



### Economic Recovery

In early 2016, Fiji was hit by two natural disasters which greatly impacted domestic economic outcomes. Tropical Cyclone (TC) Winston, a category 5 storm system – the strongest in Fiji’s history, made landfall in February and caused significant damage to parts of the Western, Northern, Central and Eastern Divisions. Later in April, the heavy downpour from TC Zena brought substantial flooding to the two main islands, Viti Levu and Vanua Levu. The natural disasters affected a number of key sectors including agriculture, both cane and non-cane; sugar manufacturing; utilities, such as electricity and water; and forestry. A combination of strong macroeconomic fundamentals in the lead up to the cyclones and the quick concerted efforts post-disasters by Government, the private sector, financial institutions and development partners played a crucial role in mitigating the negative impact on the economy. Growth for 2016 remains broad based and is currently projected at 2.0 percent from an earlier forecast of 3.5 percent. Economic recovery in 2016 is being led by firm domestic demand – mainly from strong consumption and investment activity fueled by fiscal stimulus measures, concessional loan packages by financial institutions and the \$274.7 million pay-out by the Fiji National Provident Fund. The services sector remains the main driver of growth this year due to high wholesale and retail activity linked to the surge in reconstruction work and firm consumer and tourism demand. During the review period fiscal and monetary policies remained supportive of recovery efforts across the nation. In 2017, growth is expected to improve to 3.6 percent.



## RESERVE BANK OF FIJI JANUARY-JULY 2016 REPORT



### Rio Gold

As a testament to the resilience of its people, Fiji earned its first ever Olympic medal, a gold, at the 2016 games in Rio, Brazil despite setbacks encountered earlier in the year. The win, followed by the Government's declaration of a commemorative national public holiday, brought a timely boost to our nation's spirits as we continue to refocus national priorities and recover from the impact of TCs Winston and Zena. Fiji's Rio gold medal achievement attracted international attention and is expected to have a positive impact on our sports tourism and traditional tourism industries while improving investor and consumer confidence.



### 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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# Letter To The Minister

## RESERVE BANK OF FIJI



### Governor

Our Reference: D16/10611  
Your Reference:

30 September 2016

The Honourable Minister for Economy  
Mr Aiyaz Sayed-Khaiyum  
Ministry of Economy  
Ro Lalabalavu House  
Victoria Parade  
**SUVA**

Dear Minister

**Re: Reserve Bank of Fiji Annual Report and Accounts for the seven months ended 2016**

Section 54 of the Reserve Bank of Fiji Act 1983 states that the financial year of the Bank shall coincide with the financial year of the Government.

With the recent change by Government and in terms of Section 56(1), I submit the following: -

- (i) A copy of the RBF Accounts for the seven months period ended from 1 January to 31 July 2016 certified by the Auditors
- (ii) A report of the RBF's Operations for January to July 2016.

Yours faithfully

**Barry Whiteside**  
**Governor**



## Our Functions

*The Reserve Bank of Fiji (RBF) is the central bank of the Republic of Fiji established in 1984 through an Act of Parliament - the RBF Act of 1983.*

Section 153(2) of the 2013 Constitution states that “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 regular consultation between the Reserve Bank and the Minister responsible for Economy”.

### Monetary Stability

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 undertakes 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 tools which have been used at various times.

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

### Financial Stability

Under section 4(c) of the RBF Act (1983), the Bank is mandated to promote a sound financial structure. In undertaking this function, the Bank licenses and supervises banking, insurance and superannuation institutions, as well as foreign exchange dealers.

The supervised institutions must comply with relevant legislative requirements, as well as prudential policies and guidelines issued by the Reserve Bank.

As part of its mandate to ensure financial stability, the Bank identifies and takes steps to mitigate and counter growing risks in individual institutions and the financial system. In this regard, macroprudential monitoring has been initiated to ensure systemic stability. The Bank’s supervisory role also includes activities to combat money laundering and terrorist financing as mandated under the Financial Transactions Reporting (FTR) Act (2004) and the FTR Regulations (2007).

The Reserve Bank acts as the banker for commercial banks and provides payment and settlement services through FIJICLEAR. This is administered under the Payment and Settlement Systems Oversight Regulations (2004).

Under the Companies Act (2015), the Bank is also responsible for regulating, supervising and developing the capital markets in Fiji. In addition to this, the responsibilities for the administration of takeovers; regulation of securities exchanges & central depository; regulation of securities and industry licences; transactions involving listed securities; capital raising; debentures; managed investment schemes, insider trading; offences and investigations and information gathering have also been placed with the Bank.

Part 2 of the Fair Reporting of Credit Act (2016) places specific responsibilities with the Reserve Bank to register, licence and regulate credit reporting agencies, credit information providers and credit report recipients as well as to maintain proper standards of conduct and acceptable credit reporting practices.

### Currency Management

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, minting of coins and 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 Economy.

### Financial System Development

The Bank also drives financial inclusion activities, financial and capital market developments and oversees the complaints management process in all supervised entities.

### Other

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

The Bank’s organisational 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 and Management, and the Governance structure are described on pages 10 to 13.





## Governor's Foreword



*In view of our recent change in fiscal year this Report highlights events and outcomes for the first seven months of 2016.*

*In 2016, the Fiji economy is projected to grow for the seventh consecutive year, albeit at a slower pace of 2.0 percent. The natural disasters at the beginning of the year significantly affected the domestic economy, with reduced prospects for a number of key sectors, including cane and non-cane agriculture, fisheries and aquaculture, forestry and logging and utilities. Nevertheless, the RBF's twin objectives remained intact with foreign reserves at comfortable levels and inflation expected to return to trend over the year and the medium-term.*

The first seven months of 2016 presented huge challenges for the economy as the country was hit by two cyclones of significant strength earlier in the year. Tropical Cyclone (TC) Winston and TC Zena hit Fiji in February and April respectively, and caused widespread destruction to our key sectors including agriculture, fisheries, forestry and utilities. Manufacturing output was also affected by lower sugar, fish and forestry related production.

However, swift response and ongoing efforts by the authorities, private sector and financial institutions after the natural disasters provided the much needed stimulus to the economy in 2016. As such, the economy is still projected to grow by 2.0 percent.

It is important to note that strong macroeconomic fundamentals prior to 2016 had strengthened the economy's position to withstand the shocks of the two cyclones. Domestic demand has remained firm, led by robust consumption and investment activity. Recent RBF surveys indicate that business confidence remains positive, while fiscal stimulus measures and the large pay-out to members of \$274.7 million by the Fiji National Provident Fund (FNPF) have supported rehabilitation activity and boosted consumption spending.

On a sectoral basis, the services category continues to provide the largest impetus to growth, underpinned by higher activity in the transport & storage; wholesale and retail trade; public administration & defence; accommodation & food services and the financial & insurance sectors. Positive contribution from the industrial sector, driven by higher construction activity, is further expected to help offset negative contributions from affected sectors such as sugar manufacturing. Notably, the primary sector is projected to be a drag on growth as agriculture, including cane and non-

cane, fisheries and aquaculture, and forestry and logging were affected by the natural disasters.

Financial conditions have been largely favourable given ample liquidity in the banking system and the low interest rate environment, which supported the economic recovery. In addition, financial institutions provided various concessional loan packages to help businesses and individuals recover. This also included the activation of the Natural Disaster Rehabilitation Facility by the Reserve Bank to assist affected businesses and individuals.

At the end of July 2016, foreign reserves were \$1,982.4 million, equivalent to 5.5 months of retained imports. Steady inflows of tourism receipts and inward remittances continued to support our reserves. Inflation rose to 5.5 percent in July following supply shortages and consequent price increases in agricultural market-related items due to the cyclones. Given that monetary policy has little control over inflationary pressures generated from supply side shortages, and the need to balance maintaining monetary stability and supporting growth, the Bank kept an accommodative monetary policy stance, holding the OPR unchanged at 0.5 percent.

The financial sector remained sound during the first six months of 2016 backed by adequate earnings, capital, liquidity positions and asset quality for banks, companies and credit institutions. However, general insurance companies were affected due to the catastrophic events earlier in the year.

To further develop the financial system, the Bank continued to undertake various policy initiatives, including the expansion of mobile financial services, microfinance development and financial literacy awareness programs. On financial reforms, industry feedback was sought on the secured transactions

reform, while the Financial Sector Development Plan (FSDP) 2025 as well as the Capital Markets Development Plan 2025 have been submitted for Cabinet endorsement.

On other developments, the Bank will be hosting the eighth Alliance for Financial Inclusion (AFI) Global Policy Forum (GPF) in Nadi in September 2016. This will be a milestone event in the history of the Reserve Bank and possibly the largest ever GPF, with more than 540 delegates from 82 countries expected to converge on Denarau. The Forum annually brings together global and regional stakeholders to discuss financial inclusion issues and during the Fiji meeting we will take the opportunity to share our own financial inclusion story as well as what we are doing in the Pacific region with our fellow central banks. I take this opportunity to thank the Government, all our fellow stakeholders and my team at the Bank, for the tremendous work and support provided to us as we prepare for this prestigious event.

In line with the Government's change in fiscal year, and as prescribed in the RBF Act, the Bank has moved its financial year to align with this change. Our new fiscal year now runs from 1 August to 31 July. On the Bank's financial performance over the first seven months of 2016, profitability was affected due to lower interest rates in most of our trading partner countries which constrained income from investments of foreign reserves. Nevertheless, we expect to be able to transfer to Government profits amounting to \$15.6 million plus \$3.0 million from our Revaluation Reserve Account, in early October.

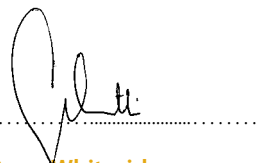
To further strengthen internal work processes and bring about improvements, the Reserve Bank continued to build staff capacity through various training opportunities both

locally and abroad. As an institution, we continued to strengthen our engagement with the community through various industry meetings and visits.

Looking ahead, the Fiji economy, through continued concerted recovery efforts post-cyclones, is expected to rebound and achieve generally broad based growth in the near to medium terms. Similarly, foreign reserves are projected to remain relatively stable in the upcoming months supported by tourism earnings and remittances while the current high inflation rate is expected to taper off as the supply of impacted agricultural items normalise.

For the remainder of 2016 and in 2017, the Bank will continue with the implementation of its Strategic Plan 2014-2018 and enhance its partnership with both international and local stakeholders. Further work will include reviews of the Reserve Bank Act (1983), the RBF Amendment Act (2009), the Insurance Act (1998) and other relevant legislations, in consultation with the Office of the Solicitor-General. In addition, we expect to undertake Small and Medium Enterprises (SME) reform work in conjunction with Government, including the establishment of a National SME Development Council and a Central Coordinating Agency.

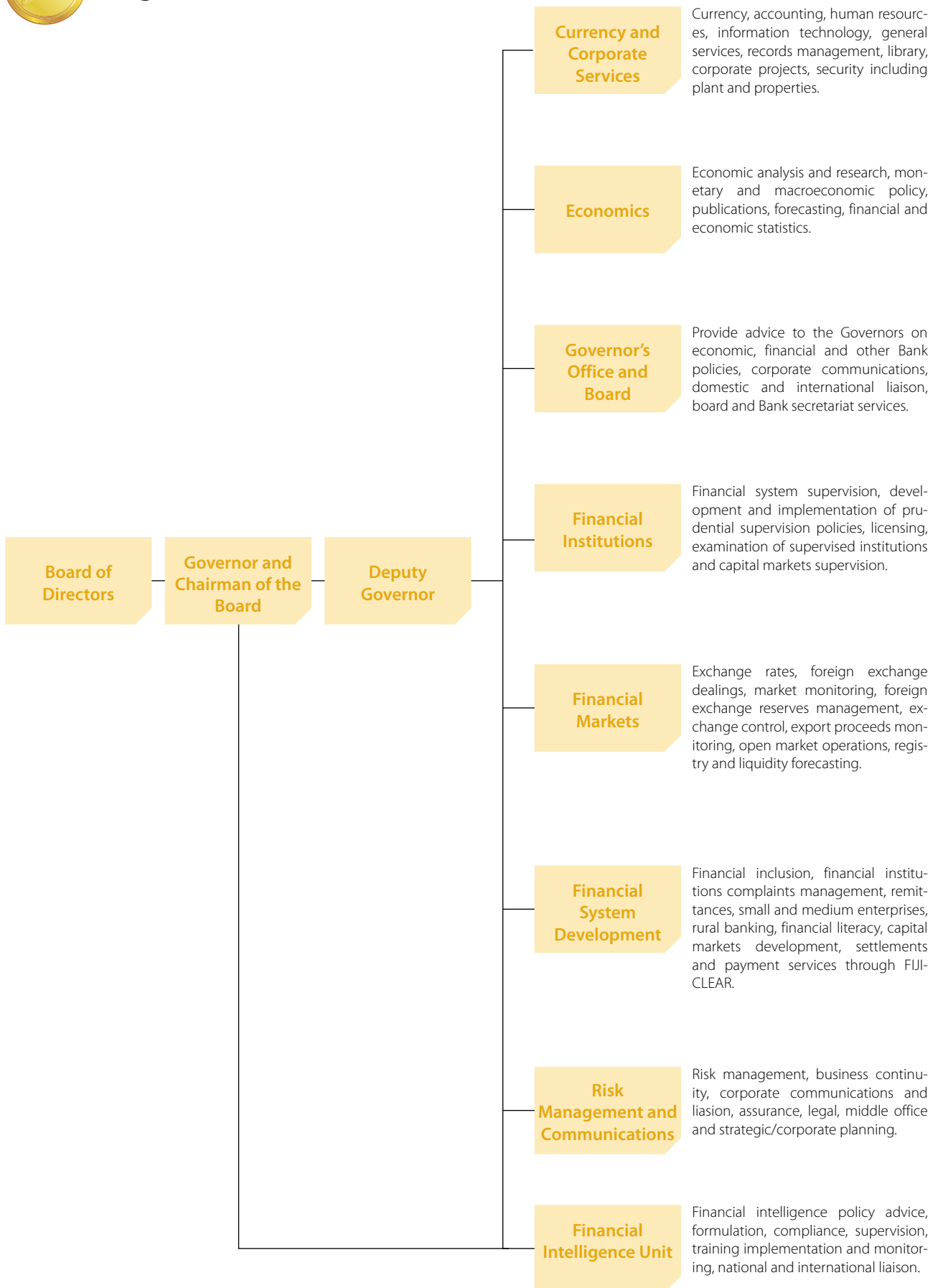
Overall, the Bank's performance during the first seven months of 2016 has been positive despite various setbacks earlier in the year. The Reserve Bank achieved its key objectives through the hard work, dedication and support of the Board of Directors, Executive Management, the staff and all stakeholders. I extend my appreciation to everyone for their contribution and look forward to another successful period ahead.



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



# Organisation Structure







# Board of Directors



## 1. Barry Whiteside

### Governor and Chairman of the Board

Appointed as Governor on 5 May 2011. Reappointed on 28 May 2014 for three years. Alternate Governor for Fiji at the International Monetary Fund (IMF) and the Asian Development Bank (ADB). Chairman of the Monetary Policy Committee. Chairman of the Macroeconomic Committee. Chairman of the Capital Markets Development Taskforce. Chairman of the National Financial Inclusion Taskforce. Chairman, Secured Transactions Taskforce. Member of the National Anti-Money Laundering Council. Honorary Fellow and member of the Council of the Fiji Institute of Bankers. Fellow of the Australian Institute of Company Directors (AICD). President of the Fiji Badminton Association.

## 2. Makereta Konrote<sup>1</sup>

### Permanent Secretary, Ministry of Economy (Ex-officio)

Appointed to the Board on 11 January 2016. Former Senior Adviser to the Executive Director of the South East Asia Constituency Office at the World Bank. Board Director of the FNPF, Fiji Revenue & Customs Authority and the Fiji Ports Corporation Limited. Member of the Macroeconomic Committee. Alternate Governor for Fiji at the World Bank.

## 3. Pradeep Patel

### Director

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

## 4. Tevita Kuruvakadua

### Director

Appointed to the Board on 9 June 2014 for three years. Chairman of the Board Governance Committee. Member of the Board Audit and Risk Committee. General Manager of iTaukei Land Trust Board. Board Member of the FNPF and the Fiji Sugar Corporation (FSC) Limited.

## 5. Abdul Khan

### Director

Appointed to the Board on 3 March 2015 for three years. Member of the Board Audit and Risk Committee. Chief Executive Officer of the FSC Limited. Chairman of the South Pacific Fertilisers Limited and Pacific Cogeneration Company Limited. Director of Sugar Research Institute of Fiji and AJYNK Limited, Director of Sugar Cane Growers Fund and Chairman of FSC Limited.

## 6. Tony Whitton

### Director

Appointed to the Board on 3 March 2015 for three years. Member of the Board Governance Committee. Managing Director of Rosie Group of Companies. Served as a Board Member of Tourism Fiji and Former President of the Society of Fiji Travel Associates. Member of the AICD. Chairman and Trustee of the International School Nadi. Board Member and Trustee of the Koroipita Model Towns Charitable Trust and Cure Kids Fiji.

<sup>1</sup> Ms Makereta Konrote was appointed as Acting Permanent Secretary for Finance on 11 January 2016 and was confirmed to this position on 20 April 2016. Effective from 1 August 2016, the Ministry of Finance has been renamed as the Ministry of Economy following a name change in the 2016/2017 National Budget.

# Executive Management



**1. Ariff Ali**

**Deputy Governor**

Chairman of the Government Tender Board

**2. Lorraine Seeto**

**Chief Manager Risk Management and Communications**

**3. Esala Masitabua**

**Chief Manager Financial Markets**

**4. Razim Buksh**

**Director Financial Intelligence Unit**

**5. Caroline Waqabaca**

**Chief Manager Economics**

**6. Susan Kumar**

**Chief Manager Currency and Corporate Services**

**7. Vereimi Levula**

**Chief Manager Financial System Development**

**8. Vilimaina Dakai**

**Chief Manager Financial Institutions**

**9. Subrina Hanif**

**Board Secretary**



# Corporate Governance

The RBF is established as an independent institution under the RBF Act (1983) and is fully owned by the Government of Fiji. The functions and duties of the Reserve Bank are specified in the RBF Act (1983), RBF (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), the Fiji National Provident Fund Decree (2011), the Companies Act (2015) and the Fair Reporting of Credit Act (2016).

Section 153 of the 2013 Constitution of the Republic of Fiji also states: -

- (1) The RBF 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 RBF must perform its functions independently and without fear, favour, or prejudice, but there must be a regular consultation between the RBF and the Minister responsible for Economy.
- (3) The powers and functions of the RBF 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 Economy.
- (5) A written law must provide for the composition, powers, functions and operations of the RBF.
- (6) The RBF must deliver quarterly and annual reports to Parliament, and any other reports when required by law, or requested by resolution.

The RBF's performance is documented in an Annual Report and tabled in Parliament every year. Under section 56(1) of the RBF Act, the Annual Accounts and a Report of Operations of the Bank must be submitted to the Minister for Economy within three months after the end of the financial year.

Under the Insurance Act, the Insurance Annual Report, which is published annually on a calendar year basis, must be submitted to the Minister for Economy by 30 June of the following year. The Financial Intelligence Unit (FIU) Annual Report is also published annually on a calendar year basis.

The Vision of the Bank is "Leading Fiji to Economic Success" and is supported by the Mission statements and a set of Values.

## The Governor

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

## Board of Directors

The Board comprises the Governor, who serves as the Chairman, the Permanent Secretary of the Ministry of Economy, as an ex-officio member, and five other non-executive members. Under the RBF Act, the Minister for Economy appoints the Directors. The Directors may hold office for a period not exceeding three years but are eligible for reappointment. Ms Makereta Konrote, Permanent Secretary for Economy, is an ex-officio member appointed on 11 January 2016. Other Board Directors holding office as at 31 July 2016 were Mr Pradeep Patel, Mr Tevita Kuruvakadua, Mr Abdul Khan and Mr Tony Whitton.

## Board Meetings

Under the RBF Act, the Board is required to meet at least ten 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 the Board meetings and is entitled to exercise a vote. The Board met on six occasions during the review period.

**Board and Board Committee Meetings in 2016 - Attendance by Members**

| Director           | Board    |                    | Board Audit and Risk Committee |                    | Board Governance Committee |                    |
|--------------------|----------|--------------------|--------------------------------|--------------------|----------------------------|--------------------|
|                    | Attended | Eligible to Attend | Attended                       | Eligible to Attend | Attended                   | Eligible to Attend |
| Barry Whiteside    | 6        | 6                  | NM                             | NM                 | NM                         | NM                 |
| Makereta Konrote   | 5        | 6                  | NM                             | NM                 | 0                          | 1                  |
| Pradeep Patel      | 6        | 6                  | 5                              | 5                  | 2                          | 2                  |
| Tevita Kuruvakadua | 6        | 6                  | 4                              | 5                  | 1                          | 2                  |
| Abdul Khan         | 5        | 6                  | 3                              | 5                  | 1                          | 1                  |
| Tony Whitton       | 5        | 6                  | NM                             | NM                 | 2                          | 2                  |
| 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 Pradeep Patel is the Chairman of the Board Audit and Risk Committee while Mr Tevita Kuruvakadua and Mr Abdul Khan 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 first seven months of 2016, the Board Audit and Risk Committee met on five occasions.

The role of the Board Governance Committee is to strengthen the governance of the Bank and to ensure the accountability of the Office of the Governor to the Board. The main functions of the Committee are to oversee compliance with the Bank's Corporate Governance Charter and to undertake the annual performance appraisal of the Governor and Deputy Governor based on agreed key performance indicators (KPIs). Those members of the Board who are not members of the Board Governance Committee are invited to attend the meeting to assess the performance of the Governors.

Since 2013, the Board had embarked on a performance assessment system for the Board and its Committees. In doing so, the Board Governance Committee had designed comprehensive assessment forms to evaluate the performance of the Board and its two Committees, including self assessment for the Board Directors.

Assessments are undertaken internally on an annual basis with the aim of identifying areas of improvement. In the review period, the Board internally assessed the Bank's internal and external auditors using the in-house designed assessment forms. 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 Tony Whitton with Mr Tevita Kuruvakadua as the Chairman.

The Corporate Governance Charter was reviewed in early 2016 to reflect changes to the internal policies of the Bank.

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.

The Board Governance Committee met twice during the review period in 2016.

## 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 meets fortnightly 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 domestic markets operations;
- Financial System Policy Committee meets monthly to review financial system soundness and efficiency;
- Financial System Development Policy Committee meets monthly to discuss financial system and capital markets developments, payment systems, financial inclusion and consumer issues including complaints management;
- Currency and Corporate Services Policy Committee meets quarterly to discuss issues relating to currency and internal services;
- Information Technology Steering Committee (ITSC) meets quarterly to discuss IT development and operations;
- Risk and Business Continuity Management Committee meets quarterly to identify and assess risks and their impact on the business of the Bank, formulate effective strategies to address these risks as well as respond, manage and recover from any incident or crisis event faced by the Bank; and
- Investment Committee meets monthly to provide strategic direction and oversight of the Bank's domestic and foreign investments.

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 all staff, provides assurance that they have complied with the Code of Ethics, Delegation of Authority, Internal Rules and Orders and IT policies of the Bank.

The Delegation of Authority is updated regularly to ensure that it is current.



## Strategic Plan

The Bank's Strategic Plan for the period 2014-2018 was implemented in 2014. In addition the IT, Human Resources and FIU Strategic Plans for the same period were also put in place.

The Chief Managers are responsible and accountable for implementing the Strategic Plans. A review of the Bank's Strategic Plan is to be conducted in 2017 and presented to the Board. The Plan is reviewed annually.

## Corporate Plan

Corporate planning is undertaken annually in the Reserve Bank. With the change in fiscal year to align with that of Government, from 1 August to 31 July, the Bank's annual planning cycle will now change.

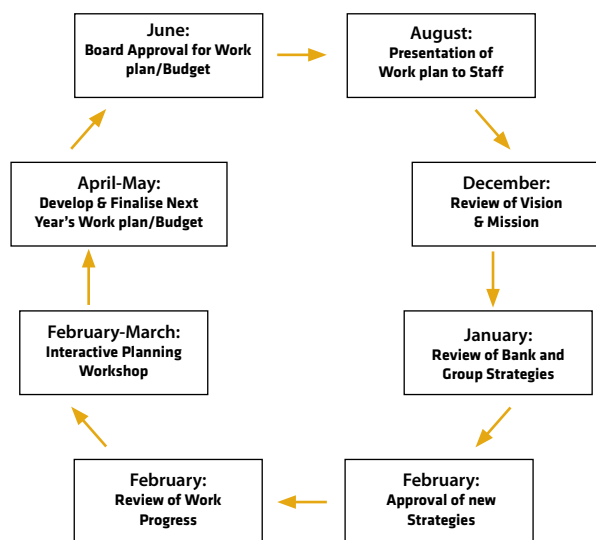
The initial formulation of the Bank's work plan for the new fiscal year now commences in December, with a review of our corporate statements – the vision, mission and values.

Following this, in January, all Bank and Group strategies are reviewed with any changes to be approved in February.

In February, Groups will also review their work progress for the first six months of the current fiscal year (August-January) and a report is submitted to the Board.

From February to March, extensive discussions are then held on the new work plan. Each Group will hold an interactive planning workshop and feedback is obtained from both internal and external stakeholders on work to be implemented going forward.

### New Fiscal Year Annual Planning Cycle



Source: Reserve Bank of Fiji

Once the Groups have drawn up their new work plans, the proposed output and resources required to achieve that output are matched, and combined to form the Bank's next work plan and budget for the coming year. These are presented to the Board for approval in June.

The work plan 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.

The Bank uses zero based budgeting in determining the necessary financial resources for the coming year, based on the work plans submitted by the Groups. The Chief Managers are responsible and accountable for their respective Group's KPIs and budgets. These indicators are monitored regularly by the Governors and the Board.

In June 2016, the Board approved the annual work plan and budget for the period 1 August 2016 to 31 July 2017.

## Risk Management

Risk management is an integral aspect of the Reserve Bank's daily operations. The Bank faces many risks; some are 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 risks are appropriately managed through vigilant monitoring of economic developments and pre-emptive monetary policy formulation. This ensures that the financial system is sound and stable and the Bank's reputation and credibility is maintained.

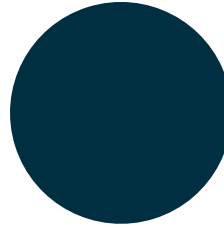
Other risks relate to:

- 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
- Glitches in the operations of Fiji's payments system, FIJICLEAR - due to technical issues.

In line with the Bank's Strategic Plan 2014-2018, the Risk Management and Communications Group was established in 2014 to be the second tier of defence in the management of risks. A bankwide awareness was conducted on the risk identification and assessment process to streamline and standardise the methodology used by the teams in managing risks. The risk register is reviewed quarterly and discussed by the Board Governance Committee annually.

The Bank's Business Continuity Plan (BCP) continued to be rolled out during the first seven months of 2016. 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 should the Reserve Bank's main building for some reason become inaccessible, or if the systems in the building become 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 January to July 2016, the Bank continued to invest in technology at the Bank's BRS and trained staff to carry out business recovery during and after a crisis with minimal disruption. This included quarterly simulation testing of systems, particularly critical operations.

The Bank continued to conduct training, drills and call tree exercises to familiarise staff with emergency response procedures in an effort to enhance disaster preparedness and planning and continued to review and strengthen its

processes relating to BCP.

The Middle Office team continued to monitor the performance and operational procedures of the Bank relating to external and domestic investments. An outsourced internal audit function by Ernst & Young provided the Bank with information on risk areas that need to be addressed. Areas for improvement that are identified by the internal and external auditors are addressed as appropriate. The Board, the Board Audit and Risk, the Board Governance and the in-house Risk and Business Continuity Management Committee and the internal committees also contribute to the review and strengthening of the Bank's risk management process.



## Economic Overview

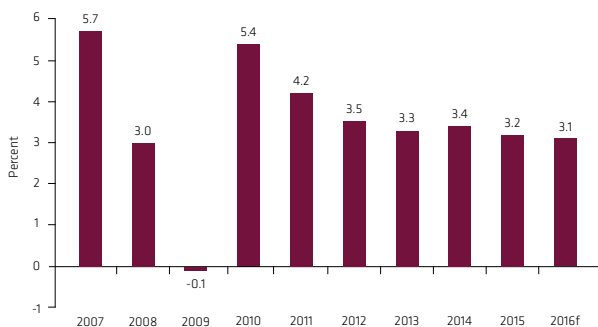
The global economy is projected to grow by 3.1 percent in 2016, slightly lower than the 3.2 percent growth in 2015. According to the International Monetary Fund (IMF), the referendum by the United Kingdom (UK) to leave the European Union (EU) (also known as Brexit) on 23 June 2016 further complicated the economic and political outlook. Additional downside risks for the global economy in 2016 include the slower-than-anticipated rebalancing in the Chinese economy, slowing productivity trends affected by demographics and geopolitical tensions.

### International Economic Developments

The IMF in its October 2016 World Economic Outlook (WEO) maintained its 2016 global economic growth projection at 3.1 percent after downgrading it in July from the earlier 3.2 percent.

The ongoing uncertainties surrounding post-Brexit developments, continued realignment challenges in China, slowing demographic and productivity trends and geopolitical tensions continue to hinder world economic prospects.

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



Source: IMF WEO (October 2016)

Economic performances of Fiji's major trading partners, in particular the United States (US), the Euro zone and New Zealand are now expected to be lower in 2016 compared to 2015. Japan's economic growth is expected to be the same as last year while Australia is anticipated to do better.

The US economy is forecast to grow by 1.6 percent in 2016, following a 2.6 percent growth in 2015. In the first seven months of 2016, despite improvements in business confidence, manufacturing and industrial activity was weaker than a year ago, with slower growth in manufacturing and a decline in industrial activity. Nevertheless, higher annual consumer spending continued to drive the economy. Exports were dampened due to the ongoing structural reforms in China and a stronger US dollar, which was somewhat weakened by the Brexit developments.

The labour market strengthened further with the unemployment rate falling to 4.9 percent in July. Core inflation rose to 2.2 percent in July, continuing a gradual upward trend since July 2015. Given these developments, the Federal Reserve kept its federal funds rate unchanged at 0.25-0.50 percent, resting speculations of further interest rate hikes.

The Euro zone economy is expected to grow by 1.7 percent in 2016 compared to the 2.0 percent growth in 2015. However, cumulative to July, the economy noted a slowdown compared to a year earlier due to tepid domestic demand amidst subdued growth in industrial activity and retail sales. Trade was favourable supported by gains from the depreciating Euro and lower import demand. Inflation remained subdued at 0.2 percent in July enabling the European Central Bank (ECB) to maintain its benchmark interest rate at zero percent for the fifth straight month in July. This supported economic confidence, which was somewhat affected immediately after the Brexit referendum leading to significant declines in stocks in Frankfurt, Paris, Italy and Spain, causing financial market volatility in June.

In Japan, the weaker pace of economic activity is anticipated to continue into 2016, as economic growth is forecast at 0.5 percent, similar to the 2015 growth. In the year to July, both business and consumer confidence were relatively low as evident in weaker industrial and manufacturing output and subdued retail sales. Similarly, import demand weakened while a strengthening Yen and slowdown in the Chinese economy led to lower exports. The negative inflation outcome of 0.4 percent in June further substantiated a struggling Japanese economy. Consequently, in an effort to stimulate economic activity, the Government delayed the 2017 consumption tax hike to 2019 while the central bank continued to inject additional stimulus into the economy through quantitative and qualitative easing programs and the adoption of negative interest rates.

The Australian economy is projected to expand by 2.9 percent in 2016, following a 2.4 percent growth in 2015. The available economic indicators as at July 2016 suggest declining yet resilient business confidence amidst the uncertainties post-Brexit and the Australian federal elections. The industry experiences were mixed with the services sector performing strongly while steeper declines were noted in the transport and wholesale industries. Similarly, consumer confidence softened over the year as reflected in the slowdown of annual retail sales. An increase in part-time employment opportunities helped lower the unemployment rate in July to 5.7 percent, while the lower annual inflation of 1.0 percent in June assisted the Reserve Bank of Australia (RBA) in maintaining an accommodative monetary policy stance. Accordingly, the RBA held its cash rate at 1.75 percent in July after lowering it by 25 basis points in May.

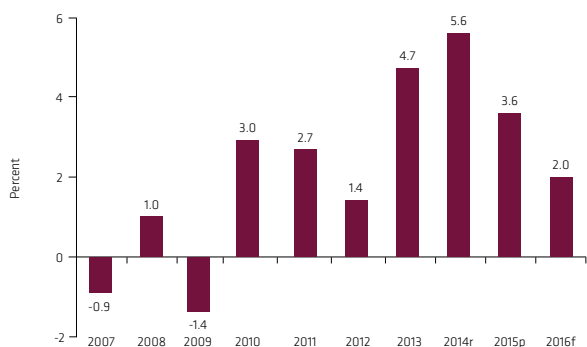
In line with its Trans-Tasman neighbour, the New Zealand economy is expected to grow by 2.8 percent in 2016, slightly lower than the 3.0 percent growth in 2015. During the first seven months of 2016, improved business confidence and

industrial activity, together with strong consumer confidence and spending underpinned the buoyancy in the economy. On the external front, trade was affected in the first seven months as both import and export demand fell due to the slowdown in China, Japan and the US economies. Inflation was 0.4 percent in June, unchanged from a year ago, allowing the Reserve Bank of New Zealand (RBNZ) to maintain its official cash rate at 2.25 percent in July after lowering it by 25 basis points in March.

### Economic Developments in Fiji

Following a provisional 3.6 percent growth in 2015, the Fiji economy is poised to record its seventh consecutive year of growth in 2016. However, economic growth is now projected at 2.0 percent, lower than the earlier 2.4 percent forecast in May and the pre-natural disaster forecast of 3.5 percent in October 2015. The lower growth forecast is mainly attributed to the larger-than-expected negative impact of TC Winston<sup>2</sup> and TC Zena<sup>3</sup> at the beginning of the year.

**Fiji's GDP Growth**



Sources: Fiji Bureau of Statistics and Macroeconomic Committee

The slowdown in agriculture sector is underpinned by a larger decline anticipated for cane output while lower activity in fishing and aquaculture reflects the significant damage to the inshore marine ecosystem and infrastructure sustained during the natural disasters. While the accommodation and food services, and construction sectors remain strong, overall contributions to growth were downgraded due to below-trend growth in visitor arrivals and slower implementation of rehabilitation works owing to supply shortages in building materials.

Nonetheless, added stimulus from the FNPF pay-outs, additional social welfare assistance including Government's "Help for Homes" initiative and concessional loan packages offered by financial institutions post-cyclone, coupled with the expansionary 2016/2017 National Budget, are expected to help rebuild the economy. The transport & storage; wholesale & retail trade; public administration and defence; construction; accommodation and food services and the financial and insurance activities sectors are expected to be the major drivers of growth in 2016.

In line with the growth outlook for this year, sectoral outcomes, with the exception of sugar and timber, were broadly favourable in the first seven months of the year. Data in the year to July revealed steady annual growth in visitor

arrivals (4.9%), backed by higher tourist numbers from China (30.4%), New Zealand (18.0%), Pacific Islands (3.1%) and the Rest of the Asia category (63.2%).<sup>4</sup> The swift activation of the Tourism Action Group immediately after TC Winston to vigorously market Fiji as a safe holiday destination, coupled with several chartered flights to China in early 2016 and the introduction of direct flights to Singapore and San Francisco, have assisted in maintaining a growing number of inbound tourists to Fiji. Nevertheless, growth in visitor arrivals has been below trend and much lower than the 9.4 percent growth noted in the same period in 2015.

In the year to July, increases were also noted in gold production (5.3%); reflecting gains from increased capital investment and improvements in the mining process by the mining company and electricity production (3.4%); despite the damage to some of the electricity infrastructure post TC Winston. However, cumulative to July electricity consumption declined (-0.2 %) led by reduced demand from the domestic (-3.1%) category which more-than-offset the pick-up in demand from the industrial (1.1%), commercial (0.8%) and others<sup>5</sup> (0.7%) category.

In the timber industry, weather, mill-related problems and low global demand underpinned the annual contractions in mahogany (-8.9%), pine log (-38.2%) and woodchip (-44.7%) production in the year to July. Similarly, lower sugar output is anticipated for the 2016 crushing season as the sector was affected by the cyclones early in the year, resulting in the closure of the Penang mill. The 2016 sugar harvesting season began in June with only the Labasa mill commencing operation from 16 June. The Lautoka and Rarawai mills started crushing from late July. For the week ending 25 July, approximately 186,804 tonnes of cane were crushed to produce 18,091 tonnes of sugar.

Consumption spending remained strong as suggested by partial indicators. Cumulative to July 2016, strong annual growth was noted in both new (27.7%) and second hand vehicle (15.3%) registrations. Commercial banks' new consumption-related lending was also higher by 10.0 percent over the year to July. Additionally, the Reserve Bank's June 2016 Retail Sales Survey (RSS) signalled firm growth in retail sales in 2016 (8.5%).<sup>6</sup> In contrast, net Value Added Tax (VAT) collections declined by 26.3 percent to \$255.3 million. However, this was largely due to the reduced VAT rate of 9.0 percent effective from January 2016.<sup>7</sup> Overall, consumption activity was supported by an improved labour market, the FNPF pay-out of \$274.7 million post cyclone, higher household disposable incomes as evident in higher Pay As You Earn Collections (3.7%) cumulative to July and personal remittances (6.5%) in the year to July.

Investment activity in the first seven months of the year continued to be led by post-cyclone construction work. Annual increases were noted in domestic cement sales (9.3%) and value of work put-in-place (11.3%) cumulative to July and March, respectively. Additionally, results from the June 2016 Business Expectations Survey (BES) revealed positive sentiments on investment in building, plant and machinery for 2016, albeit lower than the previous survey due to the impact of the cyclones.

<sup>2</sup> TC Winston was a category five system that hit and made landfall in Fiji on 20 February 2016.

<sup>3</sup> This category three cyclone passed Fiji in the first week of April.

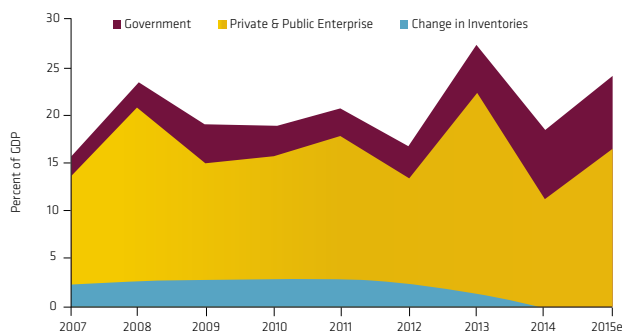
<sup>4</sup> Similarly, visitor arrivals increased from South Korea (18.6%), India (11.7%), Japan (3.5%), the US (1.3%) and Continental Europe (0.3%). In contrast, declines were noted in visitor arrivals from Australia (-2.2%) and Canada (-4.6%) while there was no growth in visitors from the UK.

<sup>5</sup> This includes streetlights and institutions such as schools.

<sup>6</sup> According to preliminary results, the response rate from the survey was 79.8 percent and the food, drinks and tobacco, building and materials, others/mixed and motor cars and other transport equipment categories mainly drove the outcome.

<sup>7</sup> Previously the VAT rate was 15.0 percent.

## Investment

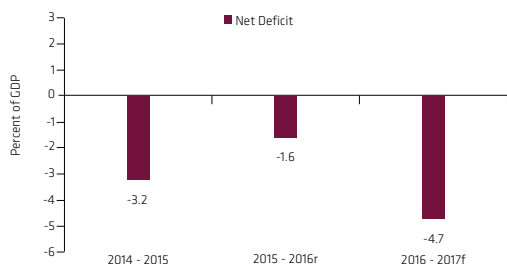


Sources: Fiji Bureau of Statistics and Reserve Bank of Fiji

New investment lending by commercial banks' contracted (15.6%) cumulative to July, led by base-related reductions in lending to the real estate (-22.2%) and building & construction (-8.2%) sectors. Total investment is estimated at 24.2 percent of GDP in 2015 and is projected at 4.6 percent of GDP in 2016.

For the fiscal year 2016/2017, a higher net fiscal deficit of 4.7 percent of GDP (\$468.0m) is budgeted on account of higher growth in expenditure (23.7%) relative to revenue (13.4%). Capital expenditure is expected to be higher by an annual 59.1 percent, mainly attributed to rehabilitation and reconstruction work post TC Winston.

## Fiscal Balance<sup>8</sup>



Source: Ministry of Economy

Total outstanding Government debt at the end of July 2016 was at 47.1 percent of GDP, slightly higher than the 46.3 percent of GDP recorded at the end of 2015.

Consistent with improvements in the economy, labour market conditions remained favourable as the number of advertised vacancies rose by an annual 5.9 percent (to 5,867 vacancies) in the year to June as per the Reserve Bank's Job Advertisements Survey.<sup>9</sup> Increased demand for labour mostly emanated from the electricity & water; transport, storage & communication; wholesale & retail and construction sectors (partly due to reconstruction efforts post-TC Winston).

Inflation was 5.5 percent in July, compared to 1.4 percent in July 2015. The higher inflation outcome was largely underpinned by a shortage in agricultural market items particularly bananas, pawpaw, dalo, cassava and yaqona as a result of the cyclones earlier in the year, coupled with the increase in duty (15.0%) on alcohol, tobacco and cigarettes as per the 2016/2017 National Budget. Generally, higher prices were recorded in the food & non-alcoholic beverages; alcoholic beverages, tobacco & narcotics; education;

furnishings, household equipment & routine household maintenance and restaurants & hotels categories. Going forward, the elevated prices of agricultural market items with longer growth timeframes may continue to place upward pressure on prices. Consequently, the year-end inflation is forecast at 3.5 percent barring any significant turnaround in crude oil and food prices.

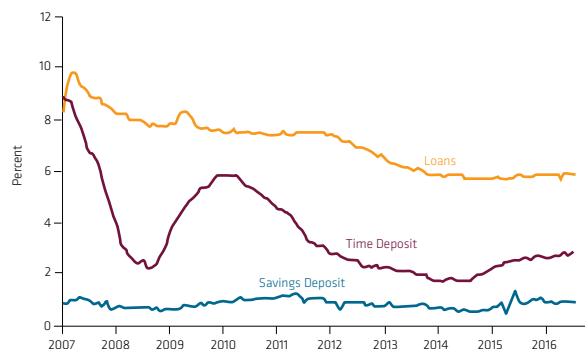
Financial conditions remain supportive of economic recovery with ample liquidity in the banking system and low interest rates.

At the end of July, banking system liquidity totalled \$499.5 million. In July 2016, the commercial banks' weighted average outstanding lending rate rose marginally to 5.89 percent from 5.88 percent in July 2015 while the weighted average new lending rate fell to 5.82 percent from 6.25 percent.

Over the same period, the commercial banks' weighted average time and savings deposit rates rose to 2.85 percent and 0.95 percent, respectively from 2.56 percent and 0.90 in July 2015.

Broad money grew by an annual 8.3 percent in July underpinned by an expansion in net domestic credit (8.3%) and net foreign assets (7.3%). While credit demand slowed over the year to July and was consistent with the lower economic growth prospect for 2016, lending to the private sector credit continues to drive overall credit outcomes.

## Commercial Banks' Lending and Deposit Rates



Source: Reserve Bank of Fiji

Overseas Exchange Transactions trade data cumulative to July, showed both exports and imports rose by 1.7 percent (to \$482.7m) and 7.4 percent (to \$1,939.9m), respectively. This compared with a decline of 5.1 percent (\$474.7m) and a growth of 0.6 percent (to \$1,806.6m), respectively, in the same period a year ago.

Higher re-exports, as well as domestic exports of fish, mineral water and textiles, clothing & footwear (TCF) underpinned the exports outcome while increases in other imports, food, beverages & tobacco, transport equipment, duty free goods and TCF contributed to higher imports. On the upside, the low global crude oil prices continued to curtail mineral fuel imports payments.

In line with the estimated widening of the trade deficit in the year to July, the current account deficit (excluding aircraft) is projected to increase in 2016 to 3.3 percent of GDP from the estimated 2.8 percent of GDP in 2015. Nonetheless, the

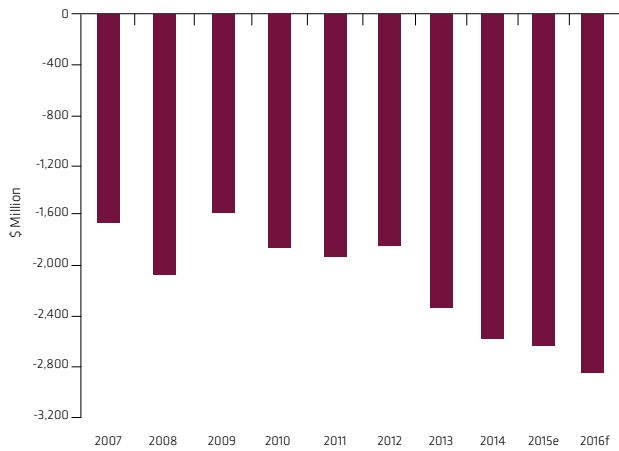
<sup>8</sup> Under the new fiscal year, the net deficit is only available from 2014/2015. However, the net deficit/surplus in prior years under the calendar year was as follows: 2007 - (2.1%), 2008 - (0.5%), 2009 - (4.1%), 2010 - (2.2%), 2011 - (1.4%), 2012 - (1.1%), 2013 - (0.5%), 2014 - (4.1%) and 2015 - (2.5%).

<sup>9</sup> This is based on Fiji Times' advertised positions only.



surpluses in the services (tourism earnings) and secondary income (personal remittances) accounts are expected to partly offset the deterioration in the trade account.

#### Trade Deficit<sup>10</sup>

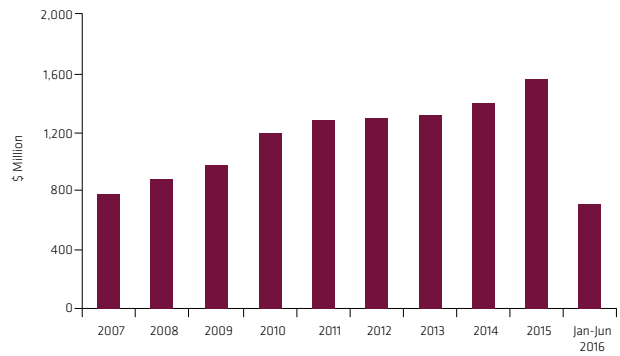


Source: Reserve Bank of Fiji

Tourism earnings cumulative to June grew by an annual 3.9 percent to \$715.1 million compared to 10.6 percent (\$688.5m) in the same period in 2015. Australia continued to contribute the largest to tourism earnings, followed by New Zealand, the US and Continental Europe.

However, in terms of annual increases, tourism earnings from the US grew the fastest (7.4%), followed by the UK (7.3%), Continental Europe (6.0%), Pacific Islands (5.1%), Australia (4.2%), New Zealand (2.7%) and China (2.0%).

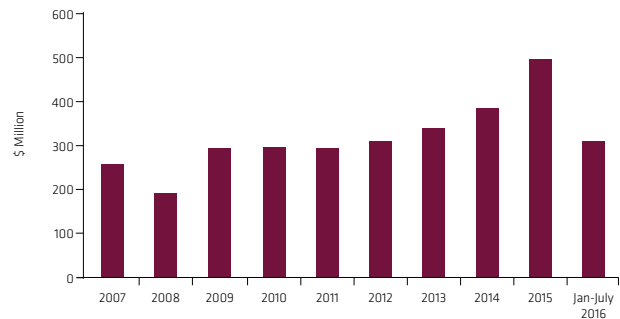
#### Tourism Earnings



Source: Fiji Bureau of Statistics

Inward remittances in the year to July rose by 6.5 percent to \$302.3 million compared to \$283.9 million a year ago.

#### Personal Remittances



Source: Reserve Bank of Fiji

<sup>10</sup> Excluding aircraft.



# Conduct Monetary Policy To Foster Economic Growth

*The RBF is the central authority mandated to conduct monetary policy to achieve the twin objectives of maintaining price stability and an adequate level of foreign reserves. This is stipulated in the RBF Act (1983).*

## Monetary Policy Formulation

### Chronology of Monetary Policy Actions

The Reserve Bank’s monetary policy stance in the January to July 2016 period was directed by the achievement of its two main objectives of maintaining price stability and safeguarding foreign reserves.

Despite the subdued global economy and modest trading partner economic performances, the domestic economy performed strongly prior to the natural disasters. However, following the devastating impact of TC Winston and the floods caused by TC Zena, which affected certain parts of the country and took place outside of the peak tourism period, domestic economic activity and prospects were negatively impacted. In spite of this and with the recovery policies put in place by the Government and various private sector and financial institutions, the economy is still projected to grow in 2016.

During the first seven months of the year, buoyant tourism earnings and inward remittances as well as higher aid and grants contributed to the build-up in our foreign reserves. On inflation, supply side shortages led to upward pressure in prices particularly from April to July. Nevertheless, low commodity prices, particularly for crude oil, have helped safeguard a comfortable level of foreign reserves and curtail any further increases in inflation.

Overall, our monetary policy objectives were intact over the January to July review period. As such, the Reserve Bank maintained its accommodative monetary policy stance and kept the OPR at 0.5 percent to support and help boost economic recovery.

### Monetary Policy Outcomes for January to July 2016

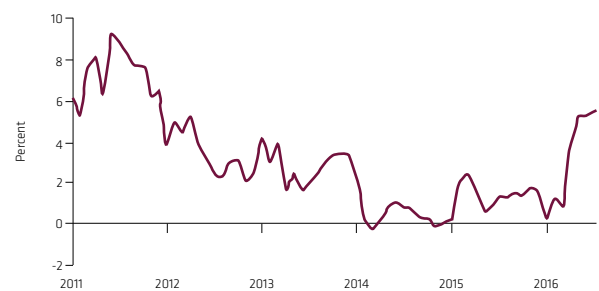
The annual growth in monetary and credit aggregates generally slowed in the first seven months of 2016, consistent with the lower economic growth prospect for 2016. Liquidity in the banking system remained at sufficient levels and interest rates relatively low.

Broad money expanded by 8.3 percent in the year to July, supported by the annual growth in net domestic credit (8.3%) and net foreign assets (7.3%).

Inflation was 5.5 percent (a 5-year high) in July, and averaged 3.1 percent in the January to July period. The food & non-alcoholic beverages and the alcoholic beverages, tobacco &

narcotics categories mainly underpinned the higher inflation. Higher prices in the last four months to July largely stemmed from the adverse effects of TC Winston on the supply of agricultural market-related items. In addition, the increase in duty on alcohol, tobacco and cigarettes in June as per the 2016/2017 National Budget and the increase in domestic fuel prices in July also contributed to the July inflation outcome. Prices are expected to stabilise as the supply of certain agricultural market-related items normalise in the period ahead.

**Inflation (Annual Percent Change)**

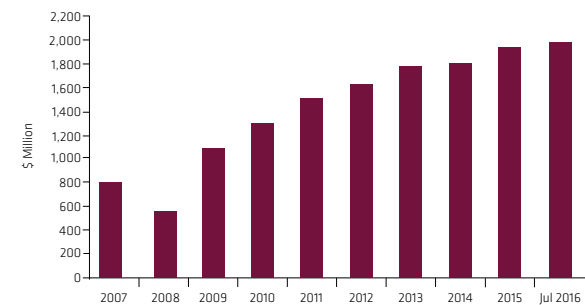


Source: Fiji Bureau of Statistics

The external position remained favourable supported by higher tourism earnings, remittances, foreign aid, and grants, which helped offset higher outflows relating to the reconstruction efforts. At the same time, lower commodity prices particularly for food and crude oil have helped lower import payments.

At the end of July 2016, foreign reserves were \$1,982.4 million, sufficient to cover 5.5 months of retained imports of goods and non-factor services.

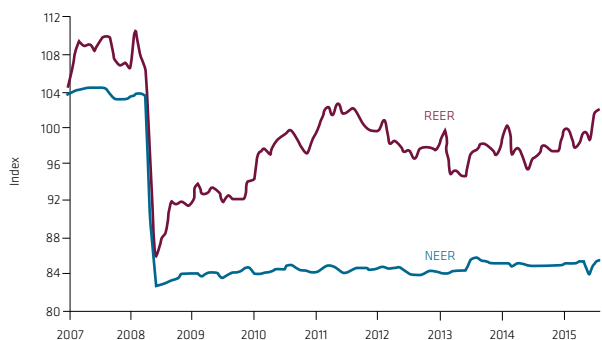
**Foreign Reserves**



Source: Reserve Bank of Fiji

Exchange rate movements at the end of July showed the Fiji dollar appreciated against the US dollar (3.1%), the Euro (1.7%) and the Australian dollar (0.1%), but fell against the Japanese Yen (-12.5%) and the New Zealand dollar (-3.8%) on an annual basis. As a result, the Nominal Effective Exchange Rate (NEER) Index rose by 0.6 percent and the Real Effective Exchange Rate (REER) Index rose by 5.5 percent, reflecting the higher domestic inflation outcome relative to that of Fiji's trading partners.

#### REER/NEER (Monthly Average)



Source: Reserve Bank of Fiji

## Monetary Policy Implementation

### Open Market Operations

The Reserve Bank implements monetary policy through OMO, which is the auctioning of RBF Notes in the domestic financial market. The objective of OMO is to change the level of liquidity in the banking system so that short-term money market rates are aligned with the OPR. However, the Bank has not conducted OMO since 2010 as system liquidity continues to be assessed as supportive of the OPR and consistent with the Bank's accommodative monetary policy stance. Accordingly, there were no issues of RBF Notes and no associated monetary policy costs during the first seven months of 2016.

### Management of Foreign Reserves

The Reserve Bank of Fiji, through the powers vested by the RBF Act (1983), has custodial and management authority of the country's foreign reserves. Safety and liquidity of assets are the primary objectives of the Bank's reserve management activities, with portfolio returns subordinate in priority.

Foreign reserves are primarily held in the currencies of the Fiji dollar basket, namely the US, Australian and New Zealand dollars (USD, AUD and NZD, respectively), the Japanese Yen (JPY) and the Euro (EUR). The Bank also holds IMF Special Drawing Rights and small portions of gold and the British Pound.

Global uncertainties caused by a number of factors including shifting expectations for monetary policy tightening in the US, Brexit developments and China's growth concerns, kept financial markets volatile during the first seven months of 2016. Lingering fears of deflation and sluggish global growth, as well as further monetary easing by the ECB and the Bank of Japan, drove bond yields to fresh lows with yields in Japan and Europe progressing further into negative territory. The

<sup>10</sup> The benchmark portfolio uses a customised version of the JP Morgan Index.

move towards record low interest rates by the RBA and RBNZ also saw lower returns on Australian and New Zealand dollar investments.

Gross foreign reserves (RBF holdings) averaged around F\$1,996.1 million during the first seven months of 2016, higher than the F\$1,876.7 million average over the same period in the previous year.

Investible reserves, which accounted for 89.7 percent of gross foreign reserves, also averaged higher at \$1,778.4 million compared to the annual average of \$1,721.7 million in 2015.

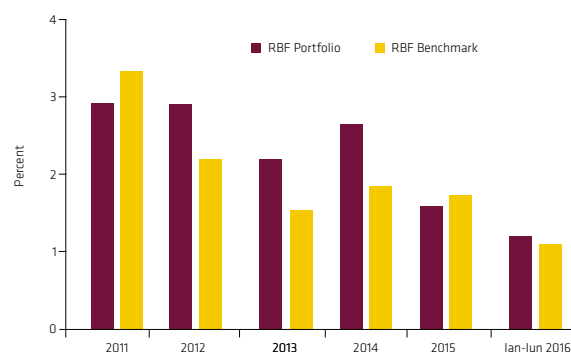
#### Return on External Reserves

|  | 2014  | 2015  | Jan-Jul 2016 |
|--|-------|-------|--------------|
| Net Foreign Exchange Income (\$M)                    | 36.9  | 38.7  | 21.7         |
| Average Month-End Level of Investible Reserves (\$M) | 1,522 | 1,722 | 1,778        |
| Return on Investible Reserves (%)                    | 2.42  | 2.19  | 2.09         |

Source: Reserve Bank of Fiji

Net foreign exchange income for the seven months to July 2016 was F\$21.7 million, representing an annualised return on investible reserves of 2.09 percent. The return was lower than the 2.19 percent recorded in 2015 and reflected the low yield environment in global financial markets

#### Performance of RBF Benchmark and Portfolio



Source: Reserve Bank of Fiji

The Bank's foreign reserves portfolio posted a return of 1.6 percent for January to July 2016, higher than the benchmark portfolio return of 1.2 percent.<sup>10</sup>

Exchange rate movements can have a major effect on the value of foreign reserves. For the Bank, exchange rate gains and losses are recorded in the RRA and are reflected in the balance sheet. To hedge against exchange rate risk, foreign reserve assets are held in a similar weighting to the Fiji dollar basket currencies.

The RBF Act (1983) requires the Bank to transfer a fifth of the RRA balance to the Government each year. At the end of July 2016, the RRA balance was \$15.1 million, of which \$3.0 million will be transferred to Government in the 2016/17 fiscal year. This compares with \$4.3 million that was transferred in February 2016.

### Exchange Rates

The Fiji dollar is fixed to a basket of five currencies (USD, AUD, NZD, JPY and EUR) and setting the exchange rate is a daily responsibility of the Bank. The mid-rate of the Fiji dollar

against the USD is disseminated by 9.00am each business day and is used by commercial banks to set rates at which they transact foreign exchange with customers. Retail spreads on all basket currencies are regulated by the Reserve Bank.

### **Foreign Currency Receipts and Payments**

The Bank continued to extend foreign currency banking services to the Fiji Government, statutory bodies, supranational organisations,<sup>11</sup> and other central banks during the review period.

### **Exchange Control**

In 2016, restrictions on exchange controls were eased further by the Reserve Bank.

Effective from 1 January 2016, the Reserve Bank increased the limits on loan repayments and advance import payments delegated to commercial banks and restricted foreign exchange dealers (RFEDs) to \$1.0 million from \$500,000. In

addition, the allocation for offshore investment was raised to \$25,000 per family while the deposit of reimbursements into an external account was increased to \$2,000 per month.

The Bank continued to place due emphasis on compliance and undertook two spot checks on the operations of foreign exchange dealers. In addition, staff training was conducted at commercial banks to promote awareness of exchange control regulations.

### **Export Proceeds Reconciliation and Monitoring**

In line with the requirements of the Exchange Control Act (Rev. 1985), monitoring of the repatriation of export proceeds into the country continued in the review period.

The focus remained on the reconciliation of outstanding export receipts. A total of \$1.1 billion in outstanding export receipts was reconciled during the first seven months of 2016 compared to \$1.7 billion in 2015.

<sup>11</sup> This includes the ADB, IMF and the International Bank for Reconstruction and Development.



## Develop An Internationally Reputable Financial System

*A safe and sound financial system is important for a growing economy.*

*The Reserve Bank promotes the safety and soundness of the financial system by regulating and supervising licensed financial institutions, insurance companies, the FNPf and capital markets as provided under the RBF Act (1983) and the RBF (Amendment) Decree 2009. In line with this responsibility, the Banking Act (1995), Insurance Act (1998), Exchange Control Act (Rev. 1985), FNPf Decree (2011), Companies Act (2015), and Fair Reporting of Credit Act (2016), confer powers to the Reserve Bank to issue licences, regulations, prudential guidelines and directives to licenced financial institutions and to conduct offsite supervision and onsite reviews.*

*Financial institutions include banks and credit institutions, insurance underwriters and intermediaries, the FNPf, RFEDs and money changers, and credit reporting participants. Financial market institutions under the Reserve Bank's supervision are the South Pacific Stock Exchange (SPSE) and licensed unit trusts and stock brokers.*

### Financial System Regulation and Supervision

Fiji's financial system continued to expand in the January to July 2016 period underpinned by asset growth across most industries. For the banking industry, asset quality indicators remained positive amidst sustained credit growth while the insurance industry was assessed as sound, despite higher claims resulting from TC Winston in February 2016 and the floods in the first week of April. Moreover, the FNPf continued to register an adequate level of solvency.

### Supervisory Developments

An important component of the Reserve Bank of Fiji's risk-based supervision framework is the development and ongoing review of prudential supervision policies and guidelines.

The review of the banking supervision policy on Interest Spread Disclosure Requirements for Banks is planned for finalisation in 2016, while the revised banking supervision policy on the Minimum Requirements for the Management of Foreign Exchange Risk for Licensed Commercial Banks has been approved for implementation.

For the FNPf, reform processes are in their final stages, with the IT and Pension changes already implemented. The draft Pension Savings Bill is currently under review prior to discussions with the industry.

The Reserve Bank conducted several onsite examinations of licensed financial institutions during the January to July 2016 period. These included two banking institutions, three credit institutions, two insurance companies and ten foreign exchange dealers. The Australian Prudential Regulation Authority (APRA) provided Technical Assistance (TA) for one onsite review.

The winding down of National Bank of Fiji's (NBF) Asset

Management Bank (AMB), continued with a review of the operations of the institution and a reduction of the number of officers employed by the institution to one from five in June 2016. With the technical support of the IMF's Pacific Financial Technical Assistance Centre (PFTAC), the Reserve Bank continued its review of the credit union industry through technical workshops and industry consultation on the draft Credit Union Bill.

In May 2016, the Fair Reporting of Credit Act (2016) and its regulations became effective, providing the Reserve Bank with the overall supervision and regulatory authority on credit reporting.

### The Financial System

In the first seven months of the year, the six banks continued to operate in Fiji, across 72 branches and 102 agencies and agent banking centres. The number of agencies has decreased by one when compared to 2015.

Similarly, Electronic Funds Transfer at Point of Sale (EFTPOS) terminal numbers decreased while the number of Automated Teller Machines (ATMs) increased over the review period. Four credit institutions remained in operation.

In the insurance industry, seven general insurers, two life insurers and four brokers continued their operations in the January to July 2016 period. Since the end of 2015, the number of licensed insurance agents increased by 24 to 522 while the number of licensed RFEDs and money changers remained at nine and two, respectively. For the capital markets industry, the number of major players remained the same while the number of intermediary representatives decreased from 51 to 47. At the same time, there was one listing on the SPSE, while no capital raisings or private placements took place.



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

|  | 2011  | 2012  | 2013  | 2014  | 2015p | Jun 2016p |
|--|-------|-------|-------|-------|-------|-----------|
| Commercial Banks <sup>1</sup>            | 4     | 5     | 5     | 6     | 6     | 6         |
| - Branches                               | 63    | 60    | 64    | 71    | 72    | 72        |
| - Agencies and Agent Banking             | 43    | 38    | 110   | 104   | 103   | 102       |
| - ATMs                                   | 212   | 226   | 259   | 281   | 296   | 315       |
| - EFTPOS                                 | 2,937 | 3,639 | 4,907 | 5,388 | 5,737 | 5,717     |
| Credit Institutions                      | 3     | 3     | 3     | 3     | 4     | 4         |
| - Branches                               | 14    | 15    | 17    | 13    | 15    | 16        |
| - Agencies                               | 0     | 2     | 1     | 0     | 1     | 0         |
| Life Insurance Companies                 | 2     | 2     | 2     | 2     | 2     | 2         |
| General Insurance Companies <sup>2</sup> | 8     | 8     | 7     | 7     | 7     | 7         |
| Insurance Brokers                        | 4     | 4     | 4     | 4     | 4     | 4         |
| Insurance Agents <sup>3</sup>            | 357   | 312   | 334   | 404   | 498   | 522       |
| Foreign Exchange Dealers                 | 8     | 8     | 8     | 9     | 9     | 9         |
| Money Changers                           | 3     | 2     | 2     | 2     | 2     | 2         |
| Securities Exchange                      | 1     | 1     | 1     | 1     | 1     | 1         |
| Unit Trusts                              | 2     | 2     | 2     | 2     | 2     | 2         |
| Property Trusts                          | 1     | 0     | 0     | 0     | 0     | 0         |
| Investment Advisors                      | 11    | 11    | 11    | 11    | 11    | 11        |
| Stock Brokers                            | 3     | 3     | 3     | 3     | 3     | 2         |
| Dealers                                  | 3     | 3     | 3     | 3     | 3     | 2         |
| Managed Fund Representatives             | 9     | 11    | 12    | 12    | 15    | 14        |
| Stock Broker Representatives             | 18    | 16    | 14    | 15    | 17    | 13        |
| Investment Advisor Representatives       | 22    | 21    | 19    | 19    | 19    | 20        |

<sup>1</sup> AMB is excluded from 2009, when it came 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

### Gross Assets of the Financial System

Financial system assets in the first six months of 2016 grew by 0.1 percent to \$16.4 billion. The banking sector continued to account for the majority of the financial system assets at 53.1 percent, followed by the FPNF (30.9%) and the insurance sector (9.4%).

### Gross Assets of the Financial System (\$ Million)

|  | 2012          | 2013          | 2014          | 2015r         | Jun 2016p     |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Regulated Financial Entities</b>                  |               |               |               |               |               |
| Commercial Banks                                     | 5,389         | 6,222         | 7,281         | 8,688         | 8,724         |
| Credit Institutions                                  | 506           | 546           | 252           | 335           | 387           |
| Insurance Companies                                  | 1,212         | 1,307         | 1,347         | 1,451         | 1,540         |
| FPNF   | 4,235         | 4,521         | 4,846         | 5,244         | 5,079         |
| Insurance Brokers                                    | 41            | 62            | 55            | 55            | 48            |
| <b>Total</b>   | <b>11,383</b> | <b>12,658</b> | <b>13,781</b> | <b>15,773</b> | <b>15,778</b> |
| <b>Non Regulated Financial Entities</b>              |               |               |               |               |               |
| Non-Bank Financial Institutions (NBFIs) <sup>1</sup> | 635           | 648           | 622           | 654           | 662           |
| <b>Total</b>   | <b>635</b>    | <b>648</b>    | <b>622</b>    | <b>654</b>    | <b>662</b>    |
| <b>Total Financial System<sup>2</sup></b>            | <b>12,018</b> | <b>13,306</b> | <b>14,403</b> | <b>16,427</b> | <b>16,440</b> |

<sup>1</sup> Includes Fiji Development Bank, Housing Authority and AMB (from 2010).

<sup>2</sup> Excludes RBF.

Source: Reserve Bank of Fiji

In the year to June 2016, the capital markets industry grew by 7.8 percent attributed to a 14.5 percent increase in the

equities market underpinned by the listing of a new company in February 2016.

### Composition of the Capital Markets (\$ Million)

|                                | 2011         | 2012         | 2013         | 2014         | 2015         | Jun 2016p    |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Equities Market <sup>1</sup>   | 744          | 816          | 768          | 907          | 1,074        | 1,230        |
| Unit Trust Market <sup>2</sup> | 117          | 123          | 142          | 174          | 205          | 205          |
| Bonds Market <sup>3</sup>      | 3,025        | 2,972        | 2,930        | 2,932        | 3,087        | 3,272        |
| <b>Total</b>                   | <b>3,886</b> | <b>3,911</b> | <b>3,840</b> | <b>4,013</b> | <b>4,366</b> | <b>4,707</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 Commercial Banking Industry

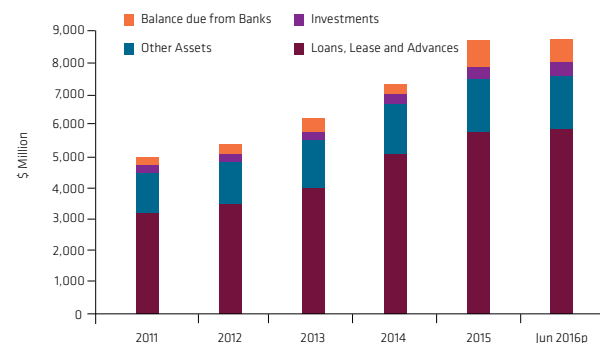
Commercial banks registered satisfactory performances in the first six months of 2016, backed by adequate levels of capital, asset quality, earnings and liquidity positions.

Commercial banks' total assets stood at \$8.7 billion as at 30 June 2016 similar to the \$8.7 billion as at 31 December 2015.

The marginal growth in assets was attributed to higher lending, coupled with increased investments and balances with the Reserve Bank, which in turn was led by an increase in deposit funding.

Credit growth, as measured by total loans (including leases, bills receivable and foreign currency loans) increased in the first six months of 2016 by 1.9 percent to \$5.9 billion. This was driven by increased lending to private business entities and private individuals.

### Commercial Banks' Assets

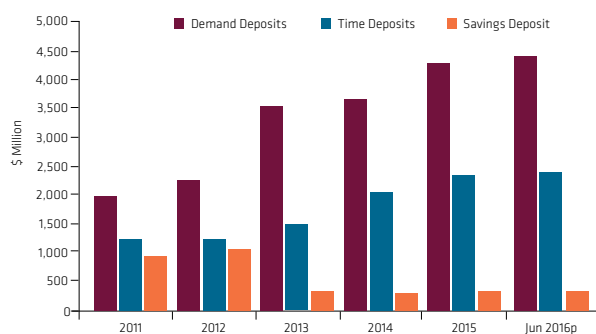


Source: Reserve Bank of Fiji

Business entities borrowed mainly for building and construction, real estate/property development, transport and storage and other purposes while private individuals' borrowing concentrated on housing (68.5 percent of total lending), personal transport and other purposes.

Over the same period, total investments comprising mainly of Government securities, increased by 2.8 percent to \$399.6 million, while balances due from head office and branches declined by 11.7 percent to \$703.8 million.

## Components of Deposits

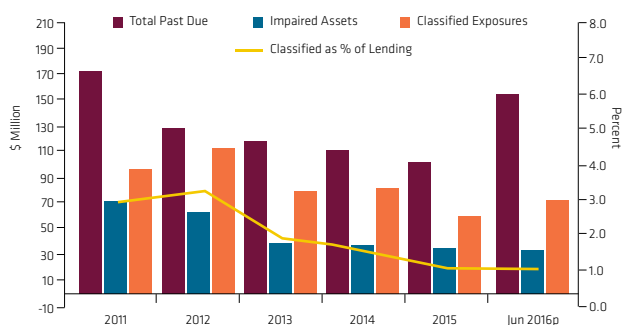


Source: Reserve Bank of Fiji

On the liabilities side, total deposits grew by 2.3 percent to \$7.1 billion during the first six months of 2016, led by increases in demand and time deposits by \$124.1 million and \$55.4 million, respectively.

During the same period, commercial banks repatriated \$70.7 million of profits to their head offices, which led to the decline in capital and reserves to \$758.4 million. The capital adequacy ratio for the banking industry stood at 15.3 percent, with total eligible capital and risk weighted assets increasing by 2.3 percent and 4.7 percent, respectively.

## Asset Quality



Source: Reserve Bank of Fiji

Commercial banks' asset quality remained adequate with classified exposures at \$70.0 million, representing 1.2 percent of the industry's gross loans. This position deteriorated slightly from the 1.0 percent recorded in 2015, following an increase in classified exposures due to higher substandard and doubtful accounts.

Total provisions (individually and collectively assessed) on classified accounts increased by 3.4 percent to \$55.6 million in June 2016. In terms of total coverage, this represented 79.5 percent of total classified loans, a reduction from 89.3 percent in 2015, while coverage over unimpaired assets, general reserves for credit losses (GRCL) was recorded at 1.2 percent of net loans.

Total past due loans for the industry stood at \$144.5 million, an increase of 42.7 percent during the first six months period, led mainly by the one month to one year category.

Problem loans continued to be concentrated in the private

<sup>12</sup> Efficiency ratio is the ratio of operating expenses to operating income.

individuals (28.4%), real estate (27.0%), and wholesale/retail, hotels and restaurants (18.2%) sectors over the review period.

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

|   | 2011           | 2012           | 2013           | 2014           | 2015           | Jun 2016p <sup>2</sup> |
|---|----------------|----------------|----------------|----------------|----------------|------------------------|
| Net Interest Income                                 | 168.3          | 177.0          | 187.3          | 218.5          | 234.0          | 125.3                  |
| Add: Non Interest Income:                           | 141.2          | 147.1          | 160.5          | 179.5          | 203.6          | 99.8                   |
| Income from Overseas Exchange Transactions          | 66.9           | 66.6           | 67.3           | 67.5           | 77.7           | 38.2                   |
| Commission and Charges                              | 69.9           | 73.3           | 87.4           | 90.5           | 95.8           | 49.2                   |
| Other Income  | 4.6            | 7.2            | 5.9            | 21.5           | 30.1           | 12.4                   |
| <b>Total Operating Income</b>                       | <b>309.5</b>   | <b>324.1</b>   | <b>347.8</b>   | <b>398.0</b>   | <b>437.6</b>   | <b>225.1</b>           |
| Less: Operating Expenses                            | 189.5          | 193.0          | 203.2          | 220.6          | 228.3          | 121.7                  |
| Less: Bad debts and Provisions                      | 8.0            | 4.1            | 10.5           | 34.2           | 16.6           | 7.6                    |
| <b>Profit Before-Tax and Extraordinary Items</b>    | <b>112.0</b>   | <b>127.0</b>   | <b>134.1</b>   | <b>143.2</b>   | <b>192.7</b>   | <b>95.8</b>            |
| Less: Tax   | 32.9           | 31.6           | 27.6           | 30.2           | 40.6           | 21.5                   |
| Net Profit After-Tax                                | 79.1           | 95.4           | 106.5          | 113.0          | 152.1          | 74.3                   |
| Add/Less: Extraordinary Items                       | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0                    |
| <b>Net Profit After-Tax and Extraordinary Items</b> | <b>79.1</b>    | <b>95.4</b>    | <b>106.5</b>   | <b>113.0</b>   | <b>152.1</b>   | <b>74.3</b>            |
| <b>Average Assets</b>                               | <b>4,973.1</b> | <b>5,278.1</b> | <b>5,493.0</b> | <b>6,414.2</b> | <b>7,629.1</b> | <b>8,457.7</b>         |
| After-Tax Return on Equity (%)                      | 13.8           | 17.5           | 20.5           | 18.9           | 20.7           | 17.8                   |
| Efficiency (%)                                      | 61.2           | 59.5           | 58.4           | 55.1           | 52.2           | 54.1                   |
| Yield on Earning Assets (%)                         | 5.9            | 5.3            | 5.0            | 5.0            | 4.7            | 4.7                    |
| Cost of Funding Liabilities (%)                     | 2.1            | 1.3            | 0.9            | 1.0            | 1.2            | 1.3                    |

<sup>1</sup> Financial year-end profits for all commercial banks used.  
<sup>2</sup> 6 months profits for all commercial banks used.

Source: Reserve Bank of Fiji

Commercial banks recorded a net profit before-tax of \$95.9 million for the first six months of the year. For the same period, banks' efficiency ratio<sup>12</sup> deteriorated to 54.1 percent from 52.2 percent recorded in 2015, following a larger decline in operating income compared to operating expenses.

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

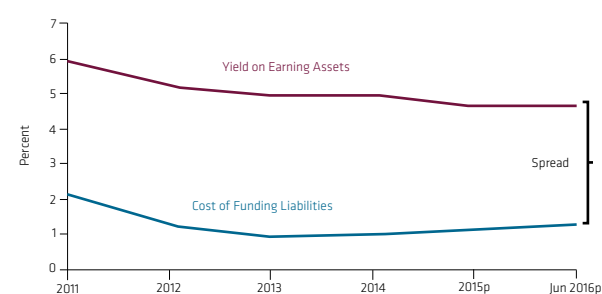
|                                  | 2011 | 2012 | 2013 | 2014 | 2015 | Jun 2016p <sup>2</sup> |
|----------------------------------|------|------|------|------|------|------------------------|
| Net Interest Income              | 3.4  | 3.4  | 3.4  | 3.4  | 3.1  | 3.0                    |
| Charges for Bad & Doubtful Debts | 0.2  | 0.1  | 0.2  | 0.5  | 0.2  | 0.2                    |
| Non-interest Income              | 2.8  | 2.8  | 2.9  | 2.8  | 2.7  | 2.4                    |
| Operating Expenses               | 3.8  | 3.7  | 3.7  | 3.4  | 3.0  | 2.9                    |
| Net Profit Before-Tax            | 2.3  | 2.4  | 2.4  | 2.2  | 2.5  | 2.3                    |
| Net Profit After-Tax             | 1.6  | 1.8  | 1.9  | 1.8  | 2.0  | 1.8                    |

<sup>1</sup> Financial year-end profits for all commercial banks used.  
<sup>2</sup> 6 months profits for all commercial banks used.

Source: Reserve Bank of Fiji

The combined interest spread of commercial banks' declined during the first six months of 2016 to 3.4 percent from 3.5 percent recorded in 2015, mainly due to the rise in cost of funds, while the yield on earnings assets was unchanged.

## Commercial Banks' Annual Spread



Source: Reserve Bank of Fiji

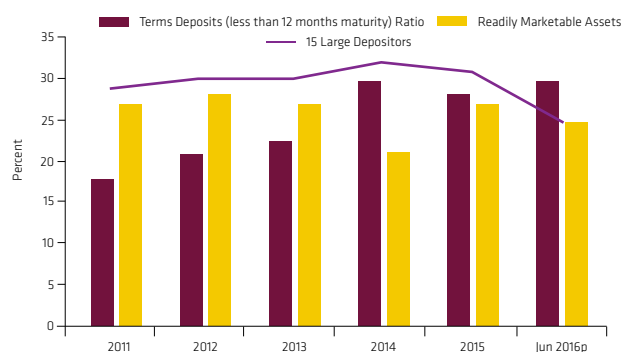
As at 30 June 2016, the banking industry's total liquid assets stood at \$1.8 billion. The bulk of this (39.2%) was in balances with banks and at call account.

The ratio of marketable assets (liquid assets to total deposits) fell from 26.9 percent in 2015 to 25.2 percent at the end of June 2016. Moreover, the ratio of the 15 largest depositors as a percentage of total deposits stood at 26.8 percent.

## Credit Institutions

The credit institutions registered a firm performance during the first six months of 2016, backed by strong capital positions, satisfactory earnings, and marginal liquidity and asset quality.

### Deposits Coverage

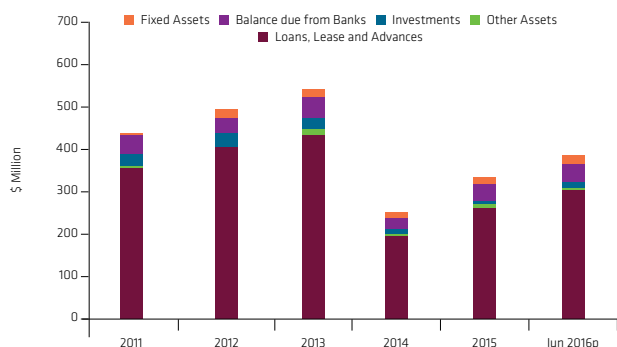


Source: Reserve Bank of Fiji

Similar to commercial banks, the combined credit institutions' balance sheet expanded over the six months period by 15.5 percent to \$386.7 million. This was underpinned by the growth in loans and advances (16.5%) to \$305.3 million driven by higher lending to the private individuals (29.7%) and the private business entities (12.3%), respectively.

Total investments by credit institutions stood at \$12.1 million as at June 2016 with the majority in Fiji Government Bonds.

### Credit Institutions' Assets



Source: Reserve Bank of Fiji

Credit institutions' total deposits for the six months of 2016 rose by 16.1 percent to \$249.0 million, underpinned by higher deposits from public enterprises (40.7%), private business entities sector (31.6%) and private individuals (14.9%). Capital and reserves declined by 5.3 percent to \$67.8 million, with \$12.3 million in dividend payments offsetting a \$4.2 million capital injection.

The capital adequacy ratio remained strong at 24.3 percent as at 30 June 2016, but lower than the 28.4 percent recorded in 2015. This was attributed to the significant growth in risk-weighted assets, coupled with a decline in total eligible capital.

While the level of classified exposures and past due loans slightly increased during the six months period, overall asset quality of credit institutions was assessed to be appropriate. Classified exposures increased by 5.7 percent to \$29.1 million, while the ratio of classified exposures to loans, advances and leases improved from 10.5 percent in 2015 to 9.5 percent in June 2016. Similarly, past due levels increased by 33.6 percent to \$49.4 million.

In line with the increase in classified exposures, total specific provisions (individually and collectively assessed) also increased by 1.5 percent to \$10.3 million. Specific provisions were assessed to cover 35.2 percent of classified exposures, indicating a marginal deterioration during the first six months of 2016. Similarly, the coverage of GRCL to net loans ratio fell slightly to 1.4 percent over the same period.

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

|                                 | 2011         | 2012         | 2013         | 2014         | 2015         | Jun 2016p <sup>2</sup> |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|------------------------|
| Interest Income                 | 49.3         | 48.3         | 51.7         | 32.3         | 33.6         | 23.0                   |
| Interest Expense                | 18.6         | 16.1         | 13.7         | 6.0          | 5.9          | 4.7                    |
| <b>Net Interest Income</b>      | <b>30.7</b>  | <b>32.2</b>  | <b>38.0</b>  | <b>26.3</b>  | <b>27.7</b>  | <b>18.3</b>            |
| Add: Non Interest Income        | 4.2          | 5.7          | 5.5          | 2.3          | 2.9          | 2.2                    |
| <b>Total Operating Income</b>   | <b>34.8</b>  | <b>37.9</b>  | <b>43.5</b>  | <b>28.6</b>  | <b>30.6</b>  | <b>20.5</b>            |
| Less: Operating Expenses        | 12.7         | 13.3         | 15.0         | 9.6          | 11.9         | 8.3                    |
| Less: Bad debts and Provisions  | 4.2          | 4.1          | 5.2          | 1.3          | 1.1          | 1.5                    |
| <b>Profit Before-Tax</b>        | <b>17.9</b>  | <b>20.5</b>  | <b>23.3</b>  | <b>17.7</b>  | <b>17.6</b>  | <b>10.7</b>            |
| Less: Tax                       | 5.5          | 6.0          | 5.0          | 3.5          | 4.0          | 2.1                    |
| <b>Net Profit After-Tax</b>     | <b>12.4</b>  | <b>14.5</b>  | <b>18.3</b>  | <b>14.3</b>  | <b>13.6</b>  | <b>8.6</b>             |
| <b>Earning Assets</b>           | <b>386.1</b> | <b>415.6</b> | <b>457.3</b> | <b>354.6</b> | <b>245.1</b> | <b>322.8</b>           |
| <b>Cost of Funds</b>            | <b>299.5</b> | <b>323.8</b> | <b>352.4</b> | <b>264.8</b> | <b>173.3</b> | <b>244.9</b>           |
| <b>Average Assets</b>           | <b>399.7</b> | <b>431.5</b> | <b>476.0</b> | <b>371.1</b> | <b>259.5</b> | <b>340.5</b>           |
| After-Tax Return on Equity (%)  | 15.6         | 17.3         | 19.1         | 16.5         | 18.5         | 21.4                   |
| Efficiency (%)                  | 36.3         | 35.2         | 34.5         | 33.6         | 38.9         | 40.7                   |
| Yield on Earning Assets (%)     | 12.8         | 11.6         | 11.3         | 9.1          | 13.7         | 21.3                   |
| Cost of Funding Liabilities (%) | 6.2          | 5.0          | 3.9          | 2.3          | 3.4          | 3.8                    |

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

<sup>2</sup> 6 months profits for all credit institutions used.

Source: Reserve Bank of Fiji

Credit institutions recorded a before-tax net profit of \$10.7 million for the first six months of 2016, compared to \$17.6 million before-tax annual profit in 2015.

In relative terms, the return on equity and return on assets improved, while the industry's efficiency ratio increased to 40.7 percent.

The combined credit institutions' spread was 10.5 percent compared to 10.3 percent in 2015, reflecting a higher increase in yield on earning assets compared to the cost of funds.

## The Insurance Industry

The insurance industry's performance was assessed as adequate during the first six months of 2016 led by the continued growth of the life insurance sector. In contrast, general insurers were significantly affected by the direct insured losses sustained from TC Winston and the April 2016 floods. However, the performance of the general insurers

is expected to gradually improve with recoveries from reinsurance. Despite these losses, the industry recorded sufficient levels of liquidity and solvency positions although lower in the review period.

Totals assets grew by 5.4 percent to \$1.6 billion at the end of June 2016. This was led by the general insurers, which recorded a significant increase in amounts due from reinsurers on outstanding claims following the natural disasters.

Net premium income for the insurance industry was \$121.0 million at the end of June 2016, dominated by life insurers (52.8%) while net claims paid were reported at \$80.3 million.

The Reserve Bank continued to approve applications for offshore placements where the required cover was not available locally and/or the premium in the local market was 15.0 percent higher than the offshore market. A total of 762 applications were approved, valued at \$19.2 million in premiums for the first seven months of 2016.

### Fiji National Provident Fund

The FNPF is the single largest supervised institution accounting for 30.9 percent of total financial system assets as at June 2016. The Fund's total assets fell slightly by 3.1 percent to \$5.1 billion from December 2015, on the back of a notable reduction in demand deposits attributed to the pay-out of \$274.7 million to members under the TC Winston assistance scheme.

The Fund's investment portfolio continued to expand during the review period, growing by 3.0 percent (\$134.4m) to \$4.6 billion as at 30 June 2016. This was largely due to the increase in both the growth (\$91.9m) and fixed income (\$42.5m) portfolios. Government securities registered the highest growth by \$129.3 million to \$2.1 billion. The investment portfolio of the FNPF was heavily tilted towards fixed income securities, which accounted for 70.9 percent of total investments, slightly below the 72.1 percent recorded in December 2015.

Members' balances grew by 1.7 percent (\$71.0m) over the first six months to \$4.1 billion as at June 2016 compared to a growth of 7.6 percent during the same period in 2015. The lower growth came from the large withdrawal by members under the TC Winston assistance scheme, which was offset by the interest credited to members' accounts of 6.25 percent (\$239.0 million) as at 30 June 2016.

Total contributions collected for the first six months amounted to \$240.2 million, averaging around \$40.0 million per month. This was slightly higher than the average of \$35.0 million per month in 2015.

Interest declared to members has trended upwards over the last three financial years; 5.5 percent (\$155.6m) in 2013, 5.75 percent (\$175.0m) in 2014 and 6.0 percent (\$213.2m) in 2015.

The persistent higher growth in interest declared is reflective of improved returns to the Fund's investment portfolio with net investment income at \$301.3 million, equivalent to a 6.5

percent return on investment (ROI) at the end of June 2016.

Given the Fund's systemic importance, the Reserve Bank continued to convene prudential consultations to closely monitor the progress of the ongoing reforms, with a focus on major projects as part of its investment rehabilitation and the new IT system (PROMIS), and follow up on the implementation of the Reserve Bank's previous onsite recommendations.

The drafting of the Pensions Savings Bill was finalised with a key component being the de-monopolisation of the pension fund market in Fiji, which provides options for members who have excess funds, and choices for pensioners to purchase additional retirement income products. The draft Bill has been submitted to the Office of the Solicitor-General (OSG) for vetting.

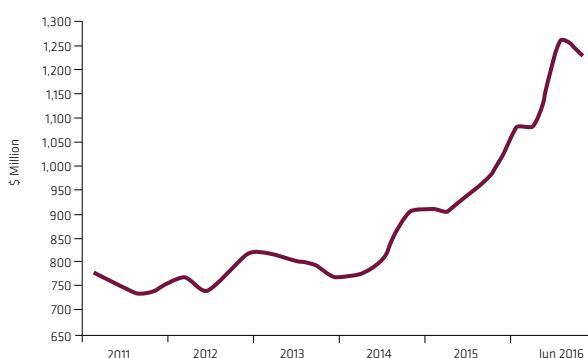
### Capital Markets

The volume and value of shares traded on the SPSE increased significantly up to June 2016 following the listing of Vision Investments Limited (VIL) in February.

The combined effect of VIL's listing on the Exchange and the dividend reinvestment plans of Fijian Holdings Limited and FijiCare Insurance Limited shares, enabled market capitalisation to peak at an all-time high of \$1.2 billion as at 30 June 2016, from \$1.1 billion in December 2015. Share price movements of all listed securities also contributed to the increase in capitalisation for the share market.

At the end of June, the top five listed securities, by market capitalisation, accounted for 81.3 percent of the stock market. Amalgamated Telecom Holdings Limited continued to dominate the stock market at 37.1 percent, followed by VIL (16.9%), Paradise Beverages Fiji Limited (10.5%), Flour Mills of Fiji Foods Limited (9.3%) and the RB Patel Group Limited (7.6%).

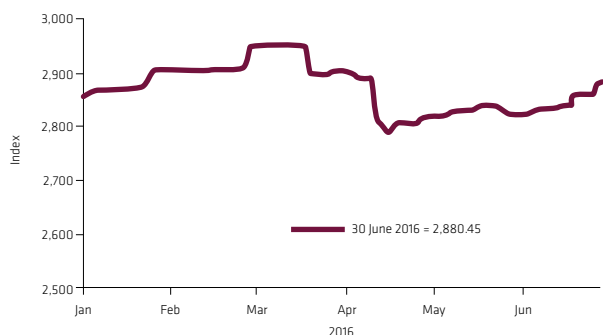
#### Market Capitalisation



Source: South Pacific Stock Exchange

In line with the increase in market capitalisation, the SPSE Total Return Index (STR), a measure of stock market performance that shows total returns in the form of price, dividend and interest returns, increased by 0.9 percent to 2,880.5 from 2,854.6 in December 2015.

### SPSE Total Return Index

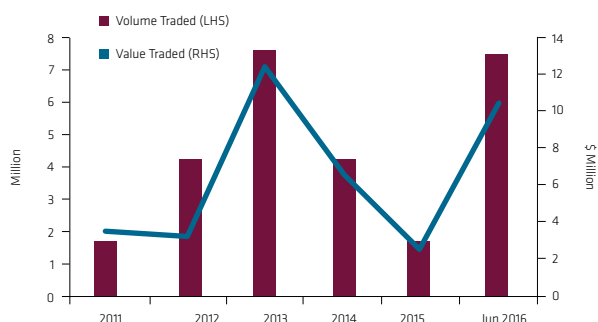


Source: South Pacific Stock Exchange

For the six months ending 30 June 2016, 36.6 million shares with a total consideration of \$56.3 million changed hands through 973 trades. This compares to 74.6 million shares worth \$91.4 million via 1,017 trades in the 12 month period ending 31 December 2015.

14 special crossing transactions (all related to VIL) were conducted between January and June 2016, where 29.1 million shares valued at \$45.9 million changed hands between the VIL's founding shareholders and institutional investors who participated during the private placement process. Excluding special crossing transactions, 7.5 million shares worth \$10.4 million were traded.

### Volume and Value of Shares Traded<sup>13</sup>



Source: South Pacific Stock Exchange

The average total return from the stock market for the period up to June 2016 stood at 7.5 percent compared with an annual return of 15.6 percent in 2015.

The average dividend and interest yield in the review period was 4.9 percent, while average capital growth was 2.6 percent.

The buy-to-sell order ratio for the year to June 2016 stood at 1:1 from 1:0.8 in 2015 and was attributed to an additional availability of shares, stemming from VIL's listing and possible liquidation of securities due to TC Winston rehabilitation efforts. The average bid-offer spread stood at 90 cents as at 30 June 2016.

Funds under management in the unit trust market as at 30 June 2016 increased by 7.8 percent from \$204.7 million as at 31 December 2015. This was attributed to the continuous growth in unit sales, which exceeded the level of redemptions recording a net value of \$8.1 million for the first half of 2016.

In terms of the unit trusts' investment portfolio, unlisted securities dominated at 31.1 percent, followed by listed securities (26.1%), bonds (16.5%), deposits held at financial institutions (15.7%), loans and receivables (9.7%), and others (0.9%).

The number of unit holders grew by 9.6 percent to 25,495 up to June 2016, of which 66.2 percent were private individuals, and 33.8 percent comprised institutions and other groups.

### Complaints Management

The RBF continued to oversee the implementation of the regulated financial institutions' complaints management policies to ensure that consumer complaints are addressed efficiently and that consumer issues are given priority. In the year to July, the Reserve Bank received 47 complaints against regulated financial institutions, of which 28 were directed at the banking industry, largely involving complaints on fees and charges, loans and mortgages.

Moreover, 10 complaints were against the licensed insurers with the common complaints being declinature of insurance claims and terms and conditions of the policy. There were two complaints against the FNPF, four against foreign exchange dealers and five against NBFIs. All information related to the complaints are readily available on the Reserve Bank's website.

To address the issues, the Reserve Bank held 24 meetings with consumers, relevant financial institutions and other organisations upon approval by the complainants. Of the total complaints received, 45 were resolved while two remain under investigation.

The Complaints Management Forum met once in February 2016 to discuss financial industry complaints and consumer protection issues while two onsite inspections were conducted to ensure compliance with the policy Guideline on Complaints Management. The Reserve Bank also presented at a seminar organised by the Fiji Mediation Centre.

<sup>13</sup> This graph excludes Special Crossing Transactions.





# Combating Money Laundering

The FTR Act and the FTR Regulations are Fiji's primary laws for combating money laundering in the country and protecting the financial system from money laundering activities and other serious offences.

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 RBF.

The FIU is responsible to the Governor of the Reserve Bank in the discharge of its powers and functions. The FIU is the lead agency in Fiji on anti-money laundering (AML) and countering the financing of terrorism (CFT) policy formulation, implementation and enforcement in Fiji.

Pursuant to the FTR Act and Regulations, the RBF and the FIU are the designated AML/CFT supervisors in Fiji. The RBF supervises the commercial banks, licensed credit institutions, insurance companies, foreign exchange dealers, remittance service providers, money changers, the capital market and its intermediaries, the superannuation fund and the mobile phone money services providers.

The FIU supervises all other providers of financial services including lawyers, accountants, real estate agents and credit institutions. The FIU is also responsible for the registration of AML compliance officers of all financial institutions and designated non-financial businesses and professions (DNFBPs).

## Financial Institutions' Compliance with the FTR Act

The FIU and the RBF continued to work closely with financial institutions and DNFBPs to encourage and ensure compliance with the various provisions of the FTR Act and Regulations.

During the January to July 2016 period, the FIU issued nine ad-hoc policy advisories explaining various requirements of the FTR Act and Regulations. The majority of the ad-hoc policy advisories were related to customer due diligence requirements of the relevant AML and CFT laws. There are currently 86 registered AML compliance officers from financial institutions and DNFBPs covered under the FTR Act. The FIU provided training on the requirements of the FTR Act to a number of financial institutions and DNFBPs.

## Receipt and Analysis of Financial Transaction Information

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

For the period ending July 2016, the FIU received 275 suspicious transaction reports (STRs) from various financial institutions and DNFBPs.

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

|      | 2011 | 2012 | 2013 | 2014 | 2015 | Jan-Jul 2016 |
|------|------|------|------|------|------|--------------|
| STRs | 728  | 579  | 522  | 384  | 516  | 275          |

Source: Financial Intelligence Unit

The majority of STRs received were from commercial banks.

### Reporting Financial Institutions - Jan-Jul 2016 (Number)

| Reporting Financial Entities or Persons         | STRs Received |
|---|---------------|
| Commercial Banks                                | 195           |
| Money Remittance Service Providers <sup>1</sup> | 55            |
| Finance Companies                               | 11            |
| Members of the Public                           | 14            |
| Regulatory Authorities                          | 0             |
| Securities and Unit Trust                       | 0             |
| Real Estate Businesses                          | 0             |
| Others  | 0             |
| <b>Total</b>                                    | <b>275</b>    |

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

Source: Financial Intelligence Unit

The FIU referred 135 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 |            |            |            |              |
|-------------------------|-------------------|------------|------------|------------|--------------|
|                         | 2012              | 2013       | 2014       | 2015       | Jan-Jul 2016 |
| Inland Revenue Services | 168               | 176        | 158        | 166        | 77           |
| Fiji Police Force       | 61                | 58         | 77         | 63         | 33           |
| Immigration             | 4                 | 0          | 1          | 1          | 2            |
| Customs                 | 0                 | 19         | 7          | 5          | 11           |
| Others <sup>1</sup>     | 13                | 31         | 10         | 20         | 12           |
| <b>Total</b>            | <b>246</b>        | <b>284</b> | <b>253</b> | <b>255</b> | <b>135</b>   |

<sup>1</sup> Includes RBF, Transnational Crime Unit and 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.

During the first seven months of 2016, the FIU received 333,037 cash transaction reports (CTRs) and 618,723 international electronic fund transfers reports (EFTRs).

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

| Reports Received | 2012    | 2013      | 2014      | 2015      | Jan-Jul 2016 |
|------------------|---------|-----------|-----------|-----------|--------------|
| CTRs             | 200,404 | 380,430   | 1,042,074 | 579,849   | 333,037      |
| EFTRs            | 830,959 | 1,147,728 | 1,308,633 | 1,029,993 | 618,723      |

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.

For the period ending 31 July 2016, the FIU received 337 border currency reports. These reports are analysed for possible currency smuggling, money laundering and related criminal offences.

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

| Persons Declaring                        | 2011       | 2012       | 2013       | 2014       | 2015       | Jan-Jul 2016 |
|--|------------|------------|------------|------------|------------|--------------|
| Declarations made by inbound travellers  | 93         | 117        | 141        | 231        | 187        | 166          |
| Declarations made by outbound travellers | 101        | 360        | 318        | 326        | 304        | 171          |
| <b>Total</b>                             | <b>194</b> | <b>477</b> | <b>459</b> | <b>557</b> | <b>491</b> | <b>337</b>   |

Source: Financial Intelligence Unit

### Assistance to FIU's Partner Agencies

Under the FTR Act, the FIU may provide assistance to various partner agencies. The FIU handled 22 requests from Government agencies for due diligence and background checks on persons or entities of interest between January to July 2016.

Background checks were carried out on 45 business entities and 32 individuals.

### Requests for Background Checks from National Agencies - January to July 2016 (Number)

| Requesting Agency   | Requests  | Checks on Entities | Checks on Individuals |
|---|-----------|--------------------|-----------------------|
| Attorney-General's Office/ Ministry of Justice                    | 1         | 8                  | 0                     |
| Ministry of Economy   | 2         | 2                  | 11                    |
| Investment Fiji   | 2         | 12                 | 3                     |
| Fiji Police Force   | 2         | 0                  | 3                     |
| Ministries of Public Enterprises and Industry & Trade and Tourism | 12        | 18                 | 11                    |
| Reserve Bank of Fiji  | 3         | 5                  | 4                     |
| <b>Total</b>  | <b>22</b> | <b>45</b>          | <b>32</b>             |

Source: Financial Intelligence Unit

The FIU also handled 147 requests from local and foreign law enforcement agencies for assistance in money laundering and other related investigations.

### Requests for Investigative Assistance - January to July 2016 (Number)

| Requesting Agency                              | Requests   | Checks on Entities | Checks on Individuals |
|--|------------|--------------------|-----------------------|
| Department of Immigration                      | 2          | 1                  | 7                     |
| Fiji Independent Commission Against Corruption | 16         | 12                 | 49                    |
| Fiji Police Force                              | 37         | 27                 | 111                   |
| Foreign FIUs                                   | 13         | 42                 | 38                    |
| FRCA   | 75         | 224                | 155                   |
| Reserve Bank of Fiji                           | 3          | 2                  | 0                     |
| Others   | 1          | 0                  | 1                     |
| <b>Total</b>                                   | <b>147</b> | <b>308</b>         | <b>361</b>            |

Source: Financial Intelligence Unit

The FIU also provided other law enforcement agencies with access to the FIU database for the purpose of information exchange.

### Peer Review of Fiji's AML/CFT Framework

In 2015, Fiji underwent a mutual evaluation on its compliance with the Financial Action Task Force (FATF) international standards on AML/CFT, known as the FATF 40 Recommendations. The evaluation was conducted by international AML/CFT experts and was led by the Asia Pacific Group (APG) on Money Laundering.

During the period ending 31 July 2016, the FIU liaised closely with the APG and other government agencies to coordinate the finalisation of Fiji's mutual evaluation report.

The key findings of the mutual evaluation report were:

- Generally, Fiji has a reasonable understanding of its money laundering and terrorist financing risks, however some gaps exist.
- Terrorist financing risks are low. However, Fiji has not yet taken a holistic approach in dealing with terrorism and terrorist financing threats and risks. Fiji lacks laws and institutional measures for implementing requirements on targeted financial sanctions related to terrorist financing and for dealing with proliferation financing.
- While the FIU and other competent authorities regularly exchange information and financial intelligence, there are gaps on capacity, capability and resources within law enforcement agencies.
- While Fiji has a full suite of forfeiture mechanisms to target profit and property derived from crime, forfeiture outcomes need further improvement.
- While DNFBPs are covered under Fiji's AML/CFT

framework, there is a need to improve the understanding of money laundering and terrorist financing risks and related obligations under the FTR Act and Regulations.

- The RBF conducts onsite inspections of financial institutions. There are gaps on supervision of the DNFBBs by the FIU.
- There are some gaps and challenges in obtaining beneficial ownership information.
- Further improvements are needed on international cooperation (both formal and informal).
- Certain provisions of the FTR Act and Regulations are not enforceable.
- There are certain deficiencies in Fiji's FTR Act, which fail to incorporate certain requirements such as the requirements relating to domestic politically exposed persons, correspondent banking and wire transfers.

### **National AML Council and Other Committees**

The FIU provided secretarial support to the National AML Council and its three working groups (WG). The National AML Council held two meetings during the period. The Governor of the Reserve Bank and Director FIU are members of the National AML Council and contributed to Council discussions and decisions.

The FIU also contributes to a number of national committees on AML/CFT coordination and information exchange.

The FIU provided ongoing advice to Government relating to Fiji's compliance with international requirements on sanctions related to terrorist financing. This included participating in consultations on proposed changes to terrorist financing related laws.

### **International Coordination and Initiatives**

The FIU is a member of the Egmont Group, which is an international association of 151 FIUs from various jurisdictions. In the first seven months of 2016, the FIU contributed to the activities of the Egmont Group and hosted an Egmont Committee meeting in Fiji.

The FIU also participated in the RBF's work attachment program for two officers from the Republic of Marshall Islands Banking Commission.

During the same period, the FIU worked closely with the APG on various AML programs and initiatives held in the region. These included contributing to a number of APG-conducted surveys and liaising with the APG on Fiji's mutual evaluation and other AML/CFT issues.

The FIU also coordinated Fiji's contributions to the FATF global project on terrorist financing.



## 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 RBF 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 Economy.

### Note Processing

The purpose of the note processing operation is to ensure that quality notes are in circulation.

All notes returned to the Bank through the commercial banks and public are processed and sorted for fitness by a note processing machine.

For the seven months ending 31 July 2016, 20.9 million returned notes were processed. Of this, 10.2 million pieces were deemed fit for reissue while 10.7 million pieces were considered unfit and subsequently destroyed.

Unfit notes largely included the \$10, \$20 and \$50 denominations.

#### Notes Processed

| Notes Processed         | 2015               |                  | Jan-Jul 2016       |                  |
|-------------------------|--------------------|------------------|--------------------|------------------|
|                         | Value (\$ Million) | Pieces (Million) | Value (\$ Million) | Pieces (Million) |
| Notes Saved for Reissue | 571.6              | 18.8             | 320.2              | 10.2             |
| Notes Destroyed         | 345.1              | 14.5             | 266.1              | 10.7             |
| <b>Total Processed</b>  | <b>916.7</b>       | <b>33.3</b>      | <b>586.3</b>       | <b>20.9</b>      |

Source: Reserve Bank of Fiji

### Currency in Circulation

As at 31 July 2016, total currency in circulation was \$751.0 million.

The value of notes in circulation as at 31 July 2016 rose by 2.3 percent to \$697.1 million from the end of December 2015.

The \$100 note denomination recorded the highest growth of 7.2 percent to \$280.5 million, mainly due to its increasing usage in the ATMs. The \$50 was the highest circulated note.

As at 31 July 2016, the value of coins in circulation increased by 5.7 percent to \$53.9 million from the end of December 2015.

The \$2 coin registered the highest growth of 7.5 percent to \$14.3 million. The 5-cent coin accounted for the highest volume of coins in circulation. The increase in notes and coins in circulation was mainly attributed to the accelerated issuance of notes and coins post-TC Winston.

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

| Notes in Circulation |              |              |              |
|----------------------|--------------|--------------|--------------|
| Denomination         | 2014         | 2015         | July 2016    |
| \$0.50               | 0.1          | 0.1          | 0.1          |
| \$1                  | 1.7          | 1.7          | 1.7          |
| \$2                  | 7.3          | 7.9          | 7.9          |
| \$5                  | 19.4         | 20.9         | 21.0         |
| \$10                 | 46.9         | 52.4         | 49.3         |
| \$20                 | 78.0         | 86.4         | 82.5         |
| \$50                 | 231.1        | 250.3        | 253.8        |
| \$100                | 208.4        | 261.6        | 280.5        |
| Pre-decimal Currency | 0.3          | 0.3          | 0.3          |
| <b>Total</b>         | <b>593.2</b> | <b>681.6</b> | <b>697.1</b> |

| Coins in Circulation |             |             |             |
|----------------------|-------------|-------------|-------------|
| Denomination         | 2014        | 2015        | July 2016   |
| 1c                   | 1.3         | 1.3         | 1.3         |
| 2c                   | 1.1         | 1.1         | 1.1         |
| 5c                   | 3.8         | 4.0         | 4.2         |
| 10c                  | 4.2         | 4.4         | 4.7         |
| 20c                  | 5.9         | 6.3         | 6.7         |
| 50c                  | 7.3         | 7.7         | 8.0         |
| \$1                  | 11.6        | 12.7        | 13.4        |
| \$2                  | 12.7        | 13.3        | 14.3        |
| Pre-decimal Currency | 0.2         | 0.2         | 0.2         |
| <b>Total</b>         | <b>48.1</b> | <b>51.0</b> | <b>53.9</b> |

| Notes and Coins in Circulation |              |              |              |
|--------------------------------|--------------|--------------|--------------|
|                                | 2014         | 2015         | July 2016    |
| Notes                          | 593.2        | 681.6        | 697.1        |
| Coins                          | 48.1         | 51.0         | 53.9         |
| <b>Total</b>                   | <b>641.3</b> | <b>732.6</b> | <b>751.0</b> |

Source: Reserve Bank of Fiji

### Cost of Currency

For the seven months ending 31 July 2016, the cost of currency issued by the Bank was \$2.4 million.

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

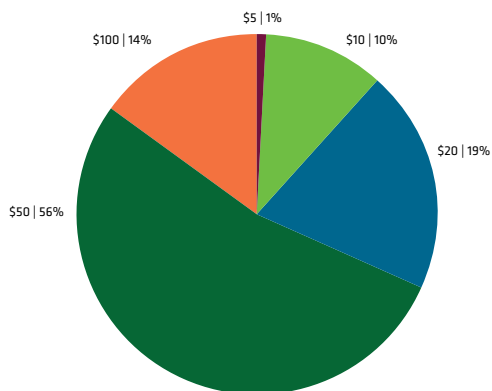
|              | 2014       | 2015       | Jan-Jul 2016 |
|--------------|------------|------------|--------------|
| Notes        | 1.9        | 2.0        | 1.5          |
| Coins        | 1.0        | 1.0        | 0.9          |
| <b>Total</b> | <b>2.9</b> | <b>3.0</b> | <b>2.4</b>   |

Source: Reserve Bank of Fiji

### Banking Transactions

For the year to July 2016, the value of currency issued to commercial banks was \$648.4 million, of which \$640.9 million was in notes and \$7.5 million in coins.

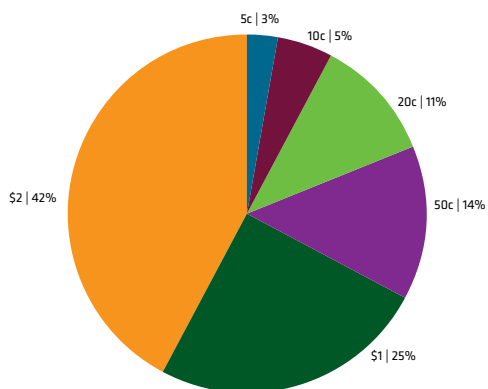
**Notes Issued from Jan-Jul 2016 (Total Value: \$640.9 million)**



Source: Reserve Bank of Fiji

The \$50 note continued to be widely used which demonstrates the public’s growing reliance on higher denominations for daily transactions and demand for higher denomination notes through the ATMs.

**Coins Issued from Jan-Jul 2016 (Total Value: \$7.5 million)**



Source: Reserve Bank of Fiji

**Mutilated and Old Design Currency Assessments**

A total of \$0.5 million was reimbursed to commercial banks, businesses and individuals for mutilated and old design currency during the 1 January to 31 July 2016 period.

**Counterfeit Notes**

The volume of counterfeit notes discovered during the first seven months ending 31 July 2016 was negligible. It was less than 0.1 percent of the value of total currency in circulation.

**Counterfeit Note Summary**

| Denomination | 2015         |                 | Jan-Jul 2016 |                 |
|--------------|--------------|-----------------|--------------|-----------------|
|              | Value (\$)   | Number of Notes | Value (\$)   | Number of Notes |
| \$5          | -            | -               | 5            | 1               |
| \$10         | 510          | 51              | 60           | 6               |
| \$20         | 240          | 12              | 840          | 42              |
| \$50         | 650          | 13              | 50           | 1               |
| \$100        | -            | -               | 2,300        | 23              |
| <b>Total</b> | <b>1,400</b> | <b>76</b>       | <b>3,255</b> | <b>73</b>       |

Source: Reserve Bank of Fiji

The \$20 note was the most counterfeited denomination, as it is most commonly used.

In its efforts to address counterfeiting, the Bank continued to assist the Fiji Police Force with relevant investigations.

The Bank also distributed awareness materials to various organisations, schools and the general public.

**Numismatics**

Numismatic or “collector” currency income for the seven months ending 31 July 2016 was \$0.5 million.

During the review period, the Bank also signed a number of agreements with partner mints for various new programs.

Moreover, the Bank continued with the sale of its existing silver and goldcoins, single, pairs and uncut sheets of new flora and fauna notes and coins and other currency collectible items.





# Payments And Settlements System

*Payment and Settlement Systems is critically important to the Reserve Bank.*

*FIJICLEAR is the primary channel through which the Reserve Bank transmits and facilitates the movement of large value transactions. In also catering for retail transactions, FIJICLEAR ensures that liquidity is fluid and efficiently utilised over the course of a business day.*

*The Society for Worldwide Interbank Financial Telecommunication (SWIFT) settlement system for foreign currency transactions, utilised by the Reserve Bank, faced severe challenges this year in the form of unauthorised cyber-attacks. While these attacks have failed to compromise the SWIFT system, it has provided the opportunity for the Reserve Bank to review its security settings and implement additional measures to mitigate the risk of further attacks.*

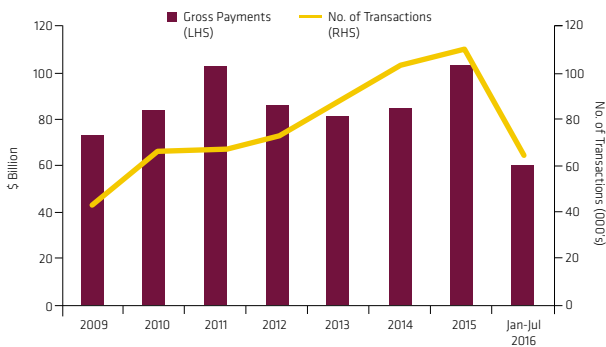
*The expansion of other forms of payment systems, predominantly making low value high volume payments, such as M-PAiSA and Digi-Money has been encouraged by the Reserve Bank as part of its mission.*

## FIJICLEAR

Fiji's Real Time Gross Settlement System (RTGS), also known as FIJICLEAR, was introduced in 2007 to settle large value low volume Fiji dollar payments for participant banks. The Reserve Bank dually operates and supervises activities of this system. Six commercial banks currently have the exclusive use of FIJICLEAR. This has brought greater efficiency through the timely settlement of transactions and enhanced the liquidity management capability of participant banks.

In linking the major players in Fiji's financial system, FIJICLEAR is classified as a systemically important payment system.

### FIJICLEAR Transactions



Source: Reserve Bank of Fiji

In the year to July, FIJICLEAR recorded 65,353 transactions valued at \$62.5 million reflecting the increased use of the system by participating banks.

### Monthly Average FIJICLEAR Transactions

| Monthly Average      | 2011  | 2012  | 2013  | 2014  | 2015  | Jan-Jul 2016 |
|----------------------|-------|-------|-------|-------|-------|--------------|
| Gross Payments (\$M) | 5,885 | 5,612 | 5,879 | 7,122 | 8,395 | 8,927        |
| No. of Transactions  | 5,550 | 5,914 | 7,316 | 8,573 | 9,144 | 9,336        |

Source: Reserve Bank of Fiji

The seven months average for 2016 continued to reflect the increase in use of FIJICLEAR by the participant banks.

## Settlements

The role of Settlements is supportive of the reserves management function of the Bank.

All instructions issued for the settlement of foreign currency trades are made through the SWIFT settlement system. These instructions need to be accurate and timely to eradicate the risk of incorrect or late settlement that could lead to a liability on the part of the Reserve Bank.

Settlements also undertakes the daily accounting of foreign currency trades on Hi-Portfolio, the Reserve Bank's Foreign Exchange Accounting System, to ensure that positions and accounts are updated and that relevant information disseminated to stakeholders is accurate.

## National Payment System

A major development for Fiji's payments system was the introduction of the Fiji Interchange Network (Payments) Bill in February 2016 by the Government. The new Bill authorises the Reserve Bank to regulate payment systems in Fiji and adopt general standards and criteria for the conduct of payment services or the operation of systems, either generally addressing the totality of entities or a specific category. In addition, the Bill allows the Bank to issue directives to a licensee relating to governance, management, operations or relations with participants. Following public consultation with the Standing Committee on Justice, Law and Human Rights, a report on the Bill will be presented to Parliament in 2017.

## Mobile Money Development

New developments have led to an expansion in the Mobile Financial Services ecosystem in the first seven months of 2016.

New initiatives were undertaken in May to utilise the mobile

money platform as a payment portal for the Government. The M-PAiSA platform was used by Government to disburse rehabilitation funds under its “Help for Homes” initiative following TC Winston and the floods in early April. This helped increase the uptake of mobile money as notable increases were seen in the value of e-money in circulation, bill payments via mobile money and customer balances in mobile wallets.

Vodafone Fiji also partnered with the Fiji Electricity Authority (FEA) to allow customers in remote rural areas to purchase prepaid electricity tokens via M-PAiSA as and when needed.

As at 31 July 2016, there were 351 registered active agents around Fiji compared to 362 in the same period last year. The decline was attributed to the inactivity of some agents during the reporting period.

Since the launch of Mobile Money in June 2010, 101,252 person-to-person (P2P) transfers valued at \$10.4 million have been recorded. For the first seven months of 2016, there were 15,928 P2P transfers valued at \$2.0 million. This compares with 11,187 P2P transfers valued at \$1.1 million in the same period in 2015. The average value of P2P transfers rose to \$126.0 from \$98.8 in July 2015. The number of registered mobile money customers stood at 721,923 compared to 525,755 in July 2015.

Continued growth in inward remittances was noted since the launch of the inward remittance facility in 2011. The total amount of inward remittances received through the mobile money channel as at July 2016, stood at \$7.6 million. Most of these funds came from the UK, Australia and New Zealand.

The total value of electronic money in circulation as at 31 July 2016 end stood at \$7.1 million compared to \$4.2 million in the same period last year. The significant increase was due to the Government’s “Help for Homes” initiative where \$84.9

million was disbursed through M-PAiSA.

### **Inward Remittances Through Mobile Money**

In line with the growth in inward remittances in 2016, Mobile Network Operators (MNOs) continued to develop and improve their services to the market through continued collaboration with international money transfer platforms.

Significant growth in both the volume and value of inward remittances was noted during the review period. For the first time since inception, the amount of inward remittances transferred through mobile money surpassed \$1.0 million in a quarter. Going forward continued growth is expected for the remaining quarters.

As at July 2016 end, there were 10,623 inward remittances conducted via the mobile money channel valued at \$3.3 million compared to the 3,526 inward remittances valued at \$1.0 million in the same period last year. Both the volume and value of inward remittances grew by 201.3 percent and 224.6 percent, respectively, and are expected to continue growing. International money transfers via mobile money channels are the fastest growing mobile money product not only in Fiji but globally as well, primarily due to being a cheaper alternative to traditional money transfer operators.

Remittances into Fiji are quite large and a major source of foreign income for the country. However, remittances transferred through the mobile money channel comprise a small proportion of the total remittance transferred to Fiji. Nevertheless, the mobile money channel is benefiting the underserved in the population with lower costs and greater accessibility.

Inward remittances are an important source of income for many families in Fiji helping improve livelihoods while generating economic activity.



## Enhance Our Role In The Development Of The Economy

*In addition to its core functions of conducting monetary policy, financial stability and the issue of currency, the Reserve Bank also implements various initiatives to develop the economy.*

### Import Substitution and Assistance to the Export Sector

The Import Substitution and Export Finance Facility continued to be offered to eligible businesses in the first seven months of 2016 with eight businesses assisted through loans totalling \$5.9 million. The interest rate charged by RBF to the lending institutions remained at 1.0 percent per annum while the maximum interest rate that could be charged under the facility was unchanged at 5.0 percent per annum. At the end of July 2016, the total outstanding balance of loans under the Facility was around \$55.0 million against the approved allocation of \$80.0 million.

### Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

The Reserve Bank has administered the Government's SMECGS since its inception in 2012. Cumulative to July 2016, 1,444 SME loans valued at \$85.2 million were registered for cover under the Scheme. The Government guarantees loans under the Scheme up to a maximum of \$50,000 per business. There were no guarantee claims received in the first seven months of 2016.

### 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 Housing Facility is in line with the Bank's mission to enhance its role in the development of the economy and complements the Fiji Government's initiatives in providing low-cost homes for Fijian citizens.

The Reserve Bank has lent \$25.0 million to the Housing Authority (HA) under this Facility at a rate of 1.0 percent per annum for a period of up to 5 years. The funds have been used by the HA to assist households that earn up to \$25,000 per annum with concessional home loans at a maximum interest rate of 5.0 percent per annum.

The Reserve Bank will continue to assess its role in supporting the development of affordable housing in the next financial year.

### Natural Disaster Rehabilitation Facility

In February 2016, the Reserve Bank reactivated and expanded the Natural Disaster and Rehabilitation Facility (NDRF) to assist businesses as well as homeowners affected by TC Winston. A total of \$8.4 million was extended to 12 businesses and 142 homeowners to aid in the recovery of their operations and properties. The borrowing window closed in early July 2016. At the end of July, outstanding loans under the Facility stood at \$18.8 million.

### Secondary and Retail Bond Market

In the first seven months of 2016, the Fiji Government placed \$10.0 million on "tap" in Viti Retail Bonds of which \$4.8 million has since been issued to 53 investors. At the end of the financial year, the value of outstanding Viti Bonds amounted to \$27.0 million.

Activity in the secondary bond market remained minimal with transactions confined to Reserve Bank purchases of 14 parcels of Viti Bonds valued at \$0.3 million and 13 parcels of Fiji Development Loan (FDL) Stock valued at \$0.4 million.

### Microfinance Development

In March, an independent financial inclusion Regulatory Impact Assessment (RIA) undertaken by the Bankable Frontiers Associates on policies issued by the RBF and the FIU since 2009 provided mixed results.

The RIA highlighted the significant efforts made by the RBF and the FIU in establishing an enabling regulatory regime conducive to financial inclusion. These efforts included directives to the commercial banks to establish microfinance operations and extend their services to the poor and those living in remote areas, and engaging non-bank providers, in particular the MNOs, to provide Digital Financial Services.

The Report also noted that the establishment of the National Financial Inclusion Taskforce (NFIT) helped develop a coordinated and collaborative approach to increasing financial inclusion. Moreover, the regulatory framework relevant to financial inclusion for both the banks and NBFIs helped achieve the target of reaching 150,000 unbanked citizens by 2014. The framework included agent banking

regulations, FTR Act (2004) and the Reserve Bank guidelines on the setting up of microfinance units and the Local Advisory Boards (LAB).

A key area of improvement pointed out by the RIA was to improve the quality of the outcomes of the policymaking process.

### **Secured Transactions Reform**

The Secured Transactions Reform Taskforce met in March to consider the feedback from the Association of Banks in Fiji and other policy matters.

The OSG provided feedback to the Reserve Bank on the draft Secured Transactions Bill in June. Subsequently, the ADB's Private Sector Development Initiative Team provided clarification and further guidance to both the Bank and the OSG on the Bill.

The Secured Transactions Bill is expected to be enacted in 2017. Following this, development work and implementation of the Secured Transactions Registry will begin.

### **National Financial Inclusion Taskforce**

The Taskforce held two meetings in the first half of 2016. In the first meeting, Government, which plays a very important role in the implementation of the National Financial Inclusion Strategic Plan, appointed four new committee members.

In the second meeting, held in July, the National Financial Inclusion Strategic Plan 2016-2020 was launched. The Strategic Plan is one of the key milestones for NFIT that adopted the vision of "Improving the livelihoods of Fijians through inclusive financial services".

The preparation of the Strategic Plan involved significant reflection and consultation with relevant financial inclusion stakeholders - the NFIT and its four WGs namely the Microfinance Working Group (MWG), that has been renamed the Inclusive Products and Services Working Group (IPSWG), the Financial Literacy Working Group (FLWG), Statistics Working Group (SWG) and the Inclusive Insurance Working Group (IIWG).

During the first half of 2016, the FLWG and SWG held two meetings while the IPSWG and IIWG met four times.

Improving financial literacy of Fijians is one of the key strategies of financial inclusion. The Bank, through NFIT, works closely with the Government and Ministry of Education to improve the level of financial literacy for all Fijians. Training was provided to 3,488 primary school teachers from May to August to strengthen the delivery and implementation of the Financial Education (FinEd) program.

In partnership with the Pacific Financial Inclusion Programme (PFIP), the Reserve Bank developed FinEd Knowledge Products. The products highlight and share Fiji's experience in incorporating FinEd into the school curriculum. The

knowledge products capture the impact of the FinEd program through testimonies and stories by students, teachers, parents and the Ministry of Education and provide a platform for countries interested in developing similar programs.

The FLWG worked closely with its stakeholders in coordinating and monitoring the delivery of adult financial education initiatives. In the seven months to July 2016, 2,000 adults participated in community based financial education seminars facilitated by the commercial banks and other stakeholders around Fiji.

In May, the Pacific Community's (SPC) GeoScience Division conducted Geospatial Mapping training for RBF staff to build capacity in the mapping of financial access points in Fiji.

A milestone achievement of Fiji's first medium-term strategy for financial inclusion 2010-2014 was the production of a financial inclusion map which was uploaded on the RBF and NFIT websites in June. The map shows the locations of available financial services or access points across Fiji as well as mobile network coverage. The next phase is to overlay population/demographic densities.

A full set of Financial Inclusion Indicators have been developed based on international and regional standards for benchmarking and tracking the progress of financial inclusion initiatives. The indicators primarily focus on three dimensions: access, usage and quality.

A local consultant was engaged to design an Insurance Education Awareness Campaign that will be undertaken in the later part of 2016 to raise awareness and understanding of the concept of insurance. The results of the last Demand Side Survey, released in 2015, estimated that only around 12.0 percent of Fiji's adult population have some form of insurance cover.

The Bank, in partnership with the AFI and PFIP hosted a stakeholder engagement workshop with the Government in Suva in April 2016. The workshop brought together Government officials to ensure a broad based buy-in and commitment to financial inclusion in Fiji. It also focused on improving collaboration in the implementation and monitoring of the new National Financial Inclusion Strategic Plan (2016-2020) and provided a platform for the relevant Government ministries and partners to identify synergies and ways to work smarter together.

### **Capital Market Advisory and Development Taskforce (CMDT)**

The CMDT held two meetings between January and July 2016, with the primary focus on introducing new players and products in the capital market industry as stipulated in the Capital Market Development Master Plan 2025 (Master Plan).

The Master Plan was submitted to the Attorney-General, Honourable Minister for Economy, Public Enterprises, Civil Service and Communications for endorsement.

A number of initiatives currently being finalised include:

- Introducing new players, namely market makers to address the issue of distressed sales that continue to beset the stock market in Fiji; and
- Introducing capital raising products, such as crowdfunding, in Fiji to assist small businesses in start-up and/or SMEs in raising capital. A Knowledge Exchange visit to the New Zealand's Stock Exchange, Financial Markets Authority, Ministry of Business Innovation and Employment and Snowball Effect was also undertaken in April 2016.

The three capital market WGs; Capital Market Awareness and Capacity Building Working Group; Capital Market Legislative and Regulatory Environment Working Group and Capital Market Industry Development Working Group, continued to meet quarterly. Their collective aim is to reach at least 100,000 investors in the capital market by 2025 and make Fiji a preferred capital market centre in the South Pacific.

### **Local Advisory Boards**

The Reserve Bank held one collaborative meeting in February, with the LABs of foreign owned commercial banks. A presentation was made by the Reserve Bank to the non-executive LAB members of all the commercial banks focussing on the Government's National Development objectives and key policies of the Reserve Bank.

### **Financial Sector Development Plan**

In May 2016, the Reserve Bank met with the Attorney-General, Honourable Minister for Economy, Public Enterprises, Civil Service and Communications and resubmitted the FSDP for Cabinet endorsement.

Following endorsement by the Minister, final consultations will be carried out before the finalised Plan is launched.

Plans are in place to establish a FSDP Taskforce to guide and monitor its implementation and achievement of the ten pillars, which form its foundation. In addition, relevant WGs will be established and annual work plans will be formulated to implement the agreed strategies.

### **SME Knowledge Exchange**

In May 2016, the RBF, with the assistance and funding by AFI, undertook a knowledge exchange exercise with the Malaysian Authorities for SME Development. Officials of the Ministry of Industry & Trade and Tourism (including the Minister) and the Reserve Bank met with Bank Negara Malaysia (the central bank of Malaysia), the SME Corporation of Malaysia and other stakeholders in the Malaysian SME sector.

Following the knowledge exchange visit to Malaysia, a joint submission on reforms in the SME sector by both the Reserve Bank and Ministry of Industry & Trade and Tourism for the 2016/2017 National Budget was completed. This resulted in the proposed formation of a SME National Council, the establishment of a Central Coordinating Agency for SME Development and an allocation of \$300,000 for development work.

A second knowledge exchange study is scheduled for September 2016 in Thailand. The knowledge gained through the study will contribute towards the work on reforming the SME sector.

Work on the announced reforms will be carried out in the 2016/2017 financial year including the development of an SME Master Plan.





## RBF in the Community

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

In its efforts to build relationships across a broad spectrum of the community and gain first hand insight into developments across the country, the Bank continues to devote resources to industry visits and meetings. The Board Directors also accompany Bank officials on some of the visits.

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 articulated to Fiji's embassies abroad and to locals earmarked for diplomatic postings. The Bank also makes available information on its website and Facebook page as well as the NFIT website that users can easily access.

Each year the Reserve Bank awards a prize to the most outstanding Economics graduate at the University of the South Pacific (USP). The Bank also supports the USP's Career and Entrepreneurial Fair and Career's Expo including the USP Open Day where students are provided information about the Bank.

The Governor made a presentation to the Parliamentary Standing Committee on Public Accounts on the Bank's core functions, structure and KPIs. He also made a submission on the Fiji Interchange Network (Payments) Bill to the Parliamentary Standing Committee on Justice, Law and Human Rights.

In support of SMEs, the Reserve Bank sponsors the Services Award for the Fiji Development Bank SME Awards. The Bank also sponsors Investment Fiji's Prime Minister's International Business Award for Agriculture.

Bank staff donated \$10,000 from the staff end of the year function budget towards the Prime Minister's Disaster Relief and Rehabilitation Fund. Additionally, the Bank celebrated the World Book and Copyright day in April and a few activities

building up to the Library Week in September 2016 with the theme "Libraries Transform". These activities included a book drive for donation to various schools affected by TC Winston. The books will be delivered to the schools after the end of the Library Week. During the January to July period, the Bank donated used computers and new printers to the Community Rehabilitation Outpatients Program and Naqalimare District School while library books were donated to St Agnes Primary School and Naqalimare District School.

Some members of Team RBF served on committees set up by the Government and professional bodies. Two members are judges for awards.

Apart from formal donations, Team RBF also voluntarily contributes and participates in community projects. Some of the charitable projects undertaken by staff in the review period in 2016 included a cash contribution to fund a dialysis session for a 15 year old who is the youngest chronic kidney failure patient and towards an emergency tumour surgery for a young boy in Australia including radiation and chemotherapy.

The Bank's Sports and Social Club coordinated contributions from staff towards those who were adversely affected by TC Winston. Food rations, clothing, bedding, toiletries and other necessities, were distributed to Luvunavuaka village, Qekekuro village, Driti village and areas around Queen Victoria School and Ratu Kadavulevu School. Some staff assisted former staff whose homes were destroyed by hosting fundraising activities.

The Bank participated in Earth Hour by turning off non-essential lights and electrical appliances for one hour to raise awareness on climate change on 28 March. Other international events observed at the Bank were International Women's Day and World Secretary's Day.

The Social Club also organised social events and cultural activities such as Eid, and Chinese New Year for staff. Staff also participated in the Suva Marathon.



## Provide Proactive And Sound Advice To Government

Policy advice to the Government is provided in many ways. During 2015, 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 made to Ministries and other Government agencies, as and when requested.

### Policy Coordination

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

The Macroeconomic Committee (MC) and its Technical Committees prepared projections on Fiji's GDP, trade and balance of payments. These projections are critical inputs into monetary policy formulation and other national policy decision making.

The Governor of the Reserve Bank chairs the MC and membership comprises officials from the Ministry of Economy, Ministry of Industry & Trade and Tourism, Fiji Bureau of Statistics, Prime Minister's Office, Ministry of Infrastructure & Transport, FRCA, Investment Fiji and the Reserve Bank. During the first seven months of the year, there were two forecasting rounds, two MC meetings and six Macroeconomic Technical Committee meetings.

As part of the macroeconomic forecasting process, the Reserve Bank met with key industry groups in the first seven months of the year. Information gathered from these meetings formed the basis for forecasting national macroeconomic indicators, as well as providing advice to the Government through the MC reports and input to the National Budget submission.

The Reserve Bank continued to be actively involved in many Committees of national interest. The Reserve Bank participated in the Debt and Cashflow Policy Committee and met three times to evaluate the Government's financing needs.

### Registry and Banking Services

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

At the end of July 2016, the outstanding nominal value of Government and statutory corporation bonds recorded a combined total of \$3,338.9 million compared to \$3,086.5 million outstanding at the end of December 2015. Government bonds, which comprise FDL Bonds (FDL Stock),

Fiji Infrastructure Bonds (FIB) and Viti Bonds noted a net issue of \$243.4 million over the seven months to July 2016. Amongst the statutory corporations, only the Fiji Development Bank issued bonds, with a nominal value of \$13.0 million, whilst HA bonds worth \$4.0 million were redeemed.

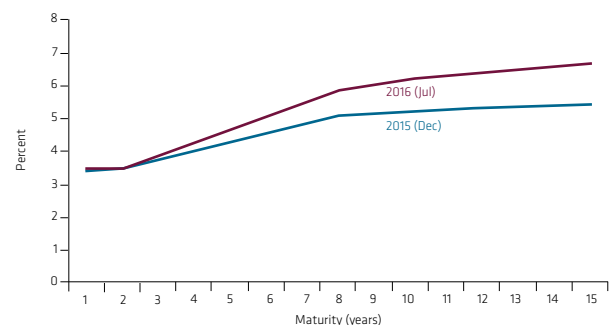
Outstanding Bonds as at 31 July 2016 (\$ Million)

|                                 | Issued       | Redeemed    | Outstanding    |
|---------------------------------|--------------|-------------|----------------|
| Total Government                | 295.2        | 51.8        | 3,079.8        |
| o/w Fiji Development Loan Bonds | -            | 47.5        | 1,933.9        |
| o/w Fiji Infrastructure Bonds   | 290.4        | 4.3         | 1,118.9        |
| o/w Viti Bonds                  | 4.8          | -           | 27.0           |
| Fiji Development Bank           | 13.0         | -           | 147.2          |
| Fiji Electricity Authority      | -            | -           | 37.3           |
| Housing Authority               | -            | 4.0         | 49.6           |
| Fiji Sugar Corporation          | -            | -           | 25.0           |
| <b>Total</b>                    | <b>308.2</b> | <b>55.8</b> | <b>3,338.9</b> |

Source: Reserve Bank of Fiji

Total registry payments at the end of July 2016 amounted to \$381.2 million. The bulk of the payments were for redemptions of Treasury Bills followed by interest on Government and statutory corporation bonds.

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



Source: Reserve Bank of Fiji

Over the first seven months of 2016, yields on Government bonds rose considerably across the maturity spectrum. The rise in yields was attributed to the increased flotation of Government bonds to fund expenditure related to the TC Winston recovery work.

**Treasury Bills (\$ Million)**

|             | 2014  | 2015  | Jan-Jul 2016 |
|-------------|-------|-------|--------------|
| Flotations  | 360.0 | 350.0 | 265.0        |
| Allotments  | 309.5 | 336.0 | 213.2        |
| Redemptions | 281.5 | 321.0 | 193.6        |
| Outstanding | 130.6 | 145.6 | 165.2        |

Source: Reserve Bank of Fiji

For the first seven months of the year, Fijian Government Treasury Bills recorded total issues of \$213.2 million and total redemptions worth \$193.6 million, leaving an outstanding balance of \$165.2 million. Similar to Government bonds, Treasury Bill yields also noted increases.



# 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, its website and Facebook page.

## Financial Performance

### Income

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

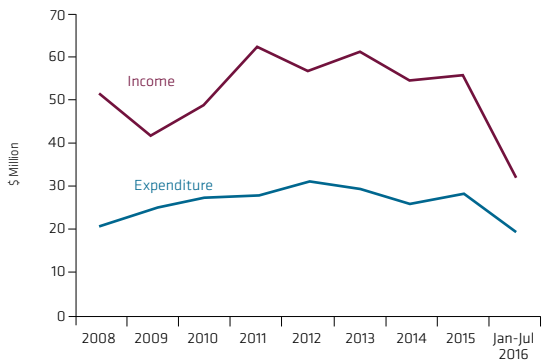
RBF Foreign and Domestic Income (\$ Million)

|                          | 2013        | 2014        | 2015        | Jan-Jul 2016 |
|--------------------------|-------------|-------------|-------------|--------------|
| Foreign Interest Income  | 40.8        | 36.8        | 36.4        | 20.4         |
| Domestic Interest Income | 13.2        | 11.5        | 10.2        | 5.8          |
| Other Income             | 7.4         | 6.5         | 5.5         | 3.3          |
| <b>Total</b>             | <b>61.4</b> | <b>54.8</b> | <b>52.1</b> | <b>29.5</b>  |

Source: Reserve Bank of Fiji

For the financial period ended 31 July 2016, total income was \$29.5 million led by the high foreign interest income emanating from the high level of foreign reserves held by the Bank.

### Total Income and Total Expenses



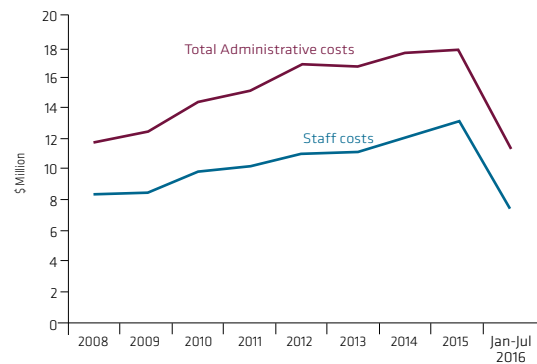
Source: Reserve Bank of Fiji

### Expenditure

Total expenditure incurred in the seven month period was \$15.6 million. Administrative expenditure was \$10.7 million with staff costs representing the single largest operating expenditure for the Reserve Bank accounting for over 48 percent of total operating costs.

Other expenses for the seven month period totalled \$4.0 million.

### Operating Expenses by Type

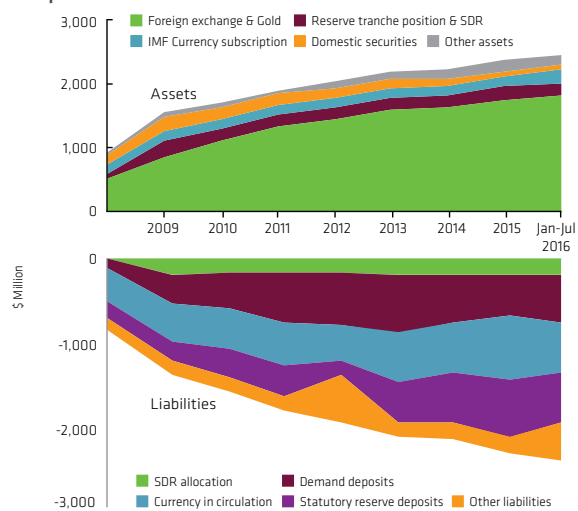


Source: Reserve Bank of Fiji

### Assets and Liabilities

The Bank's total assets were \$2.5 billion as at 31 July 2016, representing a 4.2 percent rise due to the increase in foreign reserves holdings. On average, the Bank's total assets have grown by 14.3 percent over the past eight years. On the liabilities front, the increase is mainly reflected in the buildup of 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 the seven month period ending 31 July 2016 was \$13.9 million. There was no transfer to the General Reserve Account. Therefore, as required under the RBF Act (1983), the total operating profit will be transferred to Government in early October.

The Act also requires the Reserve Bank to transfer one-fifth of the RRA balance to Government, which amounted to \$3.0 million as at 31 July 2016. The amount transferred from the RRA was \$4.3 million for 2015.

Given the changeover to the new fiscal year, the Bank will pay \$16.9 million to Government from its first seven months of operations for 2016 compared to the \$32.2 million paid in 2015.

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

|                                 | 2013        | 2014        | 2015        | Jan-Jul 2016 |
|---------------------------------|-------------|-------------|-------------|--------------|
| Operating Profit                | 31.9        | 28.5        | 27.9        | 13.9         |
| Less                            |             |             |             |              |
| Transfer to General Reserves    | 0.0         | 0.0         | 0.0         | 0.0          |
| Balance Paid to Government      | 31.9        | 28.5        | 27          | 13.9         |
| One-fifth of RRA                | 8.0         | 6.7         | 4.3         | 3.0          |
| <b>Total Paid to Government</b> | <b>39.9</b> | <b>35.2</b> | <b>32.2</b> | <b>16.9</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 January-July, 2016, the Reserve Bank issued 17 press releases.

The 2015 Bank, Insurance and FIU Annual Reports were published in 2016. In addition, the Bank participated in the 2016 SPSE Annual Report Competition and was awarded the 1st Runner-Up prize in the "Statutory Authorities, Government Bodies & Unlisted Trusts" category. A Student Diary for 2016 was also 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 were also made 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 and Facebook page were continuously updated to include the latest information disseminated by the Bank. To enhance dissemination of information, the Bank published articles about its role and functions, currency and other topical issues in the newspapers.

## Information Technology

The Bank continued to align its processes for delivery of

IT services with industry best practises and international standards. The Bank also focused on the achievement of IT strategic goals, which include strengthening IT Governance, Risk Management and Policy Framework.

Furthermore, the Bank continued to safeguard the corporate environment by maintaining a robust, reliable and adaptable enterprise infrastructure, strengthening information security, leveraging technology and business processes automation to increase organisational efficiency.

In doing so, the Bank completed upgrading the server and storage infrastructure to provide a more resilient platform for its core IT services.

The Bank continued to enhance stakeholder awareness and promote cost effective and green initiatives.

The ITSC continued to provide guidance towards the strategic goals of IT and issues relating to information security and IT projects.

The Bank performed simulation tests between its primary site and the BRS in its efforts to manage business continuity through effective disaster preparedness and recovery.

Some of the major automation projects and completion of development works in 2016 were the Financial Sector Information System, Fiji Intelligence Unit Case Management System and the Financial Inclusion GIS Map. Development and enhancement work also continued on other systems, such as, the RBF Intranet website, Currency and Vault Management System and the External Markets System.

The Bank has commenced development work for Project eService, to facilitate online lodgements of Exchange Control applications.

## Records Management

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 official records.

The Bank uses Total Records Information Management, an integrated Electronic Document Records Management System (EDRMS), for storing and retrieving indexed and digitised records. The Bank's EDRMS project continued in the first seven months of 2016 and will be ongoing during the rest of 2016 and 2017.

## Domestic Relations

During 2016, the Reserve Bank continued to engage with different stakeholders across Fiji while conducting several economic presentations. These presentations focused on the latest economic developments and outlook, and rationale for monetary policy decisions.

Industry consultation with commercial banks, credit institutions, insurers, brokers and foreign exchange dealers continued in 2016. 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 bilateral meetings with commercial banks, insurance companies and the FNPF. The Board and Executive Management visited site operations, discussed economic issues with industry stakeholders in Navua, 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 attended the Annual ADB Meeting in Frankfurt, Germany, as part of the Fiji delegation led by the Minister for Economy Honourable Aiyaz Sayed-Khaiyum. He also hosted visits by several foreign dignitaries.

The Deputy Governor was also part of the Fiji delegation led by the Minister for Industry & Trade and Tourism, Honourable Faiyaz Siddiq Koya to the Trade and Investment Seminar in Guangdong, China. In addition, the Reserve Bank officials participated in a range of international conferences and workshops.

The Bank continued its liaison with the IMF, World Bank, ADB and central banks in the Pacific and South East Asia region. Additionally, the Bank received TA from international institutions including the IMF and the APRA in the areas of financial statistics, foreign exchange and banking supervision.

The Bank continued its association with the IMF Resident Representative Office and PFTAC and sought assistance in the areas of financial supervision and statistics.



## 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 our human resources management is to attract, develop, retain and motivate staff to deliver our Vision of Leading Fiji to Economic Success under the Missions and Values.

### Staffing

As at 31 July 2016, the Reserve Bank staff complement was 214. During this period, the Bank recruited 13 staff while five staff resigned to take up alternative employment, three migrated, two staff departed for further studies, two staff opted for early retirement and one staff member passed away.

#### RBF Staff Statistics (31 December)

|                           | 2012 | 2013 | 2014 | 2015 | Jul 2016 |
|---------------------------|------|------|------|------|----------|
| Total Staff               | 207  | 213  | 213  | 214  | 214      |
| Average Years of Service  | 8.3  | 9.4  | 9.8  | 9.9  | 9.8      |
| Annual Staff Turnover (%) | 5.3  | 4.3  | 6.6  | 6.5  | 7.5      |

Source: Reserve Bank of Fiji

### Management Remuneration as at 31 July 2016

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

#### Management Remuneration as at 31 July 2016

|   | Base Salary         | Staff Numbers |
|---|---------------------|---------------|
| i.  | \$287,500           | 1             |
| ii.   | \$145,000           | 1             |
| iii.  | \$100,000           | 7             |
| iv.   | \$43,895 - \$75,604 | 28            |
| (i)-(iii) Executive Management.<br>(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 programs and on-the-job training for staff. Management is required to prepare a TNA for each member of staff, which is updated annually. The Bank continued to sponsor staff for further academic qualifications through full-time, part-time,

correspondences, short courses and seminars at local and overseas institutions.

For the first seven month period of 2016, two staff were on study leave with pay pursuing postgraduate studies abroad. In addition, 13 staff pursued part-time studies at the USP, the Institute of Internal Auditors, and the Fiji National University (FNU) towards Masters, Postgraduate, Degree, and Diploma programs.

For the review period, 204 staff undertook various short courses at the local institutions such as those organised by the USP, FNU, FIA and the Fiji Human Resources Institute (FHRI).

Moreover, 20 staff attended various courses abroad that were organised by the IMF, South East Asian Central Banks (SEACEN), ADB, AFI, Swiss National Bank, Griffith University, APRA, Bank of England and the Avantus Training amongst others.

The Bank also sponsored staff professional memberships with the FIA, Fiji Institute of Bankers, Fiji Institute of Internal Auditors and FHRI.

### Employment Relations

The Bank continues to maintain a cordial relationship with the Fiji Bank and Finance Sector Employees Union (FBFSEU).

Under the Bank's Rewards and Recognition System and as a result of the change in the fiscal year, prorated performance bonuses were paid out to eligible staff in July 2016 and salary increments were adjusted to be implemented from August 2016.

### Labour-Management Consultation and 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 collaboration 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 seven management and seven staff representatives. There

were two meetings held during the first seven months period.

### **National Employment Centre (NEC)**

The Bank has an agreement with the 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 the NEC.

### **Quality Performance Management**

During the first seven months of 2016, the Reserve Bank maintained its quality performance management program with the aim of achieving higher quality performance. The Chief Managers drove the quality program 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 the targets set out by their Chief Managers. The self-driven teams continue to meet regularly and focus their meetings on work process improvements and building effective work relationships.

During January to July 2016, the teams held 83 meetings, reviewed 104 processes and approved 102 processes for implementation.

The Bank is continuing to implement the recommendations provided by the Fiji Business Excellence Awards evaluators. The Quality Teams continued to use the report as a tool to improve all aspects of the Bank's work.

### **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 staff gymnasium to promote fit for life activities.

In promoting a safe and healthy lifestyle, the Bank introduced the staff Health & Wellbeing program that was launched by the Honourable Minister for Health & Medical Services, Mr Jone Usamate in February 2016. The program features special topical issues for each month and specially planned activities that coincide with the issues identified for each month.

During the seven months in 2016, the Bank's Occupational Health & Safety (OHS) Committee met twice. An important agenda in these two meetings was the review of the Bank's Health and Safety framework, which culminated in the launching of the Bank Occupational Health & Safety Policy.

The Bank provided two OHS related training which was attended by selected staff from all the Groups. The Bank also participated in various business house-sporting events in the first seven months.

### **Property Management and Security**

The Bank ensured that the main RBF Building, the Domodomo House and the BRS were well maintained. Repairs and maintenance programs were completed to ensure efficient operation of all systems. This was possible through contractual agreements with reputable vendors for a period of two years.

The Bank also refurbished tower one of the building to cater for office space requirements. In addition, given that the approvals were provided for the refurbishment of tea preparation areas for all tower levels, work commenced on these in the first seven months and is expected to continue until the end of July 2017. Some of the additional refurbishment work included upgrading of the Dedicated Micro closed-circuit television systems for the RBF building and the BRS.

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

### **Service Recognition**

The Governor's Service Recognition and Long Service Loyalty Award, recognises dedicated long and meritorious service to the Bank. In January to July 2016, three staff achieved 15 years of service, two staff achieved 20 years of service, and two staff achieved 25 years of service.



Mrs Arieta Vakasoqo



Mr Jone Tikoiserene

### **25 Years**

#### **Acknowledgement**

The Board sincerely acknowledges the efforts and contribution of all staff in first seven months of 2016.

The RBF Board extends its gratitude to the Government, the IMF, the World Bank, the ADB, SEACEN, PFTAC and regional central banks for their continued support and assistance.

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



# The Year Ahead

*The Reserve Bank will continue to focus on fulfilling its core responsibilities in the 2016/2017 fiscal year. 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 FIU, IT and HR Strategic Plans for the same period are aligned.

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.

## Legislations

The review of the Reserve Bank Act (1983) and the RBF Amendment Decree (2009) will continue in 2016. Further evaluation will continue to ensure the proposed legislation is in line with international best practices.

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

Consultation on the draft Pension Savings Bill will commence in 2017.

Work on the framework for the legislation on the Secured Transactions Bill, National Switch (Fiji Interchange Network (Payments) Bill and Credit Union Act will be ongoing in 2016.

## 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, practices will be further strengthened in 2016 with planned reviews and development of supervisor policies for the supervised industries and increased micro and macroprudential supervision. In addition, liaison will continue with the Registrar of Companies in 2016.

## 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 long-term policy framework of FSDP, which is a part of Fiji's National Development Plan (NDP), will be submitted to Cabinet for approval and this is expected to be officially launched in the year.

The Reserve Bank will host the financial inclusion annual AFI GPF in the second week of September in Denarau, Nadi. The GPF provides an opportunity to showcase Fiji's achievements and financial inclusion initiatives including the newly launched National Financial Inclusion Strategy for 2016-2020.

This national policy sets out the agreed targets and roadmap for collaboration and monitoring of financial inclusion amongst key stakeholders.

## SME Development

The Reserve Bank will work with Government to undertake SME reform work including the establishment of a National SME Development Council and a Central Coordinating Agency as announced in the 2016/2017 National Budget.

A consultant will be engaged to undertake a diagnostic review of the SME sector. The consultant's work will be guided by a SME Taskforce and the Council.

## Corporate Services Enhancements

Work processes will continue to be strengthened to reduce the Reserve Bank's carbon footprint. Additionally, work on record keeping for good governance will be ongoing.

Appropriate processes and systems will be employed to convert all forms of documentation to digital form.

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

## Financial Statements

For the seven months period ended 31 July 2016

### Contents

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## Reserve Bank of Fiji

# Directors' report

The Directors present their report together with the financial statements of the Reserve Bank of Fiji ("the Bank") for the seven months period ended 31 July 2016 and the auditor's report thereon.

### Directors

The Directors in office during the seven months period and at the date of this report were:

Barry Whiteside (Chairman and Governor)

Makereta Konrote (Ex-officio member from 15 January 2016)

Pradeep Patel

Tevita Kuruvakadua

Abdul Khan

Tony Whitton

### State of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the seven months period 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 July 2016 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 seven months period 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.

### Operating results

The net profit of the Bank for the seven months period ended 31 July 2016 was \$13.9m (twelve months period ended 31 December 2015: \$27.9m).

### Reserves

There was no transfer to the General reserves from net profit at the end of the seven months period 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 July 2016, the value of the External reserves was 92% (2015: 92%) of total Demand liabilities.



## Reserve Bank of Fiji

# Directors' report

### Payable to the Fijian Government

In accordance with the Reserve Bank of Fiji Act, 1983, the following amounts totalling \$16.9m for the seven months period ended 31 July 2016 (twelve months period ended 31 December 2015: \$32.2m) are payable to the Fijian Government:

Section 8(3): Net profit after transfer to General reserves - \$13.9m for the seven months period ended 31 July 2016 (twelve months period ended 31 December 2015: \$27.9m)

Section 34: One-fifth balance of Revaluation reserve account - foreign currency - \$3.0m (2015: \$4.3m)

### 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.

### IMF Quota

In January 2014, Fiji consented to an increase of its quota with the IMF to SDR98.4m from the SDR70.3m in accordance with the resolutions of the 14th General Review of Quotas and Reforms of the IMF Executive Board. The payment for the quota increase made during the financial period comprised of:

- Reserve asset portion of SDR 7,025,000 payment from the Reserve Bank's SDR Holdings; and
- The local currency portion of SDR 21,075,000 was settled by the issue of a non-interest bearing promissory note.

### Provisions

There were no material movements in provisions during the seven months period 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 period, 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 events

#### *Change in the financial period*

On 28 March 2016, the Fijian Parliament passed the Financial Management (Amendment) Bill 2016, amending the Fijian Government's fiscal year from '1 January to 31 December' in the Financial Management Act 2004 to '1 August to 31 July'. The Reserve Bank of Fiji subsequently adopted the '31 July' period end to ensure that its financial year coincides with the Fijian Government fiscal year as mandated under Section 54 of the Reserve Bank Act of Fiji, 1983. The financial statements have been prepared in line with the Reserve Bank of Fiji's new financial period covering the seven months from 1 January to 31 July 2016. The 2016 results are not comparable to the 2015 comparatives due to the difference in the number of months comprising the financial periods.

#### *Fair Reporting of Credit Act 2016*

The Fair Reporting of Credit Act 2016 came into effect on 27 May 2016. Part 2 of the Act places specific responsibilities with the Bank: -

- (a) to register, license and regulate credit reporting agencies, credit information providers and credit report recipients; and
- (b) to maintain proper standards of conduct and acceptable credit report practices.

**Reserve Bank of Fiji**  
**Directors' report**

**Events subsequent to balance date**

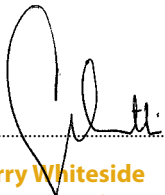
There has not arisen in the interval between the end of the seven months period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Bank, to affect significantly the operations of the Bank, the results of those operations,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

**Other circumstances**

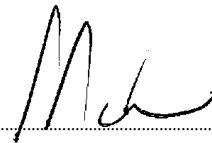
At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Suva this 29th of September 2016.

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



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



**Pradeep Patel**  
**Director**

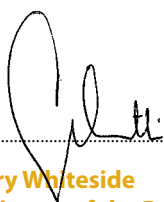
## Statement by Directors

In the opinion of the Directors:

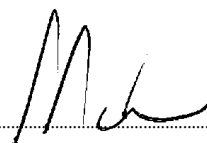
- (a) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the seven months period ended 31 July 2016;
- (b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the seven months period 31 July 2016;
- (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 July 2016;
- (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 seven months period ended 31 July 2016;
- (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 currency translation 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 \$11.6m, a decrease of \$2.3m being the currency translation loss for the seven months period ended 31 July 2016.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 29th of September 2016.



**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 July 2016 and the statements of comprehensive income, changes in equity and cash flows for the seven months period 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.

#### *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 July 2016 and the statements of comprehensive income, changes in equity and cash flows for the seven months period 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 refers 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**29 September 2016**  
**SUVA**

*PricewaterhouseCoopers*  
**PricewaterhouseCoopers**  
**Chartered Accountants**

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

*PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.*

## Statement of comprehensive income

For the seven months period ended 31 July 2016

|  | <b>Note</b> | <b>Seven months<br/>period ended<br/>31 July<br/>2016<br/>\$000</b> | <b>Twelve months<br/>period ended<br/>31 December<br/>2015<br/>\$000</b> |
|--|-------------|---|--|
| <b>Income</b>                                    |             |   |  |
| Interest income                                  | 4(a)        | 26,223  | 46,585   |
| Other revenue                                    | 4(b)        | 3,261   | 5,537  |
| <b>Total income</b>                              |             | <b>29,484</b>   | <b>52,122</b>  |
| <b>Expenses</b>                                  |             |   |  |
| Interest expense                                 | 4(c)        | 97  | 108  |
| Administration expenses                          | 4(d)        | 10,711  | 17,935   |
| Amortisation of securities                       | 6           | 790   | 1,387  |
| Other expenses                                   | 4(e)        | 3,973   | 4,790  |
| <b>Total expenses</b>                            |             | <b>15,571</b>   | <b>24,220</b>  |
| <b>Net profit for the period</b>                 | 13          | <b>13,913</b>   | <b>27,902</b>  |
| <b>Other comprehensive income/(losses)</b>       |             |   |  |
| Amortisation of available-for-sale reserve       |             | (776)   | (1,334)  |
| Change in value of available-for-sale assets     |             | 8,929   | (4,347)  |
| Asset revaluation reserve movement               | 18          | 338   | 10,664   |
| Currency translation differences                 |             | (2,293)   | (5,076)  |
| Total other comprehensive income/(losses)        |             | 6,198   | (93)   |
| <b>Total comprehensive income for the period</b> |             | <b>20,111</b>   | <b>27,809</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 57 to 82.

## Statement of changes in equity

For the seven months period ended 31 July 2016

|  | Paid-up capital | General reserves | Revaluation reserve account-foreign currency | Available-for-sale reserve | Asset revaluation reserve | Retained earnings | Total          |
|--|-----------------|------------------|--|----------------------------|---------------------------|-------------------|----------------|
|  | \$000           | \$000            | \$000  | \$000                      | \$000                     | \$000             | \$000          |
| Balance at 1 January 2015                                    | 2,000           | 39,050           | 26,793                                       | 13,955                     | 8,857                     | -                 | 90,655         |
| <b>Total comprehensive income for the period</b>             |                 |                  |  |                            |                           |                   |                |
| Net profit   | -               | -                | -  | -                          | -                         | 27,902            | 27,902         |
| <i>Other comprehensive (losses)/income</i>                   |                 |                  |  |                            |                           |                   |                |
| Amortisation to profit or loss                               | -               | -                | -  | (1,334)                    | -                         | -                 | (1,334)        |
| Fair value losses  | -               | -                | -  | (4,347)                    | -                         | -                 | (4,347)        |
| Revaluation (Note 18)  | -               | -                | -  | -                          | 10,664                    | -                 | 10,664         |
| Net losses arising from currency translation differences     | -               | -                | (5,076)                                      | -                          | -                         | -                 | (5,076)        |
| Total other comprehensive (losses)/income                    | -               | -                | (5,076)                                      | (5,681)                    | 10,664                    | -                 | (93)           |
| <b>Total comprehensive (losses)/income for the period</b>    | -               | -                | <b>(5,076)</b>                               | <b>(5,681)</b>             | <b>10,664</b>             | <b>27,902</b>     | <b>27,809</b>  |
|  | <b>2,000</b>    | <b>39,050</b>    | <b>21,717</b>                                | <b>8,274</b>               | <b>19,521</b>             | <b>27,902</b>     | <b>118,464</b> |
| <i>Transactions with owners, recorded directly in equity</i> |                 |                  |  |                            |                           |                   |                |
| Payable to the Fijian Government (Note 13)                   | -               | -                | (4,343)                                      | -                          | -                         | (27,902)          | (32,245)       |
| <b>Balance at 31 December 2015</b>                           | <b>2,000</b>    | <b>39,050</b>    | <b>17,374</b>                                | <b>8,274</b>               | <b>19,521</b>             | <b>-</b>          | <b>86,219</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 57 to 82.



## Statement of changes in equity - continued

For the seven months period ended 31 July 2016

|  | Paid-up capital | General reserves | Revaluation reserve account-foreign currency | Available-for-sale reserve | Asset revaluation reserve | Retained earnings | Total          |
|--|-----------------|------------------|--|----------------------------|---------------------------|-------------------|----------------|
|  | \$000           | \$000            | \$000  | \$000                      | \$000                     | \$000             | \$000          |
| Balance at 1 January 2016                                    | 2,000           | 39,050           | 17,374                                       | 8,274                      | 19,521                    | -                 | 86,219         |
| <b>Total comprehensive income for the period</b>             |                 |                  |  |                            |                           |                   |                |
| Net profit   | -               | -                | -  | -                          | -                         | 13,913            | 13,913         |
| <i>Other comprehensive (losses)/income</i>                   |                 |                  |  |                            |                           |                   |                |
| Amortisation to profit or loss                               | -               | -                | -  | (776)                      | -                         | -                 | (776)          |
| Fair value gains   | -               | -                | -  | 8,929                      | -                         | -                 | 8,929          |
| Revaluation (Note 18)  | -               | -                | -  | -                          | 338                       | -                 | 338            |
| Net losses arising from currency translation differences     | -               | -                | (2,293)                                      | -                          | -                         | -                 | (2,293)        |
| Total other comprehensive (losses)/income                    | -               | -                | (2,293)                                      | 8,153                      | 338                       | -                 | 6,198          |
| <b>Total comprehensive (losses)/income for the period</b>    | -               | -                | <b>(2,293)</b>                               | <b>8,153</b>               | <b>338</b>                | <b>13,913</b>     | <b>20,111</b>  |
|  | <b>2,000</b>    | <b>39,050</b>    | <b>15,081</b>                                | <b>16,427</b>              | <b>19,859</b>             | <b>13,913</b>     | <b>106,330</b> |
| <i>Transactions with owners, recorded directly in equity</i> |                 |                  |  |                            |                           |                   |                |
| Payable to the Fijian Government (Note 13)                   | -               | -                | (3,016)                                      | -                          | -                         | (13,913)          | (16,929)       |
| <b>Balance at 31 July 2016</b>                               | <b>2,000</b>    | <b>39,050</b>    | <b>12,065</b>                                | <b>16,427</b>              | <b>19,859</b>             | <b>-</b>          | <b>89,401</b>  |

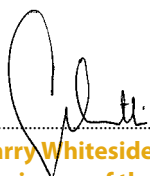
The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 57 to 82.

## Statement of financial position

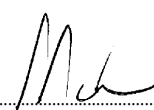
As at 31 July 2016

|  | Note | 31 July<br>2016<br>\$000 | 31 December<br>2015<br>\$000 |
|--|------|--------------------------|------------------------------|
| <b>Foreign currency assets</b>                   |      |                          |                              |
| Short-term commercial paper and current accounts | 5    | 500,548                  | 800,002                      |
| Marketable securities                            | 5    | 1,283,312                | 942,080                      |
| Gold   | 5    | 2,324                    | 1,879                        |
| Accrued interest                                 |      | 12,212                   | 10,729                       |
| International Monetary Fund                      |      |                          |                              |
| - Reserve tranche position                       | 5/19 | 68,646                   | 49,159                       |
| - Special drawing rights                         | 5/19 | 127,573                  | 150,560                      |
| - PRGF - HIPC Trust                              | 19   | 562                      | 572                          |
| - Currency subscription                          | 19   | 216,344                  | 158,067                      |
| <b>Total foreign currency assets</b>             |      | <b>2,211,521</b>         | <b>2,113,048</b>             |
| <b>Local currency assets</b>                     |      |                          |                              |
| Cash on hand                                     | 16   | 2,609                    | 2,240                        |
| Domestic securities                              | 6    | 91,096                   | 91,855                       |
| Financing facilities                             | 7    | 93,947                   | 90,807                       |
| Currency inventory                               | 8    | 17,929                   | 16,610                       |
| Other assets                                     | 9    | 17,210                   | 19,942                       |
| Intangible assets                                | 10   | 361                      | 239                          |
| Property, plant and equipment                    | 11   | 35,744                   | 36,514                       |
| <b>Total local currency assets</b>               |      | <b>258,896</b>           | <b>258,207</b>               |
| <b>Total assets</b>                              |      | <b>2,470,417</b>         | <b>2,371,255</b>             |
| <b>Foreign currency liabilities</b>              |      |                          |                              |
| Demand deposits                                  | 12   | 44                       | 170                          |
| IMF - PRGF - HIPC Trust                          | 19   | 562                      | 572                          |
| IMF - Special drawing rights allocation          | 19   | 194,322                  | 197,777                      |
| <b>Total foreign currency liabilities</b>        |      | <b>194,928</b>           | <b>198,519</b>               |
| <b>Local currency liabilities</b>                |      |                          |                              |
| Demand deposits                                  | 12   | 514,512                  | 493,041                      |
| Payable to the Fijian Government                 | 13   | 16,929                   | 32,245                       |
| Currency in circulation                          | 14   | 750,994                  | 732,649                      |
| Statutory reserve deposits                       |      | 679,570                  | 662,991                      |
| IMF - Notes currency subscription                |      | 215,631                  | 157,749                      |
| Other liabilities                                | 15   | 8,452                    | 7,842                        |
| <b>Total local currency liabilities</b>          |      | <b>2,186,088</b>         | <b>2,086,517</b>             |
| <b>Total liabilities</b>                         |      | <b>2,381,016</b>         | <b>2,285,036</b>             |
| <b>Net assets</b>                                |      | <b>89,401</b>            | <b>86,219</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   | 12,065                   | 17,374                       |
| Available-for-sale reserve                       | 18   | 16,427                   | 8,274                        |
| Asset revaluation reserve                        | 18   | 19,859                   | 19,521                       |
|  |      | <b>89,401</b>            | <b>86,219</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 57 to 82.

## Statement of cash flows

For the seven months period ended 31 July 2016

| Note  | Seven months<br>period ended<br>31 July<br>2016<br>\$000 | Twelve months<br>period ended<br>31 December<br>2015<br>\$000 |
|---|--|---|
| <b>Operating activities</b>                                     |  |   |
| Rental lease income   | 232  | 328   |
| Numismatic sales  | 470  | 357   |
| Interest received   | 32,386   | 56,700  |
| Other income  | 1,730  | 3,413   |
| Interest paid   | (2,688)  | (4,168)   |
| New currency payments   | -  | (9,020)   |
| Administration and other expenses                               | (10,279)   | (19,029)  |
| Net movement of short-term commercial paper                     | 235,154  | (71,539)  |
| Net movement in fixed term deposits                             | 65,331   | 59,628  |
| Net movement in International Monetary Fund accounts            | (420)  | (363)   |
| Net movement of domestic securities                             | (31)   | 3,423   |
| Net movement in financing facilities                            | (3,140)  | 6,044   |
| Net movement in other assets                                    | (747)  | (21)  |
| <b>Cash flows from operating activities</b>                     | <b>317,998</b>   | <b>25,753</b>   |
| <b>Investing activities</b>                                     |  |   |
| Payment for property, plant and equipment and intangibles       | (851)  | (2,140)   |
| Net movement of bonds   | (402,936)  | (172,427)   |
| <b>Cash flows used in investing activities</b>                  | <b>(403,787)</b>   | <b>(174,567)</b>  |
| <b>Financing activities</b>                                     |  |   |
| Net movement in demand deposits                                 | 21,471   | (26,422)  |
| Payment to the Fijian Government                                | (32,245)   | (35,199)  |
| Net movement in currency in circulation                         | 18,345   | 91,334  |
| Net movement in statutory reserve deposits                      | 16,579   | 79,865  |
| <b>Cash flows from financing activities</b>                     | <b>24,150</b>  | <b>109,578</b>  |
| <b>Net effect of currency translation</b>                       | <b>(2,293)</b>   | <b>(5,076)</b>  |
| <b>Net decrease in cash</b>                                     | <b>(63,932)</b>  | <b>(44,312)</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b> | <b>301,756</b>   | <b>346,068</b>  |
| <b>Cash and cash equivalents at the end of the period</b>       | <b>237,824</b>   | <b>301,756</b>  |
| 16  |  |   |

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 57 to 82.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 1. Principal activities and principal place of operations

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.

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

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

On 28 March 2016, the Fijian Parliament passed the Financial Management (Amendment) Bill 2016, amending the Fijian Government's fiscal year from '1 January to 31 December' in the Financial Management Act 2004 to '1 August to 31 July'. The Reserve Bank of Fiji subsequently adopted the '31 July' period end to ensure that its financial year coincides with the Fijian Government fiscal year as mandated under Section 54 of the Reserve Bank Act of Fiji, 1983. The financial statements have been prepared in line with the Reserve Bank of Fiji's new financial period covering the seven months from 1 January to 31 July 2016. The 2016 results are not comparable to the 2015 comparatives due to the difference in the number of months comprising the financial periods.

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 currency translation 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 financial period 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 \$11.6m for the seven months period ended 31 July 2016 (twelve months period ended 31 December 2015: \$22.8m), a decrease of \$2.3m (2015: a decrease of \$5.1m), being the net loss arising from currency translation differences.

#### (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.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

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

#### (b) Basis of preparation - continued

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 periods.

#### *New standards and interpretations*

There are certain new standards, interpretations and amendments, which are not yet mandatorily effective and have not been adopted early in these financial statements, which will or may have an effect on the Bank's future financial statements. The Bank intends to adopt these standards, interpretations and amendments, if applicable, when they become mandatorily effective. Those which may be relevant to the Bank are stated below.

#### *IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments – addresses the classification, measurement and recognition of financial assets and financial liabilities.

The complete version of IFRS 9 was issued in September 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank intends to adopt IFRS 9 on its effective date and has yet to assess its full impact.

#### (c) Foreign currency transaction

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

#### (d) Functional currency

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

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

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

#### (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 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 period end are included in the computation of annual profits or losses of the Bank.

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) and the premium or discount is captured in the profit or loss over the term to maturity. 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 period, \$0.78m (2015: \$1.33m) 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 expired.

#### (f) Gold

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



## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

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

#### (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 Economy 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.

#### (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 period end. Movement in the provision is charged to profit or loss.

All known bad debts are written off against the provision in the period 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. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Costs include expenditures that are directly attributable to the acquisition of the asset.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

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

#### (m) Property, plant and equipment - continued

##### *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.

#### (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 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.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

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

#### (s) Revenue recognition

##### *Interest income*

Interest income is brought to account on an accruals basis using effective interest method.

##### *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.

#### (u) Comparative figures

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

#### (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 period 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.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

|           |  | Seven months<br>period ended<br>31 July<br>2016<br>\$000 | Twelve months<br>period ended<br>31 December<br>2015<br>\$000 |
|-----------|--|--|---|
| <b>4.</b> | <b>Revenue and expenses</b>                |  |   |
| (a)       | <b>Interest income</b>                     |  |   |
|           | Overseas investments                       | 20,396   | 36,301  |
|           | International Monetary Fund                | 55   | 93  |
|           | Domestic securities                        | 5,199  | 9,107   |
|           | Loans and advances                         | 573  | 1,084   |
|           |  | 26,223   | 46,585  |
| (b)       | <b>Other revenue</b>                       |  |   |
|           | Rent received                              | 232  | 328   |
|           | Numismatic sales                           | 513  | 516   |
|           | License and application fees               | 182  | 155   |
|           | Foreign currency trading gains             | 1,365  | 2,432   |
|           | Amortisation of available-for-sale reserve | 776  | 1,334   |
|           | Other miscellaneous income                 | 193  | 772   |
|           |  | 3,261  | 5,537   |
| (c)       | <b>Interest expense</b>                    |  |   |
|           | International Monetary Fund                | 66   | 103   |
|           | Other                                      | 31   | 5   |
|           |  | 97   | 108   |
| (d)       | <b>Administration expenses</b>             |  |   |
|           | Staff costs                                | 7,458  | 13,133  |
|           | Other costs                                | 3,253  | 4,802   |
|           |  | 10,711   | 17,935  |
|           | Total number of employees at period end    | 214  | 214   |
| (e)       | <b>Other expenses</b>                      |  |   |
|           | Depreciation                               | 1,454  | 1,419   |
|           | Amortisation of intangible assets          | 55   | 180   |
|           | Auditor's remuneration                     |  |   |
|           | - Audit fees                               | 36   | 41  |
|           | - Other                                    | 5  | -   |
|           | Board remuneration                         | 28   | 35  |
|           | Currency issue                             | 2,352  | 2,956   |
|           | Numismatic                                 | 43   | 159   |
|           |  | 3,973  | 4,790   |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

**5. External reserves**

|                             | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|-----------------------------|-----------------------------------|---------------------------------------|
| Short-term commercial paper | 376,182                           | 677,134                               |
| Current accounts            | 124,366                           | 122,868                               |
|                             | 500,548                           | 800,002                               |
| Marketable securities       |                                   |                                       |
| - Fixed term deposits       | 325,127                           | 390,458                               |
| - Bonds                     | 958,185                           | 551,622                               |
|                             | 1,283,312                         | 942,080                               |
| Gold                        | 2,324                             | 1,879                                 |
| International Monetary Fund |                                   |                                       |
| - Reserve tranche position  | 68,646                            | 49,159                                |
| - Special drawing rights    | 127,573                           | 150,560                               |
|                             | 196,219                           | 199,719                               |
| Total External reserves     | 1,982,403                         | 1,943,680                             |

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 July 2016, the value of the External reserves was 92% (2015: 92%) of total Demand liabilities.

**6. Domestic securities**

Domestic securities principally comprises investment in the Fijian Government bonds.

During the period, \$0.79m (2015: \$1.39m) was amortised in respect of securities held in the Domestic Bond Portfolio. Of this, \$0.78m (2015: \$1.33m) relates to securities which in 2011 were reclassified from Available-for-sale to Held-to-maturity.

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
| <i>Movement of Held-to-maturity financial assets</i> |                                   |                                       |
| Opening balance                                      | 91,855                            | 96,612                                |
| Acquisitions   | 831                               | 652                                   |
| Redemptions  | (800)                             | (4,022)                               |
| Amortisation   | (790)                             | (1,387)                               |
| Closing balance                                      | 91,096                            | 91,855                                |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

**7. Financing facilities**

Import Substitution and Export Finance Facility  
 Natural Disaster Rehabilitation Facility  
 Housing Facility

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
|  | 55,284                            | 51,503                                |
|  | 13,663                            | 14,304                                |
|  | 25,000                            | 25,000                                |
|  | <b>93,947</b>                     | <b>90,807</b>                         |

These financing facilities have varying maturities up to 5 years.

**8. Currency inventory***Movement of currency inventory*

Opening balance  
 Consignments received  
 Currency issued  
 Closing balance

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
|  | 16,610                            | 13,635                                |
|  | 3,671                             | 5,931                                 |
|  | (2,352)                           | (2,956)                               |
|  | <b>17,929</b>                     | <b>16,610</b>                         |

**9. Other assets**

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

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
|  | 2,492                             | 2,361                                 |
|  | 11,897                            | 15,568                                |
|  | 1,543                             | 824                                   |
|  | 1,278                             | 1,217                                 |
|  | -                                 | (28)                                  |
|  | <b>17,210</b>                     | <b>19,942</b>                         |

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

**10. Intangible assets**

*Cost*  
 Opening balance  
 Acquisitions  
 Disposals  
 Transfer from properties, plant & equipment  
 Transfers from work in progress  
 Closing balance

*Accumulated amortisation*

Opening balance  
 Amortisation charge for the period  
 Disposal  
 Closing balance

*Carrying amount*

Opening balance  
 Closing balance

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
|  | 3,846                             | 4,652                                 |
|  | 14                                | 24                                    |
|  | -                                 | (830)                                 |
|  | 61                                | -                                     |
|  | 102                               | -                                     |
|  | <b>4,023</b>                      | <b>3,846</b>                          |
|  | 3,607                             | 4,257                                 |
|  | 55                                | 180                                   |
|  | -                                 | (830)                                 |
|  | <b>3,662</b>                      | <b>3,607</b>                          |
|  | 239                               | 395                                   |
|  | <b>361</b>                        | <b>239</b>                            |

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 seven months period ended 31 July 2016

## 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 2015                 | 21,436                      | 4,380                 | 446            | 2,403                   | 4,800   | 5,644            | 39,109  |
| Additions                                 | -                           | 58                    | -              | 272                     | -   | 1,786            | 2,116   |
| Transfers                                 | 11,794                      | (1,684)               | -              | 73                      | (3,161)   | (7,022)          | -       |
| Revaluations                              | 1,870                       | -                     | -              | -                       | -   | -                | 1,870   |
| Disposals                                 | -                           | (1,644)               | -              | (796)                   | -   | (40)             | (2,480) |
| Balance at 31 December 2015               | 35,100                      | 1,110                 | 446            | 1,952                   | 1,639   | 368              | 40,615  |
| Balance at 1 January 2016                 | 35,100                      | 1,110                 | 446            | 1,952                   | 1,639   | 368              | 40,615  |
| Additions                                 | -                           | 12                    | 79             | 90                      | 36  | 634              | 851     |
| Transfers from work in progress           | 26                          | 23                    | -              | 587                     | -   | (738)            | (102)   |
| Transfer Intangibles                      | (206)                       | -                     | -              | 145                     | -   | -                | (61)    |
| Disposals                                 | -                           | -                     | (64)           | (87)                    | -   | (2)              | (153)   |
| Balance at 31 July 2016                   | 34,920                      | 1,145                 | 461            | 2,687                   | 1,675   | 262              | 41,150  |
| <b>Accumulated depreciation</b>           |                             |                       |                |                         |   |                  |         |
| Balance at 1 January 2015                 | 4,154                       | 3,546                 | 232            | 1,939                   | 4,207   | -                | 14,078  |
| Depreciation for the period               | 1,021                       | 78                    | 58             | 256                     | 6   | -                | 1,419   |
| Transfers                                 | 3,799                       | (1,213)               | -              | -                       | (2,586)   | -                | -       |
| Reversal of depreciation Upon revaluation | (8,970)                     | -                     | -              | -                       | -   | -                | (8,970) |
| Depreciation on disposals                 | -                           | (1,642)               | -              | (784)                   | -   | -                | (2,426) |
| Balance at 31 December 2015               | 4                           | 769                   | 290            | 1,411                   | 1,627   | -                | 4,101   |
| Balance at 1 January 2016                 | 4                           | 769                   | 290            | 1,411                   | 1,627   | -                | 4,101   |
| Depreciation for the period               | 907                         | 73                    | 32             | 437                     | 5   | -                | 1,454   |
| Transfers                                 | -                           | -                     | -              | -                       | -   | -                | -       |
| Depreciation on disposals                 | -                           | -                     | (64)           | (85)                    | -   | -                | (149)   |
| Balance at 31 July 2016                   | 911                         | 842                   | 258            | 1,763                   | 1,632   | -                | 5,406   |
| <b>Carrying amount</b>                    |                             |                       |                |                         |   |                  |         |
| Balance at 1 January 2015                 | 17,282                      | 834                   | 214            | 464                     | 593   | 5,644            | 25,031  |
| Balance at 31 December 2015               | 35,096                      | 341                   | 156            | 541                     | 12  | 368              | 36,514  |
| Balance at 31 July 2016                   | 34,009                      | 303                   | 203            | 924                     | 43  | 262              | 35,744  |

A valuation of the Bank's freehold land and buildings was undertaken in 2015 by registered valuers Fairview Valuations. Based on the independent valuation, a revaluation increment of \$10.7m was recognised in the financial statement as at 31 December 2015.



## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

**12. Demand deposits**

|                                     | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|-------------------------------------|-----------------------------------|---------------------------------------|
| Foreign                             |                                   |                                       |
| International Monetary Fund         | 44                                | 170                                   |
| Local                               |                                   |                                       |
| Banks' exchange settlement balances | 499,459                           | 488,377                               |
| Fijian Government                   | 12,535                            | 2,312                                 |
| State NBF Trust account             | 1,520                             | 1,620                                 |
| International Monetary Fund         | 712                               | 318                                   |
| Other depositors                    | 286                               | 414                                   |
|                                     | <b>514,512</b>                    | <b>493,041</b>                        |

*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**

|   | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|---|-----------------------------------|---------------------------------------|
| Net profit  | 13,913                            | 27,902                                |
| One-fifth balance of 'Revaluation reserve account - foreign currency' | 3,016                             | 4,343                                 |
|   | <b>16,929</b>                     | <b>32,245</b>                         |

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**

|       | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|-------|-----------------------------------|---------------------------------------|
| Notes | 697,074                           | 681,574                               |
| Coins | 53,920                            | 51,075                                |
|       | <b>750,994</b>                    | <b>732,649</b>                        |

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.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

**15. Other liabilities**

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
| Employee entitlements                      | 1,458                             | 1,354                                 |
| SME Credit Guarantee Scheme                | 3,962                             | 3,962                                 |
| Accruals                                   | 1,131                             | 900                                   |
| Other liabilities                          | 1,901                             | 1,626                                 |
|  | <b>8,452</b>                      | <b>7,842</b>                          |
| <i>Movements in employee entitlements:</i> |                                   |                                       |
| Opening balance                            | 1,354                             | 1,109                                 |
| Net movement during the period             | 104                               | 245                                   |
| Closing balance                            | 1,458                             | 1,354                                 |

The small and medium enterprises (SME) credit guarantee scheme is a Government guarantee to pay up to 50% of the principal outstanding on defaulted SME loans to a limit of \$50,000 per business. The total allocation of \$4.0m 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**

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
| Cash and cash equivalents included in the statement of cash flows comprise of the following: |                                   |                                       |
| Cash on hand - local currency  | 2,609                             | 2,240                                 |
| Cash - foreign currency  | 235,215                           | 299,516                               |
|  | <b>237,824</b>                    | <b>301,756</b>                        |

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

**17. Share capital**

|                            | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|----------------------------|-----------------------------------|---------------------------------------|
| 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 Economy. 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 Economy.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 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 Economy 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 period \$0.78m (2015: \$1.33m) has been accordingly amortised to other revenue.

#### *Revaluation reserve account - foreign currency*

Currency translation gains and losses arising from revaluation of Bank's assets and liabilities in, or denominated 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. The Bank's freehold land and buildings was revalued in 2015 (refer to Note 11). As at 31 July 2016, the valuation movements of the Bank's gold holdings were captured in the asset revaluation reserve. The asset revaluation reserve comprises the following:

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
| <b>Asset revaluation reserve</b>       |                                   |                                       |
| <i>Property</i>                        |                                   |                                       |
| Opening balance                        | 18,830                            | 7,990                                 |
| Revaluation                            | -                                 | 10,840                                |
| Closing balance                        | 18,830                            | 18,830                                |
| <i>Gold</i>                            |                                   |                                       |
| Opening balance                        | 691                               | 867                                   |
| Revaluation/reclassification           | 338                               | (176)                                 |
| Closing balance                        | 1,029                             | 691                                   |
| <b>Total asset revaluation reserve</b> |                                   |                                       |
| Opening balance                        | 19,521                            | 8,857                                 |
| Net movement                           | 338                               | 10,664                                |
| Closing balance                        | 19,859                            | 19,521                                |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 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 period, 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's obligation of membership from that date.

As at 31 July 2016, the Republic of Fiji's membership subscription to the International Monetary Fund was \$284.9m (2015: \$207.3m). Of this amount \$68.6m (2015: \$49.2m) 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 \$216.3m (2015: \$158.1m) 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 \$127.6m (2015: \$150.6m) 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 \$194.3m (2015: \$197.8m) 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.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 20. Financial risk management policies - continued

#### a) Introduction and overview - continued

*Risk management framework - continued*

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 July 2016, the value of External reserves was 92% (2015: 92%) of the total Demand liabilities.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

## 20. Financial risk management policies - continued

## b) Liquidity risk - continued

## Maturity analysis as at 31 July 2016

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 31 July 2016.

|  | 0-3<br>Months<br>\$000 | 3-12<br>Months<br>\$000 | 1-5 Years<br>\$000 | Over 5<br>Years<br>\$000 | No Specific<br>Maturity<br>\$000 | Total<br>\$000   |
|--|------------------------|-------------------------|--------------------|--------------------------|----------------------------------|------------------|
| <b>Foreign currency assets</b>                   |                        |                         |                    |                          |                                  |                  |
| Short-term commercial paper and current accounts | 235,215                | 265,333                 | -                  | -                        | -                                | 500,548          |
| Marketable securities                            | 184,697                | 437,264                 | 550,425            | 110,926                  | -                                | 1,283,312        |
| Gold   | 2,324                  | -                       | -                  | -                        | -                                | 2,324            |
| Accrued interest                                 | 12,212                 | -                       | -                  | -                        | -                                | 12,212           |
| IMF - Reserve tranche position                   | 68,646                 | -                       | -                  | -                        | -                                | 68,646           |
| - Special drawing rights                         | 127,573                | -                       | -                  | -                        | -                                | 127,573          |
| - PRGF - HIPC Trust                              | -                      | -                       | 562                | -                        | -                                | 562              |
| - Currency subscription                          | 216,344                | -                       | -                  | -                        | -                                | 216,344          |
|  | 847,011                | 702,597                 | 550,987            | 110,926                  | -                                | 2,211,521        |
| <b>Local currency assets</b>                     |                        |                         |                    |                          |                                  |                  |
| Cash on hand                                     | 2,609                  | -                       | -                  | -                        | -                                | 2,609            |
| Domestic securities                              | 2,321                  | 6,041                   | 20,933             | 61,801                   | -                                | 91,096           |
| Financing facilities                             | 2,278                  | 11,794                  | 79,875             | -                        | -                                | 93,947           |
| Currency inventory                               | 17,929                 | -                       | -                  | -                        | -                                | 17,929           |
| Other assets                                     | 17,210                 | -                       | -                  | -                        | -                                | 17,210           |
| Intangibles                                      | -                      | -                       | -                  | -                        | 361                              | 361              |
| Property, plant and equipment                    | -                      | -                       | -                  | -                        | 35,744                           | 35,744           |
|  | 42,347                 | 17,835                  | 100,808            | 61,801                   | 36,105                           | 258,896          |
| <b>Total assets</b>                              | <b>889,358</b>         | <b>720,432</b>          | <b>651,795</b>     | <b>172,727</b>           | <b>36,105</b>                    | <b>2,470,417</b> |
| <b>Foreign currency liabilities</b>              |                        |                         |                    |                          |                                  |                  |
| Demand deposits                                  | 44                     | -                       | -                  | -                        | -                                | 44               |
| IMF - PRGF - HIPC Trust                          | -                      | -                       | 562                | -                        | -                                | 562              |
| IMF - Special drawing rights allocation          | -                      | -                       | -                  | -                        | 194,322                          | 194,322          |
|  | 44                     | -                       | 562                | -                        | 194,322                          | 194,928          |
| <b>Local currency liabilities</b>                |                        |                         |                    |                          |                                  |                  |
| Demand deposits                                  | 514,512                | -                       | -                  | -                        | -                                | 514,512          |
| Payable to the Fijian Government                 | 16,929                 | -                       | -                  | -                        | -                                | 16,929           |
| Currency in circulation                          | -                      | -                       | -                  | -                        | 750,994                          | 750,994          |
| Statutory reserve deposit                        | -                      | -                       | -                  | -                        | 679,570                          | 679,570          |
| IMF - Notes currency subscription                | -                      | -                       | -                  | -                        | 215,631                          | 215,631          |
| Other liabilities                                | 4,490                  | 3,962                   | -                  | -                        | -                                | 8,452            |
|  | 535,931                | 3,962                   | -                  | -                        | 1,646,195                        | 2,186,088        |
| <b>Total liabilities</b>                         | <b>535,975</b>         | <b>3,962</b>            | <b>562</b>         | <b>-</b>                 | <b>1,840,517</b>                 | <b>2,381,016</b> |
| <b>Net assets</b>                                | <b>353,383</b>         | <b>716,470</b>          | <b>651,233</b>     | <b>172,727</b>           | <b>(1,804,412)</b>               | <b>89,401</b>    |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

## 20. Financial risk management policies - continued

## b) Liquidity risk - continued

## Maturity analysis as at 31 December 2015

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 31 December 2015.

|  | 0-3<br>Months<br>\$000 | 3-12<br>Months<br>\$000 | 1-5 Years<br>\$000 | Over 5<br>Years<br>\$000 | No Specific<br>Maturity<br>\$000 | Total<br>\$000   |
|--|------------------------|-------------------------|--------------------|--------------------------|----------------------------------|------------------|
| <b>Foreign currency assets</b>                   |                        |                         |                    |                          |                                  |                  |
| Short-term commercial paper and current accounts | 299,516                | 500,486                 | -                  | -                        | -                                | 800,002          |
| Marketable securities                            | 276,526                | 310,212                 | 355,342            | -                        | -                                | 942,080          |
| Gold   | 1,879                  | -                       | -                  | -                        | -                                | 1,879            |
| Accrued interest                                 | 10,729                 | -                       | -                  | -                        | -                                | 10,729           |
| IMF - Reserve tranche position                   | 49,159                 | -                       | -                  | -                        | -                                | 49,159           |
| - Special drawing rights                         | 150,560                | -                       | -                  | -                        | -                                | 150,560          |
| - PRGF - HIPC Trust                              | -                      | -                       | 572                | -                        | -                                | 572              |
| - Currency subscription                          | 158,067                | -                       | -                  | -                        | -                                | 158,067          |
|  | 946,436                | 810,698                 | 355,914            | -                        | -                                | 2,113,048        |
| <b>Local currency assets</b>                     |                        |                         |                    |                          |                                  |                  |
| Cash on hand                                     | 2,240                  | -                       | -                  | -                        | -                                | 2,240            |
| Domestic securities                              | -                      | 3,932                   | 26,408             | 61,515                   | -                                | 91,855           |
| Financing facilities                             | 1,610                  | 3,278                   | 85,919             | -                        | -                                | 90,807           |
| Currency inventory                               | 16,610                 | -                       | -                  | -                        | -                                | 16,610           |
| Other assets                                     | 19,942                 | -                       | -                  | -                        | -                                | 19,942           |
| Intangibles                                      | -                      | -                       | -                  | -                        | 239                              | 239              |
| Property, plant and equipment                    | -                      | -                       | -                  | -                        | 36,514                           | 36,514           |
|  | 40,402                 | 7,210                   | 112,327            | 61,515                   | 36,753                           | 258,207          |
| <b>Total assets</b>                              | <b>986,838</b>         | <b>817,908</b>          | <b>468,241</b>     | <b>61,515</b>            | <b>36,753</b>                    | <b>2,371,255</b> |
| <b>Foreign currency liabilities</b>              |                        |                         |                    |                          |                                  |                  |
| Demand deposits                                  | 170                    | -                       | -                  | -                        | -                                | 170              |
| IMF - PRGF - HIPC Trust                          | -                      | -                       | 572                | -                        | -                                | 572              |
| IMF - Special drawing rights allocation          | -                      | -                       | -                  | -                        | 197,777                          | 197,777          |
|  | 170                    | -                       | 572                | -                        | 197,777                          | 198,519          |
| <b>Local currency liabilities</b>                |                        |                         |                    |                          |                                  |                  |
| Demand deposits                                  | 493,041                | -                       | -                  | -                        | -                                | 493,041          |
| Payable to the Fijian Government                 | 32,245                 | -                       | -                  | -                        | -                                | 32,245           |
| Currency in circulation                          | -                      | -                       | -                  | -                        | 732,649                          | 732,649          |
| Statutory reserve deposit                        | -                      | -                       | -                  | -                        | 662,991                          | 662,991          |
| IMF - Notes currency subscription                | -                      | -                       | -                  | -                        | 157,749                          | 157,749          |
| Other liabilities                                | 3,880                  | 3,962                   | -                  | -                        | -                                | 7,842            |
|  | 529,166                | 3,962                   | -                  | -                        | 1,553,389                        | 2,086,517        |
| <b>Total liabilities</b>                         | <b>529,336</b>         | <b>3,962</b>            | <b>572</b>         | <b>-</b>                 | <b>1,751,166</b>                 | <b>2,285,036</b> |
| <b>Net assets</b>                                | <b>457,502</b>         | <b>813,946</b>          | <b>467,669</b>     | <b>61,515</b>            | <b>(1,714,413)</b>               | <b>86,219</b>    |



## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

**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 PI/A3 for short-term debt and PI/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:

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
| <b>Foreign currency assets</b>                   |                                   |                                       |
| Short-term commercial paper and current accounts | 500,548                           | 800,002                               |
| Marketable securities                            | 1,283,312                         | 942,080                               |
| International Monetary Fund                      | 413,125                           | 358,358                               |
|  | <b>2,196,985</b>                  | <b>2,100,440</b>                      |
| <b>Local currency assets</b>                     |                                   |                                       |
| Domestic securities                              | 91,096                            | 91,855                                |
| Staff loans and advances                         | 1,278                             | 1,217                                 |
|  | <b>92,374</b>                     | <b>93,072</b>                         |
|  | <b>2,289,359</b>                  | <b>2,193,512</b>                      |

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

|                                  | <b>31 July<br/>2016</b> |            | <b>31 December<br/>2015</b> |            |
|----------------------------------|-------------------------|------------|-----------------------------|------------|
|                                  | <b>\$000</b>            | <b>%</b>   | <b>\$000</b>                | <b>%</b>   |
| <b>Concentration by currency</b> |                         |            |                             |            |
| USD                              | 673,627                 | 30         | 697,310                     | 32         |
| YEN                              | 67,995                  | 3          | 47,132                      | 2          |
| GBP                              | 109                     | -          | 108                         | -          |
| EURO                             | 110,989                 | 5          | 113,015                     | 5          |
| AUD                              | 579,055                 | 25         | 545,929                     | 25         |
| NZD                              | 352,084                 | 15         | 338,588                     | 16         |
| SDR                              | 413,125                 | 18         | 358,358                     | 16         |
| FJD                              | 92,375                  | 4          | 93,072                      | 4          |
| <b>Total financial assets</b>    | <b>2,289,359</b>        | <b>100</b> | <b>2,193,512</b>            | <b>100</b> |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

## 20. Financial risk management policies - continued

## c) Credit risks - continued

|                                 | 31 July 2016     |            | 31 December 2015 |            |
|---------------------------------|------------------|------------|------------------|------------|
|                                 | \$000            | %          | \$000            | %          |
| <b>Concentration by sector</b>  |                  |            |                  |            |
| <b>Foreign currency assets</b>  |                  |            |                  |            |
| Central banks                   | 122,562          | 6          | 93,875           | 4          |
| Commercial banks                | 632,070          | 29         | 1,087,583        | 52         |
| Government                      | 570,942          | 26         | 332,383          | 16         |
| Semi Government                 | 15,795           | -          | 31,436           | 2          |
| Supranational                   | 442,475          | 20         | 169,740          | 8          |
| International Monetary Fund     | 413,125          | 19         | 358,358          | 17         |
| Others                          | 16               | -          | 27,065           | 1          |
|                                 | <b>2,196,985</b> | <b>100</b> | <b>2,100,440</b> | <b>100</b> |
| <b>Local currency assets</b>    |                  |            |                  |            |
| Government and statutory bodies | 91,096           | 99         | 91,855           | 99         |
| Staff loans and advances        | 1,278            | 1          | 1,217            | 1          |
|                                 | <b>92,374</b>    | <b>100</b> | <b>93,072</b>    | <b>100</b> |
| <b>Total financial assets</b>   | <b>2,289,359</b> |            | <b>2,193,512</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:

|   | 31 July 2016     |            | 31 December 2015 |            |
|---|------------------|------------|------------------|------------|
|   | \$000            | %          | \$000            | %          |
| <b>Summary by major credit category</b>                           |                  |            |                  |            |
| <i>Foreign currency financial asset by major credit category:</i> |                  |            |                  |            |
| Aaa   | 720,183          | 33         | 375,716          | 18         |
| Aa1   | 44,170           | 2          | 108              | -          |
| Aa2   | 77,165           | 3          | 27,060           | 1          |
| Aa3   | 482,735          | 22         | 708,177          | 34         |
| A1  | 102,925          | 5          | 21,381           | 1          |
| A2  | 46,401           | 2          | 74,456           | 4          |
| International Monetary Fund                                       | 413,125          | 19         | 358,358          | 17         |
| Central Banks   | 122,562          | 6          | 93,875           | 4          |
| Others and Not rated  | 187,719          | 8          | 441,309          | 21         |
|   | <b>2,196,985</b> | <b>100</b> | <b>2,100,440</b> | <b>100</b> |
| <i>Local currency financial asset by major credit category:</i>   |                  |            |                  |            |
| Others  | 92,374           | 100        | 93,072           | 100        |
| <b>Total financial assets</b>                                     | <b>2,289,359</b> | <b>100</b> | <b>2,193,512</b> | <b>100</b> |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

**20. Financial risk management policies - continued****c) Credit risks - continued****Credit exposure by credit rating - continued**

Foreign currency assets under 'Others and Not Rated' include financial instruments held with other commercial 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.

*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 July 2016**

|   | <b>USD</b>     | <b>YEN</b>       | <b>GBP</b>   | <b>EURO</b>   | <b>AUD</b>     | <b>NZD</b>     | <b>SDR</b>      |
|---|----------------|------------------|--------------|---------------|----------------|----------------|-----------------|
|   | <b>\$000</b>   | <b>\$000</b>     | <b>\$000</b> | <b>\$000</b>  | <b>\$000</b>   | <b>\$000</b>   | <b>\$000</b>    |
| <b>Foreign currency assets</b>                  |                |                  |              |               |                |                |                 |
| Short-term commercial paper and current account | 85,984         | 3,446,667        | 40           | 27            | 108,093        | 57,764         | -               |
| Marketable securities                           | 238,097        | -                | -            | 48,164        | 263,081        | 181,442        | -               |
| Gold  | 1,118          | -                | -            | -             | -              | -              | -               |
| Accrued interest                                | 1,418          | -                | -            | 648           | 2,696          | 2,400          | 8               |
| International Monetary Fund                     |                |                  |              |               |                |                |                 |
| - Reserve tranche position                      | -              | -                | -            | -             | -              | -              | 23,702          |
| - Special drawing rights                        | -              | -                | -            | -             | -              | -              | 44,048          |
| - PRGF - HIPC Trust                             | -              | -                | -            | -             | -              | -              | 194             |
| - Currency subscription                         | -              | -                | -            | -             | -              | -              | 74,698          |
| <b>Total foreign currency assets</b>            | <b>326,617</b> | <b>3,446,667</b> | <b>40</b>    | <b>48,839</b> | <b>373,870</b> | <b>241,606</b> | <b>142,650</b>  |
| <b>Foreign currency liabilities</b>             |                |                  |              |               |                |                |                 |
| Demand deposits                                 | -              | -                | -            | -             | -              | -              | (15)            |
| 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>(67,303)</b> |
| <b>Carrying amount</b>                          | <b>326,617</b> | <b>3,446,667</b> | <b>40</b>    | <b>48,839</b> | <b>373,870</b> | <b>241,606</b> | <b>75,347</b>   |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

## 20. Financial risk management policies - continued

## d) Market risks - continued

Notional carrying amounts as at 31 December 2015

|   | USD<br>\$000 | YEN<br>\$000 | GBP<br>\$000 | EURO<br>\$000 | AUD<br>\$000 | NZD<br>\$000 | SDR<br>\$000 |
|---|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| <b>Foreign currency assets</b>                  |              |              |              |               |              |              |              |
| Short-term commercial paper and current account | 157,296      | 2,521,585    | 34           | 48,675        | 137,628      | 65,061       | -            |
| Marketable securities                           | 170,510      | 150,335      | -            | -             | 214,824      | 167,752      | -            |
| Gold  | 883          | -            | -            | -             | -            | -            | -            |
| Accrued interest                                | 1,379        | 65           | -            | -             | 2,512        | 2,671        | 5            |
| International Monetary Fund                     |              |              |              |               |              |              |              |
| - Reserve tranche position                      | -            | -            | -            | -             | -            | -            | 16,677       |
| - Special drawing rights                        | -            | -            | -            | -             | -            | -            | 51,076       |
| - PRGF - HIPC Trust                             | -            | -            | -            | -             | -            | -            | 194          |
| - Currency subscription                         | -            | -            | -            | -             | -            | -            | 53,623       |
| <b>Total foreign currency assets</b>            | 330,068      | 2,671,985    | 34           | 48,675        | 354,964      | 235,484      | 121,575      |
| <b>Foreign currency liabilities</b>             |              |              |              |               |              |              |              |
| Demand deposits                                 | -            | -            | -            | -             | -            | -            | (58)         |
| IMF - PRGF - HIPC Trust                         | -            | -            | -            | -             | -            | -            | (194)        |
| IMF - Special drawing rights allocation         | -            | -            | -            | -             | -            | -            | (67,094)     |
| <b>Total foreign currency liabilities</b>       | -            | -            | -            | -             | -            | -            | (67,346)     |
| <b>Carrying amount</b>                          | 330,068      | 2,671,985    | 34           | 48,675        | 354,964      | 235,484      | 54,229       |

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

## Reporting date spot rate

|      | 31<br>July<br>2016 | 31<br>December<br>2015 |
|------|--------------------|------------------------|
| USD  | 0.4811             | 0.4701                 |
| YEN  | 50.69              | 56.69                  |
| GBP  | 0.3654             | 0.3710                 |
| EURO | 0.4342             | 0.4307                 |
| AUD  | 0.6410             | 0.6456                 |
| NZD  | 0.6794             | 0.6876                 |
| SDR  | 0.3453             | 0.3392                 |

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

## 20. Financial risk management policies - continued

## d) Market risks - continued

*Sensitivity analysis for exchange rate*

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

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

| Period end | Strengthening by 10%  |                           | Weakening by 10%      |                           |
|------------|-----------------------|---------------------------|-----------------------|---------------------------|
|            | 31 July 2016<br>\$000 | 31 December 2015<br>\$000 | 31 July 2016<br>\$000 | 31 December 2015<br>\$000 |
| USD        | (61,718)              | (63,829)                  | 75,433                | 78,013                    |
| YEN        | (6,181)               | (4,285)                   | 7,555                 | 5,237                     |
| GBP        | (10)                  | (10)                      | 12                    | 12                        |
| EURO       | (10,225)              | (10,274)                  | 12,498                | 12,557                    |
| AUD        | (53,024)              | (49,983)                  | 64,807                | 61,091                    |
| NZD        | (32,329)              | (31,134)                  | 39,513                | 38,052                    |
| SDR        | (19,838)              | (14,533)                  | 24,247                | 17,762                    |
|            | (183,325)             | (174,048)                 | 224,065               | 212,724                   |

## 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.

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 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 \$107.3m (2015: \$112.9m), 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 seven months period ended 31 July 2016

**21. Fair values of financial assets and liabilities - continued***Valuation of financial instruments - continued*

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

|  | <b>Level 1<br/>\$000</b> | <b>Level 2<br/>\$000</b> | <b>Level 3<br/>\$000</b> | <b>Total<br/>\$000</b> |
|--|--------------------------|--------------------------|--------------------------|------------------------|
| <b>31 July 2016</b>  |                          |                          |                          |                        |
| <i>Foreign currency assets</i>                             |                          |                          |                          |                        |
| Available-for-sale financial assets at quoted market price | 853,709                  | -                        | -                        | 853,709                |
| Fijian Government bonds                                    | -                        | 104,476                  | -                        | 104,476                |
|  | 853,709                  | 104,476                  | -                        | 958,185                |
| <b>31 December 2015</b>                                    |                          |                          |                          |                        |
| <i>Foreign currency assets</i>                             |                          |                          |                          |                        |
| Available-for-sale financial assets at quoted market price | 446,979                  | -                        | -                        | 446,979                |
| Fijian Government bonds                                    | -                        | 104,643                  | -                        | 104,643                |
|  | 446,979                  | 104,643                  | -                        | 551,622                |

During the period ended 31 July 2016, 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 July would have increased equity by the amounts shown below. A 10% weakening of market prices at 31 July would have had the equal but opposite effect.

**Effect on equity**

| <b>Period end</b> | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|-------------------|-----------------------------------|---------------------------------------|
| USD               | 35,432                            | 22,007                                |
| EURO              | 11,092                            | -                                     |
| AUD               | 33,467                            | 27,565                                |
| NZD               | 15,827                            | 5,590                                 |
|                   | 95,818                            | 55,162                                |



## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 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 period were:

Barry Whiteside (Chairman and Governor)  
Makereta Konrote (Ex-officio member from 15 January 2016)  
Pradeep Patel  
Tevita Kuruvakadua  
Abdul Khan  
Tony Whitton

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 period 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   |
| Ariff Ali         | Deputy Governor                                  |
| Lorraine Seeto    | Chief Manager Risk Management and Communications |
| Esala Masitabua   | Chief Manager Financial Markets                  |
| Razim Buksh       | Director Financial Intelligence Unit             |
| Caroline Waqabaca | Chief Manager Economics                          |
| Susan Kumar       | Chief Manager Currency and Corporate Services    |
| Veremi Levula     | Chief Manager Financial System Development       |
| Vilimaina Dakai   | Chief Manager Financial Institutions             |
| 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 seven months period, the Bank earned \$8.58m (twelve months period ended 31 December 2015: \$16.5m) of interest income relating to their investments in Government securities including foreign currency denominated bonds. The Bank is also obligated to pay \$16.9m (2015: \$32.2m) 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 July 2016 of \$4.67m (2015: \$4.09m). The balance of the Bank's investment in Government securities including foreign currency denominated bonds at period end amounted to \$195.6m (2015: \$196.5m).

The Bank also provides an overnight standby facility to the Fijian Government. At the end of the period, the approved facility of \$20m (2015: \$20m) was not utilised.

During the seven months period, the Bank received \$0.01m (twelve months period ended 31 December 2015: \$0.02m) of rental income from NBF AMB.

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

## Notes to and forming part of the financial statements

For the seven months period ended 31 July 2016

### 22. Related parties - continued

*Transactions with related parties - continued*

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

|                                | <b>Seven months<br/>period ended<br/>31 July<br/>2016<br/>\$000</b> | <b>Twelve months<br/>period ended<br/>31 December<br/>2015<br/>\$000</b> |
|--------------------------------|---|--|
| Board remuneration expenses    | 28  | 35   |
| Key management personnel:      |   |  |
| - Short-term employee benefits | 1,037   | 1,630  |
| - Long-term employee benefits  | 16  | 487  |
|                                | <b>1,081</b>  | <b>2,152</b>   |

### 23. Commitments

Commitments not otherwise provided for in the financial statements and which existed at 31 July 2016 comprise:

|                                | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--------------------------------|-----------------------------------|---------------------------------------|
| Foreign exchange transactions: |                                   |                                       |
| - Sales                        | 9,739                             | 1,553                                 |
| - Purchases                    | -                                 | 11,851                                |
| Capital commitments            |                                   |                                       |
| - Other assets                 | 47                                | 23                                    |

### 24. Lease receivable

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

|  | <b>31 July<br/>2016<br/>\$000</b> | <b>31 December<br/>2015<br/>\$000</b> |
|--|-----------------------------------|---------------------------------------|
| Receivable not later than one year                           | 441                               | 435                                   |
| Receivable later than one year but not later than five years | 956                               | 1,118                                 |
|  | <b>1,397</b>                      | <b>1,553</b>                          |

### 25. Events subsequent to balance date

There has not arisen in the interval between the end of the period 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 periods.



## Selected Events January to July 2016

|            |   |            |  |
|------------|---|------------|--|
| 20 Jan.    | RBF 2016 Student Diary Issued   | 1 May      | Governor attended Pacific Developing Member Countries Meeting held in Frankfurt, Germany   |
| 21 Jan.    | Governor Guest Speaker at the 2016 Rotary Club Suva Meeting   | 2 May      | April 2016 Economic Review Issued  |
| 21-25 Jan. | Deputy Governor attended Trade and Investment Seminar, held at Guangdong, China   | 2 May      | Press Release - Reserve Bank Acknowledges Added Regulatory Role under the Fair Reporting of Credit Act 2016  |
| 28 Jan.    | Press Release - Monetary Policy Stance Remains Unchanged  | 2-5 May    | Governor attended the 49th ADB Annual Meeting, held in Frankfurt, Germany  |
| 28 Jan.    | Ordinary Board Meeting  | 5 May      | LMCC Quarter 1 Meeting   |
| 1 Feb.     | January 2016 Economic Review Issued   | 9-13 May   | Knowledge Exchange to Kuala Lumpur, Malaysia on SME Deputy Governor, CMFSD with Minister for Industry & Trade and Tourism and officials                |
| 5 Feb.     | Press Release - RBF Launches 2016 Student Diary   | 11 May     | IMF Resident Representative Office released Regional Economic Outlook with RBF, chaired by Governor.   |
| 9 Feb.     | National Financial Inclusion Taskforce Quarter 1 Meeting  | 18-19 May  | Egmont Committee Intersessional Meeting hosted by Fiji FIU   |
| 18 Feb.    | Press Release - ATM Skimming in Fiji  | 20 May     | Press Release - Counterfeit Currency Awareness   |
| 22 Feb.    | Press Release - Reserve Bank Introduces Natural Disaster Rehabilitation Facility to Assist Businesses Affected by Tropical Cyclone Winston              | 24 May     | Press Release - Revised Growth Projections   |
| 26 Feb.    | Board Audit and Risk Committee Meeting  | 25 May     | Governor speaker at the DFK Australia New Zealand Annual Partners Conference on the Fiji Economy, held at Hilton Hotel, Denarau                        |
| 29 Feb.    | Press Release - Reserve Bank of Fiji will Transfer \$32.2 million to Fijian Government  | 27 May     | Fair Reporting of Credit Act 2016 comes into effect  |
| 29 Feb.    | Press Release - Monetary Policy Stance Maintained   | 27 May     | Press Release - Transitional Requirements Part 6 – Fair Reporting of Credit Act 2016   |
| 29 Feb.    | Ordinary Board Meeting  | 28 May     | Deputy Governor presented on the Fijian Economy at the 2016-2017 Western Division Budget Consultation Forum held at Natabua High School Hall, Lautoka  |
| 29 Feb.    | Governor Chief Guest for Visions Investment Listing   | 30 May     | May 2016 Economic Review Issued  |
| 29 Feb.    | 2015 RBF Financial Statements and Operations Report Submitted to the Minister for Economy   | 31 May     | March 2016 Quarterly Review Issued   |
| 2 Mar.     | February 2016 Economic Review Issued  | 1-3 Jun.   | Governor attended PIRI Meeting held at Port Vila, Vanuatu  |
| 2 Mar.     | Governor presented to the Parliamentary Standing Committee on Justice, Law and Human Rights on the Fiji Interchange Network (Payments) Bill 2016        | 3 Jun.     | Press Release - Bogus Phone Sales – “Buy 3 Get 1 Free”   |
| 3 Mar.     | Governor launched Merchant Finance Logo and Products, held at Holiday Inn, Suva   | 4 Jun.     | Deputy Governor presented on the Fijian Economy at the 2016-2017 Northern Division Budget Consultation Forum held at Labasa College                    |
| 3 Mar.     | National Financial Inclusion Taskforce Quarter 1 Meeting  | 9-10 Jun.  | Deputy Governor attended Knowledge Exchange, held at Griffith University, Australia  |
| 7 Mar.     | December 2015 Quarterly Review Issued   | 15 Jun.    | Board Audit and Risk Committee Meeting   |
| 8 Mar.     | Capital Markets Development Taskforce Quarter 1 Meeting   | 15 Jun.    | Board Governance Committee Meeting   |
| 9 Mar.     | 1st National AML Council Meeting  | 22 Jun.    | National Budget Day  |
| 11-13 Mar. | Deputy Governor attended IMF-Government of India High Level Conference with the Theme of Advancing Asia: Investing for the Future, held in Delhi, India | 23 Jun.    | LMCC Quarter 2 Meeting   |
| 14-18 Mar. | Bankable Frontiers Associates Meets with Commercial Banks and Other Stakeholders to Discuss Impact of Financial Inclusion Policies Introduced by RBF    | 23 Jun.    | Capital Markets Development Taskforce Quarter 2 Meeting  |
| 23 Mar.    | Board Audit and Risk Committee Meeting  | 29 Jun.    | Deputy Governor presented on the Fiji Economy to the New Zealand Fiji Business Council Trade and Investment Mission Seminar, held at Tanoa Plaza, Suva |
| 31 Mar.    | Ordinary Board Meeting  | 30 Jun.    | Ordinary Board Meeting   |
| 31 Mar.    | Press Release - Monetary Policy Stance Remains Unchanged  | 30 Jun.    | Submission of 2015 Insurance Annual Report to the Minister for Economy   |
| 4 Apr.     | March 2016 Economic Review Issued   | 30 Jun.    | Press Release - Monetary Policy Stance Maintained  |
| 4 Apr.     | Governor delivered Welcome Address to Delegates at Engaging Stakeholders Workshop Jointly Hosted by PFIP and RBF, held at Holiday Inn, Suva             | 4 Jul.     | June 2016 Economic Review Issued   |
| 5 Apr.     | Governor delivered Welcome Address to Delegates Attending PFIP/PIRI/AFI Inclusive Insurance Workshop held at Sofitel, Nadi                              | 9 Jul.     | Deputy Governor on a panel at Fiji Chamber of Commerce & Industry's 5th Annual Business Forum “Growing Business in Fiji”, held at Holiday Inn, Suva    |
| 11-13 Apr. | Fiji's Mutual Evaluation Report – Face to Face Meeting  | 14 Jul.    | Governor's presentation to the Standing Committee on Public Accounts on the Role and Functions of the Reserve Bank of Fiji                             |
| 12 Apr.    | Deputy Governor presented on the Fijian Economy to Fiji Infrastructure Mission, held at Grand Pacific Hotel, Suva                                       | 18 Jul.    | Governor speaker at the ADB Pacific Update Conference on the Fiji Economy  |
| 18-20 Apr. | RBF participated at USP's Entrepreneurial and Career Fair   | 23-24 Jul. | Deputy Governor speaker at FIA Workshop on the Fiji Economy  |
| 21-22 Apr. | Governor attended Fiji Institute of Accountants Congress, held at Sheraton Fiji Resort, Denarau Island  | 26 Jul.    | Deputy Governor presented on the Fiji Economy at the Inaugural Fiji China Business Exchange Summit and Trade and Investment Seminar held at GPH, Suva  |
| 27 Apr.    | Reserve Bank of Fiji 2015 Annual Report 16/2016 tabled in Parliament  | 28 Jul.    | Ordinary Board Meeting   |
| 27 Apr.    | Press Release - Reserve Bank of Fiji Releases 2015 Annual Report  | 28 Jul.    | Press Release - Monetary Policy Stance Remains Unchanged   |
| 28 Apr.    | Press Release - Monetary Policy Stance Remains Unchanged  | 29 Jul.    | RBF participated at USP Open Day   |
| 28 Apr.    | Ordinary Board Meeting  | 29 Jul.    | July 2016 Economic Review Issued   |



## Fiji: Key Economic and Financial Indicators

|   | 2012     | 2013     | 2014     | 2015     | 2016 <sup>5</sup> |
|---|----------|----------|----------|----------|-------------------|
| <b>I. GDP</b>   |          |          |          |          |                   |
| GDP at Market Price (\$ Million)  | 7,109.5  | 7,715.7  | 8,435.9r | 9,210.8p | 9,852.7e          |
| Per Capita GDP at Current Factor Cost (\$)                                    | 7,003.2  | 7,475.1  | 8,148.6r | 8,692.3p | 9,179.1e          |
| Constant Price GDP Growth Rate (%)  | 1.4      | 4.7      | 5.6r     | 3.6p     | 2.0e              |
| <b>II. LABOUR MARKET</b>  |          |          |          |          |                   |
| Labour Force  | 355,000e | 363,400e | 367,154e | na       | na                |
| Wage and Salary Earners (mid-year)  | 128,000e | 129,000e | 129,500e | na       | na                |
| <b>III. INFLATION (year-on-year % change)</b>                                 |          |          |          |          |                   |
| All Items   | 2.5      | 3.4      | 0.1      | 1.6      | 5.5 <sup>1</sup>  |
| <b>IV. GOVERNMENT FINANCE (\$ Million)<sup>2</sup></b>                        |          |          |          |          |                   |
| Total Revenue and Grants  | 1,937.1  | 2,098.5  | 2,370.8  | 3,122.5b | 2,799.6b          |
| Total Expenditure (excluding loan repayments)                                 | 2,013.7  | 2,136.3  | 2,723.1  | 3,336.3b | 2,945.6b          |
| <b>V. EXTERNAL TRADE<sup>3</sup></b>  |          |          |          |          |                   |
| Current Account Balance (\$ Million)  | -102.2   | -746.6   | -639.6   | -353.0e  | -330.3f           |
| Capital Account Balance (\$ Million)  | 7.1      | 8.9      | 8.2      | 8.4e     | 6.4f              |
| Financial Account Balance (\$ Million) <sup>4</sup>                           | -442.5   | -600.7   | -974.3   | -613.1e  | -623.3f           |
| Current Account Balance (% of GDP)  | -1.4     | -9.7     | -7.6     | -3.8e    | -3.4f             |
| <b>VI. FOREIGN EXCHANGE RESERVES (\$ Million)<sup>5</sup></b>                 |          |          |          |          |                   |
| Foreign Reserves  | 1,635.5  | 1,778.1  | 1,810.7  | 1,943.7  | 1,982.4           |
| <b>VII. MONEY AND CREDIT (year-on-year % change)<sup>5</sup></b>              |          |          |          |          |                   |
| Narrow Money  | 5.3      | 67.3     | 5.5      | 13.4     | 4.8               |
| Currency in Circulation   | 9.6      | 1.1      | 11.0     | 11.5     | 16.6              |
| Quasi-Money   | 6.3      | 23.2     | 10.6     | 14.3     | 6.6               |
| Domestic Credit <sup>6</sup>  | 2.8      | 14.0     | 18.7     | 13.6     | 8.4               |
| <b>VIII. INTEREST RATES (% pa)<sup>5</sup></b>                                |          |          |          |          |                   |
| RBF OPR <sup>7</sup>  | 0.50     | 0.50     | 0.50     | 0.50     | 0.50              |
| Lending Rate  | 6.65     | 5.86     | 5.72     | 5.90     | 5.90              |
| Savings Deposit Rate  | 0.74     | 0.70     | 0.57     | 1.01     | 0.90              |
| Time Deposit Rate   | 2.28     | 1.79     | 2.15     | 2.71     | 2.79              |
| Minimum Lending Rate  | 1.00     | 1.00     | 1.00     | 1.00     | 1.00              |
| <b>IX. EXCHANGE RATES (mid rates, F\$1 equals: end of period)<sup>5</sup></b> |          |          |          |          |                   |
| US dollar   | 0.5595   | 0.5269   | 0.5031   | 0.4701   | 0.4811            |
| Real Effective Exchange Rate (January 1999 = 100)                             | 98.45    | 98.51    | 98.68    | 99.86    | 102.13            |

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

### Notes:

<sup>1</sup> July inflation rate.

<sup>2</sup> For 2016, both the revenue and expenditure data reflects 2015/2016 fiscal year as per the National Budget.

<sup>3</sup> Balance of Payments values include aircraft imports and financing.

<sup>4</sup> '-' Indicates Net Borrowing i.e. the economy receives funds from the rest of the world.

<sup>5</sup> Data for 2016 is as of 31 July.

<sup>6</sup> Credit to the private sector is adjusted for AMB's non-performing loans and advances.

<sup>7</sup> The RBF OPR came into effect in 2010.

### Key:

e: estimate

p: provisional

b: budgeted

n.a: not available

r: revised

f: forecast



## Abbreviations

|           |   |        |   |
|-----------|---|--------|---|
| ADB       | Asian Development Bank                            | MC     | Macroeconomic Committee                                     |
| AFI       | Alliance for Financial Inclusion                  | MNOs   | Mobile Network Operators                                    |
| AICD      | Australia Institute of Company Directors          | MWG    | Microfinance Working Group                                  |
| AMB       | Asset Management Bank                             | NBF    | National Bank of Fiji                                       |
| AML       | Anti-Money Laundering                             | NBFI   | Non-Bank Financial Institution                              |
| APG       | Asia Pacific Group                                | NDP    | National Development Plan                                   |
| APRA      | Australian Prudential Regulations Authority       | NDRF   | Natural Disaster Rehabilitation Facility                    |
| ATM       | Automated Teller Machine                          | NEC    | National Employment Centre                                  |
| AUD       | Australian dollar                                 | NEER   | Nominal Effective Exchange Rate                             |
| BCP       | Business Continuity Plan                          | NFIT   | National Financial Inclusion Taskforce                      |
| BES       | Business Expectations Survey                      | NZD    | New Zealand dollar  |
| BRS       | Business Resumption Site                          | OHS    | Occupational Health and Safety                              |
| CFT       | Countering the Financing of Terrorism             | OMO    | Open Market Operations                                      |
| CMDT      | Capital Market Advisory and Development Taskforce | OPR    | Overnight Policy Rate                                       |
| CTR       | Cash Transaction Report                           | OSG    | Office of the Solicitor-General                             |
| DNFBP     | Designated non-financial business and professions | P2P    | Person to Person  |
| ECB       | European Central Bank                             | PPIP   | Pacific Financial Inclusion Programme                       |
| EDRMS     | Electronic Document Records Management System     | PFTAC  | Pacific Financial Technical Assistance Centre               |
| EFTPOS    | Electronic Funds Transfer at Point of Sale        | PIRI   | Pacific Islands Regional Initiative                         |
| EFTRs     | Electronic Fund Transfers Reports                 | PRGF   | Poverty Reduction and Growth Facility                       |
| EU        | European Union                                    | RBA    | Reserve Bank of Australia                                   |
| EUR       | European Euro                                     | RBF    | Reserve Bank of Fiji  |
| FATF      | Financial Action Task Force                       | RBNZ   | Reserve Bank of New Zealand                                 |
| FBFSEU    | Fiji Bank and Financial Sector Employees Union    | REER   | Real Effective Exchange Rate                                |
| FDL Stock | Fiji Development Loan Bonds                       | RFED   | Restricted Foreign Exchange Dealer                          |
| FEA       | Fiji Electricity Authority                        | RIA    | Regulatory Impact Assessment                                |
| FHRI      | Fiji Human Resources Institute                    | ROI    | Return on Investment  |
| FIA       | Fiji Institute of Accountants                     | RRA    | Revaluation Reserve Account                                 |
| FIB       | Fiji Infrastructure Bonds                         | RSS    | Retail Sales Survey   |
| FinED     | Financial Education                               | RTGS   | Real Time Gross Settlement                                  |
| FIU       | Financial Intelligence Unit                       | SEACEN | South East Asian Central Banks                              |
| FLWG      | Financial Literacy Working Group                  | SDR    | Special Drawing Rights                                      |
| FNPF      | Fiji National Provident Fund                      | SME    | Small and Medium Enterprises                                |
| FNU       | Fiji National University                          | SMECGS | Small and Medium Enterprises Credit Guarantee Scheme        |
| FRCA      | Fiji Revenue & Customs Authority                  | SPC    | Pacific Community   |
| FSC       | Fiji Sugar Corporation                            | SPSE   | South Pacific Stock Exchange                                |
| FSDP      | Financial Sector Development Plan                 | STR    | Suspicious Transaction Report                               |
| FTR       | Financial Transactions Reporting                  | STRI   | SPSE Total Return Index                                     |
| GDP       | Gross Domestic Product                            | SWG    | Statistics Working Group                                    |
| GPF       | Global Policy Forum                               | SWIFT  | Society for Worldwide Interbank Financial Telecommunication |
| GRCL      | General Reserves for Credit Losses                | TA     | Technical Assistance  |
| HA        | Housing Authority                                 | TC     | Tropical Cyclone  |
| HIPC      | Heavily Indebted Poor Countries                   | TCF    | Textiles, Clothing & Footwear                               |
| IAS 21    | International Accounting Standard 21              | TNA    | Training Needs Analysis                                     |
| IFRS      | International Financial Reporting Standards       | UK     | United Kingdom  |
| IIWG      | Inclusive Insurance Working Group                 | US     | United States   |
| IMF       | International Monetary Fund                       | USD    | United States dollar  |
| IPSWG     | Inclusive Products and Services Working Group     | USP    | University of the South Pacific                             |
| ITSC      | Information Technology Steering Committee         | VAT    | Value Added Tax   |
| KPIs      | Key Performance Indicators                        | VIL    | Vision Investments Limited                                  |
| JPY       | Japanese Yen                                      | WEO    | World Economic Outlook                                      |
| LAB       | Local Advisory Board                              | WG     | Working Group   |



## **RESERVE BANK OF FIJI**

The great double-hulled, ocean-going canoes (drua) of the ancient Fijians were remarkable crafts 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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