bank declined slightly. Nonetheless, the Bank recorded a profit of \$28.5 million in 2014 by containing its operating costs to around a similar level as incurred in the preceding year.

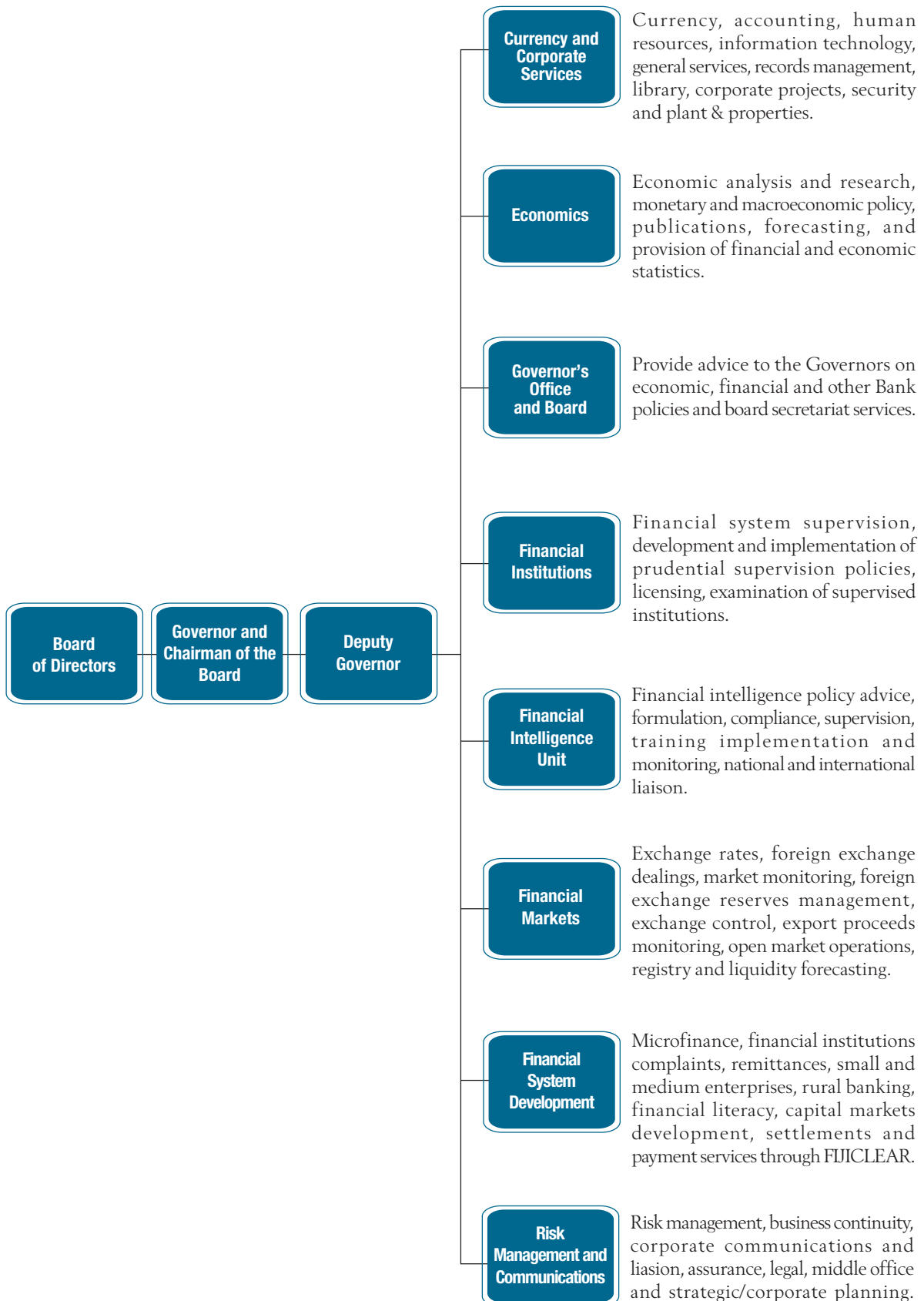
The profit in the 2013 financial year was \$31.9 million. The Bank will transfer its entire profit to Government and one-fifth of the Revaluation Reserve Account, which amounts to \$6.7 million, in accordance with the Reserve Bank of Fiji Act (1983).

I would like to take this opportunity to thank the Board of Directors, the staff and all stakeholders for their support and guidance in 2014 and helping the Reserve Bank achieve all its objectives.



**Barry Whiteside**  
Governor and Chairman of the Board

## Organisation Structure








The Bank commenced work to refurbish the exterior of the RBF Building, the first since its opening in July 1984. The new exterior cladding will not change the historical look of the building and is expected to last for another 25 years.





## Board of Directors



**1. Barry Whiteside**  
Governor and Chairman of the Board

Appointed as Governor on 5 May 2011. Reappointed with effect from 28 May 2014 for three years. Alternate Governor for Fiji at the International Monetary Fund and the Asian Development Bank. Former Deputy Chairman of the Capital Markets Development Authority. Chairman of the Macroeconomic Policy Committee. Chairman of the Capital Markets Development Taskforce. Chairman of the National Financial Inclusion Taskforce. Member of the National Anti-Money Laundering Council. President of the Fiji Badminton Association.

**2. Filimone Waqabaca**  
Permanent Secretary  
Ministry of Finance  
(Ex-officio)

Appointed to the Board on 7 February 2011. Member of the Board Governance Committee. Former Advisor to the Executive Director at the International Monetary Fund. Chairman of Air Terminal Services. Chairman of the Fiji Rugby Union and Tax Agents Board. Board Director of the Fiji Revenue & Customs Authority and Fiji National Sports Commission. Member of the University of the South Pacific Council, Fiji National University Council, Macroeconomic Policy Committee, National Employment Centre, National Financial Inclusion Taskforce, National Disaster Management Council and National Housing Council. Alternate Governor for Fiji at the World Bank.

**3. Iowane Naiveli**  
Director

Appointed to the Board on 1 January 2000. Chairman of the Reserve Bank of Fiji Board Governance Committee. Sole Partner of I. Naiveli & Company, Chartered Accountants. Chairman of Fijian Holdings Limited. Former Chairman of the External Committee of the International Monetary Fund. Former President of the Fiji Institute of Accountants. Financial Advisor to the iTaukei Affairs Board and Trustee of Unit Trust of Fiji. Member of the University of the South Pacific Council and Chairman of the Council's Audit and Risk Sub-Committee. Member of the Australian Institute of Directors (Fiji Chapter). Term expired on 31 December 2014.

**4. Deo Saran**  
Director

Appointed to the Board on 11 February 2009. Term expired on 11 February 2012 and renewed for another 3 years. Chairman of the Board Audit and Risk Committee. Former Chief Executive Officer of the Fiji Sugar Corporation Limited and former President of the Fiji Institute of Accountants. Served on the Stakeholder Council of the Global Reporting Initiative. Board Member and Treasurer of the Foundation for Rural Integrated Enterprise and Development. Deputy Chairman of the Australian Institute of Company Directors (Fiji Chapter).

**5. Pradeep Patel**  
Director

Appointed to the Board on 9 June 2014 for three years. Member of the Board Audit and Risk Committee and the Board Governance Committee. Senior Partner of BDO, Chartered Accountants. Member of the Information Technology and Computing Services Steering Committee. Member of the Capital Markets Development Taskforce set up by the Reserve Bank of Fiji. Former President of the Fiji Institute of Accountants. Member of the Standards Committee of the Fiji Institute of Accountants and has previously served on numerous committees of the Fiji Institute of Accountants, including Business & Government Committee, Law Review Committee and Disciplinary Committee.

**6. Tevita Kuruvakadua**  
Director

Appointed to the Board on 9 June 2014 for three years. Member of the Board Audit and Risk Committee. Deputy General Manager Corporate, Innovation and Productivity, iTaukei Land Trust Board. Board Chairman of the Fiji Ports Corporation Limited. Board Member of Telecom Fiji Limited and the Fiji National Provident Fund.

**Robin Yarrow**

Served as a Board Director from 5 August 2005 to 9 June 2014.

**Dr Esther Williams**

Served as a Board Director from 3 March 2013 to 9 June 2014.

**Dr Mahendra Reddy**

Appointed as a Board Director with effect from 3 September 2013. Term ended on 28 July 2014.



## Executive Management



**1. Ariff Ali**

Deputy Governor  
(from 27 May 2014)

Chief Manager  
Economics  
(up to 26 May 2014)

**2. Lorraine Seeto**

Chief Manager  
Risk Management and  
Communications

**3. Esala Masitabua**

Chief Manager  
Financial Markets

**4. Razim Buksh**

Director Financial  
Intelligence Unit

**5. Susan Kumar**

Chief Manager  
Currency and  
Corporate Services

**6. Vereimi Levula**

Chief Manager  
Financial System  
Development

**7. Vilimaina Dakai**

Chief Manager  
Financial Institutions

**8. Isoa Waniqolo**

Acting Chief  
Manager Economics

**9. Subrina Hanif**

Board Secretary

**\*Inia Naiyaga**

Deputy Governor  
(up to 26 May 2014)

## Corporate Governance

The Reserve Bank of Fiji is fully owned by the Government of Fiji. The functions and duties of the Reserve Bank are specified in the Reserve Bank of Fiji Act (1983) (RBF Act), Reserve Bank of Fiji (Amendment) Decree 2009, the Banking Act (1995), the Insurance Act (1998), the Exchange Control Act (Rev. 1985), the FTR Act (2004), Payment and Settlement Systems Oversight Regulations (2004), Fiji National Provident Fund Decree (2011), and the Capital Markets Decree (2009). These legislations define the boundaries of the Bank's responsibilities and accountabilities.

The 2013 Constitution of the Republic of Fiji has included a specific provision on the Reserve Bank of Fiji. Section 153 of the Constitution states: -

- (1) The Reserve Bank of Fiji is the central bank of the State, whose primary objects are: -
  - a) To protect the value of the currency in the interest of balanced and sustainable economic growth;
  - b) To formulate monetary policy;
  - c) To promote price stability;
  - d) To issue currency; and
  - e) To perform other functions conferred to it by a written law.
- (2) In pursuing its primary objects, the Reserve Bank of Fiji must perform its functions independently and without fear, favour, or prejudice, but there must be a regular consultation between the Reserve Bank of Fiji and the Minister responsible for finance.
- (3) The powers and functions of the Reserve Bank of Fiji are those customarily exercised and performed by central banks.
- (4) The Governor of the Reserve Bank shall be appointed by the President on the advice of the Constitutional Offices Commission, following consultation with the Minister responsible for finance.
- (5) A written law must provide for the composition, powers, functions and operations of the Reserve Bank of Fiji.
- (6) The Reserve Bank of Fiji must deliver quarterly and annual reports to Parliament, and any other reports when required by law, or requested by resolution.

RBF's performance is documented in an Annual Report and tabled in Parliament every year. Under Section 56 of the RBF Act, the Annual Accounts and a Report of Operations of the Bank must be submitted to the Minister for Finance no later than 31 March of the following year. Under the Insurance Act, the Bank's Insurance Annual Report has to be submitted to the Minister for Finance by 30 June of the subsequent year. The Financial Intelligence Unit (FIU) Annual Report is also published annually.

The Bank has a Vision statement - "Leading Fiji to Economic Success" - and also subscribes to Mission statements and Values which are listed on the inside cover of this Report.

### The Governor

The Reserve Bank Act makes the Governor the Bank's Chief Executive Officer who is responsible to the Board for the management of the Bank and the execution of its policies. Mr Barry Whiteside was appointed Governor on 5 May 2011 for a period of three years. He was reappointed for another three year term on 28 May 2014.

### Board of Directors

The Board comprises the Governor, who serves as Chairman, the Permanent Secretary of the Ministry of Finance, as an ex-officio member and five other non-executive members. Under the RBF Act, the Minister for Finance appoints the Directors. Directors may hold office for a period not exceeding three years but are eligible for reappointment. Board Directors Mr Robin Yarrow and Dr Esther Williams' terms ended on 9 June 2014. Dr Mahendra Reddy tendered his resignation with effect from 28 July 2014. Mr Pradeep Patel and Mr Tevita Kuruvakadua were appointed as Board Directors on 9 June 2014 for a period of three years. Other Board Directors holding office in 2014 were Mr Iowane Naiveli, Mr Deo Saran and Mr Filimone Waqabaca, ex officio member. Mr Iowane Naiveli's term expired on 31 December 2014.

### Board Meetings

Under the RBF Act, the Board is required to meet at least 10 times in a calendar year. Four Directors form a quorum for a meeting of the Board. In the absence of the Governor, the Deputy Governor may participate in Board meetings and is entitled to exercise a vote. The Board met on 12 occasions in 2014 - 10 ordinary and two special Board meetings.

#### Board Meetings in 2014 - Attendance by Members

Director	Board (12)	Board Audit and Risk Committee (6)	Board Governance Committee (3)
Barry Whiteside	11	NM	NM
Iowane Naiveli <sup>1</sup>	9	2	3
Deo Saran <sup>2</sup>	12	6	1
Filimone Waqabaca	9	NM	2
Pradeep Patel*	5	3	2
Tevita Kuruvakadua*	4	2	NM
Robin Yarrow**	6	3	1
Dr Esther Williams**	5	NM	1
Dr Mahendra Reddy***	7	NM	0

<sup>1</sup>Member of the Board Audit and Risk Committee up to June 2014.

<sup>2</sup>Member of the Board Governance Committee up to June 2014.

\*Appointed on 9 June 2014. | \*\*Term ended on 9 June 2014. | \*\*\*Term ended on 28 July 2014.

NM - Not a Member.

Source: Reserve Bank of Fiji



## Board Committees

There are two committees of the Board, the Audit and Risk Committee and the Governance Committee, which comprise non-executive members. Decisions of the Committees are submitted to the Board for ratification.

The Board Audit and Risk Committee monitors the adequacy of the audit function in the Bank and assists the Board in fulfilling the requirements of the RBF Act in relation to the Bank's accounting and reporting practices. Mr Deo Saran is the Chairman of the Board Audit and Risk Committee while Mr Pradeep Patel and Mr Tevita Kuruvakadua are members. In carrying out these functions, the Committee: -

- Reviews and monitors the functions of the external and internal auditors;
- Evaluates the Bank's accounting control system by reviewing audit reports and monitoring management's responses and actions to correct any noted deficiencies;
- Reviews accounting policies to ensure compliance with laws, regulations and accounting standards; and
- Reviews the annual financial statements of the Reserve Bank.

During the year, the Board Audit and Risk Committee met on six occasions.

The role of the Board Governance Committee is to strengthen the governance of the Bank and to make the Office of the Governor more accountable to the Board. During the year, the membership of the Board Governance Committee was reviewed and membership was reduced to three Board Directors from six. This was in line with the number of members in the Board Audit and Risk Committee. For the Board Governance Committee, the membership is rotated amongst the Board Directors, except the Governor. The main functions of the Committee are to oversee compliance with the Bank's Corporate Governance Charter and also undertake the annual performance appraisal of the Governor and Deputy Governor based on agreed key performance indicators (KPIs).

Since 2013, the Board embarked on a performance assessment system for the Board and its Committees.

In doing so, the Board Governance Committee designed comprehensive assessment forms to evaluate the performance of the Board and its two Committees including self assessment for the Board Directors. The assessments are done internally on an annual basis with the aim to identify areas of improvement. In 2014, the Board internally assessed the Bank's internal and external auditors using the in-house designed assessment forms for the first time. The Board will continue to monitor the performance of its Committees and the auditors annually. Members of the Board Governance Committee are Mr Pradeep Patel and Mr Filimone Waqabaca with Mr Iowane Naiveli as the Chairman.

The Terms of Reference for the two Committees and the Corporate Governance Charter were reviewed in 2014 to capture the additional responsibilities and effective functioning of the Committees.

In addition, the Board Governance Committee reviews and approves strategies on terms and conditions of employment for Executive Management and staff. The Committee also reviews and approves strategies on the remuneration policy for all staff.

During 2014, the Board Governance Committee met three times.

## Bank Management

The Executive Management of the Reserve Bank comprises the Governor, Deputy Governor and all Heads of Group. The Governor is advised by a number of internal committees within the Bank: -

- Executive Management Committee, which meets weekly to consider the management and day-to-day operations of the Bank;
- Monetary Policy Committee meets monthly, or more often as necessary, to discuss economic and monetary developments;
- Market Operations Policy Committee meets monthly to discuss the Bank's management of foreign reserves and quarterly for domestic markets operations;
- Financial System Policy Committee meets quarterly to review financial system soundness and efficiency;

- Currency and Corporate Services Policy Committee, which meets quarterly to discuss issues relating to currency and internal services;
- Financial System Development Policy Committee meets quarterly to discuss financial system and capital markets developments, payment system and consumer issues;
- Information Technology Steering Committee (ITSC) meets quarterly to discuss IT development and operations; and
- Risk and Business Continuity Management Steering Committee meets quarterly to identify and assess risks and their impact on the business of the Bank, formulates effective strategies to address these risks as well as responds, manages and recover from any incident or crisis event faced by the Bank.

The non-executive member of the ITSC continued to provide independent advice on IT issues. The Governor chairs all these Committees.

### Delegation of Authority

All activities and expenditure in the Bank must be authorised in accordance with the respective delegations, policies and procedures. The Board receives monthly reports comparing the actual outcomes against budget. The Internal Rules and Orders of the Bank and the Code of Ethics and Business Conduct policy provide guidance on compliance to ethical standards. The Declaration of Compliance, signed annually by staff, provides assurance that they have complied with the Code of Ethics, Delegation of Authority, Internal Rules and Orders, IT policies and the Corporate Governance Charter of the Bank.

### Strategic Plan

The Bank's Strategic Plan for the period 2014-2018 was implemented in 2014 along with the IT, Human Resources and FIU Strategic Plans for the same period.

The Chief Managers are responsible and accountable for implementing the Strategic Plans. A review of the Plans will be conducted in 2015.

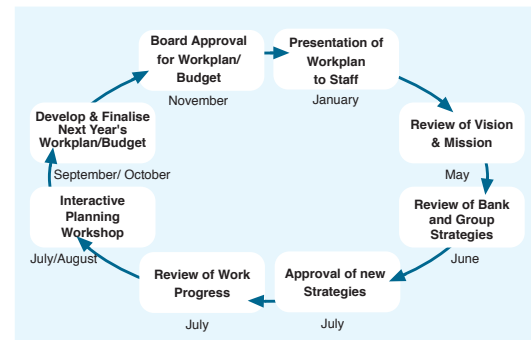
### Corporate Plan

Corporate planning is carried out annually in the Reserve Bank. The formulation of the Bank's workplan

for the following year commences in May with a review of its corporate statements - the vision, mission and values.

The Bank's and Groups' strategies are reviewed accordingly. All Groups review their progress for the first six months of the year and submit a report to the Board in July. Extensive discussions are held during the interactive planning workshops and feedback is obtained from internal and external stakeholders in August. Output and resources are matched, and the workplan and budget for the coming year are presented to the Board for approval in November.

### Annual Planning Cycle



Source: Reserve Bank of Fiji

The workplan is developed and presented according to the Mission statements of the Bank. Every strategy, output and process must identify with a Mission statement, which in turn will contribute to the achievement of the Vision of the Bank. Each Mission statement has a list of KPIs. Resources are applied to the workplan. The Bank uses zero based budgeting in determining the necessary financial resources for the coming year, based on the workplans submitted by the Groups. Heads of Group are responsible and accountable for their respective Group's KPIs and budgets. These indicators are monitored quarterly by the Governors and bi-annually by the Board.

In November 2014, the Board approved the annual workplan and budget for 2015.

### Risk Management

Risk management is an integral aspect of the Reserve Bank's daily operations. The Bank faces many risks - some general, while others are unique to central banks. The Bank identifies risks and implements controls in its operation and management of foreign reserves



holdings. The other major financial risks that the Bank faces are liquidity risk, credit risk, market risk and operational risk.

Relevant committees are set up to ensure that risk is appropriately managed through vigilant monitoring of economic developments and pre-emptive monetary policy formulation. This is to ensure that the financial system is sound and stable and the Bank's reputation and credibility is maintained.

Other risks relate to: -

- Staff turnover - the RBF being a relatively small organisation means that any loss of key staff can have a significant impact;
- Currency - such as counterfeit, adequacy and safety issues; and
- The operations of Fiji's payments system, FIJICLEAR - due to technical issues.

In line with the Bank's Strategic Plan 2014-2018, a new Group was established in 2014 to add a second layer of defense in the management of risks. There was greater bankwide awareness conducted on the risk identification and assessment process, to streamline and standardise the methodology used by the teams in managing their risks. A risk register was compiled and reviewed quarterly.

The Business Continuity Plan (BCP) continued to be rolled out during 2014. In addition, the Bank implemented other initiatives including planning and documenting procedures for reference, as well as strengthening procedures in the case of natural disasters.

The BCP strategy includes a Business Resumption Site (BRS) as a backup site for critical operations if the Reserve Bank's main building is for some reason, inaccessible, or if the systems in the building are inoperable. Critical operations include foreign reserves management, settlements and some domestic market processes including FIJICLEAR operations. The site also houses the Bank's archives.

During 2014, the Bank continued to invest in technology at the Bank's BRS and trained staff to ensure they are ready to carry out business recovery during and after a crisis situation with minimal disruption. This included quarterly simulation testing of systems, particularly critical operations such as foreign reserves management, settlements, domestic market processes and FIJICLEAR operations. The Bank continued to conduct training, drills and call tree exercises to familiarise staff with emergency response procedures and to enhance disaster preparedness and planning and continued to review and strengthen its processes relating to BCP.

Monitoring of the performance and operational procedures of the Bank relating to its external and domestic investments was continued by the Middle Office. An outsourced internal audit function by the accounting firm, Ernst & Young, provided the Bank with information on risk areas that need to be addressed. Areas for improvement that are identified by internal and external sources are addressed as appropriate. The recommendations of the special audit on the IT operations of the Bank continue to be implemented. The Board, the Board Audit and Risk, the Board Governance and the in-house Risk and Business Continuity Management Committees also contribute to the review and strengthening of the Bank's risk management process.

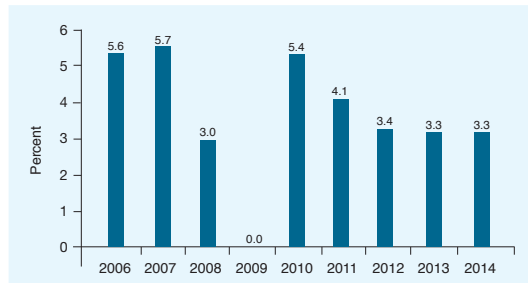
## ● Economic Overview

*According to the International Monetary Fund (IMF), the global economy expanded by 3.3 percent in 2014, following a same growth in 2013. During the year, there were growth divergences across major economies. Stagnation and low inflation weakened economic conditions in the Euro zone and Japan, while slower growth was experienced in China mainly due to a decline in investment. The United States (US) was the only major economy that recovered stronger than expected on the back of increasing employment and strengthening domestic demand supported by lower oil prices.*

### International Economic Developments

In the US, the prolonged winter affected output in the first half of the year. However, economic activity gained momentum in the second half led by a surge in domestic demand and the subsequent decline in unemployment. Moreover, inflationary pressures remained muted throughout the year reflecting the appreciation of the US dollar and the decline in oil prices. Consistent with the pickup in economic activity in the second half of the year, the Federal Reserve ended its monthly asset buying programme in October 2014. The federal funds rate was maintained between 0-0.25 percent during the year to aid economic recovery. The economy expanded by 2.4 percent in 2014, a pickup from a growth of 2.2 percent in 2013.

#### World Gross Domestic Product (GDP) Growth Rates



Source: IMF World Economic Outlook (January 2015)

Growth in the Euro zone economy stagnated in 2014 largely due to sluggish business activity arising from weak industrial production, domestic consumption and external demand. Overall, consumer confidence and retail activity remained subdued as the unemployment rate was high at 11.4 percent at the end of 2014. In addition, the tight fiscal and financial conditions, coupled with growing concerns of deflation in many Euro zone economies during the year was a drag on overall growth in 2014. To ease financial conditions further, the European Central Bank (ECB) reduced its refinancing rate twice during the year. The refinancing rate was reduced to 0.15 percent in June from 0.25 percent and reduced further to 0.05 percent in September. The economy expanded by 0.8 percent in 2014 after a 0.5 percent contraction in 2013.

Japan's economic expansion slowed to 0.1 percent in 2014 from 1.6 percent in 2013. The economy slid into a technical recession in the third quarter of 2014 mainly due to larger than anticipated decline in domestic demand following the increase in consumption tax. The Bank of Japan maintained its benchmark interest rate

at 0.1 percent throughout 2014 and further expanded its monetary stimulus during the year to boost economic recovery and achieve its inflation target of 2.0 percent.

Growth in the Australian economy accelerated to 2.7 percent in 2014, from 2.3 percent in 2013. Despite the pickup, economic performance was still below trend in 2014. During the year, growth was largely supported by modest increases in consumption and mining activity. In its efforts to support demand and bolster economic growth, the Reserve Bank of Australia (RBA) maintained its benchmark interest rate at 2.5 percent throughout 2014.

The New Zealand economy expanded by 3.2 percent in 2014, higher than the 2.8 percent growth in 2013. Despite the fall in dairy prices, domestic demand retained momentum, supported by higher consumption and construction activity. The Reserve Bank of New Zealand (RBNZ) raised its benchmark interest rate four times during the year to 3.5 percent from an initial 2.5 percent, to anchor inflationary expectations.

### Economic Developments in Fiji

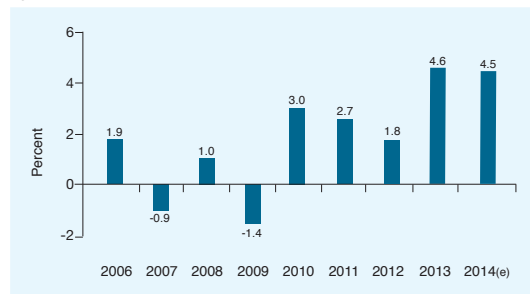
The resilient performance of key sectors paved a sustainable growth path for Fiji as it achieved its fifth consecutive year of economic growth in 2014. The domestic economy is estimated to have expanded by 4.5 percent following a growth of 4.6 percent in 2013. Industrial activity gained further momentum over the year, driven by increases in sugar, other food and non-food production coupled with higher construction activity, while the agriculture and forestry sectors performed better compared to 2013. However, gold production continued its dismal performance throughout the year mainly due to mining of lower grade ore. Service sector activities were boosted by strong tourism demand as visitor arrivals hit a new record in 2014. The expansion in the financial and public sector was largely driven by expansionary monetary and fiscal policies.

Aggregate demand indicators were robust over the year as the macroeconomic environment improved further. Upbeat consumption activity was driven by higher individual incomes (as indicated by higher PAYE collections), better labour market conditions and higher inward remittances. The stronger consumer spending was reflected by higher Value Added Tax collections (5.7%), imports of consumption goods and acceleration in commercial banks' credit for consumption purposes (72.8%) in 2014.





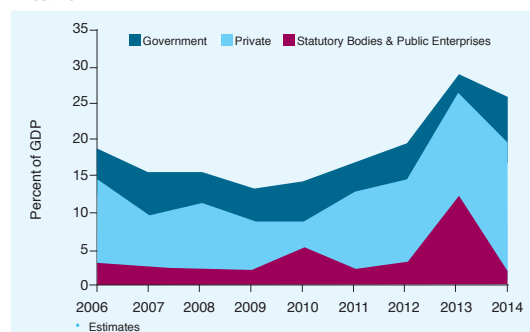
### Fiji's GDP Growth Rates



Sources: Fiji Bureau of Statistics and Macroeconomic Policy Committee

Investment activity remained firm in 2014 as well, largely driven by favourable outcomes in the construction sector, increase in imports of investment goods and expansion in credit for investment purposes. Construction activity gained firmer footing in 2014 as the total value of work-put-in-place by the sector increased annually by 15.2 percent. The relatively strong growth in the domestic construction industry has augured well for cement production and domestic sales which rose by 9.6 percent and 17.6 percent respectively, on an annual basis. Moreover, new lending for investment purposes rose over the year (9.4%) led by higher credit to the building & construction (11.6%) and real estate (7.5%) sectors. Overall, investment is estimated at 25.0 percent of GDP in 2014.

### Investment\*

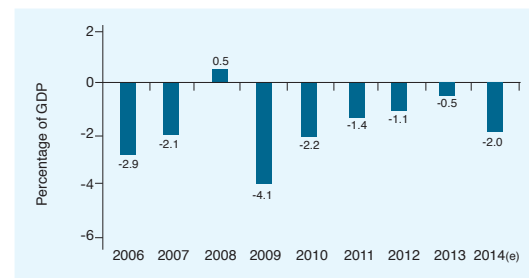


Source: Reserve Bank of Fiji

Consistent with the favourable performance in key economic sectors, labour market conditions improved further. According to the Reserve Bank's Job Advertisements Survey, the number of vacant jobs advertised<sup>1</sup> rose by 12.8 percent in 2014, led by improved recruitment intentions in the manufacturing, community, social & personal services and construction sectors.

In 2014, Government continued its expansionary fiscal stance to provide further impetus to economic growth and private sector investment. In light of this, the 2014 National Budget broadly focussed on capital spending, with resources channelled towards infrastructure development, education, health and resource based sectors. Consequently, the net deficit is estimated at 2.0 percent of GDP, while total Government debt is estimated at 50.6 percent of GDP at the end of 2014.

### Government Balance



Source: Ministry of Finance

Inflationary pressures remained subdued in 2014, largely reflective of soft trading partners' inflation and the persistent weakness in international oil and food prices. In addition, the provision of free tuition for primary and secondary schools effective from January 2014 contributed to lower price pressures throughout the year. The year-end inflation rate was 0.1 percent compared to 3.4 percent at the end of 2013.

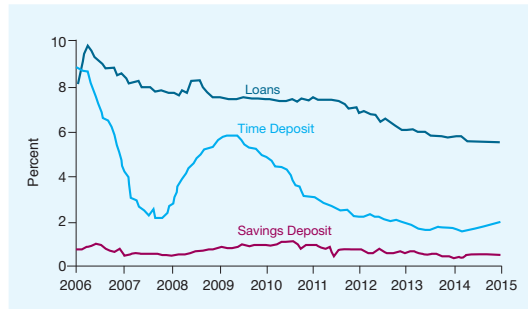
Monetary conditions remained positive during the year as broad money rose further by 10.4 percent in 2014. This was mainly underpinned by a higher growth in net domestic credit (18.9%) compared to 14.0 percent in 2013. Strong growth in net domestic credit was in turn led by private sector credit and credit to the non-financial public sector which rose by 15.6 percent and 43.9 percent, respectively.

Reflecting the high level of liquidity and enhanced competition in the banking system, the commercial banks' weighted average lending rate persistently trended downwards and was 5.72 percent in December 2014 from 5.86 percent in 2013. Over the same period, the commercial banks' weighted average savings rate fell to 0.57 percent from 0.71 percent, while time deposit rates rose to 2.15 percent from 1.79 percent.

<sup>1</sup> The Job Advertisements Survey is drawn from jobs advertised in the Fiji Times every Saturday.



### Commercial Banks' Lending and Deposit Rates

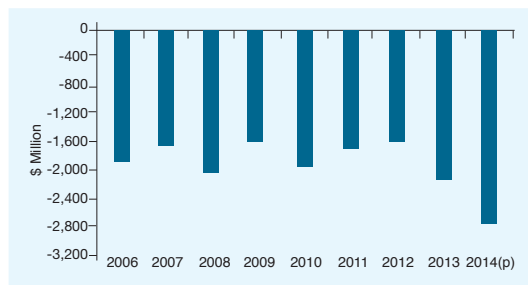


Source: Reserve Bank of Fiji

Based on provisional data, the merchandise trade deficit is estimated to have widened by 29.2 percent to \$2.8 billion in 2014, compared to an increase of 34.4 percent in 2013. This was underpinned by a stronger increase in imports and decline in export earnings.

Domestic exports declined by 15.1 percent when compared to a decline of 3.1 percent in 2013. Total exports fell by 2.5 percent compared to a 2.9 percent decline in the previous year.

### Trade Deficit

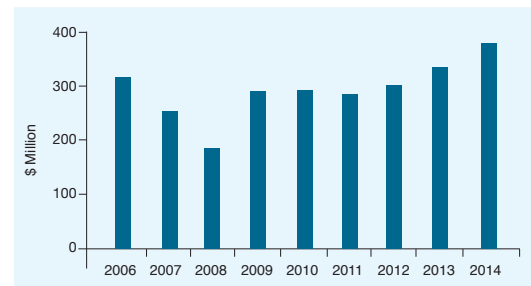


Source: Fiji Bureau of Statistics

For the same period, total imports are estimated to have increased by 12.8 percent compared to the 12.1 percent growth in 2013.

Despite the widening of the trade deficit in 2014, the overall current account was somewhat supported by higher surpluses in the services (tourism earnings) and secondary income (personal remittances) accounts.

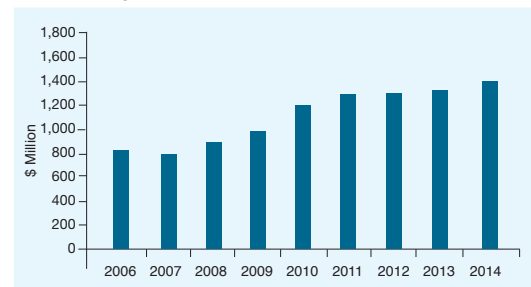
### Personal Remittances



Source: Reserve Bank of Fiji

Tourism earnings rose by 6.6 percent to \$1,404.6 million, while inward remittances increased annually by 13.0 percent to \$383.2 million in 2014.

### Tourism Earnings



Source: Fiji Bureau of Statistics

## ● Conduct Monetary Policy ● To Foster Economic Growth

*The Reserve Bank of Fiji is entrusted with the conduct of monetary policy in the country. The twin objectives of monetary policy are formally stipulated in the RBF Act (1983). They are to maintain low inflation and an adequate level of foreign reserves.*

### MONETARY POLICY FORMULATION

#### Chronology of Monetary Policy Actions

The Fijian economy sustained its growth momentum in 2014, as consumption and investment spending by businesses and households remained firm, supported by strong credit growth. Sectoral performances of sugar, tourism, construction and financial services were higher than expected. An expansionary fiscal stance and the successful transition to parliamentary democracy provided further impetus to general business and investor confidence.

Reflecting the strong momentum in domestic economic activity, the growth estimate for 2014 was revised upwards to 3.8 percent in April and later to 4.2 percent in October. It will be the fifth consecutive year of positive growth for the economy.

An accommodative monetary policy stance was maintained throughout 2014, providing the necessary stimulus to weather possible domestic or external risks that could have deterred growth in the economy. The Reserve Bank kept the Overnight Policy Rate at 0.5 percent in 2014, as there were sufficient foreign reserves and subdued inflationary pressures throughout the year.

#### Monetary Policy Outcomes for 2014

Inflation in 2014 averaged 0.5 percent, while the year-end rate was 0.1 percent, largely attributed to the free education structural change and weak global commodity prices, especially food and oil during the year.

Inflation (Annual Percent Change)



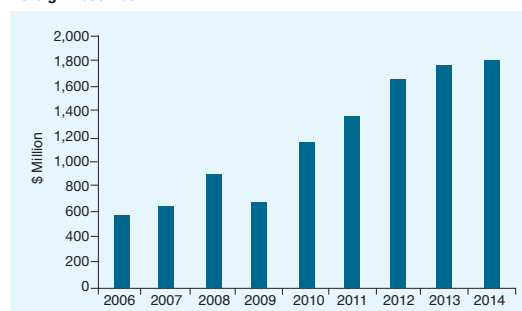
Source: Fiji Bureau of Statistics

Financial conditions remained conducive for growth in 2014, stemming from expansionary monetary policy and ample banking system liquidity which led to interest rates trending even lower and credit to grow significantly. Broad money expanded by 10.4 percent supported by net domestic credit which rose by 18.9 percent. Credit to the private sector expanded by 15.6 percent.

While the higher lending reflected growing economic activity, it also resulted in imports growth outpacing exports. Nevertheless, increased inflows from tourism and personal remittances helped maintain foreign reserves at a comfortable level.

Foreign reserves were \$1,810.7 million at the end of 2014, sufficient to cover 4.7 months of retained imports of goods and non-factor services.

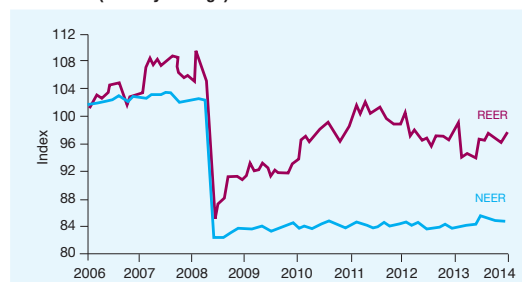
Foreign Reserves



Source: Reserve Bank of Fiji

In 2014, the Fiji dollar appreciated against the basket of trading partner currencies. Consequently, the Nominal Effective Exchange Rate (NEER) Index rose by 1.1 percent. The Real Effective Exchange Rate (REER) Index also rose by 0.2 percent during the same period, indicating a slight loss in Fiji's international competitiveness.

REER/NEER (Monthly Average)



Source: Reserve Bank of Fiji



## MONETARY POLICY IMPLEMENTATION

### Open Market Operations

The Reserve Bank implements monetary policy through OMO and changes in the OPR. The former involves auctioning RBF Notes to adjust the level of liquidity in the banking system in order to influence short term money market rates in line with the OPR.

Throughout 2014, the Reserve Bank maintained an accommodative monetary policy stance and kept the OPR at 0.5 percent. Liquidity levels during the year were consistent with the monetary policy stance and as a result there were no RBF Notes issued and consequently no monetary policy costs for the year.

### Management of Foreign Reserves

The RBF Act (1983) grants the Reserve Bank of Fiji both custody of and the authority to manage the country's foreign reserves. As a core function of the Bank, the management of foreign reserves is undertaken within the broad framework of holding safe and liquid investments while achieving the best possible returns.

Foreign reserve holdings comprise mainly Fiji dollar basket currencies and to a lesser extent, physical gold, IMF Special Drawing Rights and the British Pound. The Fiji dollar basket is made up of the Australian, New Zealand and US dollars, the Euro and the Japanese yen.

In 2014, the divergent and multi-speed monetary policy actions of major global central banks posed a challenge for the management of foreign reserves. The US Federal Reserve concluded its asset purchase programmes and commenced the transition from a highly accommodative to a more neutral monetary policy stance. In contrast, the ECB moved benchmark interest rates below zero, resulting in negative yields on cash holdings as well as a number of investible Euro-denominated securities. Similarly, the measures undertaken by the Japanese government and its central bank to end deflation resulted in near-zero investment yields.

Investments in Australian securities, traditionally a major source of the Bank's income, were relatively low-

yielding on account of the RBA maintaining record low benchmark interest rates. On the other hand, the RBNZ was the first major central bank to begin its tightening cycle. Consequently, for the first time since the second quarter of 2009, New Zealand dollar investments yielded higher returns compared to those denominated in the Australian dollar.

Seasonality trends saw foreign reserves on a downward trajectory during the first few months of the year before rebounding as expected in the last two quarters. The lowest foreign reserves level of \$1,611.7 million was registered in July while the highest level of \$1,822.6 million was achieved in December.

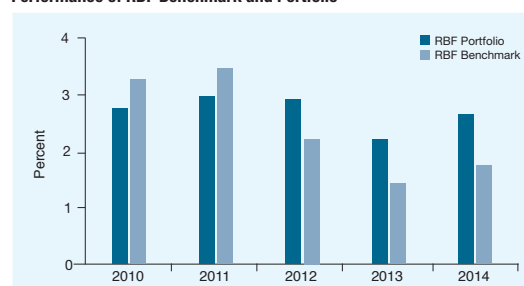
#### Return on External Reserves

	2012	2013	2014
Net Foreign Exchange Income (\$M)	39.0	38.3	36.9
Average Month-End Level of Investible Reserves (\$M)	1,350	1,511	1,522
Return on Investible Reserves (%)	2.89	2.54	2.42

Source: Reserve Bank of Fiji

The average level of investible reserves in 2014 was \$1,522.3 million, slightly higher than the 2013 average of \$1,510.6 million. However net foreign exchange income for the year declined by \$1.4 million to \$36.9 million as a result of lower interest rates prevailing in trading partner economies.

#### Performance of RBF Benchmark and Portfolio



Source: Reserve Bank of Fiji

Over the year, the RBF portfolio registered an annual return of 2.6 percent outperforming the RBF Investment Benchmark<sup>2</sup> return of 1.8 percent.

The impact of exchange rate movements on the value of foreign reserves is reflected in the Revaluation Reserve Account (RRA). As a hedge against volatility in exchange rates, the currency composition of foreign reserves holdings is aligned to the currencies in the Fiji

<sup>2</sup> The RBF benchmark portfolio uses a customised version of the JP Morgan Index.



dollar basket. In accordance with the RBF Act (1983), a fifth of the year-end balance in the RRA is transferred to the Government. At the end of 2014, the RRA had a balance of \$33.5 million. As a result, \$6.7 million will be transferred to Government in 2015 compared to \$8.0 million transferred in 2014.

### Exchange Rates

The Reserve Bank of Fiji sets the value of the Fiji dollar against the US dollar and other Fiji dollar basket currencies on a daily basis. These rates are disseminated to commercial banks and published on multiple platforms. The RBF official exchange rates are used by commercial banks to establish rates for their daily operations within allowable spread limits.

### Foreign Exchange Derivatives Markets

The Reserve Bank continued its monitoring of transactions in the derivatives market to ensure compliance with RBF Guidelines. In 2014, the forward foreign exchange market recorded an increase in the number of contracts written but a decrease in the total value of transactions when compared to the previous year. In addition, foreign currency options were reintroduced into the market on a limited basis.

### Foreign Currency Receipts and Payments

The delivery of foreign currency banking services to the Fijian Government, statutory bodies, supranational organisations<sup>3</sup> and other central banks continued during 2014.

### Exchange Control

The Reserve Bank continued to relax restrictions on exchange control transactions in light of the comfortable

level of foreign reserves. This included for the first time since 2000, the delegation of emigration allowance approvals to commercial banks and restricted foreign exchange dealers for amounts up to \$250,000 per annum. Similarly, delegated limits on other personal payments for gifts, maintenance and wedding expenses were increased from \$500 to \$2,000, while the limit on profit repatriation by businesses was raised to \$1,000,000 from \$500,000.

During the year and following collaboration with Fiji Revenue and Customs Authority, the threshold for requiring a tax clearance certificate was raised from \$2,000 to \$20,000. In addition, documentary requirements including a Withholding Tax Receipt and Tax Identification Number were introduced for certain personal and commercial transactions below \$20,000.

The Bank continued to monitor and strengthen compliance with exchange control guidelines and carried out spot checks on foreign exchange dealers' operations.

Given the comfortable outlook for foreign reserves in the medium term, the Reserve Bank further eased exchange controls for selected payments. The relaxations were announced by the Minister for Finance during the National Budget Address and are effective from 1 January 2015.

### Export Proceeds Reconciliation and Monitoring

In 2014, the Reserve Bank reconciled a total of \$1.9 billion in outstanding export receipts compared to \$1.1 billion in the previous year. The Bank will continue its efforts in monitoring export receipts in 2015.

<sup>3</sup> This includes the Asian Development Bank, International Monetary Fund and the International Bank for Reconstruction and Development.

### ● Develop An Internationally Reputable Financial System

*A safe and sound financial system is important for an economy positioned for growth. The financial system consists of financial institutions, financial markets and clearing and settlement systems. The Reserve Bank promotes the safety and soundness of the financial system by regulating and supervising financial institutions and sectors which fall within its supervisory ambit.*

*These financial institutions include licensed banks and credit institutions, insurance underwriters and intermediaries, the Fiji National Provident Fund (FNPF), restricted foreign exchange dealers (RFEDs) and money changers (MCs). Financial market players under the Reserve Bank's supervision are the South Pacific Stock Exchange (SPSE) and licensed unit trusts and stock brokers.*

*The RBF Act (1985) and the RBF (Amendment) Decree 2009 entrusts the responsibility of promoting a sound financial system to the Reserve Bank. In line with this responsibility, the Banking Act (1995), Insurance Act (1998), Exchange Control Act (Rev. 1985), FNPF Decree (2011) and Capital Markets Decree (2009) confer the powers on the Reserve Bank to issue licences, regulations, prudential guidelines and directives to the licenced financial institutions and to conduct offsite supervision and onsite reviews.*

#### FINANCIAL SYSTEM REGULATION AND SUPERVISION

Fiji's financial system was stable in 2014. The domestic banking industry continued to report asset growth with satisfactory asset quality indicators. Credit growth was significant amid prevailing high system liquidity, while capital positions remained supportive. There were no major natural catastrophe events in 2014 and the insurance industry continued to meet mandated solvency requirements and recorded satisfactory earnings. The reform programme for the FNPF continued with progress noted in its rehabilitated investments and the implementation of its new information system.

#### Supervisory Developments

Supervisory activities during the year continued towards achieving the objective of maintaining a safe and sound financial system. As part of strengthening the regulatory framework for the banking sector, the Reserve Bank commenced the review of a number of existing banking supervision policies in 2014. The objective was to ensure that the minimum requirements of the supervision policies continue to be effective given the developments in the domestic market in line with international best practices.

A new policy was issued to the banking industry on the Minimum Requirements for the Management of Market Risk and as part of the review programme; the Reserve Bank issued a revised policy statement on the Minimum Requirements for the Management of Money Laundering and Terrorist Financing Risk.

For the insurance industry, the Reserve Bank finalised the review of the Insurance Act 1998, and submitted the proposed amendments to the Solicitor General's Office for final approval. A new insurance supervision policy statement on the Minimum Requirements for

the Appointment and Supervision of Insurance Agents in Fiji was implemented in 2014.

The Reserve Bank also revised and issued to the industry for comments the insurance supervision policy statements on the Minimum Solvency Requirements for Life and General Insurers. Further consultation on this is planned for 2015.

In terms of policy development for the capital markets, the Reserve Bank issued a new supervision policy statement on Insider Trading and issued two policies for preliminary comments as part of the policy review process.

The Reserve Bank continued to closely monitor FNPF's reforms and its impact on the soundness and sustainability of the largest single financial institution in Fiji. In order to further enhance the regulatory capacity of the Reserve Bank in the supervision of the FNPF and the pension industry in Fiji, a Technical Assistance (TA) programme co-funded by the Asian Development Bank was engaged, to draft a Pension Savings Act. It is envisaged that the Bill for the Pension Savings Act would be finalised at the conclusion of this TA programme in 2015.

The regulation and supervision of the foreign exchange dealers continued in 2014, to encourage compliance with requirements of legislations and prudential supervision policies relevant to their operations.

As part of its supervision activities, the Reserve Bank conducted several onsite reviews of licensed financial institutions during the year, which included five banks, one credit institution, four insurers, two managed funds, four insurance brokers, three stock brokers, nine foreign exchange dealers, two money changers, the South Pacific Stock Exchange and the FNPF. Two of the onsite reviews were also part of the Australian Agency for International



Development funded Pacific Onsite Supervision Programme administered by the Australian Prudential Regulation Authority (APRA).

The controllership of the National Bank of Fiji's (NBF) Asset Management Bank (AMB) continued into its seventh year. Cabinet approval was granted during the year for the winding up of the NBF Asset Management Bank via an Executive Order according to Section 55 of the Banking Act (1995). Following the signing of the Executive Order, the Reserve Bank would then proceed with the formal conclusion of its controllership of the NBF Asset Management Bank.

The Reserve Bank continued with the winding up of the Insurance Trust of Fiji (ITF) and has commenced the preparation of the final audited accounts to pursue the deregistration of the entity in 2015.

In terms of financial system development, significant effort was undertaken during the year in the drafting of the Financial Sector Development Plan for 2015-2025. The Reserve Bank will continue to closely consult with relevant stakeholders on the finalisation of this plan in 2015.

### The Financial System

In 2014, six banks were operating in Fiji with 71 branches, four agencies and 100 agent banking centres.<sup>4</sup>

The number of bank branches has increased compared to 2013, while the number of agencies decreased slightly. The number of Automated Teller Machines (ATMs) and Electronic Fund Transfer at Point of Sale (EFTPOS) have also increased in 2014, indicating increased access of cash and payments channels.

The transition of Home Finance Company (HFC) from a credit institution to a full-fledged commercial bank led to the credit institutions sector being left with two institutions until November, when BSP Finance was granted a licence to operate as a credit institution. The Reserve Bank completed the assessment of Kontiki Finance Limited's (KFL) application for a credit institution licence and a conditional approval was granted in October 2014. The Reserve Bank will continue to monitor KFL's progress in meeting all conditions prior to the granting of a licence.

### Licensed Financial Entities including Branches/Agencies (Number)

	2010	2011	2012	2013	2014(p)
Commercial Banks <sup>1</sup>	5	4	5	5	6
- Branches	63	63	60	64	71
- Agencies and Agent Banking	51	43	38	110	104
- ATMs	202	212	226	259	280
- EFTPOS	1,896	2,937	3,639	4,907	5,340
Credit Institutions	3	3	3	3	3
- Branches	13	14	15	17	13
- Agencies	0	0	2	1	0
Life Insurance Companies	2	2	2	2	2
General Insurance Companies <sup>2</sup>	8	8	8	7	7
Insurance Brokers	4	4	4	4	4
Insurance Agents <sup>3</sup>	329	357	312	334	356
Foreign Exchange Dealers	8	8	8	8	9
Money Changers	3	3	2	2	2
Securities Exchange	1	1	1	1	1
Unit Trusts	2	2	2	2	2
Property Trusts	1	1	0	0	0
Investment Advisors	10	11	11	11	11
Stock Brokers	3	3	3	3	3
Dealers	3	3	3	3	3
Managed Fund Representatives	7	9	11	12	12
Stock Broker Representatives	16	18	16	14	15
Investment Advisor Representatives <sup>20</sup>		22	21	19	19

<sup>1</sup> AMB is excluded from 2010, when it was under the controllership of the RBF. It is currently being wound up.  
<sup>2</sup> Includes FAI Insurance (Fiji) Limited until 2012.  
<sup>3</sup> An agent may hold more than one licence to sell various classes of insurance in a calendar year.

Source: Reserve Bank of Fiji

The number of players in the insurance industry remained unchanged from 2013, with seven licensed general insurers, two life insurers and four insurance brokers. However, the number of licensed insurance agents increased to 356 from 334.

In 2014, Gifts Connects was granted approval for the full launch of a voucher based gift remittance system, following a pilot period of nine months. Contrary to a money remittance system, this voucher based transfer service enables senders to dictate how the funds are to be utilised, through the redemption of gift vouchers from authorised Gifts Connects merchants in Fiji.

In 2014, GCC Exchange was granted a licence to operate as a Restricted Foreign Exchange Dealer (RFED) increasing the number of licensed RFEDs to nine, while the Money Changers (MCs) remained at two. A restricted foreign exchange dealer licence was approved in December for Tappoo Money Changer Limited and the entity is expected to commence operations in 2015.

<sup>4</sup> An agent is defined as a branch which does not offer full branch services while agent banking is as per Banking Supervision Policy 18 "Agent Banking Guidelines".



The number of players in the capital markets remained unchanged; however, increases were recorded in the number of representatives of intermediaries.

An application was also received during 2014 for compliance listing of a company on the stock exchange and the assessment continues to be undertaken. In addition to this, rights issue<sup>5</sup> proposals of two companies were approved by the Reserve Bank subject to certain conditions being met.

### Gross Assets of the Financial System

Fiji's financial system grew by 8.2 percent in 2014 compared to a 10.7 percent increase in 2013. In terms of significance, the banking sector made up 50.6 percent of the financial sector followed by the FPNF and the insurance sector at 33.6 percent and 9.3 percent respectively. The banking sector recorded the highest growth at 17.0 percent (due to HFC Bank's entry into the sector), followed by the FPNF at 7.2 percent.

Gross Assets of the Financial System (\$ Million)

	2010	2011	2012	2013	2014(p)
<b>Regulated Financial Entities</b>					
Commercial Banks	4,514	4,954	5,389	6,222	7,281
Credit Institutions	418	448	506	546	252
Insurance Companies	940	1,044	1,212	1,307	1,344
FPNF	3,928	4,077	4,235	4,521	4,846
Insurance Brokers	34	34	41	62	55
<b>Total</b>	<b>9,834</b>	<b>10,557</b>	<b>11,383</b>	<b>12,658</b>	<b>13,778</b>
<b>Non Regulated Financial Entities</b>					
NBFIs <sup>1</sup>	692	621	635	648	622
<b>Total</b>	<b>692</b>	<b>621</b>	<b>635</b>	<b>648</b>	<b>622</b>
<b>Total Financial System<sup>2</sup></b>	<b>10,526</b>	<b>11,178</b>	<b>12,018</b>	<b>13,306</b>	<b>14,400</b>

<sup>1</sup> Includes Fiji Development Bank, Housing Authority, AMB (from 2010).  
<sup>2</sup> Excludes Reserve Bank of Fiji.

Source: Reserve Bank of Fiji

However, assets held by credit institutions significantly reduced in 2014, due to HFC's exit from the sector.

FPNF's assets as a percentage of the total financial system assets slightly declined over the year from 34.0 percent to 33.6 percent. However, the Fund remains the single most important institution in Fiji's financial system.

The capital markets industry expanded in 2014 to \$4.0

billion mainly led by an increase in the equities market.

Composition of the Capital Markets (\$ Million)

	2010	2011	2012	2013	2014(p)
Equities Market <sup>1</sup>	778	744	816	768	907
Unit Trust Market <sup>2</sup>	111	117	123	142	174
Bonds Market <sup>3</sup>	3,212	3,025	2,972	2,930	2,932
<b>Total</b>	<b>4,101</b>	<b>3,886</b>	<b>3,911</b>	<b>3,840</b>	<b>4,013</b>

<sup>1</sup> Based on the market capitalisation of the listed companies.  
<sup>2</sup> Based on the funds under management.  
<sup>3</sup> Based on outstanding bonds.

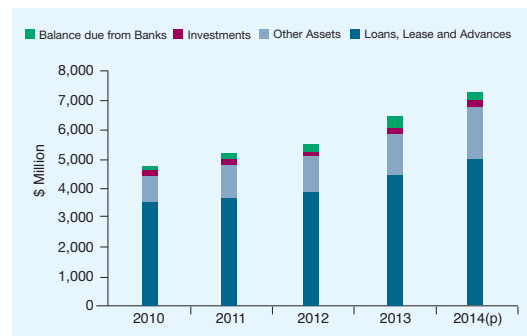
Source: Reserve Bank of Fiji

### The Banking Industry

The capital position and earnings level of the banking industry were considered satisfactory in 2014. Liquidity remained at high levels during the year.

Total assets of the banking industry continued to expand in 2014, recording a growth of 17.0 percent to \$7.3 billion, underpinned by increased lending activity.

Commercial Banks' Assets



Source: Reserve Bank of Fiji

Credit growth was upbeat in 2014 with gross loans (includes loans disbursed in foreign currency) increasing by 27.1 percent to \$5.1 billion (2013: 15.8%). The growth was generally broad based with private individuals, public enterprises and private sector business entities recording notable increases of 32.4 percent, 50.4 percent and 23.1 percent, respectively.

Total investments also increased during the year, by 21.8 percent to \$284.4 million. On the contrary, balances due from banks decreased by 29.1 percent to \$322.8 million.

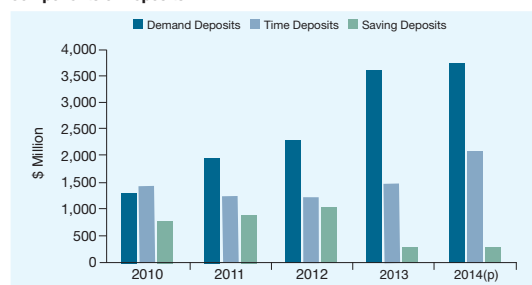
<sup>5</sup> Capital raising through issue of additional shares to existing shareholders.





Total deposits, grew by 13.9 percent to a record high level of \$6.0 billion. The increases of \$131.5 million and \$591.6 million in demand and term deposits respectively, contributed significantly towards the overall growth.

#### Components of Deposits



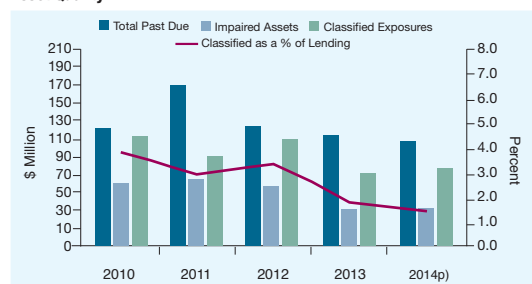
Source: Reserve Bank of Fiji

Similarly, capital and reserves continued to expand in 2014, registering an increase of 31.0 percent to \$721.4 million despite commercial banks remitting profits offshore to their head offices.

The capital adequacy ratio for the banking industry stood at 13.9 percent, with total capital and risk weighted assets increasing by 31.9 percent and 30.2 percent, respectively.

Commercial banks' asset quality remained at satisfactory level, as classified exposures stood at \$81.8 million, and represented 1.6 percent of the industry's gross loans. This position improved from 2.0 percent recorded in 2013, following a greater increase in gross loans (27.1%) compared to the increase of 4.1 percent in classified exposures.

#### Asset Quality



Source: Reserve Bank of Fiji

Total specific provisions (individually and collectively assessed) on classified exposures increased by 17.9 percent to \$53.5 million. These provisions covered 65.4 percent of the total classified exposures. Similarly,

general reserves for credit losses (GRCL) stood at \$61.4 million, and represented 1.2 percent of net loans.

Total past dues decreased by 5.7 percent to \$111.3 million. This was attributed to the decline in loan past due by three months to one year and loans past due by more than two years. In terms of sectors, problem loans were concentrated in the private individuals sector at 24.8 percent, followed by wholesale/retail, hotels and restaurants, and professional and business services sectors at 19.4 percent and 15.9 percent, respectively.

#### Summary of Commercial Banks' Profitability<sup>1</sup> (\$ Million)

	2010	2011	2012	2013(p)	2014(p)
Net Interest Income	159.8	168.3	177.0	187.3	218.5
Add: Non Interest Income:	130.6	141.2	147.1	160.5	179.5
Income from Overseas					
Exchange Transactions	55.0	66.9	66.6	67.3	67.5
Commission and Charges	68.2	69.9	73.3	87.4	90.5
Other Income	7.4	4.6	7.2	5.9	21.5
<b>Total Operating Income</b>	<b>290.4</b>	<b>309.5</b>	<b>324.1</b>	<b>347.8</b>	<b>398.0</b>
Less: Operating Expenses	173.6	189.5	193.0	203.2	219.3
Less: Bad debts and Provisions	(8.2)	8.0	4.1	10.5	35.5
<b>Profit Before-Tax and Extraordinary Items</b>	<b>125.0</b>	<b>112.0</b>	<b>127.1</b>	<b>134.1</b>	<b>143.2</b>
Less: Tax	32.6	32.9	31.6	27.6	30.2
Net Profit After-Tax	92.5	79.1	95.4	106.5	113.0
Add/Less: Extraordinary Items	0.0	0.0	0.0	0.0	0.0
<b>Net Profit After-Tax and Extraordinary items</b>	<b>92.5</b>	<b>79.1</b>	<b>95.4</b>	<b>106.5</b>	<b>113.0</b>
<b>Average Assets</b>	<b>4,337.1</b>	<b>4,973.1</b>	<b>5,278.1</b>	<b>5,493.0</b>	<b>6,414.2</b>
After-Tax Return on Equity (%)	17.7	13.8	17.5	20.5	18.9
Efficiency (%)	59.8	61.2	59.5	58.4	55.1
Yield on Earning Assets (%)	7.2	5.9	5.3	5.0	5.0
Cost of Funding Liabilities (%)	3.1	2.1	1.3	0.9	1.0

<sup>1</sup> Financial year end profits for commercial banks used.

Source: Reserve Bank of Fiji

The banking industry's net profit after-tax increased by 6.1 percent to \$113.0 million. This was attributed to the increases in net interest income, and non interest income.

Similarly, the efficiency of the banking industry improved to 55.1 percent following a greater increase of 14.4 percent in operating income, compared to the increase of 7.9 percent in operating expenses.

The combined interest spread for commercial banks remained at 4.0 percent while the yield on earning assets was 5.0 percent, with cost of funds at a low 1.0 percent.



### Commercial Banks' Profitability (% of Average Assets)<sup>1</sup>

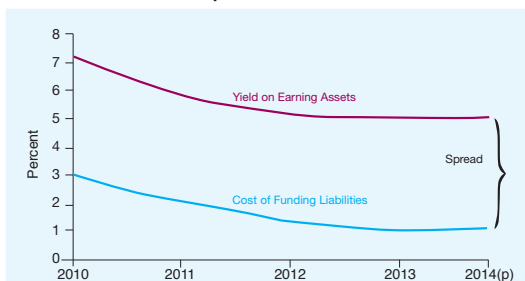
	2010	2011	2012	2013	2014(p)
Net Interest Income	3.7	3.4	3.4	3.4	3.4
Charges for Bad & Doubtful Debts	-0.2	0.2	0.1	0.2	0.6
Non interest Income	3.0	2.8	2.8	2.9	2.8
Operating Expenses	4.0	3.8	3.7	3.7	3.4
Net Profit Before-Tax	2.9	2.3	2.4	2.4	2.2
Net Profit After-Tax	2.1	1.6	1.8	1.9	1.8

<sup>1</sup> Financial year end profits for all commercial banks used.

Source: Reserve Bank of Fiji

Total liquid assets of the banking industry declined by 10.6 percent to \$1.3 billion, underpinned by the reductions in deposits with banks and at call, and balances held in exchange settlement account. Balances in the exchange settlement account continued to account for the majority of the liquid assets at 40.3 percent.

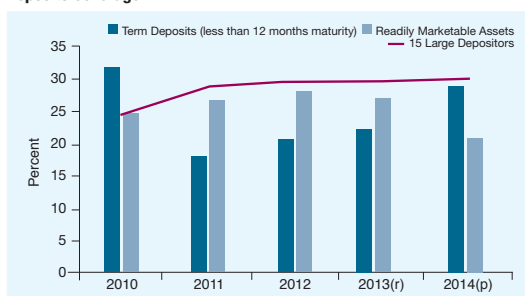
### Commercial Banks' Annual Spread



Source: Reserve Bank of Fiji

The ratio of marketable assets (liquid assets to total deposits) fell from 26.9 percent to 21.0 percent, while the ratio of the 15 largest depositors as a percentage of total deposits stood at 30.8 percent.

### Deposits Coverage



Source: Reserve Bank of Fiji

### Credit Institutions

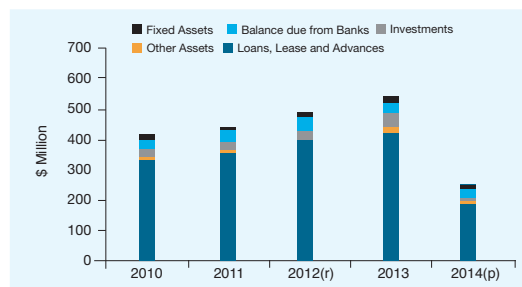
Credit institutions performed satisfactorily in 2014

despite experiencing a significant reduction in the market share following the transition of HFC to the commercial banking industry in March 2014. This resulted in the credit institutions' balance sheet contracting by 53.8 percent to \$252.2 million. The capital position of the credit institution industry however continued to be assessed as strong, whilst liquidity and asset quality were rated as marginal.

The reduction in total assets was mainly driven by loans and advances, which fell by 55.2 percent to \$195.2 million. Lending to private sector business entities and private individuals decreased during the year by 47.3 percent and 72.4 percent, respectively. While the exit of HFC from the credit institutions industry has significantly contributed to the trends reported in 2014, lending by the other credit institutions was still buoyant during the year.

Total investments also decreased by 61.1 percent to \$11.4 million however, the credit institutions continued to comply with the minimum unimpaired liquid assets requirement (ULAR) during the year.

### Credit Institutions' Assets



Source: Reserve Bank of Fiji

Total deposits also contracted by more than half, falling by 57.3 percent to \$152.2 million. The decrease was underpinned by reductions in deposits of private sector business entities (53.7%), private individuals (59.9%), public enterprises (48.7%) and non-bank financial institutions (75.2%).

Capital and reserves declined by 34.5 percent to \$73.0 million, attributed to the exit of HFC from the industry. The capital adequacy ratio however, improved to 34.9 percent following a greater decrease in risk weighted assets.

While the level of classified exposures, impaired assets and past due loans recorded slight reductions, overall asset quality of the credit institutions continued to be



assessed as marginal in 2014. Classified exposures declined by 20.4 percent to \$32.5 million however, the ratio of classified exposures to loans, advances & leases increased from 9.4 percent in 2013 to 16.7 percent. Similarly, past due levels declined by 37.2 percent to \$40.4 million.

Total specific provisions (individually and collectively assessed) declined by 19.5 percent to \$10.7 million, reflective of the decrease in classified exposures during the year. These however, represented 32.7 percent of the classified exposures. Similarly, GRCL to net loans ratio stood at 1.6 percent.

#### Summary of Credit Institutions' Profitability<sup>1</sup> (\$ Million)

	2010	2011	2012	2013(r)	2014(p)
Interest Income	45.5	49.3	48.3	51.7	32.3
Interest Expense	17.3	18.6	16.1	13.7	6.0
<b>Net Interest Income</b>	<b>28.2</b>	<b>30.7</b>	<b>32.2</b>	<b>38.0</b>	<b>26.3</b>
Add: Non Interest Income	4.1	4.2	5.7	5.5	2.3
<b>Total Operating Income</b>	<b>32.3</b>	<b>34.8</b>	<b>37.9</b>	<b>43.5</b>	<b>28.6</b>
Less: Operating Expenses	11.9	12.7	13.3	15.0	9.9
Less: Bad debts and Provisions	0.7	4.2	4.1	5.2	1.3
<b>Profit Before-Tax</b>	<b>19.7</b>	<b>17.9</b>	<b>20.5</b>	<b>23.3</b>	<b>17.4</b>
Less: Tax	5.2	5.5	6.0	5.0	3.5
<b>Net Profit After-Tax</b>	<b>14.5</b>	<b>12.4</b>	<b>14.5</b>	<b>18.3</b>	<b>13.9</b>
<b>Earning Assets</b>	<b>343.2</b>	<b>386.1</b>	<b>415.6</b>	<b>457.3</b>	<b>356.3</b>
<b>Cost of Funds</b>	<b>262.9</b>	<b>299.5</b>	<b>323.8</b>	<b>352.4</b>	<b>264.8</b>
<b>Average Assets</b>	<b>357.4</b>	<b>399.7</b>	<b>431.5</b>	<b>476.0</b>	<b>374.3</b>
After-Tax Return on Equity (%)	19.5	15.6	17.3	19.1	15.5
Efficiency (%)	36.7	36.3	35.2	34.5	34.6
Yield on Earning Assets (%)	13.3	12.8	11.6	11.3	9.1
Cost of Funding Liabilities (%)	6.6	6.2	5.0	3.9	2.3

<sup>1</sup> Financial year end profits for credit institutions used.

Source: Reserve Bank of Fiji

Credit institutions recorded a net profit after-tax of \$13.9 million. Return on equity and return on assets stood at 15.5 percent and 3.7 percent respectively, with the industry's efficiency ratio at 34.6 percent.

The combined credit institutions' spread decreased to 6.8 percent following a higher decline in yield on earning assets amidst the prevailing low interest rate environment.

### The Insurance Industry

The life and general insurance industries remained sound in 2014, with solvency surpluses and adequate capital and liquidity positions.

Total assets of the industry remained consistent with levels reported in 2013 and were recorded at \$1.3 billion, with investments continuing to dominate insurers' assets making up 78.4 percent of total assets.

Net insurance premiums collected by both the general and life insurance sectors amounted to \$263.7 million, an increase of 7.7 percent from 2013. Furthermore, net claims paid increased during the year to \$147.7 million. Out of the total net claims paid, life insurers accounted for 56.1 percent, whilst general insurers accounted for 43.9 percent.

Offshore placements of insurance covers not available locally or where the local premium is 15.0 percent higher than the offshore premium continued in 2014. A total of 1,139 applications valued at \$32.5 million were approved by the Reserve Bank for placement offshore. Compared to 2013, this was an increase in premiums and approved applications of 12.6 percent and 15.3 percent, respectively. By class, offshore placements were dominated by the Material Damage & Business Interruption (MDBI) class which recorded 66 approved applications valued at \$17.1 million.

### Fiji National Provident Fund

The total assets of the FPNF stood at \$4.8 billion, representing 33.6 percent of the financial system assets, as at end of 2014. The annual growth of 7.2 percent was underpinned by the increase in investments which dominated the Fund's asset base accounting for 89.7 percent of total assets.

The majority of the Fund's new investments were in local equities<sup>6</sup> and term deposits contributing to the total increase of \$375.8 million in the Fund's investment portfolio. The investment portfolio of the FPNF continued to be weighted heavily towards fixed income securities which accounted for 76.7 percent of total investments as at 31 December 2014.

Members' balances grew by 8.0 percent to \$3.7 billion compared to \$3.4 billion in December 2013, attributed to the high positive net contribution (\$95.1m) and high interest rate (\$175.7m) credited to members as at 30 June 2014.

<sup>6</sup> Acquisition of 49 percent stake in Vodafone Fiji Limited valued at \$160.0 million.



Overall, reserves<sup>7</sup> increased significantly by 17.8 percent (\$98.8m) to \$654.2 million<sup>8</sup> compared to \$555.4 million in December 2013. This was largely due to transfers from retained earnings after the declaration of the crediting rate from the last financial year.

Total contributions collected in 2014 amounted to \$402.9 million, an increase of 8.0 percent from \$373.2 million in 2013. Total withdrawals increased to \$307.8 million from \$291.2 million, largely due to the increase in retirement and partial withdrawals.

Given the Fund's systemic importance, the Reserve Bank continued to closely monitor the reform programme that the Fund has been undertaking. Monthly prudential consultations were convened with discussions focusing on the progress of the reform actions on investment rehabilitation and the implementation of the Fund's new information system.

The Consultants engaged to draft the new law on superannuation supervision, which would provide specific and relevant powers of the Reserve Bank to supervise Fiji's superannuation industry have submitted a second draft of the Bill for the Pension Savings Act. Consultation on the Bill with relevant stakeholders will be undertaken in 2015 before submission for Parliamentary approval.

### Capital Markets

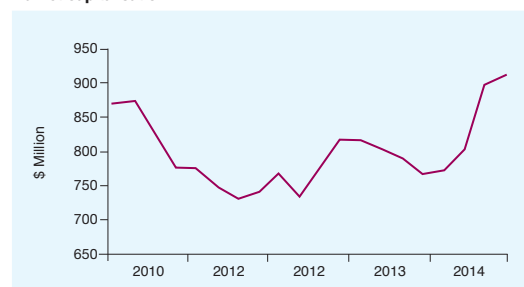
While the level of trading, by volume and value of shares traded on the stock exchange decreased significantly in 2014, the Market Capitalisation and South Pacific Stock Exchange Total Return Index (STRI) noted an increase.

The market capitalisation increased significantly by 18.1 percent to \$907.2 million surpassing the 2009 level. This increase was attributed to the increase in the share prices of 13 listed securities. Two securities registered lower prices over the year.

At the end of 2014, the top five listed securities accounted for 81.1 percent of the stock market. Amalgamated Telecom Holdings Limited (ATH) continued to dominate the stock market at 45.1 percent,

followed by Paradise Beverages Fiji Limited (PBF) at 11.5 percent, FMF Foods Limited (FMF) (10.4%), RB Patel Group (RBG) Limited (9.4%) and Toyota Tsusho South Seas Limited (TTS) (4.7%).

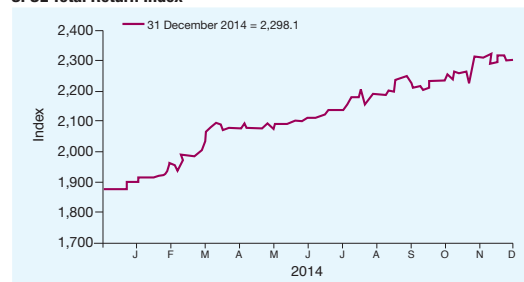
### Market Capitalisation



Source: South Pacific Stock Exchange

In line with the increase in market capitalisation, the STRI which is a measure of stock market performance showing total returns in form of price, dividend and interest returns, increased significantly by 23.2 percent and stood at 2,298.1.

### SPSE Total Return Index



Source: South Pacific Stock Exchange

In 2014, a total of 6.9 million shares and notes were traded via 1,206 transactions, resulting in a total consideration of \$8.6 million. This was a significant decline compared to 8.2 million shares and notes with a total consideration of \$12.7 million recorded in 2013.

12 special crossing transactions<sup>9</sup> were conducted in 2014 whereby 2.7 million shares were traded valued at \$2.0 million.

Excluding special crossing transactions, the volume and value of shares and notes traded recorded in 2014 was 4.2 million and \$6.6 million, respectively.

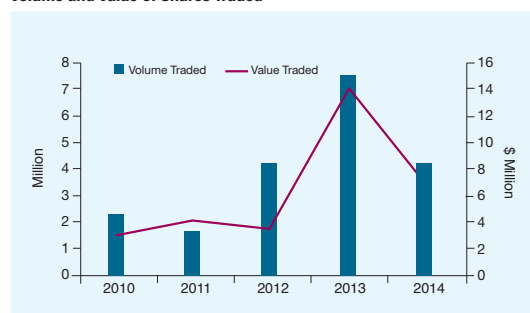
<sup>7</sup> 2013 figure of \$783.1m includes pension liabilities.

<sup>8</sup> Includes only actual reserves of each fund.

<sup>9</sup> Special Crossing Transactions are bilateral deals on the sale and purchase of larger quantities of shares in a security which are one-off transactions.



**Volume and Value of Shares Traded**



Source: South Pacific Stock Exchange

The buy-to-sell order ratio further improved in 2014 to 1:1 from 1:2.

The average total return from the stock market in 2014 stood at 14.8 percent, compared to 9.0 percent in 2013, with an average dividend and interest yield of 4.0 percent and an average capital growth of 10.8 percent.

Kontiki Price Matching Services, which provides an over-the-counter price matching system/trading registry for four unlisted public companies, recorded trades totalling 0.2 million shares with a consideration of \$0.6 million. The market capitalisation of companies under this trading registry increased by 9.4 percent in 2014, to \$57.3 million.

Funds under management in the unit trust market increased by 22.6 percent in 2014 from \$142.3 million. This was due to the continuous growth in unit sales which exceeded the level of redemptions and recorded a net value of \$28.2 million in 2014, compared to \$18.5 million recorded in 2013.

In terms of the unit trusts' investment portfolio, unlisted securities dominated 28.3 percent followed by bonds (24.0%), listed securities (18.1%), loans and receivables (16.5%), deposits held at financial institutions (11.9%), and 'others' (1.1%).

The number of unit holders grew by 18.0 percent to 21,181 in 2014 and 73.9 percent of these were private individuals while institutions and other groups accounted for the remaining 26.1 percent.

### Regional Supervisory Cooperation

A Multilateral Memorandum of Understanding was signed by the Reserve Bank of Fiji, the Bank of Papua New Guinea and the Central Bank of the Solomon Islands, setting out a framework for cooperation between the three central banks as members of the Bank South Pacific Supervisory College.

## Combating Money Laundering

The FIU is Fiji's anti-money laundering (AML) and combating the financing of terrorism (CFT) regulator, and the lead agency on policy formulation and enforcement in Fiji.

The FIU was established under the FTR Act in 2006 as the national agency responsible for administering and enforcing the FTR Act. The FIU is administered and fully-funded by the Reserve Bank pursuant to the delegation of powers by the Minister for Justice to the Governor of the Reserve Bank of Fiji. The FTR Act and the FTR Regulations provide Fiji's primary laws for combating money laundering in Fiji and for the protection of the financial system from money laundering activities and other serious offences.

The FIU is responsible to the Governor of the Reserve Bank in the discharge of its powers and functions.

### Financial Institutions' Compliance with the FTR Act

The FIU and the RBF continued to work closely with financial institutions in 2014 to encourage and ensure that they implement and comply with the various provisions of the FTR Act and Regulations. Another function of the FIU is to provide policy advice as and when requested by financial institutions.

In 2014, the FIU issued 32 ad-hoc policy advisories explaining various requirements of the FTR Act and Regulations. The majority of the ad-hoc policy advisories related to customer due diligence requirements of the relevant AML and CFT laws.

### Receipt and Analysis of Financial Transaction Information

Financial institutions are required under the FTR Act to report to the FIU any transaction (or attempted transaction) suspected to be related to money laundering activity, terrorist financing activity or other serious offences.

In 2014, the FIU received 383 suspicious transaction reports (STRs) from various financial institutions, a decline of 26.6 percent from the previous year.

#### Suspicious Transactions Reported to the FIU (Number)

	2010	2011	2012	2013	2014
STRs	629	728	579	522	383

Source: Financial Intelligence Unit

The majority of STRs received in 2014 were from commercial banks and members of the public.

#### Reporting Financial Institutions 2014 (Number)

Reporting Financial Entities or Persons	STRs Received
Commercial Banks	267
Money Remittance Service Providers <sup>1</sup>	43
Finance Companies	4
Members of the Public	58
Regulatory Authorities	3
Law Firms	1
Accounting Firms	1
Insurance Companies and Superannuation	2
Investment Advisers, Brokers & Dealers and Investment Fund	1
Real Estate Businesses	1
Others	2
<b>Total</b>	<b>383</b>

<sup>1</sup> Includes foreign exchange dealers and mobile phone banking service providers.

Source: Financial Intelligence Unit

The FIU referred 241 STR case reports to relevant law enforcement agencies for further investigation of possible money laundering and other serious offences.

#### Case Reports Disseminated to Law Enforcement Agencies (Number)

Law Enforcement Agency	STRs Disseminated				
	2010	2011	2012	2013	2014
Inland Revenue Services	125	195	168	176	155
Fiji Police Force	44	89	61	58	43
Immigration	1	6	4	0	1
Customs	0	4	0	19	6
Others <sup>1</sup>	97	24	13	31	36
<b>Total</b>	<b>267</b>	<b>318</b>	<b>246</b>	<b>284</b>	<b>241</b>

<sup>1</sup> Includes Reserve Bank of Fiji, Transnational Crime Unit, Fiji Independent Commission Against Corruption.

Source: Financial Intelligence Unit

Financial institutions are also required under the FTR Act to report to the FIU all cash transactions of \$10,000 and above, and all international electronic fund transfers. In 2014, the FIU received 1,042,074 cash transaction reports (CTRs) and 1,308,633 international electronic funds transfer reports (EFTRs).

#### Cash Transactions and Electronic Fund Transfers Reported (Number)

Reports Received	2010	2011	2012	2013	2014
CTRs	133,487	144,191	200,404	380,430	1,042,074
EFTRs	315,634	450,849	830,959	1,147,728	1,308,633

Source: Financial Intelligence Unit

### Border Currency Reporting

Persons travelling in or out of Fiji are required under the FTR Act to declare if they are carrying currency or negotiable bearer instruments of F\$10,000 and above. In 2014, the FIU received 557 border currency reports compared to 459 received in 2013. These reports are analysed for possible currency smuggling, money laundering and related criminal offences.

#### Cash/Fund Declarations by Travellers (Number)

Persons Declaring	2010	2011	2012	2013	2014
Declarations made by inbound travellers	119	93	117	141	231
Declarations made by outbound travellers	104	101	360	318	326
<b>Total</b>	<b>223</b>	<b>194</b>	<b>477</b>	<b>459</b>	<b>557</b>

Source: Financial Intelligence Unit



### Assistance to Partner Agencies

Under the FTR Act, the FIU may provide assistance to various partner agencies. In 2014, the FIU handled 20 requests from Government agencies for due diligence checks on persons or entities of interest.

#### Requests for Background Checks from National Agencies - 2014 (Number)

Requesting Agency	Requests	Checks on Entities	Checks on Individuals
Attorney-General's Office/ Ministry of Justice	2	6	2
Government Shipping Services	1	1	0
Investment Fiji	2	3	3
Ministry of Agriculture	1	1	1
Ministry of Defence, National Security & Immigration	3	5	3
Ministry of Foreign Affairs & International Cooperation	2	7	7
Ministry of Lands	1	0	1
Ministry of Local Government	1	1	0
Reserve Bank of Fiji	7	13	7
<b>Total</b>	<b>20</b>	<b>37</b>	<b>24</b>

Source: Financial Intelligence Unit

These requests related to background checks on 37 business entities and 24 individuals. The FIU also handled 123 requests from local and foreign law enforcement agencies for assistance in money laundering and other related investigations.

#### Requests for Investigative Assistance - 2014 (Number)

Requesting Agency	Requests	Checks on Entities	Checks on Individuals
Department of Immigration	1	1	1
Fiji Independent Commission Against Corruption	17	8	64
Fiji Police Force	45	21	131
Foreign FIUs	7	423	81
Fiji Revenue and Customs Authority	48	23	24
Reserve Bank of Fiji	2	0	11
Others	3	3	7
<b>Total</b>	<b>123</b>	<b>479</b>	<b>319</b>

Source: Financial Intelligence Unit

### Domestic Coordination and Information Sharing

In September 2014, the FIU launched its newly designed website. The website had not undergone any major changes since it first went live in 2007.

In October 2014, the FIU issued the first e-Bulletin which serves as a platform to create awareness on current AML issues in Fiji.

Secretarial support continued to be provided by the FIU to the National AML Council as well as its three working groups in 2014. The National AML Council held two meetings during the year. The Governor of the RBF and Director FIU are members of the National AML Council and contributed to the Council's discussions and decisions in 2014.

### International Coordination and Initiatives

During the year, the FIU provided eight days work attachment for officers from the FIUs of Solomon Islands and the Federated State of Micronesia. The attachment programme covered areas of policy, compliance, intelligence management and national and international coordination. In 2014, the FIU continued to provide technical assistance to the Cook Islands FIU on their information management system.

The FIU participated at the 2014 Egmont Group's Annual Plenary Meeting that was held in Lima, Peru. The Egmont Group is an international association of 146 FIUs from various jurisdictions. The goal of the Egmont Group is to provide a forum for its member FIUs to improve support to their respective governments in the fight against money laundering, terrorist financing and other financial crimes. The FIU also sponsored the application of the Tonga FIU to be a member of the Egmont Group.

In 2014, the FIU signed Memoranda of Understanding (MOU) with three foreign FIUs. This brings to 25 the total number of MOUs that the Fiji FIU has signed with foreign FIUs.

During the year, the FIU also liaised closely with the Asia Pacific Group on Money Laundering (APG) on various AML programmes and initiatives held in the region. The FIU attended the APG's 17th Annual Plenary which was held in Macao, China. Director FIU also co-chaired the 2014 FATF/APG Joint Experts' Meeting on Money Laundering and Terrorist Financing Typologies in Bangkok, Thailand. The FIU also contributed to various surveys conducted by the APG and liaised with the APG on AML/CFT issues relevant to Fiji. The Director FIU participated in an APG high level mission to Samoa to discuss its implementation of the Financial Action Task Force Recommendations.

## Currency

Pursuant to Section 4(a) of the Reserve Bank Act (1983), the Bank is charged with regulating the issue of currency in Fiji. The Reserve Bank of Fiji is responsible for maintaining an adequate supply of quality notes and coins in circulation. It issues notes and coins that are commensurate with demand for payment purposes and redeems any notes or coins that are mutilated or no longer fit for circulation and destroys them accordingly. The Bank also determines the denomination and design of Fiji's notes and coins, subject to the approval of the Minister for Finance.

### Currency Review

A new \$2 coin was issued into circulation in November 2014 to replace the old \$2 coin mainly to address concerns raised by the public to better differentiate the \$2 coins from the \$1 coins.

The new \$2 coin is larger and thicker with a new 'Spanish Flower' edge that serves as an effective differentiation feature for the visually impaired and the general public. The new \$2 coin is also of a different metal composition which is expected to delay tarnishing.

### Note Processing

The purpose of the note processing operation is to ensure that quality notes are in circulation. All notes returned to the Bank are processed and sorted for fitness by a note processing machine.

In 2014, 40.6 million notes were processed compared to 30.4 million for 2013. Of this total volume, 15.5 million pieces were deemed fit for reissue while 25.1 million pieces, considered unfit for further circulation, including old design notes, were destroyed. Unfit notes mainly consisted of \$10, \$20 and \$50 denominations.

#### Notes Processed

Notes Processed	2013		2014	
	Value (\$ Million)	Pieces (Million)	Value (\$ Million)	Pieces (Million)
Notes Saved for Reissue	82.6	4.2	390.1	15.5
Notes Destroyed	658.2	26.2	589.7	25.1
<b>Total Processed</b>	<b>740.8</b>	<b>30.4</b>	<b>979.8</b>	<b>40.6</b>

Source: Reserve Bank of Fiji

### Currency in Circulation

In 2014, the total currency in circulation grew by 12.0 percent to \$641.3 million.

The value of notes in circulation in 2014 rose by 12.1 percent to \$593.2 million. The \$100 banknote denomination recorded the highest growth of 27.2 percent to \$208.4 million mainly attributed to its introduction in ATMs. The \$10 banknote was the highest volume of notes in circulation.

In 2014, the value of coins in circulation increased by 10.6 percent to \$48.1 million. The \$2 coin registered the highest growth of 24.5 percent to \$12.7 million.

The increase is attributed to the normalisation in demand for the \$2 coin. The 5 cent coin accounted for the highest volume of coins in circulation.

#### Notes & Coins in Circulation (\$ Million)

Notes in Circulation (\$ Million)			
Denomination	2012	2013	2014
\$0.50	0.1	0.1	0.1
\$1	1.7	1.7	1.7
\$2	14.9	7.4	7.3
\$5	15.7	18.3	19.4
\$10	41.9	47.2	46.9
\$20	74.1	80.1	78.0
\$50	195.7	210.4	231.1
\$100	179.9	163.8	208.4
Pre-decimal Currency	0.3	0.3	0.3
<b>Total</b>	<b>524.3</b>	<b>529.3</b>	<b>593.2</b>
Coins in Circulation (\$ Million)			
Denomination	2012	2013	2014
1c	1.3	1.3	1.3
2c	1.1	1.1	1.1
5c	3.4	3.5	3.8
10c	4.0	4.0	4.2
20c	5.7	5.6	5.9
50c	6.9	6.7	7.3
\$1	11.4	10.9	11.6
\$2	0.5	10.2	12.7
Pre-decimal Currency	0.2	0.2	0.2
<b>Total</b>	<b>34.5</b>	<b>43.5</b>	<b>48.1</b>
Notes & Coins in Circulation (\$ Million)			
	2012	2013	2014
Notes	524.3	529.3	593.2
Coins	34.5	43.5	48.1
<b>Currency in Circulation</b>	<b>558.8</b>	<b>572.8</b>	<b>641.3</b>

Source: Reserve Bank of Fiji

### Cost of Currency

In 2014, the cost of currency issued by the Bank decreased significantly by 23.7 percent to \$2.9 million.

Over the same period, the cost of notes issued decreased by 38.7 percent in 2014 to \$1.9 million mainly due to normalisation of demand for the flora and fauna notes while the cost of coins increased by 42.9 percent to \$1.0 million mainly due to issuance of brand new \$2 coins during the year.

#### Cost of Currency Issued (\$ Million)

	2012	2013	2014
Notes	3.5	3.1	1.9
Coins	1.1	0.7	1.0
<b>Total</b>	<b>4.6</b>	<b>3.8</b>	<b>2.9</b>

Source: Reserve Bank of Fiji

### Banking Transactions

In 2014, the value of currency issued to commercial



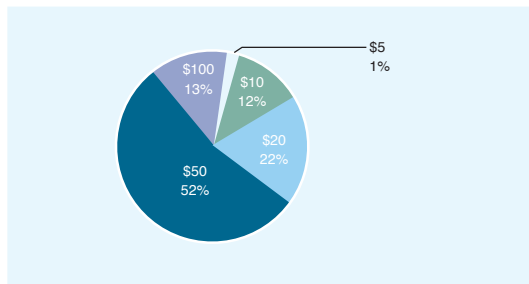


banks decreased by 7.1 percent to \$855.1 million, of which \$840.6 million was issued in notes and \$14.5 million in coins.

The value of \$100 notes issued recorded the highest increase of 13.7 percent to \$110.1 million, attributed to their introduction in ATMs for cash dispensing and distribution.

In addition, the increase in the issue of \$100 notes demonstrates the public's growing reliance on higher denominations for daily transactions.

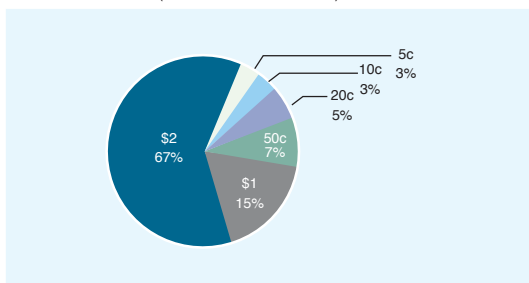
**Notes Issued in 2014** (Total Value: \$840.6 million)



Source: Reserve Bank of Fiji

During the year, there was a fluctuation in the demand for different coin denominations. The value of the 5 cent coin registered the highest increase of 98.8 percent to \$0.4 million, while the demand for the \$2 coin fell significantly by 14.6 percent to \$9.8 million.

**Coins Issued in 2014** (Total Value: \$14.5 million)



Source: Reserve Bank of Fiji

### Mutilated and Old Design Currency Assessments

In 2014, \$0.9 million was reimbursed to commercial

banks, businesses and individuals for mutilated and old design currency compared to \$1.0 million in 2013.

### Counterfeit Notes

The volume of counterfeit notes discovered during the year decreased significantly by 73.3 percent to 28 notes compared to 105 in 2013.

The value of counterfeits remained negligible, at less than 0.1 percent of currency in circulation.

**Counterfeit Note Summary**

Denomination	2013		2014	
	Value (\$)	Number of Notes	Value (\$)	Number of Notes
\$2	4	2	-	-
\$5	45	9	-	-
\$10	100	10	30	3
\$20	960	48	100	5
\$50	1,650	33	850	17
\$100	300	3	300	3
<b>Total</b>	<b>3,059</b>	<b>105</b>	<b>1,280</b>	<b>28</b>

Source: Reserve Bank of Fiji

The \$20 and \$50 notes were the most counterfeited denominations as these are commonly used.

In its efforts to address counterfeiting, the Bank continued to assist the Fiji Police Force with relevant investigations and distributed awareness materials to various organisations, schools and the general public.

### Numismatics

In 2014, numismatic or 'collector' currency income decreased over the year by 21.7 percent to \$1.8 million. This was attributed to a decrease in overseas sales of existing silver coins, single, pairs and uncut sheets of new flora and fauna notes including other currency collectible items.

During the year, the Bank signed a number of agreements with partner mints for various new programmes.

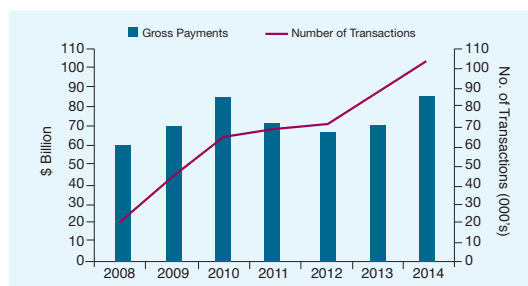
## Payments And Settlements System

The Payments and Settlements System is critically important to the Reserve Bank as it is the primary channel to transmit monetary policy impulses and to facilitate the movement of large value transactions. The Reserve Bank has continued to update its payment and settlement system since the late 1990's when it subscribed to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) settlement system for foreign currency transactions. FIJICLEAR was introduced in 2007 to settle large value low volume Fiji dollar payments for commercial banks on a real time gross settlement basis. The expansion of other forms of payment systems, predominantly making low value high volume payments has been encouraged by the Reserve Bank.

### FIJICLEAR

FIJICLEAR is Fiji's Real Time Gross Settlement (RTGS) system, operated and supervised by the Reserve Bank. HFC Bank became the sixth commercial bank participant in the RTGS operations in 2014.

#### FIJICLEAR Transactions



Source: Reserve Bank of Fiji

In 2014, FIJICLEAR recorded a total of 102,896 transactions valued at \$85.5 billion. A growth of 17.2 percent was realised in transaction volume, while the total value rose by 21.1 percent.

#### Monthly Average FIJICLEAR Transactions

Monthly Average	2010	2011	2012	2013	2014
Gross Payments (\$ M)	7,096	5,885	5,612	5,879	7,122
No. of Transactions	5,414	5,550	5,914	7,316	8,573

Source: Reserve Bank of Fiji

### National Payment System

In 2014, the Reserve Bank with the assistance of International Finance Corporation and the World Bank drafted a legislation to govern payment systems in Fiji. The legislation aims to strengthen the legal framework by providing the Reserve Bank with legislative powers to oversee the effective and efficient operations of the national payment system. The draft was forwarded to Government for vetting.

### Mobile Money Development

Mobile Financial Services continued to expand during the year as new services were provided by the Mobile Network Operators.

In 2014, there were 410 agents compared to 520 in 2013. The majority of the transactions performed by the agents were to facilitate deposits and withdrawal of funds into and from their Mobile Money account.

A total of 64,074 person to person (P2P) transfers valued at \$6.1 million were recorded in 2014 compared to 50,839 P2P transfers valued at \$4.3 million in 2013. The average value of P2P transfers rose to \$94.80 from \$84.70 in 2013. The number of activated mobile money customers stood at 339,354 compared to 334,559 in 2013.

Since its commercial launch in August 2011, \$1.4 million has been transferred through this channel. The total value of electronic money in circulation was \$4.5 million at the end of 2014 compared to \$4.9 million in 2013.

### e-Money Taskforce

As part of the Bank's goal to strengthen the safety of customer funds currently held in trust accounts, the Trust Deed agreements drafted in 2013 by the e-Money Taskforce were executed in 2014. The two providers of mobile money in Fiji, Vodafone Fiji Limited and Digicel Fiji Limited officially signed the Trust Deed Instruments on 16 July 2014. The Trust Deed is designed to further protect the funds that a customer provides to the mobile money provider in exchange for electronic money.

### Remittances

Remittances continued to be a major source of foreign exchange in Fiji. In 2014, a total of \$383.2 million was recorded, an annual growth of 13.0 percent. The funds have had a positive impact on the livelihood of the recipients.

Approval was given to Vodafone Fiji Limited on its proposed partnership with HomeSend to facilitate international inward remittances in Fiji, using the M-PAiSA platform from Australia, New Zealand, US, United Kingdom and Canada. This will provide competition in the market and is expected to reduce the average cost of remitting funds from these countries.

# Enhance Our Role In The Development Of The Economy

*In addition to its core functions of monetary policy, financial stability and the issue of currency, the Reserve Bank has a number of initiatives aimed at developing the economy.*

### Import Substitution and Assistance to the Export Sector

The Reserve Bank continued to provide concessional lending to eligible businesses under the Import Substitution and Export Finance Facility (ISEFF) throughout 2014. During the year, around \$12.3 million loans were approved to 29 businesses, compared to loans of \$26.0 million to 20 businesses in 2013. The majority of approved loans were made to the agriculture sector for dairy, cattle, poultry and vegetable farming. In addition, the year noted a rise in requests for additional funding from previous ISEFF customers to fund business expansions. The maximum interest rate under the Facility remained at 5 percent per annum while the interest rate charged by RBF to lending institutions was unchanged at 1 percent per annum. At year-end, utilisation of the Facility was close to \$68.0 million against the total allocation of \$80.0 million.

### Small and Medium Enterprises Credit Guarantee Scheme

The Reserve Bank continued to administer the Small and Medium Enterprises (SME) Credit Guarantee Scheme (SMECGS) in 2014. Since the Scheme's inception in 2012, the Fiji Government has provided a total of \$4.0 million in guarantee funds to cover defaulted eligible SME loans of up to \$50,000 per business. During the year, the RBF paid out the first and only claim on the guarantee of \$28,000. SME loans registered under the cover continue to increase over the years. A key condition for eligibility is that the lending rate for SME loan facilities should be below 10.0 percent per annum. In 2014, 708 SME loans valued at \$41.6 million were registered under the SMECGS, compared with 460 loans valued at \$27.2 million in 2013.

### Housing Facility

The Reserve Bank's Housing Facility was established in 2012 to assist low income earners with the purchase of their first home. The Facility, which complements the Fiji Government's initiatives on providing low-cost housing for Fijian citizens, commenced with a \$25.0 million allocation to the Housing Authority. In 2013, the Bank allocated an extra \$10.0 million towards the Facility for use by the Public Rental Board (PRB). Under the Facility, the Reserve Bank lends funds to HA and PRB at 1 percent per annum. These institutions use the same funds to assist households that earn up to \$25,000 per annum with concessional home loans at a maximum interest rate of 5 percent per annum for five year periods. By the end of 2014, HA had fully utilised its \$25.0 million facility while PRB has yet to draw down on its \$10.0 million allocation.

### Secondary and Retail Bond Market

In 2014, the Fiji Government floated an additional \$10.0 million in Viti Retail Bonds following the successful uptake in the two previous years. Throughout the review year, Viti Bonds valued at \$5.6 million were issued to 77 investors, which is slightly lower than the \$6.8 million issued to 78 investors in 2013. As part of its commitment to developing the bond market, the Reserve Bank continued to purchase Viti Bonds from bondholders that wished to liquidate their investments. In 2014, the Bank bought 23 parcels of Viti Bonds valued at \$0.3 million. This compares with the 15 parcels of Viti Bonds valued at \$0.06 million purchased in the previous year.

Activity in the 2014 secondary bond market solely comprised the Reserve Bank's purchases of Viti Bonds. In comparison, the previous year saw 29 bonds valued at \$3.1 million change hands. The outturn was expected given the high system liquidity and limited reinvestment opportunities.

### Microfinance Development

Access to financial services can play a pivotal role in economic growth. Financial service providers continued with national efforts to expand the reach of their services to communities that have limited or no access to any form of financial services.

The Reserve Bank, in partnership with twenty stakeholders, organised two back-to-back financial inclusion expositions during the year. The stakeholders included commercial banks, insurance companies, microfinance institutions, capital market intermediaries and government statutory institutions. The first financial inclusion exposition was held during the Vodafone Hibiscus Festival in Suva followed by a two-day exposition at the Uluda Ground in Rakiraki.

A five-day Progress out of Poverty Index (PPI) Workshop was held from 21-25 July 2014, facilitated by a PPI consultant from the Grameen Foundation.

The Reserve Bank hosted its second National Microfinance Awards on 6 November 2014. The Awards were co-sponsored by the Pacific Financial Inclusion Programme (PFIP), Life Insurance Corporation of India (LIC), ANZ Bank and Westpac Banking Corporation.

The Reserve Bank conducted onsite inspections of two banks in 2014 to verify compliance with Reserve Bank policies, in particular the setup of internal microfinance units. The Reserve Bank will continue onsite inspections of the other banks in 2015.



To promote good governance and operational effectiveness of the microfinance industry, the Bank in 2015 will continue to work with Government in formulating an appropriate regulatory and supervisory framework for microfinance institutions.

In addition, the Bank continued its development of a Micro Small and Medium Enterprises database in collaboration with partner agencies to address information gaps in the sector.

#### **National Financial Inclusion Taskforce**

In February 2014, NFIT achieved its medium term goal of reaching 150,000 unbanked of the population through the provision of financial services. The Taskforce held four meetings in 2014 and Reserve Bank played the key facilitative role in providing leadership and secretariat services to NFIT and its working groups.

In October 2014, the Reserve Bank and the Fiji Bureau of Statistics in partnership with the PFIP commenced an eight-week National Demand Side Survey to establish a baseline data set relating to access, usage and quality of financial services and products amongst Fijians. The Survey results will be used for the development of a new Financial Inclusion Strategy to replace the current NFIT framework that expired at the end of 2014.

#### **Local Advisory Board**

During the year, the Bank held four individual and one collaborative meeting with the Local Advisory Boards (LAB) of foreign owned commercial banks. Two onsite inspections were also conducted to assess compliance with the Policy Guideline on LAB.

#### **Financial Sector Development Plan**

In 2014, the Bank consulted with stakeholders to identify and prioritise the development needs of the financial system. Consultation was undertaken with licensed financial service providers comprising banks, credit institutions, insurance companies, foreign exchange dealers and the FNPF to identify the impediments to growth and efficiency. Other financial service providers, Ministries and agencies of Government and donor and development partners were also consulted.

A Financial Sector Development Plan will be finalised in 2015. The Bank will liaise with Government and stakeholders in the finalisation and implementation of this Plan.

#### **Capital Markets Development**

In 2014, the Capital Markets Development Taskforce and its

three working groups commenced their first operational year and met three times to discuss and implement development initiatives aimed at addressing the five priority areas of the Capital Markets Master Plan (2013-2020).

Initiatives undertaken in this regard were mainly focused on streamlining capital market investment processes.

Under the Master Plan priorities of market development and regional expansion, a Technical Assistance proposal was drafted and discussed during the year by the Taskforce. The Technical Assistance is intended to assist in further deepening the Fijian capital markets including a stock market trading board for small and medium enterprises.

#### **Complaints Management**

The RBF continued to review the complaints management policy environment in 2014 with the objective to ensure consumer complaints are addressed efficiently and effectively and consumer issues are prioritised by regulated financial institutions.

In 2014, 62 complaints were lodged with the Reserve Bank, compared to 71 complaints received in 2013. The majority of the complaints were against commercial banks and insurance companies. Customer complaints against commercial banks were largely associated with mortgages, interest rates and repayment terms while complaints against insurance companies related to disagreement on insurance claims, in particular life and motor vehicle insurance.

The Reserve Bank held 48 meetings with consumers and consulted with relevant financial institutions and other organisations as part of its efforts to address these complaints. Of the total complaints, 49 were resolved, while 13 remained under investigation at the end of the year.

The Complaints Management Forum met three times in 2014 to discuss financial industry complaints. The Reserve Bank signed a Memorandum of Understanding with the Fiji Commerce Commission to establish and agree to a basis for policy coordination and information sharing between the two institutions. This memorandum will facilitate the sharing of information relevant to competition, efficiency and financial soundness of Fiji's financial system. It sets out the regulatory responsibilities of each institution.

Four onsite inspections were also conducted to ensure compliance with the Policy Guideline on Complaints Management.

## RBF in the Community

*The Reserve Bank's presence in the community facilitates better relations with the public, Government, businesses and academia.*

*The Bank continues to devote resources to building relationships across a broad spectrum of the community in its efforts to gain first hand insights to developments in the different industries and areas of the country. The Board Directors also accompany Bank officials on such trips.*

In an effort to keep the public informed of its assessment of the economy, the Governor and senior staff regularly gave presentations on the latest economic developments to Government, businesses, industry groups, community groups and educational institutions. Presentations on the Fijian economy and policies of the Bank were also made to Fiji's embassies abroad and locals earmarked for diplomatic postings to keep them informed of economic developments in Fiji. The Bank also makes available information on its website that users can easily access.

A 'Reserve Bank of Fiji' prize is awarded annually to the outstanding Economics graduate at the USP. The Bank also supports the USP's Open Day where students are provided information about the Bank.

In support of SMEs, the Reserve Bank sponsors the Fiji Development Bank's (FDB) Small and Medium Enterprises Awards. The Bank also sponsors Investment Fiji's Prime Minister's Exporter of the Year Award for Agriculture. 2014 was the second year that the Bank held the Microfinance Awards with the theme "Bringing Out the Best". The Awards were sponsored by the Bank in partnership with ANZ Bank, LICL, the PFI and Westpac.

The Bank contributed financially as a silver sponsor towards the hosting of the 2014 Central Division Agriculture Show in Syria Park, Nausori from 10-12 September. The theme "Sustainable Family Farming for Food, Nutrition and Livelihood Security" reflected the importance of agriculture in supporting and promoting a healthy and wealthy Fiji. Apart from the financial support, the Bank also sponsored special recognition awards including the Central Farmer of the Year Award. The Bank also had a booth for the three day event to disseminate information about what we do, particularly the facilities that we have in place for exporters.

The Bank was engaging with the community during the Hibiscus Festival and at the Rakiraki Expo. At both events, the Bank had a booth to inform the public about what we do and how the Bank's facilities can assist them. At the Rakiraki Expo, the Bank took the opportunity to exchange the old design currency with the new flora and fauna currency series.

Donations are also made to national charitable organisations as part of the Bank's corporate social responsibility. In 2014, cash donations were made to Suva Special Education School, Fiji Crippled Children's Society, Saint Christopher's Home, Dilkusha Orphanage, Fiji Disabled People's Association, Fiji Society for the Blind, Father Law Home and Home of Compassion.

To assist the schools in the rural areas, the Bank provided books collected during the Library Week Book Drive to Nawi Catholic Primary School in Taveuni and Ratu Kadavulevu Secondary School in Tailevu. Some books were also donated to Marist Brothers High School. Used computers and new printers were also provided to the Rakiraki Town Council and Lovoni Primary School in Levuka.

Some members of Team RBF served on committees set up by Government and professional bodies. Two members were judges for the Prime Minister's Exporter of the Year Awards and the South Pacific Business Development Awards.

Apart from formal donations, Team RBF also voluntarily contributes and participates in community projects. Some of the charitable projects undertaken by staff in 2014 included contributions of groceries, toiletries and other consumables for Dilkusha Children's Home, Saint Christopher's Home, Samabula Old People's Home and Vincent Home. Food packs were also distributed to the homeless in the streets of Suva. Pillows, blankets and bed sheets were donated to the Colonial War Memorial Hospital's Emergency Ward. Toys, stationery and books were donated to a child at the Suva Women's Correctional Centre.

Staff were also environmentally conscious during the year, partnering with the Department of Forestry to plant 3,000 mangrove seedlings along the Nasese foreshore.

In addition, the Bank's Sports and Social Club organises social events and cultural activities for staff. The Club organised a blood drive, morning tea was hosted for Pinktober and the male staff grew moustaches during Movember to raise funds for the Fiji Cancer Society.

In 2014, Bank staff also participated in various business house sports events.

## Provide Proactive And Sound Advice To Government

The provision of policy advice to Government occurs in many forms. During 2014, the Governor met with government officials on a number of occasions to discuss various issues pertaining to the economy. The Governor and some staff also accompanied Government officials on visits and consultations abroad. Presentations on the economy were also made to Ministries and other government agencies, as and when requested.

### Policy Coordination

The proper coordination of policy formulation by economic policymaking agencies of Government is important in the area of macroeconomic management. During the year, the Bank continued to assist Government through various Policy Committees.

The Macroeconomic Policy Committee (MPC) and its Technical Committees prepared projections on Fiji's GDP, trade and balance of payments. These projections are critical inputs to monetary policy formulation and other national policy decision making. The MPC is chaired by the Governor of the Reserve Bank and membership comprises officials from the Ministry of Finance, Ministry of Strategic Planning, National Development & Statistics, Ministry of Industry and Trade, Fiji Bureau of Statistics, Prime Minister's Office, Ministry of Foreign Affairs, Fiji Revenue and Customs Authority, Investment Fiji and the Reserve Bank. During the year, there were two forecasting rounds, two MPC meetings and six Macroeconomic Technical Committee meetings.

As part of the macroeconomic forecasting process, the Reserve Bank conducted meetings with key industry groups in 2014. Information gathered from these meetings were used as a basis for forecasting economic indicators, as well as providing advice to Government through the MPC reports and input to the National Budget submission.

In 2014, the Reserve Bank continued to be actively involved in many Committees of national interest. The Reserve Bank continued to participate in the Debt and Cashflow Policy Committee, which evaluates Government's financing needs. The Debt and Cashflow Policy Committee met three times in 2014.

### Registry and Banking Services

The Reserve Bank acts as fiscal agent for the Fiji Government and registrar for debt instruments issued by both the Fiji Government and statutory corporations. In addition, the Bank provides banking services, such as the "lender of last resort" facilities to the Central Government and commercial banks.

At the end of 2014, total outstanding Government and statutory corporation bonds recorded a combined nominal value of \$2,932.1 million compared to \$2,930.4 million at the end of 2013. Government noted a net issue of \$60.0 million, or a 2.3 percent increase to \$2,695.1 million from 2013. Total outstanding statutory corporation bonds fell by 19.7

percent to \$237.0 million over the year as bond redemptions exceeded issues.

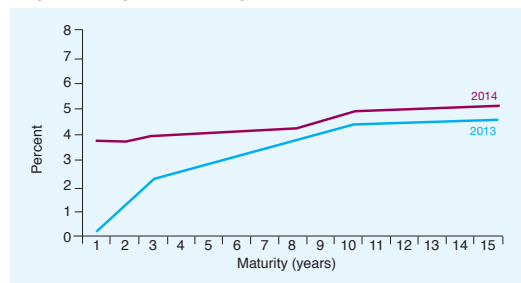
#### Outstanding Bonds in 2014 (\$ Million)

	Issued	Redeemed	Outstanding
Total Government	233.4	173.5	2,695.1
o/w Fiji Development Loan Bonds	-	173.5	2,096.8
o/w Fiji Infrastructure Bonds	227.8	-	583.1
o/w Viti Bonds	5.6	-	15.2
Fiji Development Bank	39.7	36.2	120.9
Fiji Electricity Authority	-	13.0	62.5
Housing Authority	10.8	27.0	53.6
Fiji Sugar Corporation	-	32.5	-
<b>Total</b>	<b>283.9</b>	<b>282.2</b>	<b>2,932.1</b>

Source: Reserve Bank of Fiji

Total registry payments amounted to \$772.4 million in 2014, an increase of 29.8 percent or \$177.3 million from the previous year. Higher payments largely resulted from an increase in Treasury Bills redemptions by \$133.2 million to \$281.5 million. The redemptions payments on Government and statutory corporations bonds also rose during the year.

#### Weighted Average Yields on Long Term Government Securities



Source: Reserve Bank of Fiji

In 2014, Government bond yields recorded a marked recovery from the decline witnessed in 2013. The outturn was attributed to Government's decision to raise the majority of its funding requirement in the first half of the year which placed upward pressure on interest rates.

Treasury Bill issues increased substantially during the year resulting in net issues worth \$28.0 million by the end of 2014. The outturn was associated with unanticipated increases to Government funding needs in the second half of the year, prompting Government to issue more short term securities and consequently leading to a notable rise in Treasury Bill interest rates.

#### Treasury Bills (\$ Million)

	2012	2013	2014
Flotations	295.0	158.0	360.0
Allotments	308.0	138.5	309.5
Redemptions	266.7	148.3	281.5
Outstanding	112.4	102.6	130.6

Source: Reserve Bank of Fiji

Disseminate Timely And Quality Information

In line with the mission to disseminate timely and quality information to the public and relevant stakeholders, the Reserve Bank releases economic and financial information through major publications (monthly Economic Reviews, Quarterly Reviews and Annual Reports), Press Releases and its website.

Financial Performance

Income

The Reserve Bank's total income largely comprises interest income from foreign currency investments and domestic securities.

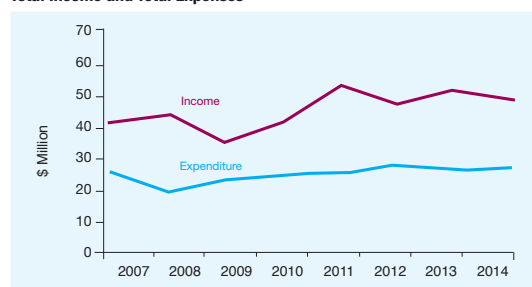
Reserve Bank of Fiji Foreign and Domestic Income (\$ Million)

	2011	2012	2013(r)	2014
Foreign Interest Income	39.6	38.4	40.8	40.5
Domestic Interest Income	14.8	13.7	13.2	11.5
Other Income	5.8	4.6	7.4	6.5
<b>Total</b>	<b>60.2</b>	<b>56.7</b>	<b>61.4</b>	<b>58.5</b>

Source: Reserve Bank of Fiji

For the 2014 financial year, total income was recorded at \$58.5 million. The level of foreign interest income recorded was driven by the level of foreign reserves held by the Bank during the financial year and the yields earned on these reserves.

Total Income and Total Expenses



Source: Reserve Bank of Fiji

Expenditure

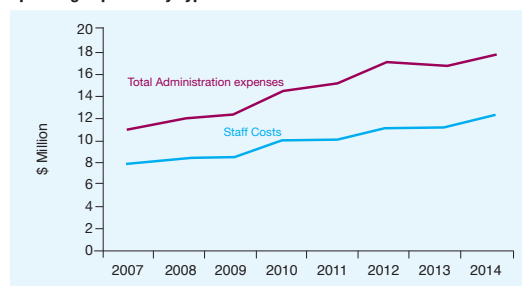
Total expenditure incurred in 2014 noted a 1.4 percent or \$0.4 million increase to \$30.0 million from 2013.

Administrative expenditure was recorded at \$17.6 million in 2014, a slight increase of \$0.9 million from 2013.

Staff costs represent the single largest operating expenditure for the Reserve Bank accounting for over 40.1 percent of total operating costs.

The Reserve Bank incurred realisation losses of \$3.8 million on matured bonds during the financial year, an increase from 2013. However, the other expenses for the 2014 financial year declined by 18.9 percent, a direct result of the normalisation in demand of the new flora and fauna design notes and coins.

Operating Expenses by Type

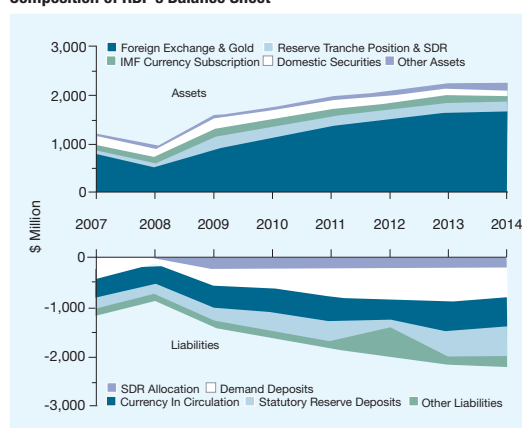


Source: Reserve Bank of Fiji

Assets and Liabilities

The Bank's total assets were \$2.2 billion at the end of 2014. Over the year, total assets rose by 1.2 percent driven mainly by increase in the foreign reserves holding. The Bank's total assets have grown by an average 11.3 percent over the past eight years. The increase in liabilities is mainly reflected in the build up in bank liquidity and currency in circulation.

Composition of RBF's Balance Sheet



Source: Reserve Bank of Fiji

Operating Profit and Payment to Government

The operating profit for 2014 was \$28.5 million, compared to \$31.9 million in 2013. There was no transfer to the General Reserve Account in 2014. Therefore, as required under the RBF Act (1983), the total operating profit will be transferred to the Government in April 2015.

The Act also requires the Reserve Bank to transfer one-fifth of the RRA balance to the Government. For 2014, this amounted to \$6.7 million. Consequently, the Bank will pay a total of \$35.2 million to Government for its



2014 operations, compared to \$39.9 million paid in 2013. The decrease in the payment for 2014 is due to the decrease in the Bank's annual profit and the RRA balance.

**Reserve Bank's Profit Payable to Government (\$ Million)**

	2011	2012	2013	2014
Operating Profit	34.5	25.4	31.9	28.5
Less				
Transfer to General Reserves	0.0	0.0	0.0	0.0
Balance Paid to Government	34.5	25.4	31.9	28.5
One-fifth of RRA	13.3	10.0	8.0	6.7
<b>Total Paid to Government</b>	<b>47.8</b>	<b>35.4</b>	<b>39.9</b>	<b>35.2</b>

Source: Reserve Bank of Fiji

**Publications and Press Releases**

Economic and financial information continued to be released by the Bank during the year through its major publications: the monthly Economic Reviews, Quarterly Reviews and Annual Reports. In 2014, the Reserve Bank also issued 35 press releases. The 2013 Bank, Insurance and FIU Annual Reports were also published in 2014. In addition, the Bank participated in the 2014 SPSE Annual Report Competition. The 2013 Annual Report was awarded first prize in the Statutory Authorities, Government Bodies and Unlisted Trusts category. A Student Diary for 2014 was produced and disseminated to schools.

Tender results of Treasury Bills and Government bonds were posted on the Reserve Bank website, Reuters and Bloomberg. Commercial banks' key disclosure statements are also available on the Reserve Bank website.

During the year, the Reserve Bank continued to disseminate information through media interviews, newspaper articles, presentations and brochures. The Reserve Bank's website was continuously updated to include the latest information disseminated by the Bank. The format of the website was enhanced in September.

**Information Technology**

The Bank continues to align its processes for delivery of IT Services with industry best practices and international standards. This includes IT strategy and planning, investment proposal preparation, information security, business continuity, technological innovation and development projects. Furthermore, in 2014 there was an independent audit of the IT processes by an Information Technology Infrastructure Library certified auditor.

To address the changing landscape and need for prudential management of IT resources, risk management and information security, the Bank developed the IT Risk Management Framework, IT Governance Framework, IT Security Framework and the Server Optimisation Guideline in 2014.

Development work continued on the Central Database Project with the development of a number of in-house applications to automate some of the Bank's critical processes.

The Bank also performed simulation tests between its primary site and the BRS.

A review of the FIJICLEAR network and its policies was also undertaken in 2014. Work will continue on strengthening and upgrading the FIJICLEAR infrastructure in 2015.

**Records Management and Library**

The Reserve Bank's Archives repository is located at the Bank's BRS and aligns with the requirements of good governance and the Public Records Act (Rev. 2006) for proper recording and preservation of all official records.

The Bank uses TRIM, the integrated Electronic Document Records Management System (EDRMS) for storing and retrieving indexed and digitised records. The Bank's EDRMS project continued in 2014 and will be ongoing in 2015.

**Domestic Relations**

During 2014, the Reserve Bank continued to engage and conduct presentations to different stakeholders across Fiji. These presentations focused on explaining the economic situation and rationale for monetary policy decisions.

Industry consultation with commercial banks, credit institutions, insurers, brokers and foreign exchange dealers continued in 2014. Industry meetings were held on a quarterly basis with the Association of Banks in Fiji, Finance Companies Association, Insurance Taskforce and the Association of Foreign Exchange Dealers. The Reserve Bank also conducted individual meetings with commercial banks, insurance companies and the FNPF. The Board and Executive Management visited and shared information with stakeholders in





Navua, Sigatoka, Nadi, Lautoka and Ba and provided economic briefings to the business community.

During the year, the Bank briefed officials from Government ministries and statutory bodies on various economic and financial matters. In addition, a number of schools visited the Reserve Bank to learn about the role and responsibilities of the Bank, as well as to view the numismatics display.

### International Relations

The Reserve Bank continued to maintain and foster international relations with multinational organisations and other central banks.

The Governor led the Fiji delegation to the Annual IMF/World Bank meeting, South East Asian Central Banks (SEACEN) Board of Governors and the Alliance for Financial Inclusion (AFI) Global Forum. The Governor was also visited by several foreign dignitaries. Senior officials attended annual meetings of SEACEN Executive Committee and the Annual ADB Meeting. Reserve Bank officials also participated in a range of international conferences and workshops.

The Bank hosted the South Pacific Governors' Meeting

and co-hosted the PFTAC<sup>10</sup> Steering Committee and two AFI meetings back to back - the 12th Meeting of the Pacific Islands Inclusion Working Group (24-26 March) and the 4th Meeting of the Financial Inclusion Strategy Peer Learning Working Group (26-28 March) in Nadi.

The Reserve Bank liaised with the IMF, World Bank, ADB and central banks in the Pacific and South East Asia region. The Bank also coordinated the IMF Article IV Consultation Mission to Fiji during the year.

During the year, the Bank received technical assistance from international institutions such as the IMF, World Bank, Griffith University and the APRA in the areas of monetary and financial statistics, foreign exchange, insurance, superannuation and banking supervision. The Bank also provided technical assistance to some South Pacific central banks and hosted attachments in general and specialised areas of central bank operations.

The Bank continued its association with the PFTAC which continues to provide guidance in the areas of financial supervision, statistics and macroeconomic modelling analysis.

<sup>10</sup> The PFTAC office of the IMF is responsible for providing technical assistance and training to Pacific Island countries. It is a collaborative venture between the IMF, the recipient countries, and bilateral and multilateral donors.

## Recruit, Develop And Retain A Professional Team

Human resources represent the Bank's greatest asset in the delivery of the Bank's corporate goals. The primary objective of human resources management is to attract, develop, retain and motivate staff to deliver the Vision of Leading Fiji to Economic Success under the Missions and Values.

### Staffing

At the end of 2014, the Reserve Bank staff complement remained at 213.

#### RBF Staff Statistics (31 December)

	2010	2011	2012	2013	2014
Total Staff	203	205	207	213	213
Average Years of Service	7.6	8.0	8.3	9.4	9.8
Annual Staff Turnover (%)	7.4	8.3	5.3	4.3	6.6

Source: Reserve Bank of Fiji

During the year, the Bank recruited 14 staff while three staff resigned to take up alternative employment, five migrated and five retired from service. The Bank also lost a staff in 2014.

### Management Remuneration in 2014

The approval for the Governors' remuneration package is vested with the Constitutional Offices Commission while the Executive Management's is with the Minister for Finance. Other Management staff are employed on individual contract basis and remunerated in line with the market.

#### Management Remuneration in 2014

	Total Fixed Remuneration	Staff Numbers
i.	\$250,113	1
ii.	\$206,277	1
iii.	\$137,335	6
iv.	\$75,997- \$102,248	29

1 Total Fixed Remuneration is exclusive of any performance bonus.  
(ii)-(iii) Executive Management as approved by the Minister for Finance in 2014.  
(iv) Other Management staff.

Source: Reserve Bank of Fiji

### Staff Development

The Staff Development Policy and Staff Training Needs Analysis (TNA) supports a continuous learning culture in the Bank through on-the-job training, job rotations, full-time study leave with/without pay, part-time studies and correspondence and short courses at both local and overseas institutions. Accordingly, the Bank organised induction, mentoring programmes and on-the-job training for Bank staff. Management is required to prepare a Training Needs Analysis for each member of staff which is updated annually.

The Bank continued to sponsor staff for further academic qualifications through full-time, part-time, correspondence, short courses and seminars at local and overseas institutions. In 2014, five staff were on

study leave with pay pursuing postgraduate studies abroad. In addition, 17 staff pursued part-time studies at USP, Institute of Internal Auditors and Fiji National University (FNU) towards Masters, Postgraduate, Degree and Diploma programmes.

In 2014, 132 staff attended various short courses locally such as those organised by USP, FNU, Fiji Institute of Accountants (FIA), Datec (Fiji) Ltd and the Fiji Human Resources Institute (FHRI). Moreover, 50 staff attended various courses abroad that were organised by the IMF, SEACEN, ADB, Australia Asia-Pacific Economic Cooperation, APRA, Bank of England, RBA and the World Bank amongst others.

The Bank also sponsored staff professional memberships to the FIA, Fiji Institute of Bankers (FIB), Fiji Institute of Internal Auditors, FHRI, Financial Securities Institute of Australia and Australian Computer Society.

### Employment Relations

The Bank continues to maintain a cordial relationship with the Fiji Bank and Finance Sector Employees Union (FBFSEU). The Bank and FBFSEU will negotiate a new salary successor agreement in 2015.

A new salary structure was implemented as a result of the 2014 PricewaterhouseCoopers Market Survey.

### Labour-Management Consultation Cooperation

The Employment Relations Promulgation No. 36 of 2007 Section 9(3) requires the Bank to establish a Labour-Management Consultation and Cooperation Committee as a forum for meaningful consultation, cooperation and exchange of workplace information to promote good faith employment relations and improve productivity. The Committee was registered with the Ministry of Labour under Regulation 7 in August 2009. The Committee comprises eight management and eight staff representatives. There were three meetings held in 2014.

### National Employment Centre

The Bank has an agreement with National Employment Centre (NEC) in compliance with the NEC Decree. Under this agreement, the Bank is required to provide workplace attachments to at least 11 unemployed



persons registered with NEC. To date, the Bank has fully complied with the NEC requirements and the Bank's vacancy advertisements also encourage candidates registered under NEC to apply.

To date the Bank has taken on board four staff that joined the Bank as NEC Trainees into the positions of Examiner, Clerical Officer Settlements and Office Assistant.

#### **Job Evaluation Exercise**

A bankwide job evaluation exercise was completed in 2014 which resulted in the sizing and evaluation of all established positions in the Bank's structure. This exercise was last conducted in 2000.

#### **Quality Performance Management**

During 2014, the Reserve Bank's quality performance management programme continued with the objective of achieving higher quality performance. The Chief Managers drove the quality programme in their respective Groups and monitored the performance of their teams.

An audit of maps and manuals was coordinated and the 18 quality teams are working towards achieving their targets as set out by their Chief Managers. The self-driven teams continue to meet regularly to improve work processes and build effective work relationships.

The teams held 135 meetings during 2014, reviewed 348 processes and 308 processes were approved for implementation.

#### **Health and Safety in the Workplace**

The Bank is committed to providing and maintaining a safe and healthy working environment for its employees and visitors to the Bank's premises. It continues to maintain the gymnasium provided to staff, in promoting staying fit and healthy. In 2014, a 3 month "Fit for Life" programme was organised, resulting in the total weight loss of over 300 kilograms bankwide. The Bank participated in various business house sporting events, winning the Plate finals in the Business House Touch

Rugby competition and was a quarter finalist in the over 30's Nadi Volleyball tournament.

In 2014, the Reserve Bank's Occupational Health & Safety (OHS) Committee met four times. A total of 35 staff including management attended training on OHS related courses. A fire drill exercise was also coordinated under the guidance of officers from the National Fire Authority and the Bank's fire wardens.

#### **General Administration Services**

The Bank coordinated the renewal of General Insurance Policies and Staff Insurance programmes for 2015.

#### **Property Management and Security**

The Bank ensured that the main RBF Building, the Domodomo House and the BRS were well maintained during the year. Repairs and maintenance programmes were completed to ensure all systems were operating at efficient levels.

The Bank commissioned new air conditioning and exhaust systems on some floor levels to improve the air quality. Work also continued on the replacement of old fluorescent tube lights with new energy saver led lights.

Work progressed well on the exterior refurbishment of the RBF building.

The high level of security and vigilance for all currency operations and the security for the Bank's properties and staff was also maintained during the year.

#### **Service Recognition**

The Governor's Service Recognition and Long Service Loyalty Award, recognises dedicated long and meritorious service to the Bank. In 2014, 11 staff achieved 15 years of service, two staff achieved 20 years of service, three staff achieved 25 years of service and four staff achieved 30 years of service milestones.

During the year, the Governor and Chief Managers also rewarded staff for their performance.

### 25 Years



Moate  
Ulu



Laureena  
Wong



Dennis  
Murray

### 30 Years



Kaliova  
Togoaloa



Mikaele  
Matawalu



Laitipa  
Laliqavota



Alipate  
Bolabasaga

### Acknowledgement

The Board sincerely acknowledges the efforts and contribution of all staff in 2014.

The RBF Board's gratitude is also extended to the Fijian Government, the IMF, the World Bank, the ADB,

SEACEN, PFTAC and regional central banks for their continued support and assistance.

Furthermore, the Bank wishes to express its sincere appreciation to the FBFSEU for its support and assistance in industrial relations matters.



## Recladding - Reserve Bank of Fiji Building

*In May 1980, the Central Monetary Authority, the forerunner to the Reserve Bank of Fiji completed the purchase of 1,978.5 square metres of freehold land at Pratt Street for \$800,000. This was the beginning of the building of the new headquarters of the Bank that would house all the operations of the Bank including the vault and currency handling facilities. The Bank was previously housed in the Young Women Christian Association (YWCA) building and the current BSP Life Centre (former Dominion House), on the fourth floor of both buildings while the currency and vault facilities were previously in Government buildings.*

The original building design comprised a basement, a podium of ground and gallery levels over about three quarters of the site with a tower block of 14 levels each of about 467 square metres. A major design consideration was to open a view corridor so that the Sacred Heart Catholic Cathedral can be seen to advantage. The Board at that time took the view that due to the central location of the building site, the best interests of the country would be served if the maximum economic use was made of it. While this approach implies that there was greater floor capacity than immediately required, it would prove cheaper in the long run.

In 1980 prices, the cost of the project including land, security services and professional fees was estimated at \$10 million. It was envisaged that about nine levels of the tower block would be available for rent on completion as the staff numbers in the Bank was around 56 at that time.

The Reserve Bank of Fiji building was designed by Architects Pacific and was supported by WT Partnership (Quantity Surveyors) and Yee Morgan, the Structural Engineers. The Consulting Engineers were D Rudo and Partners; Robert Turner and Co Pty Ltd and Whyte Holmes Partnership.

Excavation commenced in June 1980 and the construction contract for the Bank building was signed in March 1981 for a contract time of three years. In terms of building progress, the basement was near structurally complete at the end of 1981 with about 150 workers employed. By the end of 1982, most structural elements were completed up to Tower 10. Plant installation and provision to the four podium levels were well advanced. The workforce ranged from 150 in early 1982 to about 190 in the June quarter and about 125 by the end of 1982.

A foundation stone was laid by the then Deputy Prime Minister, the Honourable Ratu Penaia K Ganilau, (KBE, CMG, CVO, DSO, ED) on 25 June 1982 at the entrance of the building. The stone was a gift from the Bank of England and was removed from an 18th century wall of that institution during the course of renovations in 1978.

By the end of 1983, the roof enclosures were completed and all the external fabric to the tower block enclosed. With the exception of some specialist components, installation of material and plant was completed. Due to increased activity by subcontractors, the workforce was 150 by the end of 1983.

Commissioning of the various services commenced in early 1984 and the project was completed on 30 June 1984. The move from the then Dominion House to the new building took place over the weekend of 29 June 1984 to 1 July 1984 during which time all operations of the Bank including currency storage and processing were for the first time brought under one roof.

The building was officially opened on 27 July 1984 by the then Right Honourable the Prime Minister, Ratu Sir Kamisese Mara (GCMG) at a total cost of \$13.9 million, including design and supervision fees and purchase of land. It is a tribute to all those connected with the erection of the building that practical completion was achieved some three months after the time originally provided for completion of the contract.

After the official opening of the building in July 1984, work continued on the computerised Building Management System which monitors and controls the various operations of the building through nearly 800 data gathering points. It was reported in the Bank's 1984 Annual Report that the system would improve the conservation of energy resulting in the saving of some \$40,000 in electricity annually. The system also monitors all security including fire protection and programmes the maintenance of plant and equipment.

By the end of 1985, hurricane shutters were provided for the glazed areas on the exposed three podium levels of the Bank. It was only at the end of 1986, that the Bank building was fully occupied with seven and a half floors leased.

While there was general maintenance work done to the building over the years, it was not until 24 April 2003 that the new boardroom and extensions were officially commissioned by Honourable Ratu Jone Yavala Kubuabola, the then Minister for Finance & National Planning and Minister for Communications.

It was noted that the granosite used to cover the façade was beginning to face wear and tear over the years. Research showed that the new products in the market could weather climatic changes better. In this regard, the Bank announced in a press release on 29 November 2013 that major renovations to the external façade of its Pratt Street building had commenced. This was the first major external renovation project since the construction of the building in 1984. The project which is currently near completion at an estimated cost of around \$7.4 million is a partnership between a local contractor, Jaduram Industries Limited and a recladding system specialist based in New Zealand.

The new exterior cladding will not change the historical look of the building. The scope of work also included an upgrade of the forecourt area, the installation of energy efficient lights and window maintenance that will improve temperature control within the building. The new exterior coating will provide a new lease of life for the building which should last for at least another 25 years.

The RBF building is an icon in the Suva skyline and is the tallest building in Fiji and the South Pacific. With the new and enhanced look, the panoramic view of Suva will be more pronounced.

## The Year Ahead

*The Reserve Bank will continue to focus on fulfilling its core responsibilities in 2015. Listed below are priority areas where special effort will be focused.*

### Strategic Direction and Alliances

The Bank will continue to implement its Strategic Plan 2014-2018 and ensure that the Financial Intelligence Unit, IT and HR Strategic Plans for the same period are aligned. The Bank's Strategic Plan will be reviewed in July 2015.

The Bank will enhance its alliance with strategic partners and institutions/organisations abroad and locally. It will endeavour to host some international meetings in Fiji to promote the country and the work of the Bank. In August, the Bank will host the 37th SEACEN Directors of Research and Training meeting in Fiji.

### Legislations

The review of the Reserve Bank Act (1983) and the Reserve Bank of Fiji (Amendment) Decree 2009 will continue in 2015. Further evaluation will continue to ensure the proposed law is in line with international best practices.

In addition, liaison will take place with Government officials regarding the proposed amendments to the Capital Markets Decree (2009).

The Insurance Act (1998) review will continue, with the Reserve Bank working closely with the Solicitor General's Office on the proposed amendments.

The drafting of the Pensions Saving Act will continue in 2015.

Work on the framework for the legislation on payments and settlements system for Fiji will also continue in 2015.

### Monetary Policy

The Reserve Bank will continue to implement appropriate monetary policy to safeguard its twin

objectives of maintaining low inflation and ensuring an adequate level of foreign reserves. The Bank will also focus on supporting investment and economic growth, in addition to its conventional monetary policy goals.

### Enhanced Supervision

Our regulation and supervision practises will be further strengthened in 2015, with planned reviews and development of supervisory policies for the supervised industries and the boosting of micro and macroprudential supervision.

FNPF's reforms will remain under close monitoring.

### Financial System Developments

The Reserve Bank will continue to work with Government and the relevant stakeholders in building an internationally reputable financial system. In this regard the Bank will take the lead role in the development of a new mid-term strategy for financial inclusion and a broader long term financial sector development plan.

### Corporate Services Enhancements

Work processes will continue to be strengthened to reduce the Reserve Bank's carbon footprint. Additionally, work will continue on record keeping for good governance. The appropriate processes and systems will continue to be employed to convert all forms of documentation to digital form.

The enhancement of automation and process reengineering of several key processes of the Bank will also continue with a view to increase process efficiency and allow for a better information management and decision support system.

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The Directors present their report together with the financial statements of the Reserve Bank of Fiji ("the Bank") for the year ended 31 December 2014 and the auditor's report thereon.

### **Directors**

The Directors in office during the financial year and at the date of this report were:

Barry Whiteside (Chairman and Governor)  
Iowane Naiveli (up to 31 December 2014)  
Filimone Waqabaca (Ex-officio member)  
Robin Yarrow (up to 8 June 2014)  
Deo Saran (up to 10 February 2015)  
Esther Williams (up to 8 June 2014)  
Mahendra Reddy (up to 28 July 2014)  
Pradeep Patel (appointed on 8 June 2014)  
Tevita Kuruvakadua (appointed on 8 June 2014)  
Abdul Khan (appointed on 3 March 2015)  
Tony Whitton (appointed on 3 March 2015)

### **State of affairs**

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2014 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Bank for the year then ended.

### **Principal activities**

The Reserve Bank's role as a central bank, as defined in the Reserve Bank Act, 1983 and the Reserve Bank of Fiji (Amendment) Decree 2009, is:

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

### **Trading results**

The net profit of the Bank for the year ended 31 December 2014 was \$28.5m (2013: \$31.9m).

### **Reserves**

There was no transfer to the General reserves from net profit at year end as agreed by the Board of Directors, in accordance with Section 8(1)(c) of the Reserve Bank of Fiji Act, 1983.

### **External reserves**

Under the provisions of Section 31 of the Reserve Bank of Fiji Act, 1983, the value of the External reserves provided for in Section 30 shall not be less than 50% of the total Demand liabilities of the Bank. At 31 December 2014, the value of the External reserves was 92% (2013: 92%) of total Demand liabilities.

### **Payable to the Fijian Government**

In accordance with the Reserve Bank of Fiji Act, 1983, the following amounts totalling \$35.2m (2013: \$39.9m) are payable to the Fijian Government:

Section 8(3): Net profit after transfer to General reserves - \$28.5m (2013: \$31.9m)

Section 34: One-fifth balance of Revaluation reserve account - foreign currency - \$6.7m (2013: \$8.0m)



#### **Bad and doubtful debt**

The Directors took reasonable steps before the financial statements of the Bank were made out to ascertain that all known bad debts were written off and adequate allowance 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 provisions for doubtful debts, inadequate to any substantial extent.

#### **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.

#### **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 were not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

#### **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.

#### **Significant event**

During the year, the Bank commenced major renovation works to the external façade of its Pratt Street building. This was the first major external renovation project since the construction of the building 29 years ago in 1984. The project, with an estimated cost of \$7 million is expected to be completed in the first half of 2015.

#### **Events subsequent to balance date**

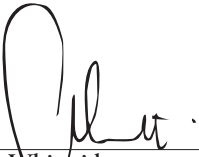
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Bank, to affect significantly the operations of the Bank, the results of those operations, or the state of affairs of the Bank, in future financial years.

#### **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 amounts stated in the financial statements misleading.

Dated at Suva this 25<sup>th</sup> of March 2015.

Signed in accordance with a resolution of the Board of Directors:

  
\_\_\_\_\_  
Barry Whiteside  
Chairman of the Board and Governor

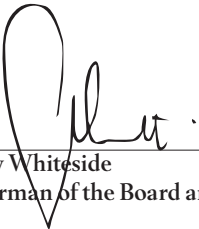
  
\_\_\_\_\_  
Pradeep Patel  
Director

In the opinion of the Directors:

- (a) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2014;
- (b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2014;
- (c) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2014;
- (d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2014;
- (e) at the date of this statement, there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank; and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") except as noted in Note 2(a) to the financial statements. In accordance with the provisions of Section 34 of the Reserve Bank of Fiji Act, 1983, exchange gains and losses are credited or charged directly to the Revaluation reserve account - foreign currency and are not included in the computation of annual profits or losses of the Bank. This is at variance with International Accounting Standard 21 ("IAS 21") "*Effects of Changes in Foreign Exchange Rates*" which requires that exchange gains and losses be credited or charged to profit or loss.

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of Section 34 of the Reserve Bank of Fiji Act, 1983. Had the Bank adopted IAS 21 there would have been a net profit of \$30.8m, an increase of \$2.3m being the exchange gain for the year.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 25<sup>th</sup> of March 2015.

  
Barry Whiteside  
Chairman of the Board and Governor

  
Pradeep Patel  
Director



## Independent Auditor's Report

To the Board of Directors of Reserve Bank of Fiji

### Report on the Financial Statements

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

#### *Directors' and Management's Responsibility for the Financial Statements*

Directors and Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Reserve Bank Fiji Act, 1983 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

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### *Opinion*

In our opinion the accompanying financial statements of the Reserve Bank of Fiji, which comprise the statement of financial position of the Bank as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, are prepared, in all material respects, in accordance with the accounting policies described in Note 2 of the financial statements and in the manner required by the Reserve Bank of Fiji Act, 1983.

### *Emphasis of Matter*

We draw attention to Note 2(a) to the financial statements which refer to the reporting framework and the policy on the treatment of exchange gains and losses and its variance with IAS 21 "Effect of changes in Foreign Exchange Rates". Our opinion is not qualified in respect of this matter.

### **Restriction on Distribution or Use**

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

25 March 2015  
SUVA

  
PricewaterhouseCoopers  
Chartered Accountants

Reserve Bank of Fiji  
**Statement of comprehensive income**  
 For the year ended 31 December 2014

	Note	2014 \$000	2013 \$000
<b>Income</b>			
Interest income	4(a)	52,063	53,953
Other revenue	4(b)	6,484	7,479
<b>Total income</b>		<b>58,547</b>	<b>61,432</b>
<b>Expenses</b>			
Interest expense	4(c)	2,207	2,815
Amortisation of securities	6	1,639	1,862
Administration expenses	4(d)	17,624	16,716
Net losses on realisation of securities		3,800	2,304
Other expenses	4(e)	4,776	5,886
<b>Total expenses</b>		<b>30,046</b>	<b>29,583</b>
<b>Net profit</b>	13	<b>28,501</b>	<b>31,849</b>
<b>Other comprehensive income/(losses)</b>			
Available-for-sale reserve:			
- Fair value gains/(losses)		973	(195)
- Amortisation to profit or loss		(1,509)	(1,660)
Net gains arising from translation of currency balances to Fijian currency		2,263	193
<b>Total other comprehensive income/(losses)</b>		<b>1,727</b>	<b>(1,662)</b>
<b>Total comprehensive income</b>		<b>30,228</b>	<b>30,187</b>

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 78.



# Statement of changes in equity

For the year ended 31 December 2014

	Paid-up capital \$000	General reserves \$000	Revaluation reserve account-foreign currency \$000	Available- for-sale reserve \$000	Asset revaluation reserve \$000	Retained earnings \$000	Total \$000
Balance at 1 January 2013	2,000	39,050	39,926	16,346	7,990	-	105,312
<b>Total comprehensive income for the year</b>							
Net profit	-	-	-	-	-	31,849	31,849
<u>Other comprehensive income/(losses)</u>							
Available-for-sale reserve:							
- Fair value losses	-	-	-	(195)	-	-	(195)
- Amortisation to profit or loss	-	-	-	(1,660)	-	-	(1,660)
Net gains arising from translation of foreign currency balances to Fijian currency	-	-	193	-	-	-	193
Total other comprehensive income/(losses)	-	-	193	(1,855)	-	-	(1,662)
<b>Total comprehensive income/ (losses) for the year</b>	-	-	193	(1,855)	-	31,849	30,187
	<b>2,000</b>	<b>39,050</b>	<b>40,119</b>	<b>14,491</b>	<b>7,990</b>	<b>31,849</b>	<b>135,499</b>
<u>Transactions with owners, recorded directly in equity</u>							
Payable to the Fijian Government (Note 13)	-	-	(8,024)	-	-	(31,849)	(39,873)
<b>Balance at 31 December 2013</b>	<b>2,000</b>	<b>39,050</b>	<b>32,095</b>	<b>14,491</b>	<b>7,990</b>	<b>-</b>	<b>95,626</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 78.

# Statement of changes in equity - continued

For the year ended 31 December 2014

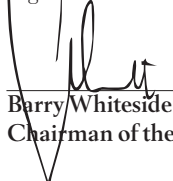
	Paid-up capital \$000	General reserves \$000	Revaluation reserve account-foreign currency \$000	Available- for-sale reserve \$000	Asset revaluation reserve \$000	Retained earnings \$000	Total \$000
Balance at 1 January 2014	2,000	39,050	32,095	14,491	7,990	-	95,626
<b>Total comprehensive income for the year</b>							
Net profit	-	-	-	-	-	28,501	28,501
<i>Other comprehensive income/(losses)</i>							
Available-for-sale reserve:							
- Fair value gain	-	-	-	973	-	-	973
- Amortisation to profit or loss	-	-	-	(1,509)	-	-	(1,509)
- Reclassification	-	-	(867)	-	867	-	-
Net gains arising from translation of foreign currency balances to Fijian currency	-	-	2,263	-	-	-	2,263
Total other comprehensive income/(losses)	-	-	1,396	(536)	867	-	1,727
<b>Total comprehensive income/(losses) for the year</b>	<b>-</b>	<b>-</b>	<b>1,396</b>	<b>(536)</b>	<b>867</b>	<b>28,501</b>	<b>30,228</b>
	<b>2,000</b>	<b>39,050</b>	<b>33,491</b>	<b>13,955</b>	<b>8,857</b>	<b>28,501</b>	<b>125,854</b>
<i>Transactions with owners, recorded directly in equity</i>							
Payable to the Fijian Government (Note 13)	-	-	(6,698)	-	-	(28,501)	(35,199)
<b>Balance at 31 December 2014</b>	<b>2,000</b>	<b>39,050</b>	<b>26,793</b>	<b>13,955</b>	<b>8,857</b>	<b>-</b>	<b>90,655</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 78.

# Statement of financial position

	Note	2014 \$000	2013 \$000
<b>Foreign currency assets</b>			
Short-term commercial paper and current accounts	5	773,519	879,819
Marketable securities	5	840,256	698,733
Gold	5	1,998	1,905
Accrued interest		10,051	9,653
International Monetary Fund			
- Reserve tranche position	5/19	47,822	48,333
- Special drawing rights	5/19	147,096	149,303
- PRGF - HIPC Trust	19	559	567
- Currency subscription	19	154,624	157,137
<b>Total foreign currency assets</b>		<b>1,975,925</b>	<b>1,945,450</b>
<b>Local currency assets</b>			
Cash on hand	16	1,496	2,660
Domestic securities	6	96,612	125,566
Financing facilities	7	96,851	77,267
Currency inventory	8	13,635	11,772
Other assets	9	17,029	15,885
Intangible assets	10	395	608
Property, plant and equipment	11	25,031	21,157
<b>Total local currency assets</b>		<b>251,049</b>	<b>254,915</b>
<b>Total assets</b>		<b>2,226,974</b>	<b>2,200,365</b>
<b>Foreign currency liabilities</b>			
Demand deposits	12	159	141
IMF - PRGF - HIPC Trust	19	559	567
IMF - Special drawing rights allocation	19	193,215	196,101
<b>Total foreign currency liabilities</b>		<b>193,933</b>	<b>196,809</b>
<b>Local currency liabilities</b>			
Demand deposits	12	519,463	633,066
Payable to the Fijian Government	13	35,199	39,873
Currency in circulation	14	641,315	572,825
Statutory reserve deposits		583,126	496,992
IMF - Notes currency subscription		154,533	156,840
Other liabilities	15	8,750	8,334
<b>Total local currency liabilities</b>		<b>1,942,386</b>	<b>1,907,930</b>
<b>Total liabilities</b>		<b>2,136,319</b>	<b>2,104,739</b>
<b>Net assets</b>		<b>90,655</b>	<b>95,626</b>
<b>Capital and reserves</b>			
Paid-up capital	17	2,000	2,000
General reserves	18	39,050	39,050
Revaluation reserve account - foreign currency	18	26,793	32,095
Available-for-sale reserve	18	13,955	14,491
Asset revaluation reserve	18	8,857	7,990
		<b>90,655</b>	<b>95,626</b>

Signed in accordance with the resolution of the Board of Directors:

  
Barry Whiteside  
Chairman of the Board and Governor

  
Pradeep Patel  
Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 78.



Reserve Bank of Fiji  
**Statement of cash flows**  
 For the year ended 31 December 2014

Note	2014 \$000	2013 \$000
<b>Operating activities</b>		
Rental lease income	284	347
Numismatic sales	1,705	2,272
Interest received and securities trading income	48,239	48,741
Other income	2,921	3,255
Interest paid	(2,207)	(2,814)
New currency payments	(6,434)	(1,856)
Administration and other expenses	(17,533)	(19,421)
Net movement of domestic securities	27,315	21,939
Net movement in short-term commercial paper	74,522	(60,467)
Net movement in fixed deposit accounts	3,908	(128,849)
Net movement in International Monetary Fund accounts	244	(310)
Net movement in other receivables	(19,389)	(32,603)
<b>Cash flows from/(used in) operating activities</b>	<b>113,575</b>	<b>(169,766)</b>
<b>Investing activities</b>		
Payment for property, plant and equipment and intangibles	(5,377)	(838)
Net movement of bonds	(144,458)	(74,471)
Net movement in gold	(93)	564
<b>Cash flows (used in) investing activities</b>	<b>(149,928)</b>	<b>(74,745)</b>
<b>Financing activities</b>		
Net movement in currency in circulation	68,490	14,034
Net movement in demand deposits	(113,603)	56,473
Net movement in statutory reserve deposits	86,134	77,672
Payment to the Fijian Government	(39,873)	(35,348)
<b>Cash flows from financing activities</b>	<b>1,148</b>	<b>112,831</b>
<b>Net effect of exchange rate</b>	<b>2,263</b>	<b>194</b>
<b>Net (decrease) in cash</b>	<b>(32,942)</b>	<b>(131,486)</b>
<b>Cash at the beginning of the financial year</b>	<b>379,010</b>	<b>510,496</b>
<b>Cash at the end of the financial year</b>	<b>16 346,068</b>	<b>379,010</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 56 to 78.



## 1. Principal activities and principal place of operations

The Reserve Bank's role as a central bank, as defined in the Reserve Bank of Fiji Act, 1983 and the Reserve Bank of Fiji (Amendment) Decree 2009 is:

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

The Bank's principal place of operations is located at 1 Pratt Street, Suva, Fiji.

## 2. Statement of significant accounting policies and statutory requirements

The significant policies, which have been adopted in the preparation of these financial statements, are noted below:

### (a) Statement of compliance

The financial statements have been prepared in accordance with the provisions of the Reserve Bank of Fiji Act, 1983 and International Financial Reporting Standards (IFRS) except as detailed below.

The provisions of Section 34 of the Reserve Bank of Fiji Act, 1983 requires exchange gains and losses to be credited or debited directly to the Revaluation reserve account - foreign currency and not be included in the computation of annual profits or losses of the Bank.

This is at variance with IAS 21 *"Effects of Changes in Foreign Exchange Rates"* which requires that exchange gains and losses be credited or debited to profit or loss.

In accordance with Section 34, losses arising from exchange fluctuations are set off against any credit balance in the Revaluation reserve account - foreign currency; if such balance is insufficient to cover such losses, the Fijian 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 account - foreign currency at the end of each year is applied first, on behalf of the Fijian Government, to the redemption of any non-negotiable non-interest bearing notes previously transferred to the Bank by the Fijian Government to cover losses and thereafter one-fifth of any remaining balance is paid to the Fijian Government.

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of Section 34 of the Reserve Bank of Fiji Act, 1983. Had the Bank adopted IAS 21 there would have been a net profit of \$30.8m (2013: \$32.0m), an increase of \$2.3m (2013: an increase of \$0.2m), being the exchange gain for the year.

### (b) Basis of preparation

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial statements are disclosed in Note 3.

Reserve Bank of Fiji ("the Bank") operates under the Reserve Bank of Fiji Act, 1983. The financial statements are prepared on the historical cost basis except for the following:

- available-for-sale financial assets are measured at fair value
- held-to-maturity financial assets are measured at amortised cost
- property is measured at fair value.

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



## 2. Statement of significant accounting policies and statutory requirements - continued

### (b) Basis of preparation - continued

#### *New standards and interpretations not adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are stated below.

#### *IFRS 9 Financial Instruments (2013, IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together IFRS 9))*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The International Accounting Standards Board (IASB) currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

The Bank has commenced the process of evaluating the potential effect of this standard and is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

The Bank will assess the appropriateness of all new accounting standards and its applicability to the Bank with a view to adopt it when it is due and where possible and practical, adopt it early.

### (c) Foreign currency transaction

Foreign currencies have been translated to Fijian currency at rates of exchange ruling at year end.

### (d) Functional currency

The financial statements are presented in Fijian dollars, which is the Bank's functional currency.

### (e) Financial assets and liabilities

#### *Investment securities*

The Bank classifies its investment securities into the following three categories: held-to-maturity, held-for-trading and available-for-sale assets.

Investment securities with fixed maturities where the Bank has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate, exchange rates or equity prices, are classified as held-for-trading. Investment securities that are not classified in any of the other categories are classified as available-for-sale. The Bank determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transactions costs). Held-for-trading financial assets are valued at market value. Unrealised gains and losses arising from the valuation adjustments of these securities at year end are included in the computation of annual profits or losses of the Bank.



## 2. Statement of significant accounting policies and statutory requirements - *continued*

### (e) Financial assets and liabilities - continued

#### *Investment securities - continued*

Held-to-maturity investments are carried at amortised cost. Any premium or discount on purchase is capitalised and amortised over the term to maturity on a constant yield to maturity basis.

Available-for-sale financial assets are carried at fair value (Note 18). Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income/ (losses). When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the profit or loss.

In 2011 certain domestic securities classified as Available-for-sale at that time, were reclassified to Held-to-maturity. The fair value gains for these securities that were previously recorded in this reserve is being amortised from the reserve to other revenue over the life of these securities. During the year \$1.51m (2013: \$1.66m) has accordingly been amortised to other revenue.

All purchases and sales of investment securities are recognised at settlement date, which is the date that the asset is transferred to/from the Bank.

#### *Other financial assets and liabilities*

Local and foreign cash, deposits and short-term advances are valued at transaction date value. Reserve Bank of Fiji notes are valued at amortised cost.

#### *Derecognition*

The Bank derecognises its financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and any gain or loss that had been recognised in other comprehensive income is recognised in profit and loss.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

### (f) Gold

Gold is valued at the London Gold Market Fixing Limited market price ruling at year end. Revaluation gains and losses on gold due to change in fair value are transferred to asset revaluation reserve. Exchange gains and losses on gold are transferred to the revaluation reserve- foreign currency account.

### (g) Numismatic items

The Bank sells or receives royalties on notes and coins which are specifically minted or packaged as numismatic items. These numismatic items have not been accounted for as currency in circulation as they are not issued for monetary purposes. In terms of Section 55(2) of the Reserve Bank of Fiji Act, 1983, the Minister for Finance has specified by notice made under the provisions of paragraph (b) of the provision to Section 31 of the Act that the Bank shall not be required to include the face value of these numismatic items in circulation in its financial statements. It is considered that no material liability will arise in respect of these numismatic items.

### (h) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash held at bank, short-term commercial paper and current accounts with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value and are used by the Bank in the management of its short term commitments.



## 2. Statement of significant accounting policies and statutory requirements - continued

### (i) Currency inventory

Currency inventory relates to notes and coins purchased for circulation and include the new notes and coins design series. The amount expensed in profit or loss is based on the cost of notes and coins that are issued for circulation and adjustments for write-offs relating to superseded design notes and coins series.

### (j) Loans and advances

Loans are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for an allowance for bad and doubtful debts. A provision for bad and doubtful debts is made based on the appraisal carried out at year end. Movement in the provision is charged to profit or loss.

All known bad debts are written off against the provision in the year in which they are recognised. Bad debts, in respect of which no specific provisions have been established, are charged directly to profit or loss.

### (k) Demand deposits

Demand deposits representing funds placed with the Bank by financial institutions and other organisations are brought to account on a cost basis. These deposits are at call. Interest is paid on demand deposits of commercial banks held with the Bank.

### (l) Currency in circulation

The exclusive rights of national currency issue are vested with the Bank. Currency in circulation comprises notes and coins issued by the Bank and represent a claim on the Bank in favour of the holder. Currency in circulation relates to the issue of notes and coins and demonetised currency that have yet to be redeemed, less notes and coins redeemed. The liability for currency in circulation is recorded at face value.

### (m) Property, plant and equipment

#### *Recognition and measurement*

Freehold land and buildings are measured at fair value, based on valuations by an independent registered valuer less subsequent depreciation and impairment losses. All other property, plant and equipment are stated at historical cost less depreciation. Costs include expenditures that are directly attributable to the acquisition of the asset.

#### *Depreciation*

Items of capital expenditure, with the exception of freehold land, are depreciated on a straight line basis over the following estimated useful lives as follows:

Buildings	50 years
Building improvements	5-15 years
Motor vehicles	6 years
Computers and equipment	4-5 years
Plant & machinery, equipment & furniture & fittings	5-10 years

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



## 2. Statement of significant accounting policies and statutory requirements - continued

### (n) Intangible assets

Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis over the estimated useful lives of the asset being the period in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively. The annual amortisation rate used for intangible assets is 25%.

### (o) Statutory reserve deposit

Under Section 40 of the Reserve Bank of Fiji Act, 1983, the Reserve Bank may specify the reserves required, by each financial institution, to be maintained against deposits and other similar liabilities.

### (p) Impairment

The carrying amounts of the Bank's assets are reviewed periodically to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

### (q) Employee entitlements

#### *Short-term benefits*

Short-term employee benefits comprising of annual leave and entitlement to Fiji National Provident Fund are measured on an undiscounted basis and are expensed as the related service is provided.

#### *Other long-term employee benefits*

The Bank's net obligation in respect of long-term benefits is the amount of future benefit that employees have earned in return for their service in the current and prior period; that benefit is discounted to determine its present value. The discount rate is based on the domestic bond portfolio.

### (r) Income tax

The Bank is exempt from income tax in accordance with Section 57 of the Reserve Bank of Fiji Act, 1983.

### (s) Revenue recognition

#### *Interest income*

Interest income is brought to account on an accruals basis.

#### *Income from Available-for-sale securities*

Gains and losses realised from the sale of Available-for-sale securities are reflected in profit or loss.

### (t) Operating leases

Where the Bank is the lessee, the lease rentals payable on operating leases are recognised in profit or loss over the term of the lease.

Where the Bank is the lessor, the assets leased out are retained in property, plant and equipment.

**2. Statement of significant accounting policies and statutory requirements - continued****(u) Comparative figures**

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

**(v) Rounding**

Amounts in the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

**3. Critical accounting estimates and judgements**

Estimates and judgments are continually evaluated and based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in the following paragraphs.

*Impairment of property, plant and equipment*

The Bank assesses whether there are indicators of impairment on all property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment and where there are indicators that the carrying amount may not be recoverable, reasonable provision for impairment are created.

*Impairment of financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Bank, economic conditions that correlate with defaults or the disappearance of an active market for a security.

**4. Revenue and expenses****(a) Interest income**

Overseas investments  
International Monetary Fund  
Domestic securities  
Loans and advances

**(b) Other revenue**

Rent received  
Numismatic sales  
License and application fees  
Foreign currency trading gains  
Amortisation of available for sale reserve  
Other miscellaneous income

	2014 \$000	2013 \$000
	40,362	40,656
	188	104
	10,608	12,040
	905	1,153
	52,063	53,953
	284	347
	1,770	2,272
	316	309
	2,370	2,692
	1,509	1,660
	235	199
	6,484	7,479



4. Revenue and expenses - continued

(c) Interest expense

International Monetary Fund  
Other

(d) Administration expenses

Staff costs  
Other costs

	2014 \$000	2013 \$000
International Monetary Fund	199	139
Other	2,008	2,676
	2,207	2,815
(d) Administration expenses		
Staff costs	12,061	11,190
Other costs	5,563	5,526
	17,624	16,716

Total number of employees at year end

	2014	2013
Total number of employees at year end	213	213

(e) Other expenses

Depreciation  
Amortisation of intangible assets  
Auditor's remuneration  
- Audit fees  
- Accounting services  
- Other services  
Board remuneration  
Currency issue  
Numismatic

	2014 \$000	2013 \$000
Depreciation	1,490	1,680
Amortisation of intangible assets	226	244
Auditor's remuneration		
- Audit fees	56	57
- Accounting services	-	28
- Other services	-	7
Board remuneration	41	45
Currency issue	2,898	3,750
Numismatic	65	75
	4,776	5,886

5. External reserves

Short-term commercial paper  
Current accounts

Marketable securities  
- Fixed term deposits  
- Bonds

Gold

International Monetary Fund  
- Reserve tranche position  
- Special drawing rights

Total External reserves

	2014 \$000	2013 \$000
Short-term commercial paper	662,415	769,823
Current accounts	111,104	109,996
	773,519	879,819
Marketable securities		
- Fixed term deposits	450,086	453,994
- Bonds	390,170	244,739
	840,256	698,733
Gold	1,998	1,905
International Monetary Fund		
- Reserve tranche position	47,822	48,333
- Special drawing rights	147,096	149,303
	194,918	197,636
Total External reserves	1,810,691	1,778,093

Under the provisions of Section 31 of the Reserve Bank of Fiji Act, 1983, the value of the External reserves provided for in Section 30 shall not be less than 50% of the total Demand liabilities of the Bank. At 31 December 2014, the value of the External reserves was 92% (2013: 92%) of total Demand liabilities.





# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 6. Domestic securities

Domestic securities principally comprises investment in the Fijian Government bonds.

During the year, \$1.64m (2013: \$1.86m) was amortised in respect of securities held in the Domestic Bond Portfolio. Of this, \$1.51m (2013: \$1.66m) relates to securities which in 2011 were reclassified from Available-for-sale to Held-to-maturity.

	2014 \$000	2013 \$000
<i>Movement of Held-to-maturity financial assets</i>		
Opening balance at 1 January	125,566	149,564
Acquisitions	305	59
Redemptions	(27,620)	(22,195)
Amortisation	(1,639)	(1,862)
Closing balance at 31 December	96,612	125,566

## 7. Financing facilities

Import substitution and export financing facility  
Natural disaster rehabilitation facility  
Housing facility

	2014 \$000	2013 \$000
Import substitution and export financing facility	57,257	51,595
Natural disaster rehabilitation facility	14,594	15,672
Housing facility	25,000	10,000
	96,851	77,267

These financing facilities have varying maturities up to 5 years.

## 8. Currency inventory

*Movement of currency inventory*

Opening balance at 1 January  
Consignments received  
Currency issued  
Closing balance at 31 December

	2014 \$000	2013 \$000
Opening balance at 1 January	11,772	9,742
Consignments received	4,761	5,780
Currency issued	(2,898)	(3,750)
Closing balance at 31 December	13,635	11,772

## 9. Other assets

Accrued interest  
Currency prepayments  
Prepayments and other receivables  
Staff loans and advances  
Allowance for doubtful debts on staff loans and advances  
Allowance for doubtful debts on other receivables

	2014 \$000	2013 \$000
Accrued interest	2,379	3,267
Currency prepayments	12,479	10,806
Prepayments and other receivables	811	765
Staff loans and advances	1,403	1,077
Allowance for doubtful debts on staff loans and advances	(2)	(2)
Allowance for doubtful debts on other receivables	(41)	(28)
	17,029	15,885

Currency prepayments represent advance payment for the purchase of notes and coins.

## 10. Intangible assets

*Cost*  
Balance at 1 January  
Acquisitions  
Transfers from work in progress  
Balance at 31 December

*Accumulated amortization*  
Balance at 1 January  
Amortisation charge for the year  
Balance at 31 December

	2014 \$000	2013 \$000
Balance at 1 January	4,640	4,586
Acquisitions	-	39
Transfers from work in progress	12	15
Balance at 31 December	4,652	4,640
Balance at 1 January	4,032	3,788
Amortisation charge for the year	225	244
Balance at 31 December	4,257	4,032
At 1 January	608	798
At 31 December	395	608

*Carrying amount*

At 1 January  
At 31 December

Intangible assets include costs incurred in acquiring the Bank's computer software. Computer software is capitalised on the basis of costs incurred to acquire and bring to use the specific software.

# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 11. Property, plant and equipment

	Freehold land and buildings	Building Improvements	Motor vehicles	Computers and equipment	Plant & machinery, equipment & furniture & fittings	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost/Valuation</b>							
Balance at 1 January 2013	21,345	3,775	340	2,398	4,633	683	33,174
Adjustment	-	500	3	(253)	16	-	266
Adjusted cost/valuations balance at 1 January 2013	21,345	4,275	343	2,145	4,649	683	33,440
Additions	-	4	-	197	-	598	799
Transfers	-	61	-	112	147	(335)	(15)
Disposals	-	(4)	-	(172)	(46)	(53)	(275)
Balance at 31 December 2013	21,345	4,336	343	2,282	4,750	893	33,949
Balance at 1 January 2014	21,345	4,336	343	2,282	4,750	893	33,949
Additions	-	26	138	186	-	5,058	5,408
Transfers	91	19	-	62	96	(280)	(12)
Disposals	-	(1)	(35)	(127)	(46)	(27)	(236)
Balance at 31 December 2014	21,436	4,380	446	2,403	4,800	5,644	39,109
<b>Accumulated depreciation</b>							
Balance at 1 January 2013	2,727	2,934	154	1,637	3,613	-	11,065
Adjustment	-	68	3	7	188	-	266
Adjusted balance at 1 January 2013	2,727	3,002	157	1,644	3,801	-	11,331
Depreciation for the year	711	245	55	351	318	-	1,680
Depreciation on disposals	-	(4)	-	(169)	(46)	-	(219)
Balance at 31 December 2013	3,438	3,243	212	1,826	4,073	-	12,792
Balance at 1 January 2014	3,438	3,243	212	1,826	4,073	-	12,792
Depreciation for the year	716	304	51	240	180	-	1,491
Depreciation on disposals	-	(1)	(31)	(127)	(46)	-	(205)
Balance at 31 December 2014	4,154	3,546	232	1,939	4,207	-	14,078
<b>Carrying amount</b>							
Balance at 1 January 2013	18,618	841	186	761	1,020	683	22,109
Balance at 31 December 2013	17,907	1,093	131	456	677	893	21,157
Balance at 31 December 2014	17,282	834	214	464	593	5,644	25,031

The work in progress principally includes the cost of the major renovations to the external façade of the Pratt Street building.

A valuation of the Bank's freehold land and buildings was undertaken in 2008 by an independent registered valuer. The valuation was carried out on the basis of the market value of the properties.

## 12. Demand deposits

	2014 \$000	2013 \$000
Foreign		
International Monetary Fund	159	141
Local		
Banks' exchange settlement balances	514,178	598,296
Fijian Government	2,556	32,434
State NBF Trust account	1,630	1,250
International Monetary Fund	91	296
Other depositors	1,008	790
	519,463	633,066

# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 12. Demand deposits - continued

### State NBF Trust Account

In accordance with an agreement dated 12 September 1996 between the Fijian Government, the Reserve Bank of Fiji and NBF AMB, the State established a trust account, known as the State NBF Trust Account, with the Reserve Bank of Fiji, on the basis, among other things, that all money in the trust account is the property of the Fijian Government at all times. The purpose of the State NBF Trust Account is to meet the obligations of the AMB.

The National Bank of Fiji Restructuring Act, 1996, provides that the State, the Reserve Bank of Fiji and AMB may at any time enter into one or more deeds, agreements, arrangements and understandings relating to the performance by the State of its obligations under the guarantees of deposits with AMB. From 1 April 2007, under Section 30(2)(c)(i) of the Banking Act, 1995, Cabinet agreed that the Bank assume controllership and the ultimate winding down process of the AMB. It also permits the Bank to use money from the State NBF Trust Account to meet any controllership expenses.

## 13. Payable to the Fijian Government

	2014 \$000	2013 \$000
Net profit	28,501	31,849
One-fifth balance of 'Revaluation reserve account - foreign currency'	6,698	8,024
	35,199	39,873

The amount payable to the Fijian Government is made in accordance with Section 8(3) of the Reserve Bank of Fiji Act, 1983.

## 14. Currency in circulation

	2014 \$000	2013 \$000
Notes	593,213	529,281
Coins	48,102	43,544
	641,315	572,825

The exclusive rights of national currency issue are vested with the Bank. Currency in circulation comprises notes and coins issued by the Bank and represent a claim on the Bank in favour of the holder. Currency in circulation relates to the issue of notes and coins and demonetised currency that have yet to be redeemed, less notes and coins redeemed. The liability for currency in circulation is recorded at face value. On 3 November 2014, the Bank put into circulation the replacement \$2 coin for the new flora and fauna design series.

## 15. Other liabilities

	2014 \$000	2013 \$000
Employee entitlements	1,109	1,012
SME Credit Guarantee Scheme	3,972	4,000
Accruals	1,058	1,368
Other liabilities	2,611	1,954
	8,750	8,334
<i>Movements in employee entitlements:</i>		
Balance at 1 January	1,012	1,048
Net movement during the year	97	(36)
Balance at 31 December	1,109	1,012

The small and medium enterprises (SME) credit guarantee scheme is a Government guarantee to pay up to 50 percent of the principal outstanding on defaulted SME loans to a limit of \$50,000 per business. The total allocation of \$4.0 million that was established in 2012 is administered by the Bank and covers lending to all sectors except for loans to sugar cane farmers and government-subsidised businesses.

## 16. Cash and cash equivalents

	2014 \$000	2013 \$000
Cash and cash equivalents included in the statement of cash flows comprise of the following:		
Cash on hand - local currency	1,496	2,660
Cash - foreign currency	344,572	376,350
	346,068	379,010

Cash - foreign currency forms part of short-term commercial paper and current accounts in Note 5.



# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 17. Share capital

	2014 \$000	2013 \$000
Authorised capital	5,000	5,000
Issued and paid-up capital	2,000	2,000

The authorised capital established under the Reserve Bank of Fiji Act, 1983 is \$5,000,000 which may be increased from time to time by any amount proposed by the Board of Directors and approved by the Minister for Finance. Upon the establishment of the Bank, an initial amount of \$2,000,000 was issued by the Fijian Government as paid capital stock. Any subsequent amount of paid capital stock shall be proposed by the Board of Directors and approved by the Minister for Finance.

## 18. Reserves

Reserves are maintained to cover the broad range of risks to which the Bank is exposed.

### *General reserves*

The General reserves provide for events which are contingent and which are non-foreseeable. Transfers to this account from the profit payable to the Fijian Government, can only take place following an agreement between the Minister for Finance and the Board of Directors, in accordance with Section 8(1)(c) of the Reserve Bank of Fiji Act, 1983.

### *Available-for-sale reserve*

This reserve records fair value gains and losses on the Bank's Available-for-sale investments. In 2011 certain domestic securities classified as Available-for-sale at that time, were reclassified to Held-to-maturity. The fair value gains for these securities that were previously recorded in this reserve is being amortised from the reserve to other revenue over the life of these securities. During the year \$1.51m (2013: \$1.66m) has been accordingly amortised to other revenue.

### *Revaluation reserve account - foreign currency*

Exchange gains and losses arising from revaluation of Bank's assets and liabilities in, or denomination in gold or foreign currencies are transferred to the Revaluation reserve account - foreign currency (refer Note 2(a)).

### *Asset revaluation reserve*

This reserve records movements between the carrying value and the fair values of the Bank's property and gold holdings. During the year, the valuation movements of the Bank's gold holdings were reclassified from the revaluation reserve account - foreign currency into the asset revaluation reserve. The asset revaluation reserve comprises the following:

	2014 \$000	2013 \$000
<b>Asset revaluation reserve</b>		
<i>Property</i>		
Opening balance	7,990	7,990
Net revaluation adjustment	-	-
At 31 December	7,990	7,990
<i>Gold</i>		
Opening balance	-	-
Net revaluation adjustment	867	-
At 31 December	867	-
<b>Total asset revaluation reserve</b>		
Opening balance	7,990	7,990
Net revaluation adjustment	867	-
At 31 December	8,857	7,990



## 18. Reserves - continued

### *Management of capital and reserves*

The Bank's capital and reserves management focuses on the Bank's total equity reported in its financial statements. The main drivers of the reported equity are the reported results and the Bank's distribution to the Fijian Government. The Bank's distribution to the Fijian Government is determined under the provisions of the Reserve Bank of Fiji Act, 1983 referred to in Note 13.

The Bank's main capital management objective is to have adequate reserves to effectively carry out its statutory responsibilities. The Bank assesses the extent of the financial risks and the resulting potential for losses arising from its operation. These financial risks are assessed across the statement of financial position to determine the appropriate amount of equity. Such assessments are supplemented with analysis and judgement, where appropriate.

During the year, the Bank determined in its assessment that the current level of equity is adequate and there will be no transfer of profit to the General reserves.

## 19. International Monetary Fund

The Bank was designated to serve with effect from 17 December 1976 as the Fijian Government's fiscal agent for the purposes of the International Monetary Fund, and assumed the Republic of Fiji Island's obligation of membership from that date.

As at 31 December 2014, the Republic of Fiji's membership subscription to the International Monetary Fund was \$202.4m (2013: \$205.4m). Of this amount \$47.8m (2013: \$48.3m) is shown as Reserve Tranche Position and is included as part of the External reserves of the Reserve Bank (refer Note 5) and the balance representing the Currency subscription portion of \$154.6m (2013: \$157.1m) is held mainly in the form of a non-interest bearing notes payable on demand.

Special drawing rights holdings ("SDR") is an interest bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the IMF. As at balance date this Special drawing rights holdings (asset) had a balance of \$147.1m (2013: \$149.3m) and is included as part of External reserves of the Bank (refer to Note 5). IMF - Special drawing rights allocation (liability) with a balance of \$193.2m (2013: \$196.1m) is included under foreign currency liabilities.

The Poverty Reduction and Growth Facility (PRGF) Trust was established by the IMF to meet the objectives of poverty reduction and growth more central to lending operations in its poorest member countries. The facility is administered in line with the Heavily Indebted Poor Countries (HIPC) Initiative.

**20. Financial risk management policies****a) Introduction and overview**

The Reserve Bank is involved in policy oriented activities. The Bank identifies risks and implements controls in its operation and management of foreign reserves holdings. The main financial risks that the Bank faces include:

- liquidity risk
- credit risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and procedures for measuring and managing risk.

*Risk management framework*

Like most central banks, the nature of the Bank's operations creates exposures to a range of operational and reputational risks. The Board of Directors has overall responsibility of the establishment and oversight of the Bank's risk management framework.

Bank management seeks to ensure that strong and effective risk management and controls systems are in place for assessing, monitoring and managing risk exposures. The Board of Directors, the Governors and Senior Management are responsible for managing and monitoring the business, strategy, risks and performance of the Bank. Internal Audit forms part of the Bank's risk management framework. This function reports to the Governor and the Board Audit and Risk Committee on internal audit and related issues. All areas in the Bank are subject to periodic internal audit review.

The majority of the Bank's financial risk arises from the management of foreign and domestic reserves. The Middle Office is responsible for monitoring and reporting compliance with various risk limits and policies. The Bank is subject to an annual external audit. Both external and internal audit arrangements are overseen by the Board Audit and Risk Committee comprising three of the Board's Directors. The Committee meets regularly and reports to the Board of Directors on its activities.

**b) Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

*Management of liquidity risk*

To limit the liquidity risk, the Bank maintains an adequate level of reserves and taking into consideration the transaction demand on foreign exchange, ensures that an acceptable amount is maintained in current accounts at all times. The Bank invests in high quality instruments, including commercial paper and debt issued by Governments and Supranationals, all of which are easily converted to cash (refer to maturity analysis on liquidity).

*Exposure to liquidity risk*

The key measure used by the Bank for managing liquidity risk is the ratio of net Liquid assets to total Demand liabilities. The Bank's investment guidelines requires that minimum value of foreign currency assets to be held at any point shall not be less than 50% of the total Demand liabilities of the Bank. (Demand liabilities include currency in circulation but exclude non-interest bearing notes issued to international financial institutions).

As at 31 December 2014, the value of External reserves was 92% (2013: 92%) of the total Demand liabilities.



## 20. Financial risk management policies - continued

### b) Liquidity risk - continued

#### Maturity analysis as at 31 December 2014

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 31 December 2014.

	0 - 3 Months \$000	3 - 12 Months \$000	1 - 5 Years \$000	Over 5 Years \$000	No Specific Maturity \$000	Total \$000
<b>Foreign currency assets</b>						
Short-term commercial paper and current accounts	344,572	428,947	-	-	-	773,519
Marketable securities	181,194	426,968	232,094	-	-	840,256
Gold	1,998	-	-	-	-	1,998
Accrued interest	10,051	-	-	-	-	10,051
IMF - Reserve tranche position	47,822	-	-	-	-	47,822
- Special drawing rights	147,096	-	-	-	-	147,096
- PRGF - HIPC Trust	-	-	559	-	-	559
- Currency subscription	154,624	-	-	-	-	154,624
	887,357	855,915	232,653	-	-	1,975,925
<b>Local currency assets</b>						
Cash on hand	1,496	-	-	-	-	1,496
Domestic securities	-	4,049	30,678	61,885	-	96,612
Financing facilities	86	2,200	94,565	-	-	96,851
Currency inventory	13,635	-	-	-	-	13,635
Other assets	17,029	-	-	-	-	17,029
Intangibles	-	-	-	-	395	395
Property, plant and equipment	-	-	-	-	25,031	25,031
	32,246	6,249	125,243	61,885	25,426	251,049
<b>Total assets</b>	<b>919,603</b>	<b>862,164</b>	<b>357,896</b>	<b>61,885</b>	<b>25,426</b>	<b>2,226,974</b>
<b>Foreign currency liabilities</b>						
Demand deposits	159	-	-	-	-	159
IMF - PRGF - HIPC Trust	-	-	-	-	193,215	193,215
IMF - Special drawing rights Allocation	-	-	559	-	-	559
	159	-	559	-	193,215	193,933
<b>Local currency liabilities</b>						
Demand deposits	519,463	-	-	-	-	519,463
Payable to the Fijian Government	35,199	-	-	-	-	35,199
Currency in circulation	-	-	-	-	641,315	641,315
Statutory reserve deposit	-	-	-	-	583,126	583,126
IMF - Notes currency subscription	-	-	-	-	154,533	154,533
Other liabilities	4,778	3,972	-	-	-	8,750
	559,440	3,972	-	-	1,378,974	1,942,386
<b>Total liabilities</b>	<b>559,599</b>	<b>3,972</b>	<b>559</b>	<b>-</b>	<b>1,572,189</b>	<b>2,136,319</b>
<b>Net assets</b>	<b>360,004</b>	<b>858,192</b>	<b>357,337</b>	<b>61,885</b>	<b>(1,546,763)</b>	<b>90,655</b>



## 20. Financial risk management policies - continued

### b) Liquidity risk - continued

#### Maturity analysis as at 31 December 2013

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 31 December 2013.

	0 - 3 Months \$000	3 - 12 Months \$000	1 - 5 Years \$000	Over 5 Years \$000	No Specific Maturity \$000	Total \$000
<b>Foreign currency assets</b>						
Short-term commercial paper and current accounts	376,350	503,469	-	-	-	879,819
Marketable securities	179,568	398,383	120,782	-	-	698,733
Gold	1,905	-	-	-	-	1,905
Accrued interest	9,653	-	-	-	-	9,653
IMF - Reserve tranche position	48,333	-	-	-	-	48,333
- Special drawing rights	149,303	-	-	-	-	149,303
- PRGF - HIPC Trust	-	-	567	-	-	567
- Currency subscription	157,137	-	-	-	-	157,137
	922,249	901,852	121,349	-	-	1,945,450
<b>Local currency assets</b>						
Cash on hand	2,660	-	-	-	-	2,660
Domestic securities	300	27,556	15,877	81,833	-	125,566
Financing facilities	-	683	76,584	-	-	77,267
Currency inventory	11,772	-	-	-	-	11,772
Other assets	15,885	-	-	-	-	15,885
Intangibles	-	-	-	-	608	608
Property, plant and equipment	-	-	-	-	21,157	21,157
	30,617	28,239	92,461	81,833	21,765	254,915
<b>Total assets</b>	<b>952,866</b>	<b>930,091</b>	<b>213,810</b>	<b>81,833</b>	<b>21,765</b>	<b>2,200,365</b>
<b>Foreign currency liabilities</b>						
Demand deposits	141	-	-	-	-	141
IMF - PRGF - HIPC Trust	-	-	567	-	-	567
IMF - Special drawing rights Allocation	-	-	-	-	196,101	196,101
	141	-	567	-	196,101	196,809
<b>Local currency liabilities</b>						
Demand deposits	633,066	-	-	-	-	633,066
Payable to the Fijian Government	39,873	-	-	-	-	39,873
Currency in circulation	-	-	-	-	572,825	572,825
Statutory reserve deposit	-	-	-	-	496,992	496,992
IMF - Notes currency subscription	-	-	-	-	156,840	156,840
Other liabilities	7,127	-	547	660	-	8,334
	680,066	-	547	660	1,226,657	1,907,930
<b>Total liabilities</b>	<b>680,207</b>	<b>-</b>	<b>1,114</b>	<b>660</b>	<b>1,422,758</b>	<b>2,104,739</b>
<b>Net assets</b>	<b>272,659</b>	<b>930,091</b>	<b>212,696</b>	<b>81,173</b>	<b>(1,400,993)</b>	<b>95,626</b>





## 20. Financial risk management policies - continued

### c) Credit risk

Credit risk relates to the risk of loss to the Bank from the failure of counter-party to a transaction to meet its contractual obligations and arises principally from the Bank's investments and loans and advances to customers and other banks.

For risk management purposes, the Bank prescribes minimum credit ratings acceptable for investment and specifies the maximum permissible credit exposure to individual banks and countries. The minimum credit ratings for investments are P1/A3 for short-term debt and P1/Aaa for long-term.

The Bank uses Standard and Poor's, Moody's and Fitch credit ratings for assessing the credit risk of foreign counterparties. The credit ratings of counterparties are closely monitored and are updated as new market information is available. Foreign exchange limits per bank are imposed for all currency dealings.

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

	2014 \$000	2013 \$000
<b>Foreign currency assets</b>		
Short-term commercial paper and current accounts	773,519	879,819
Marketable securities	840,256	698,733
International Monetary Fund	350,101	355,340
	<b>1,963,876</b>	<b>1,933,892</b>
<b>Local currency assets</b>		
Domestic securities	96,612	125,566
Staff loans and advances	1,403	1,077
	<b>98,015</b>	<b>126,643</b>
	<b>2,061,891</b>	<b>2,060,535</b>

The Bank monitors credit risk by currency and sector. An analysis of concentrations of credit risk is shown below:

	2014		2013	
	\$000	%	\$000	%
<b>Concentration by currency</b>				
USD	660,202	32	529,157	26
YEN	39,430	2	52,861	2
STG	4	-	-	-
EURO	90,472	4	80,883	4
AUD	517,777	25	553,767	27
NZD	305,890	15	361,884	18
SDR	350,101	17	355,340	17
FJD	98,015	5	126,643	6
<b>Total financial assets</b>	<b>2,061,891</b>	<b>100</b>	<b>2,060,535</b>	<b>100</b>

	2014		2013	
	\$000	%	\$000	%
<b>Concentration by sector</b>				
<b>Foreign currency assets</b>				
Central banks	70,765	4	83,845	4
Commercial banks	1,149,028	58	1,233,366	64
Government	190,501	10	78,442	4
Semi Government	74,492	4	8,442	1
Supranational	116,202	6	139,908	7
International Monetary Fund	350,101	17	355,340	18
Others	12,787	1	34,549	2
	<b>1,963,876</b>	<b>100</b>	<b>1,933,892</b>	<b>100</b>



# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 20. Financial risk management policies - continued

### c) Credit risk - continued

	2014		2013	
	\$000	%	\$000	%
<b>Local currency assets</b>				
Government and statutory bodies	96,612	99	125,566	99
Staff loans and advances	1,403	1	1,077	1
	<b>98,015</b>	<b>100</b>	<b>126,643</b>	<b>100</b>
<b>Total financial assets</b>	<b>2,061,891</b>		<b>2,060,535</b>	

### Credit exposure by credit rating

The Bank averages the credit ratings provided by the above agencies, rounded down to the lower rating in case the composite is between two ratings. The rating agencies are evenly weighted when calculating the composite. An analysis of the credit quality based on Standard and Poor's, Moody's and Fitch credit ratings is as follows:

	2014		2013	
	\$000	%	\$000	%
<b>Summary by major credit category</b>				
<i>Foreign currency financial asset by major credit category:</i>				
Aaa	234,266	12	143,177	7
Aa1	14,917	1	22,186	1
Aa2	20,616	1	-	-
Aa3	704,819	36	591,073	31
A1	200,955	10	309,102	16
A2	231,818	12	309,756	16
International Monetary Fund	350,101	17	355,340	18
Others and Not rated	206,384	11	203,258	11
	<b>1,963,876</b>	<b>100</b>	<b>1,933,892</b>	<b>100</b>
<i>Local currency financial asset by major credit category:</i>				
Others	98,015	100	126,643	100
<b>Total financial assets</b>	<b>2,061,891</b>	<b>100</b>	<b>2,060,535</b>	<b>100</b>

Foreign currency assets under 'Others and Not Rated' include financial instruments held with other central banks. Local currency assets under 'Others' include financial instruments held with the Fijian Government, the Fiji Sugar Corporation and staff loans and advances.

### d) Market risks

Market risk is the risk that relates to changes in market prices such as interest rates and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

#### *Interest rate risk management*

The principal risk to which trading portfolios is exposed is the risk of loss from fluctuations in future cash flows or fair value of financial instruments because of a change in market interest rates. The Bank limits interest rate risk by modified duration targets. The investment strategy in relation to the duration for the total portfolio is six months. The duration of the portfolio is re-balanced regularly to maintain the targeted duration.

# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 20. Financial risk management policies - continued

### d) Market risks - continued

#### Foreign exchange risk management

Exchange rate risk relates to the risk of loss of foreign reserves arising from changes in the exchange rates against the Fijian dollar. The Bank has adopted a currency risk management policy, which maintains the Fijian dollar value of the foreign reserves and manages the fluctuations in the Revaluation reserve account - foreign currency.

The Bank's exposure to foreign exchange risk, based on notional amounts, was as follows:

#### Notional carrying amounts as at 31 December 2014

	USD \$000	YEN \$000	STG \$000	EURO \$000	AUD \$000	NZD \$000	SDR \$000
<i>Foreign currency assets</i>							
Short-term commercial paper and current account	198,272	1,519,738	1	28,419	136,938	40,173	-
Marketable securities	133,876	850,000	-	9,001	181,184	156,330	-
Gold	1,005	-	-	-	-	-	-
Accrued interest	1,306	464	-	2	2,225	2,445	-
International Monetary Fund							
- Reserve tranche position	-	-	-	-	-	-	16,606
- Special drawing rights	-	-	-	-	-	-	51,079
- PRGF - HIPC Trust	-	-	-	-	-	-	194
- Currency subscription	-	-	-	-	-	-	53,693
<b>Total foreign currency assets</b>	<b>334,459</b>	<b>2,370,202</b>	<b>1</b>	<b>37,422</b>	<b>320,347</b>	<b>198,948</b>	<b>121,572</b>
<i>Foreign currency liabilities</i>							
Demand deposits	-	-	-	-	-	-	(55)
IMF - PRGF - HIPC Trust	-	-	-	-	-	-	(194)
IMF - Special drawing rights Allocation	-	-	-	-	-	-	(67,094)
<b>Total foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(67,343)</b>
<b>Carrying amount</b>	<b>334,459</b>	<b>2,370,202</b>	<b>1</b>	<b>37,422</b>	<b>320,347</b>	<b>198,948</b>	<b>54,229</b>

#### Notional carrying amounts as at 31 December 2013

	USD \$000	YEN \$000	STG \$000	EURO \$000	AUD \$000	NZD \$000	SDR \$000
<i>Foreign currency assets</i>							
Short-term commercial paper and current account	202,442	2,927,441	-	28,381	183,617	37,135	-
Marketable securities	76,371	-	-	2,500	143,770	195,266	-
Gold	1,004	-	-	-	-	-	-
Accrued interest	1,099	-	-	-	1,815	2,882	-
International Monetary Fund							
- Reserve tranche position	-	-	-	-	-	-	16,537
- Special drawing rights	-	-	-	-	-	-	51,083
- PRGF - HIPC Trust	-	-	-	-	-	-	194
- Currency subscription	-	-	-	-	-	-	53,763
<b>Total foreign currency assets</b>	<b>280,916</b>	<b>2,927,441</b>	<b>-</b>	<b>30,881</b>	<b>329,202</b>	<b>235,283</b>	<b>121,577</b>
<i>Foreign currency liabilities</i>							
Demand deposits	-	-	-	-	-	-	(48)
IMF - PRGF - HIPC Trust	-	-	-	-	-	-	(194)
IMF - Special drawing rights Allocation	-	-	-	-	-	-	(67,094)
<b>Total foreign currency liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(67,336)</b>
<b>Carrying amount</b>	<b>280,916</b>	<b>2,927,441</b>	<b>-</b>	<b>30,881</b>	<b>329,202</b>	<b>235,283</b>	<b>54,241</b>



## 20. Financial risk management policies - continued

### d) Market risks - continued

The following significant exchange rates were used at year end to convert foreign currency balances to the Fijian dollar equivalent.

#### Reporting date spot rate

	2014	2013
USD	0.5031	0.5269
YEN	60.10	55.38
STG	0.3231	0.3190
EURO	0.4136	0.3818
AUD	0.6144	0.5912
NZD	0.6424	0.6422
SDR	0.3473	0.3421

#### Sensitivity analysis for exchange rate

A 10% strengthening and a 10% weakening of the Fijian dollar against the above currencies at 31 December would have the following impact on equity as shown below.

#### Effect on equity - Increase in equity/(Decrease in equity)

	Strengthening by 10%		Weakening by 10%	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
<b>31 December</b>				
USD	(60,436)	(48,468)	73,866	59,239
YEN	(3,585)	(4,806)	4,382	5,873
STG	-	-	-	-
EURO	(8,225)	(7,353)	10,053	8,987
AUD	(47,400)	(50,622)	57,933	61,871
NZD	(28,154)	(33,307)	34,411	40,708
SDR	(14,197)	(14,412)	17,352	17,615
	<b>(161,997)</b>	<b>(158,968)</b>	<b>197,997</b>	<b>194,293</b>

### e) Operational Risk Management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than liquidity, credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations.

Managing operational risk in the Bank is an integral part of day-to-day operations and oversight. This includes adherence to Bank wide corporate policies. There is also an active internal audit function carried out on a quarterly basis.

To reduce operational risks in foreign reserves operations there is a clear segregation of duties between the Front Office (dealing) and the Back Office (settlements function). The Front Office comprises teams of officers (dealers) who are duly authorised to transact on behalf of the Bank. The Back Office comprises officers who independently process and settle all the deals undertaken by the Front Office.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to Senior Management within each business group. This responsibility is supported by the development of overall and business group-specific policies and procedures. The Middle Office and Internal and External Audit functions also ensure that operational risk is effectively minimised and managed.



## 21. 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 arm's 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.

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

### *External reserves*

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.

### *Domestic securities*

The fair value of the Bank's Domestic securities is \$121.5m (2013: \$157.7m), based on quoted market prices.

### *Statutory reserve deposits*

The carrying value of Statutory reserve deposits are considered to approximate their fair value as they are denominated in cash.

### *Demand deposits*

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

### *Currency in circulation*

The carrying value of Currency in circulation is considered to be its fair value as reported in the financial statements.

### *Other financial assets and liabilities*

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

### *Valuation of financial instruments*

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active market for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.



# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 21. Fair values of financial assets and liabilities - continued

The table below analyses financial instruments measured at fair value at the end of the reporting period.

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>31 December 2014</b>				
<i>Foreign currency assets</i>				
Available-for-sale financial assets at quoted market price	307,789	-	-	307,789
Fijian Government bonds	-	82,381	-	82,381
	307,789	82,381	-	390,170
<b>31 December 2013</b>				
<i>Foreign currency assets</i>				
Available-for-sale financial assets at quoted market price	166,296	-	-	166,296
Fijian Government bonds	-	78,442	-	78,442
	166,296	78,442	-	244,738

During the financial period ended 31 December 2014, there were no transfers in and out of the fair value hierarchy levels mentioned above.

### *Sensitivity analysis*

A 10% strengthening of the quoted market prices against the above foreign available-for-sale financial assets at 31 December would have increased equity by the amounts shown below. A 10% weakening of market prices at 31 December would have had the equal but opposite effect.

### **Effect on equity**

	2014 \$000	2013 \$000
USD	16,073	7,131
EURO	-	-
AUD	21,961	12,804
NZD	783	2,097
	38,817	22,032

## 22. Related parties

### *Identity of related parties*

The Bank has related party relationships with the Board of Directors, the Executive Management and the Fijian Government and NBF AMB.

The Board of Directors during the year were:

Barry Whiteside (Chairman and Governor)  
 Iowane Naiveli (up to 31 December 2014)  
 Filimone Waqabaca (Ex-officio member)  
 Robin Yarrow (up to 8 June 2014)  
 Deo Saran (up to 10 February 2015)  
 Esther Williams (up to 8 June 2014)  
 Mahendra Reddy (up to 28 July 2014)  
 Pradeep Patel (appointed on 8 June 2014)  
 Tevita Kuruvakadua (appointed on 8 June 2014)

Filimone Waqabaca who is on secondment without remuneration to the Fijian Government, was appointed as Permanent Secretary for Finance on 7 February 2011. He was previously Chief Manager Financial System Development and Compliance for the Bank.



# Notes to and forming part of the financial statements

For the year ended 31 December 2014

## 22. Related parties - continued

In April 2007 Cabinet agreed under the Banking Act for the Reserve Bank to assume controllership of the winding down process of NBF AMB.

During the year the following persons were the executives identified as key management personnel, with the greatest authority and responsibility for planning and controlling the activities of the Bank:

Barry Whiteside	Governor
Inia Naiyaga	Deputy Governor (retired on 26 May 2014)
Ariff Ali	Deputy Governor (appointed on 27 May 2014)
Ariff Ali	Chief Manager Economics (up to 26 May 2014)
Lorraine Seeto	Chief Manager Risk Management and Communications
Esala Masitabua	Chief Manager Financial Markets
Razim Buksh	Director Financial Intelligence Unit
Susan Kumar	Chief Manager Currency and Corporate Services
Veremi Levula	Chief Manager Financial System Development
Vilimaina Dakai	Chief Manager Financial Institutions
Isoa Wainiqolo	Acting Chief Manager Economics
Subrina Hanif	Board Secretary

### *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 Board of Directors and Executive Management include the payment of board remuneration and salaries, respectively.

The transactions with the Fijian Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank earned \$17.6m (2013: \$18.8m) of interest income relating to their investments in Government securities including foreign currency denominated bonds. The Bank is also obligated to pay \$35.2m (2013: \$39.9m) to the Fijian Government in accordance with Section 8(3) of the Reserve Bank of Fiji Act, 1983. The Bank has interest receivable on Government securities as at 31 December 2014 of \$4.43m (2013: \$4.85m). The balance of the Bank's investment in Government securities including foreign currency denominated bonds at year end amounted to \$179.0m (2013: \$181.3m).

The Bank also provides an overnight standby facility to the Fijian Government. At year end, the approved facility of \$20m (2013: \$20m) was not utilised.

During the year, the Bank received \$0.1m (2013: \$0.1m) of rental income from NBF AMB.

The transactions with the respective related parties are carried out on normal trading terms.

During the year the following transactions were incurred with the related parties:

	2014 \$000	2013 \$000
Board remuneration expenses	41	45
Short-term employee benefits	1,865	1,315
Long-term employee benefits	256	220
	2,162	1,580

**23. Commitments**

Commitments not otherwise provided for in the financial statements and which existed at 31 December 2014 comprise:

	2014 \$000	2013 \$000
Foreign exchange transactions:		
- Sales	5,253	16,015
- Purchases	12,959	8,627
Capital commitments		
- Reserve Bank building façade	1,400	6,180
- Other assets	17	9

The major renovation to the external façade of its Pratt Street building is expected to be completed in the first half of 2015.

**24. Lease receivable**

The Bank leases out certain floors of the Reserve Bank building. The operating lease rentals receivable are as follows:

	2014 \$000	2013 \$000
Receivable not later than one year	264	342
Receivable later than one year but not later than five years	14	263
	278	605

The Bank is in negotiations with its tenants on the renewal of the lease agreements that are due to expire in 2015.

**25. Events subsequent to balance date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Bank, to affect significantly the operations of the Bank, the results of those operations, or the state of affairs of the Bank, in future financial years.



## Selected Events in 2014

3 Jan.	December 2013 Economic Review Issued	4 Jul.	Press Release - Financial Intelligence Unit Releases 2013 Annual Report
22 Jan.	Board Audit and Risk Committee Meeting	9 Jul.	Press Release - RBF Releases 2013 Annual Report
30 Jan.	Ordinary Board Meeting	14 Jul.	Governor chaired PFTAC Steering Committee Meeting co-hosted by RBF/PFTAC, Sofitel, Nadi
30 Jan.	Press Release - Monetary Policy Stance Remains Unchanged	17 Jul.	Press Release - National Financial Inclusion Taskforce Launches First Poverty Scorecard in the South Pacific
31 Jan.	January 2014 Economic Review Issued	17 Jul.	Press Release - Trust Deed to Provide Added Assurance for Mobile Money
4 Feb.	Press Release - Reserve Bank Revokes Foreign Exchange Dealer License	17-30 Jul.	International Monetary Fund Article IV Mission
19 Feb.	1st Anti-Money Laundering Council Meeting	31 Jul.	Ordinary Board Meeting
21 Feb.	December 2013 Quarterly Review Issued	1 Aug.	Press Release - Monetary Policy Stance Remains Unchanged
26 Feb.	Board Audit and Risk Committee Meeting	4 Aug.	July 2014 Economic Review Issued
27 Feb.	Ordinary Board Meeting	4 Aug.	Capital Market Development Taskforce Committee Quarter 2 Meeting
27 Feb.	Press Release - Monetary Policy Stance Remains Unchanged	16-23 Aug.	Hibiscus Festival Week - Financial Inclusion Village
3 Mar.	February 2014 Economic Review Issued	19 Aug.	Press Release - The Reserve Bank of Fiji to Host Two Financial Inclusion Expositions in August
3 Mar.	LMCC Quarter 1 Meeting	26 Aug.	June 2014 Quarterly Review Issued
3 Mar.	Deputy Governor co-jointly with Chairman & CEO HFC opened HFC	26-28 Aug.	Board and Executive Management Industry Visit to the Western Division
13 Mar.	National Finance Inclusion Taskforce Committee Quarter 1 Meeting	28-29 Aug.	Financial Inclusion Exposition - Ra
14-16 Mar.	Governor presented on the Fiji Economy at the FIA Workshop	2 Sept.	August 2014 Economic Review Issued
18 Mar.	Press Release - Reserve Bank of Fiji Encourages Students to be Money WiSe	3 Sept.	RBF Fit for Life Programme Launch by Mr Ben Ryan
19 Mar.	Board Audit and Risk Committee Meeting	8 Sept.	Press Release - Reserve Bank of Fiji to Participate at the 2014 Central Division Agriculture Show
19 Mar.	Board Governance Committee Meeting	9 Sept.	Deputy Governor presented on "Strengthening Pacific Statistics: Opportunities & Lessons Learned" at the 3rd Pacific Leadership Forum
21 Mar.	Press Release - Fiji to Host Two International Meetings on Financial Inclusion	11 Sept.	Board Audit and Risk Committee Meeting
24-28 Mar.	RBF co-hosted 12th Meeting of the Pacific Islands Financial Inclusion Working Group and 4th Meeting of the Financial Inclusion Strategy Peer Learning Group	10-12 Sept.	RBF participated in the Agriculture Show Central Division, Nausori
28 Mar.	Ordinary Board Meeting	12 Sept.	Press Release - Authorities Strengthen Tax Compliance
31 Mar.	Press Release - Monetary Policy Stance Remains Unchanged	15 Sept.	Board Governance Committee Meeting
31 Mar.	2013 RBF Accounts and Annual Report submitted to the Minister for Finance	25 Sept.	Ordinary Board Meeting
31 Mar.	Capital Markets Development Taskforce Quarter 1 Meeting	25 Sept.	Press Release - Monetary Policy Stance Remains Unchanged
1 Apr.	Press Release - RBF Transfers Profits to Government	26 Sept.	Launch of the RBF Refurbished Website
2 Apr.	22nd Annual General Meeting of the Fiji Institute of Bankers	26 Sept.	September 2014 Economic Review Issued
2 Apr.	RBF Board meets with Prime Minister	26 Sept.	Complaints Management Forum
4 Apr.	Complaints Management Forum	30 Sept.	National Financial Inclusion Taskforce Quarter 3 Meeting
11 Apr.	March 2014 Economic Review Issued	10-12 Oct.	Governor attended IMF/World Bank Annual Meeting, Washington DC
14 Apr.	Press Release - Complaints Management Forum.	13 Oct.	National Demand Site Survey
17 Apr.	Press Release - Beware of Email Spoofing (Impersonation)	15 Oct.	LMCC Quarter 3 and 4 Meeting
17 Apr.	Press Release - Reserve Bank of Fiji Signs Memorandum of Understanding with the Fiji Commerce Commission and Fiji Financial Intelligence Unit	28 Oct.	Press Release - NDSS to Assess the Access, Usage and Quality of Financial Services and Products in Fiji
24 Apr.	Ordinary Board Meeting	29 Oct.	Press Release - New \$2 Coin to be Issued
24 Apr.	Press Release - National Financial Inclusion Taskforce Supports the Work of the Microfinance Sector	31 Oct.	Press Release - Monetary Policy Stance Remains Unchanged
24 Apr.	Press Release - Economic Growth Projections for 2014 Revised Upward	31 Oct.	Governor's presentation to the Fiji-Australia Business Council on Fiji's Economy
25 Apr.	Press Release - Monetary Policy Stance Remains Unchanged	31 Oct.	Ordinary Board Meeting
30 Apr.	April 2014 Economic Review Issued	3 Nov.	October 2014 Economic Review Issued
14 May	Press Release - Money Remittance Service Providers Well Regulated in Fiji	3 Nov.	New \$2 Coins Issued
15 May	Press Release - Reserve Bank of Fiji Announces Retirement of Deputy Governor, Mr Inia R Naiyaga	6 Nov.	RBF co-sponsored Microfinance Awards with LICl, PFI, ANZ and WBC
15 May	Press Release - Reserve Bank of Fiji Announces Appointment of Deputy Governor, Mr Ariff Ali	6 Nov.	Press Release - 2nd National Microfinance Awards
28 May	Mr Barry Whiteside reappointed as Governor Reserve Bank of Fiji for three years	7 Nov.	Address by Governor at the closing of the 79th Pacific Credit Union Teachers Association at the Novotel Hotel, Lami
29 May	Ordinary Board Meeting	12 Nov.	Board Audit and Risk Committee Meeting
30 May	Press Release - Monetary Policy Stance Kept Unchanged	21 Nov.	Press Release - Further Exchange Control Relaxations Effective 1 January 2015
2 Jun.	May 2014 Economic Review Issued	20-22 Nov.	Governor attended 34th SEACEN Governors' meeting, Papua New Guinea
2 Jun.	National Finance Inclusion Taskforce Quarter 2 Meeting	24 Nov.	Board Audit and Risk Committee Meeting
2 Jun.	Launch of 2014 RBF Microfinance Awards co-sponsored by LICl and PFI	27 Nov.	Ordinary Board Meeting
9 Jun.	Appointment of Mr Pradeep Patel & Mr Tevita Kuruvakadua as Board Directors (replacing Mr Robin Yarrow and Dr Esther Williams)	27 Nov.	Press Release - Monetary Policy Stance Remains Unchanged
16 Jun.	March 2014 Quarterly Review Issued	28 Nov.	November 2014 Economic Review Issued
16 Jun.	2013 FIU Annual Report tabled at Cabinet by Attorney-General and Minister for Justice	28 Nov.	Complaints Management Forum
17 Jun.	2013 RBF Annual Report tabled in Cabinet	3-4 Dec.	29th South Pacific Central Bank Governors' Meeting, Grand Pacific Hotel
19 Jun.	Deputy Governor presented on the Fijian Economy at the Fiji Institute of Bankers Seminar	10 Dec.	Board Audit and Risk Committee Meeting
19 Jun.	LMCC Quarter 2 Meeting	11 Dec.	Board Governance Committee Meeting
25 Jun.	2nd Anti-Money Laundering Council Meeting	11 Dec.	Ordinary Board Meeting
27 Jun.	Deputy Governor presented on the Fijian Economy at the Lawyers Seminar	12 Dec.	Press Release - Signing of Multilateral Memorandum of Understanding with the Bank of Papua New Guinea and the Central Bank of the Solomon Islands as Members of the BSP Supervisory College
28 Jun.	Deputy Governor presented on the Fijian Economy at the Fiji - NZ Business Council, Grand Pacific Hotel	12 Dec.	Press Release - Religious Organisations Advised to Comply with the FTR Act
30 Jun.	Submission of 2013 Insurance Annual Report to the Minister for Finance	12 Dec.	National Finance Inclusion Taskforce Quarter 4 Meeting
1 Jul.	June 2014 Economic Review Issued	15 Dec.	Press Release - 29th South Pacific Central Bank Governors' Meeting
1 Jul.	Complaints Management Forum	15 Dec.	September Quarterly Review 2014 Issued
		31 Dec.	December 2014 Economic Review Issued

## Fiji: Key Economic and Financial Indicators

	2010	2011	2012	2013	2014
<b>I. GDP at Market Price (\$ Million)</b>	6,024.4	6,538.8	6,890.8	7,428.0(p)	8,039.3(e)
Per Capita GDP at Current Factor Cost (\$)	5,955.8	6,317.1	6,562.1	6,992.6(p)	7,426.4(e)
Constant Price GDP Growth Rate (%)	3.0	2.7	1.8	4.6(p)	4.5(e)
<b>II. LABOUR MARKET</b>					
Labour Force	334,850(e)	336,900(e)	337,900(e)	339,400(e)	342,900(e)
Wage and Salary Earners (mid-year)	126,632(r)	131,583(r)	128,000(e)	129,000(e)	129,500(e)
<b>III. INFLATION (year-on-year % change)</b>					
All Items	3.6	6.4	2.5	3.4	0.1
<b>IV. GOVERNMENT FINANCE (\$ Million)</b>					
Total Revenue and Grants	1,537.8	1,804.1	1,937.1	2,098.5	2,387.4(r)
Total Expenditure (excluding loan repayments)	1,668.7	1,898.3	2,013.7	2,136.3	2,545.9(r)
<b>V. EXTERNAL TRADE<sup>1</sup></b>					
Current Account Balance (\$ Million)	-265.1	-345.9	-123.9	-1,103.5	-704.8(e)
Capital Account Balance (\$ Million)	5.6	10.6	7.1	8.9	8.9(e)
Financial Account Balance (\$ Million) <sup>2</sup>	-297.0(r)	-637.4	-478.7	-625.6(r)	-546.5(e)
Current Account Balance (% of GDP)	-4.4(r)	-5.3(r)	-1.8	-14.9(r)	-8.7(e)
<b>VI. FOREIGN EXCHANGE RESERVES (\$ Million)</b>					
Foreign Reserves	1,302.7	1,512.5	1,635.5	1,778.1	1,810.7
<b>VII. MONEY AND CREDIT (year-on-year % change)</b>					
Narrow Money	11.8	41.1	5.3	67.3	5.6
Currency in Circulation	8.2	3.8	9.6	1.1	11.5
Quasi-Money	3.8	15.8	6.3	23.2	10.6
Domestic Credit <sup>3</sup>	-0.8	1.0	2.8	14.0	18.9
<b>VIII. INTEREST RATES (% p.a.)</b>					
RBF Overnight Policy Rate <sup>4</sup>	2.50	0.50	0.50	0.50	0.50
Lending Rate	7.42	7.42	6.65	5.86	5.72
Savings Deposit Rate	1.02	0.91	0.74	0.72	0.57
Time Deposit Rate	4.73	2.97	2.28	1.79	2.15
Minimum Lending Rate	3.00	1.00	1.00	1.00	1.00
<b>IX. EXCHANGE RATES (mid rates, F\$1 equals: end of period)</b>					
United States dollar	0.5496	0.5493	0.5595	0.5269	0.5031
Real Effective Exchange Rate (January 1999 = 100)	93.01	96.77	98.45	98.51	98.68

Sources: Commercial Banks, Fiji Bureau of Statistics, Ministry of Finance, Macroeconomic Policy Committee and Reserve Bank of Fiji

### Notes:

<sup>1</sup> Balance of Payments values include aircraft imports and financing and 2014 values are MPC estimates as at October 2014.

<sup>2</sup> '-' Indicates Net Borrowing i.e. the economy receives funds from the rest of the world.

<sup>3</sup> Credit to the private sector is adjusted for AMB's non-performing loans and advances.

<sup>4</sup> The RBF Overnight Policy Rate came into effect in 2010.

### Key:

(e): estimate

(p): provisional

(r): revised

## **Abbreviations**

<b>ABIF</b>	Association of Banks in Fiji	<b>MC</b>	Money Changers
<b>ADB</b>	Asian Development Bank	<b>MDBI</b>	Material Damage & Business Interruption
<b>AFI</b>	Alliance for Financial Inclusion	<b>MOU</b>	Memorandum of Understanding
<b>AMB</b>	Asset Management Bank	<b>MPC</b>	Macroeconomic Policy Committee
<b>AML</b>	Anti-Money Laundering	<b>MSME</b>	Micro, Small and Medium Enterprises
<b>ANZ</b>	Australia New Zealand Bank	<b>NBF</b>	National Bank of Fiji
<b>APG</b>	Asia Pacific Group	<b>NBFI</b>	Non-Bank Financial Institution
<b>APRA</b>	Australian Prudential Regulations Authority	<b>NDRF</b>	National Disaster Rehabilitation Facility
<b>ATH</b>	Amalgamated Telecom Holdings	<b>NDSS</b>	National Demand Side Survey
<b>ATM</b>	Automated Teller Machine	<b>NEC</b>	National Employment Centre
<b>BCP</b>	Business Continuity Plan	<b>NEER</b>	Nominal Effective Exchange Rate
<b>BRS</b>	Business Resumption Site	<b>NFIT</b>	National Financial Inclusion Taskforce
<b>BSP</b>	Bank of South Pacific	<b>NSR</b>	No Surcharge Rule
<b>CEO</b>	Chief Executive Officer	<b>NZ</b>	New Zealand
<b>CFT</b>	Combatting the Financing of Terrorism	<b>OHS</b>	Occupational Health and Safety
<b>CTR</b>	Cash Transaction Reports	<b>OMO</b>	Open Market Operations
<b>ECB</b>	European Central Bank	<b>OPR</b>	Overnight Policy Rate
<b>EDRMS</b>	Electronic Document Records Management System	<b>PAYE</b>	Pay As You Earn
<b>EFTPOS</b>	Electronic Fund Transfer at Point of Sale	<b>PBF</b>	Paradise Beverages Fiji
<b>EFTR</b>	Electronic Funds Transfer Reports	<b>P2P</b>	Person to Person
<b>FABC</b>	Fiji Australia Business Council	<b>PFIP</b>	Pacific Financial Inclusion Programme
<b>FATF</b>	Financial Action Taskforce	<b>PFTAC</b>	Pacific Financial Technical Assistance Centre
<b>FBFSEU</b>	Fiji Bank and Financial Sector Employees Union	<b>PIFIWG</b>	Pacific Islands Financial Inclusion Working Group
<b>FDB</b>	Fiji Development Bank	<b>PPI</b>	Progress out of Poverty Index
<b>FHL</b>	Fijian Holdings Limited	<b>PRB</b>	Public Rental Board
<b>FHRI</b>	Fiji Human Resources Institute	<b>RBA</b>	Reserve Bank of Australia
<b>FIA</b>	Fiji Institute of Accountants	<b>RBF</b>	Reserve Bank of Fiji
<b>FIB</b>	Fiji Institute of Bankers	<b>RBG</b>	RB Patel Group
<b>FISPLG</b>	Financial Inclusion Strategy Peer Learning Group	<b>RBNZ</b>	Reserve Bank of New Zealand
<b>FIU</b>	Financial Intelligence Unit	<b>REER</b>	Real Effective Exchange Rate
<b>FMF</b>	Flour Mills of Fiji	<b>RFED</b>	Restricted Foreign Exchange Dealer
<b>FNPF</b>	Fiji National Provident Fund	<b>RRA</b>	Revaluation Reserve Account
<b>FNU</b>	Fiji National University	<b>RTGS</b>	Real Time Gross Settlement
<b>FRCA</b>	Fiji Revenue and Customs Authority	<b>RTS</b>	Real Time Settlement
<b>FRF</b>	Flood Rehabilitation Facility	<b>SEACEN</b>	South East Asian Central Banks
<b>FTR</b>	Financial Transactions Reporting	<b>SME</b>	Small and Medium Enterprises
<b>GDP</b>	Gross Domestic Product	<b>SMECGS</b>	Small and Medium Enterprise Credit Guarantee Scheme
<b>GRCL</b>	General Reserves for Credit Losses	<b>SPSE</b>	South Pacific Stock Exchange
<b>HA</b>	Housing Authority	<b>STR</b>	Suspicious Transaction Report
<b>HART</b>	Housing Assistance and Relief Trust	<b>STRI</b>	SPSE Total Return Index
<b>HFC</b>	Home Finance Company	<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunications
<b>HR</b>	Human Resources	<b>TA</b>	Technical Assistance
<b>IMF</b>	International Monetary Fund	<b>TNA</b>	Training Needs Analysis
<b>ISEFF</b>	Import Substitution and Export Finance Facility	<b>TRIM</b>	Total Records Information Management
<b>IT</b>	Information Technology	<b>TTS</b>	Toyota Tsusho South Seas
<b>ITF</b>	Insurance Trust of Fiji	<b>ULAR</b>	Unimpaired Liquid Assets Requirement
<b>ITSC</b>	Information Technology Steering Committee	<b>US</b>	United States
<b>KFL</b>	Kontiki Finance Limited	<b>USP</b>	University of the South Pacific
<b>KPI</b>	Key Performance Indicator	<b>WBC</b>	Westpac Banking Corporation
<b>LAB</b>	Local Advisory Board	<b>YWCA</b>	Young Women Christian Association
<b>LICI</b>	Life Insurance Corporation of India		
<b>LMCC</b>	Labour-Management Consultation and Cooperation Committee		



### RESERVE BANK OF FIJI

The great double-hulled, ocean-going canoes (drua) of the ancient Fijians were remarkable craft capable of long voyages. The tagaga (pronounced “tangaga”) or masthead, was crucial for holding in place the sails, woven from the leaves of the pandanus tree. It was the tagaga which enabled the navigators to keep their drua sailing towards their destinations.

For the Reserve Bank of Fiji, a logo based on the tagaga masthead, symbolises the Bank’s role in contributing towards a sure and steady course for Fiji’s economy.



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the 1990s, the number of people with a mental health problem has increased in the UK, and the number of people with a mental health problem who are in contact with mental health services has also increased (Mental Health Act 1983, 1990, 1994, 1997, 2003, 2007).

There is a growing awareness of the need to improve the lives of people with a mental health problem, and to reduce the stigma and discrimination that they experience. This has led to a number of initiatives, including the development of mental health services, the establishment of mental health charities, and the development of mental health legislation (Mental Health Act 1983, 1990, 1994, 1997, 2003, 2007).

The aim of this paper is to explore the experiences of people with a mental health problem who are in contact with mental health services. The paper will discuss the challenges that these people face, and the ways in which mental health services can be improved to better meet their needs.

The paper is organized as follows. The first section discusses the background to the problem, and the second section discusses the methods used in the study. The third section discusses the results of the study, and the fourth section discusses the implications of the findings.

The first section discusses the background to the problem. There is a growing awareness of the need to improve the lives of people with a mental health problem, and to reduce the stigma and discrimination that they experience. This has led to a number of initiatives, including the development of mental health services, the establishment of mental health charities, and the development of mental health legislation (Mental Health Act 1983, 1990, 1994, 1997, 2003, 2007).

The second section discusses the methods used in the study. The study was a qualitative study, and the data were collected through interviews with people with a mental health problem who are in contact with mental health services. The interviews were semi-structured, and the topics discussed included the challenges that these people face, and the ways in which mental health services can be improved to better meet their needs.

The third section discusses the results of the study. The results of the study show that people with a mental health problem who are in contact with mental health services face a number of challenges, including the stigma and discrimination that they experience, and the lack of support that they receive. The results also show that mental health services can be improved to better meet the needs of these people.

The fourth section discusses the implications of the findings. The findings of the study have a number of implications for mental health services, including the need to improve the support that is provided to people with a mental health problem, and the need to reduce the stigma and discrimination that they experience.