

Reserve Bank of Fiji

ANNUAL REPORT 2012

Parliamentary Paper Number: 01/2013



## 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 and
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country

*Section 4, Reserve Bank of Fiji Act (1983)*



### **Fiji's First Polymer Banknote - \$5**

The front design features Fiji's endemic *Kulawai* (Red-throated Lorikeet), our smallest member of the parrot family. Predominantly green, the *Kulawai* is a very rare inhabitant of the mountain forest canopy which feeds on nectar and pollen. *Kulawai* has only been recorded from Viti Levu, Vanua Levu, Taveuni and Ovalau.

The last confirmed sighting was in 1993 and searches in the last few years have failed to find it. The arboreal ship rat *Rattus rattus*, a common rat in Fiji's forest is an aggressive predator of small nesting birds, and is believed to be the major culprit in the demise of the *Kulawai*.

A clear window with an image of an *i-Taukei* man is featured on the note. An image of a *Kato ni Masima* (salt basket) is also featured on the front of the note. The back design features Fiji's endangered Crested Iguana, endemic Balaka Palm, Masiratu flower and Mount Valili in Vanua Levu.





## Contents

<b>Letter to the Minister for Finance</b>	<b>02</b>
<b>Our Functions</b>	<b>03</b>
<b>Governor's Foreword</b>	<b>04</b>
<b>Organisation Structure</b>	<b>07</b>
<b>Board of Directors</b>	<b>08</b>
<b>Executive Management</b>	<b>09</b>
<b>Corporate Governance</b>	<b>10</b>
<b>Economic Overview</b>	<b>13</b>
<b>Conduct Monetary Policy to Foster Economic Growth</b>	<b>16</b>
• Monetary Policy Formulation	16
- Chronology of Monetary Policy Actions	16
- Monetary Policy Outcomes for 2012	17
• Monetary Policy Implementation	18
- Open Market Operations	18
- Management of Foreign Reserves	18
- Exchange Rates	18
- Forward Facility	19
- Foreign Currency Receipts & Payments	19
- Exchange Control	19
- Export Proceeds Reconciliation and Monitoring	19
<b>Develop an Internationally Reputable Financial System</b>	<b>20</b>
• Financial System Regulation and Supervision	20
- Supervisory Developments	20
- The Financial System	21
- Gross Assets of the Financial System	22
- The Banking Industry	22
- Credit Institutions	24
- The Insurance Industry	25
- Fiji National Provident Fund	26
- Capital Markets	26
- Complaints Management	28
• Combating Money Laundering	29
- Financial Institutions' Compliance with the FTR Act, Receipt and Analysis of Financial Transaction Information	29
- Border Currency Reporting, Assistance to Partner Agencies, Domestic Coordination and Information Sharing, International Coordination and Initiatives	30
• Currency	31
- Currency Review, Note Processing, Currency in Circulation, Cost of Currency	31
- Mutilated and Old Design Currency Assessments, Counterfeit Notes, Numismatics	32
- History of Money in Fiji	33





## Contents - continued

• Payments and Settlements System	34
- FIJICLEAR	34
- National Payment Systems	34
- Mobile Money Development	34
- e-Money Taskforce	35
- Remittances	35
<hr/>	
<b>Enhance Our Role in the Development of the Economy</b>	<b>36</b>
• Import Substitution and Assistance to the Export Sector	36
• Flood Assistance, Housing Facility, Small and Medium Enterprises Credit Guarantee Scheme and Retail & Secondary Bond Market	36
• Microfinance Development, National Financial Inclusion Taskforce, Microinsurance and Financial Literacy	37
• Local Value Added, Local Advisory Board	38
• RBF in the Community	39
<hr/>	
<b>Provide Proactive and Sound Advice to Government</b>	<b>40</b>
• Policy Coordination	40
• Registry and Banking Services	40
<hr/>	
<b>Disseminate Timely and Quality Information</b>	<b>42</b>
• Financial Performance	
- Income, Expenditure, Operating Profit and Payment to Government	42
• Publications/Press Releases	42
• Information Technology, Records Management and Library, Domestic Relations and International Relations	43
<hr/>	
<b>Recruit, Develop and Retain a Professional Team</b>	<b>44</b>
• Staffing, Management Remuneration in 2012, Staff Development, Employment Relations	44
• Labour Management Consultative Cooperation, National Employment Centre, Quality Performance Management, Health and Safety in the Workplace, General Administration Services, Property Management & Security	45
• Service Recognition and Acknowledgment	46
<hr/>	
<b>The Year Ahead</b>	<b>47</b>
<b>Financial Statements</b>	<b>48</b>
<b>Selected Events in 2012</b>	<b>81</b>
<b>Fiji: Key Economic and Financial Indicators</b>	<b>82</b>
<b>Abbreviations</b>	<b>83</b>

RESERVE BANK OF FIJI



Governor

28 March 2013

Commodore Josaia Voreqe Bainimarama  
Minister for Finance  
Ministry of Finance  
Ro Lalabalavu House  
Victoria Parade  
SUVA


Dear Minister

**RBF Annual Report and Accounts 2012**

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

- (i) A copy of the RBF Annual Accounts for the year ended 31 December 2012 certified by the Auditors.
- (ii) A report on the RBF's Operations for the 2012 fiscal year.

Yours sincerely

  
.....  
Barry Whiteside  
Governor

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

### Monetary Policy

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

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

### Financial Stability

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

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

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

Maintaining financial stability also encompasses the responsibility of combating money laundering and terrorist financing under the Financial Transactions

Reporting (FTR) Act (2004) and the FTR Regulations (2007).

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

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

### Currency

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

### Other

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

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

The Bank's organisation structure is illustrated on page 7. Details of the Reserve Bank Board of Directors are provided on page 8 and the roles of the Board, Management and Governance structure are described on pages 10 to 12.



## Governor's Foreword



*The year 2012 ushered in its share of challenges for the Fijian economy, which had only just begun to regain some footing with growth following the global economic and financial meltdown in 2009. The floods in the first quarter inflicted widespread devastation in the Western and Northern Divisions and dealt a strong blow to tourism and agriculture. At the same time, the escalation of uncertainty during 2012 over public sector indebtedness and financial sector health in the United States and Euro zone has cast a long shadow over global growth and posed a threat to continued economic recovery. This presented our own challenges for policy formulation in 2012 as the monetary policy stance was already accommodating given that the Reserve Bank's OPR has been at a historic low of 0.5 percent for some time.*

Even though the monetary policy stance was kept unchanged throughout the year, the Reserve Bank explored and implemented unconventional policy tools in the attempt to widen the scope for a solid domestic recovery, including the introduction of a directed lending program targeted at the agriculture and renewable energy sectors. This was complemented with a concessional loan facility to support affordable housing programs for low and middle income households by the Housing Authority of Fiji; the doubling of the funding capacity for the Import Substitution and Export Finance Facility (ISEFF); and ongoing support for microfinance expositions to promote financial inclusion within the rural and informal sectors of the economy. The Bank also reintroduced the Flood Rehabilitation Facility (FRF) to facilitate the rebuilding by businesses across the country given the gravity of the devastation caused by the January and March floods. This facility was subsequently renamed the Disaster Rehabilitation Facility.

The Fiji economy is estimated to have expanded by 2.5 percent in 2012, the third consecutive year of economic growth. This growth was supported to a large extent by significant tax concessions by the Government at the start of the year and historically low levels of interest rates in the financial system. I am also pleased to note that growth has been broad based, led by manufacturing; financial intermediation; wholesale and retail; fishing; public administration and defence; construction; hotels and restaurants; real estate; and transport and storage. The buoyancy of domestic demand was generally underscored by higher net Value Added Tax (VAT) collections during the year by the Fiji Revenue & Customs Authority and steady momentum of growth in private sector credit following the credit crunch in 2009 through to the first half of 2011.

We continue to face an exceptionally challenging global

environment in regard to financial stability and one to which we are not immune. However, I am pleased to report that our financial system remains sound. This is validated in part by the entrance of Bred Bank (Fiji) Limited onto the domestic scene during the year, which was accompanied by a welcome intensity in competition for market share across the banking spectrum. On the whole, all financial institutions under the supervision ambit of the Reserve Bank continue to be well capitalised and remained within internationally acceptable levels of solvency during the year. As at the end of 2012, the total assets of the financial system was reported at \$12 billion, 7.4 percent higher than a year earlier.

The year 2012 also marked an important milestone with the launch of our new "flora and fauna" design notes and coins, including Fiji's first \$2 coin and \$5 polymer note. The changes, which include the replacement of the portrait of Her Majesty Queen Elizabeth II with designs depicting flora and fauna largely endemic to Fiji and in some cases critically endangered, marked the largest currency design changes the Reserve Bank has made in recent history. The changes to the design and security features of the notes and coins came about through a long and complex process and I sincerely thank everyone, in particular the Currency Design Committee, for a commendable task.

The Reserve Bank recorded a modest profit of \$25.4 million in 2012. In spite of a higher level of foreign reserves - the main source of income for the Bank - the profit reflected a relatively volatile international financial market and historically low levels of interest rates in our trading partner countries. A total of \$35.4 million was transferred to the Government, which includes \$10 million being one-fifth of the Revaluation Reserve Account (RRA), in accordance with the Reserve Bank of Fiji Act (1983).

I am also very pleased to note that, during the year,



foreign reserves rose by 8.1 percent to \$1,635.5 million, equivalent to 5.1 months of import cover, while consumer price inflation eased to a 13-year low of 1.5 percent in December 2012.

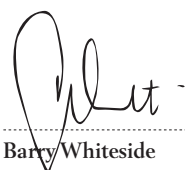
As the business priorities of the Reserve Bank evolve along with the changing nature and complexity of the economic environment we face (both domestically and globally), I must stress, however, that the compass of the Bank remains pointed towards the maintenance of low and stable inflation and a comfortable level of foreign reserves. Insofar as these objectives remain intact, the Reserve Bank will maintain an accommodative monetary policy stance to protect the domestic recovery and support economic growth.

During the year, the Bank continued to support the financial inclusion and literacy initiatives of the National Financial Inclusion Taskforce (NFIT) as a way of providing a necessary hand-up for our people. We also lent support to the Fiji Development Bank's Small Business Awards, Investment Fiji's Exporter of the Year Awards, the best Graduating Student in Economics

from the University of the South Pacific (USP), the Ministry of Agriculture's Agriculture Show and the various Microfinance Villages.

Looking ahead, and given the re-emergence of risks over the health of the global economy, the proper coordination of policies amongst the policy-setting agencies of Government is of utmost importance in order to bring a swift and effective resolution to the existing vulnerabilities that continue to expose our economy to collateral damage from abroad as well as allow the implementation of appropriate measures to boost resilience in our economy over the long run. In this regard, the Reserve Bank is currently working on a new 5-year strategic plan in order to properly capture its evolving role in the context of the challenges we face domestically as well as the increasingly volatile global environment in which we operate.

Finally, I would like to take this opportunity to sincerely thank the Board of Directors for their close support and guidance in 2012. I also commend the Deputy Governor, Executive Management and staff at the Reserve Bank of Fiji for their advice, hard work and dedication during the year.



Barry Whiteside  
Governor and Chairman of the Board

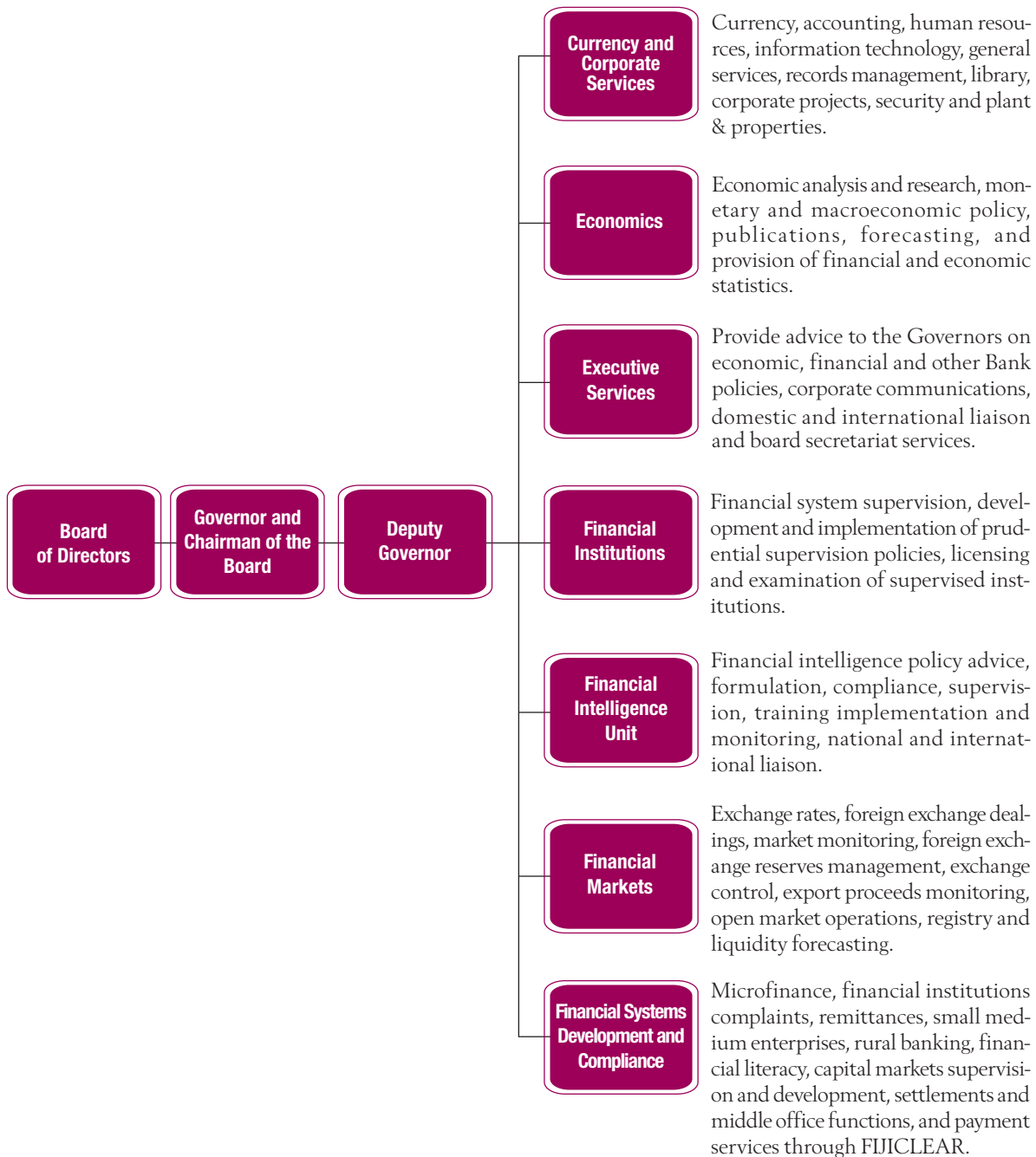


L-R: Ratu Epeli Nailatikau, Mr Barry Whiteside and Commodore Josaia Voreqe Bainimarama.

The President of the Republic of Fiji, His Excellency Ratu Epeli Nailatikau CF, LVO, OBE (Mil), OStJ, CSM, MSD, the Prime Minister of Fiji Commodore J V Bainimarama, CF(Mil), OStJ, MSD, jssc, psc and Governor of the Reserve Bank of Fiji, Mr Barry Whiteside at the launch of the new “flora and fauna” design notes and coins, including Fiji’s first \$2 coin and \$5 polymer note on 12 December 2012.



## Organisation Structure



## Board of Directors



**1. Barry Whiteside**

**Governor and Chairman of the Board**

Governor from 5 May 2011. Alternate Governor for Fiji at the International Monetary Fund and the Asian Development Bank. Former Deputy Chairman of the Capital Markets Development Authority. Chairman of the Macroeconomic Policy Committee. Member of the National Anti-Money Laundering Council, National Financial Inclusion Taskforce and Sugar Taskforce. President of the Fiji Badminton Association.

**2. Filimone Waqabaca**

**Permanent Secretary Ministry of Finance (Ex-officio)**

Appointed to the Board on 7 February 2011. Member of the Governance Committee of the Board. Former Advisor to the Executive Director at the International Monetary Fund. Board Director of the Fiji Revenue & Customs Authority and Fijian Holdings Limited, Member of the University of the South Pacific Council, Fiji National University, Macroeconomic Policy Committee, Sugar Taskforce, National Employment Centre, National Financial Inclusion Taskforce, National Disaster Management Council and National Housing Council. Alternate Governor for Fiji at the World Bank.

**3. Iowane Naiveli**

Appointed to the Board on 1 January 2000. Term expired on 31 December 2011 and renewed for another 3 years. Chairman of the Reserve Bank of Fiji Board Audit Committee and member of the Governance Committee of the Board. Sole partner of I. Naiveli & Company Chartered Accountants. Chairman of Fijian Holdings Limited. Former Chairman of the External Audit Committee of the International Monetary Fund. Former President of the Fiji Institute of Accountants, Financial Advisor to the iTaukei Affairs Board and Trustee of Unit Trust of Fiji.

**4. Robin Yarrow**

Appointed to the Board on 5 August 2005. Term expired on 6 August 2011 and renewed for another 2 years. Member of the Audit and Governance Committees of the Board. Retired from the Fijian Government after 30 years of service which included senior positions with the Ministries of Agriculture, Tourism, Foreign Affairs and National Planning. Currently serves on a number of boards including Vodafone Fiji Ltd, the Fiji Red Cross Society and the National Trust of Fiji. Chairman of the National Financial Inclusion Taskforce.

**5. Adish Narayan**

Appointed to the Board on 3 August 2007. Term expired on 3 August 2010 and renewed for another 3 years. Member of the Governance Committee of the Board. Lawyer by profession and sole proprietor of AK Lawyers and is a member of the Legal Aid Commission.

**6. Deo Saran**

Appointed to the Board on 11 February 2009. Term expired on 11 February 2012 and renewed for another 3 years. Chairman of the Governance Committee of the Board and member of the Board Audit Committee. Former Chief Executive Officer of the Fiji Sugar Corporation Limited and a former President of the Fiji Institute of Accountants. Served on the Stakeholder Council of the Global Reporting Initiative. Currently serves as a director and treasurer for the Foundation for Rural Integrated Enterprises and Development.





## Executive Management



1. Inia  
**Naiyaga**

Deputy  
Governor

2. Lorraine  
**Seeto**

Advisor to the  
Governors

3. Esala  
**Masitabua**

Chief Manager  
Financial  
Institutions

4. Razim  
**Buksh**

Director  
Financial  
Intelligence Unit

5. Ariff  
**Ali**

Chief Manager  
Financial  
Markets

6. Caroline  
**Waqabaca**

Chief Manager  
Economics

7. Susan  
**Kumar**

Chief Manager  
Currency and  
Corporate  
Services

8. Vereimi  
**Levula**

Chief Manager  
Financial  
Systems  
Development  
and Compliance

9. Subrina  
**Hanif**

Board  
Secretary



## Corporate Governance

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

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

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

### The Governor

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

### Board of Directors

The Board comprises the Governor, who serves as Chairman, the Permanent Secretary of the Ministry of Finance as an ex-officio member, and five other non-executive members. Under the RBF Act, the Minister for Finance appoints the Directors. Directors may hold office for a period not exceeding three years but are eligible for reappointment. Board Director Mr Deo Saran's term ended on 11 February 2012, but was renewed for another three years. Other Board directors holding office in 2012 were Mr Iowane Naiveli, Mr Robin Yarrow, Mr Adish Narayan, and Mr Filimone Waqabaca. One Director post remained vacant throughout 2012.

### Board Meetings

Under the RBF Act, the Board is required to meet at least 10 times in a calendar year. Four directors form a quorum for a meeting of the Board. In the absence of the Governor, the Deputy Governor may participate in Board meetings and is entitled to exercise a vote. The Board met on 10 occasions in 2012.

### Board Meetings in 2012 - Attendance by Members

Director	Board (10)	Board Audit Committee (6)	Board Governance Committee (5)
Barry Whiteside	10	NM	NM
Iowane Naiveli	9	6	4
Robin Yarrow	10	6	5
Adish Narayan	8	NM	5
Deo Saran	10	5	5
Filimone Waqabaca	8	NM	1

Source: Reserve Bank of Fiji

### Board Committees

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

The Board Audit 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. 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 the annual financial statements of the Reserve Bank; and
- Reviews accounting policies to ensure compliance with laws, regulations and accounting standards.

The Board Audit Committee met on six occasions in 2012.

The Governance Committee of the Board was established to strengthen the governance of the Bank and to make the Office of the Governor more accountable to the Board. All Board Directors, except the Governor, are members of the Committee.

The main functions of the Committee are to oversee compliance of the Bank's Corporate Governance Principle Guidelines. The Committee also undertakes the annual performance appraisal of the Governor and Deputy Governor based on agreed key performance indicators (KPIs).



In addition, the 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 Governance Committee met five times during 2012.

### Bank Management

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

- Executive Management Committee, which meets weekly to consider the management and day-to-day operations of the Bank;
- Monetary Policy Committee meets monthly, or more often as necessary, to discuss economic and monetary developments;
- Market Operations Policy Committee meets monthly to discuss the Bank's foreign reserves and quarterly for domestic markets operations;
- Financial System Policy Committee meets quarterly to review financial system development and compliance as well as consider policy issues on the soundness and efficiency of the financial system;
- Currency and Corporate Services Policy Committee, which meets quarterly to discuss issues relating to currency and internal services;
- Information Technology Steering Committee (ITSC) meets quarterly to discuss Information Technology (IT) development and operations;
- Financial Systems Development and Compliance Policy Committee, which meets quarterly to discuss financial system and capital markets developments, payment system and consumer issues; 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.

The non-executive member of the ITSC continued to provide independent advice on IT issues.

The Governor chairs all these Committees.

### Delegation of Authority

All activities and expenditure in the Bank must be authorised in accordance with the respective delegations, policies and procedures. The Board receives monthly reports comparing the actual outcomes against

budget. The Internal Rules and Orders of the Bank and the Code of Ethics and Business Conduct policy provide guidance on compliance to ethical standards. The Declaration of Compliance, signed annually by staff, ensures that they have complied with the Code of Ethics, Delegation of Authority, Internal Rules and Orders and IT policies of the Bank.

### Reserve Bank of Fiji Act

The review of the RBF Act commenced in 2009 and a revised draft was submitted to the Solicitor General for review in 2010. The Board and Management continued to discuss various aspects of the proposed changes during 2011-2012.

### Strategic Plan

During 2012, the Reserve Bank continued to implement its 5-year Strategic Plan for 2009-2013. The Plan is posted on the Bank's Intranet and is available to all staff. The Plan was reviewed and updated in a comprehensive manner to ensure that it aligns with changing circumstances and presented to the Board at its meeting in December. Work commenced on the next plan 2014-2018 in 2012.

### Corporate Plan

Corporate planning is carried out annually in the Reserve Bank. The formulation of the Bank's workplan for the following year commences in May with a review of its corporate statements - the vision, mission and values.

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

#### Annual Planning Cycle



Source: Reserve Bank of Fiji

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

In November 2012, the Board approved the annual workplan and budget for 2013.

### **Risk Management**

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

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

Other risks relate to: -

- The holding of foreign reserves - like credit, interest and exchange rate risks;
- The RBF being a relatively small organisation - loss of staff, especially due to emigration can have a major impact;
- Currency - such as counterfeit, adequacy and safety issues; and
- The operations of Fiji's payments system, FIJICLEAR - due to technical issues.

The Business Continuity Plan (BCP), which was approved by the Board in 2007, continued to be rolled out during 2012. The RBF continued training for fire evacuation for Bank staff and tenants. In addition, the Bank implemented other initiatives including planning for a possible avian influenza pandemic 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), which was officially opened in August 2010. The BRS is the backup site for critical operations if the Reserve Bank's main building is, for some reason, inaccessible, or if the systems in the building are inoperable. Critical operations include foreign reserves management, settlements and some domestic market processes including FIJICLEAR operations. The site also houses the Bank's archives. During 2012, the Bank continued to invest in technology at the Bank's BRS and trained staff to ensure they are ready to carry out business recovery during and after a crisis situation with minimal disruption. This included simulation testing of systems, particularly critical operations such as foreign reserves management, settlements, domestic market processes and FIJICLEAR operations. The Bank continues to review its BCP regularly.

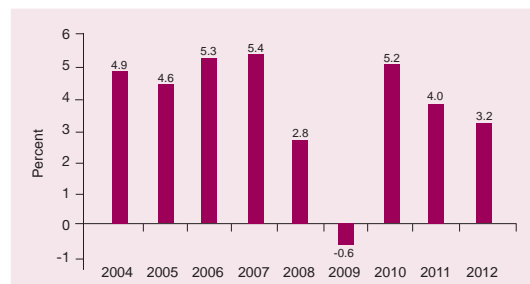
The Middle Office continued to monitor the performance and operational procedures of the Bank with regard to its external and domestic investments. An outsourced internal audit function by PricewaterhouseCoopers provided the Bank with information on risk areas that need to be addressed. Areas for improvement that are identified by internal and external sources are addressed as appropriate. The recommendations of the special audit on the IT operations of the Bank continue to be implemented. The Board and the Audit Committee also contribute to the review and strengthening of the Bank's risk management process.

*In 2012, global economic activity deteriorated significantly as many advanced nations were mired in recession and uncertainty surrounding sovereign debts. Despite signs of improvement towards the latter part of the year, the backdrop of weak external demand, subdued domestic activity, depressed labour markets, and high fiscal debt dented a solid recovery for the world economy.*

### International Economic Developments

The European debt crisis continued to pose downside risks to the overall health of the global economy, while uncertainties surrounding the expected consolidation of fiscal policies in the United States (US) exerted further drag on growth towards the end of 2012. Monetary and fiscal stimuli were further boosted by policymakers as many economies were losing steam. This however, was complicated by the expected austerity measures for certain economies and withdrawal of stimulus since the onset of the global financial crisis. As a result, the International Monetary Fund (IMF) estimated a further deceleration of world economic growth to 3.2 percent in 2012 from 4.0 percent in 2011, and emphasised the significant downside risks to the outlook.

World GDP Growth Rates



Source: IMF World Economic Outlook (April 2013)

Conditions in Fiji's major trading partner economies were generally subdued in 2012. In the US, growth faltered towards year-end, led by a sharp fall in government spending, as well as declines in business inventories and exports. Nonetheless, signs of strength in consumer spending, business investment and housing market recovery suggested that the economy will continue to grow, albeit slowly, after a 2.2 percent growth in 2012. The Federal Reserve launched its third round of an open-ended quantitative easing program, expected to remain for some time, to support a more firm economic recovery.

Aside from concerns of a possible contraction in the US economy due to fiscal consolidation, the risks of a collapse of the Euro zone and its currency raised more anxiety after it relapsed into a recession during 2012.

The European Central Bank cut its benchmark interest rate in July by 25 basis points to a record low of 0.75 percent in further efforts to reduce borrowing costs and improve credit conditions. Consistent with this development and with the persistent weak consumer and investor sentiments weighing on growth, the economy contracted by 0.6 percent in 2012.

In Japan, the effects of the deceleration of demand overseas coupled with the China-Japan islands dispute pushed the economy towards negative territory during the second half of 2012, although the economy grew by 2.0 percent during the year. The Bank of Japan raised its asset purchase program further to overcome deflation and support a sustainable economic growth.

The performance of the Australian and New Zealand economies are relatively better although growth had softened to a point where it is broadly in line with developments abroad. The Reserve Bank of Australia reduced its cash rate four times during the year to 3.00 percent, while the Reserve Bank of New Zealand maintained a stimulatory environment with its official cash rate unchanged at 2.5 percent. In 2012, the Australian economy grew by 3.6 percent while in New Zealand, growth was 2.5 percent.

### Economic Developments in Fiji

Notwithstanding developments abroad and the domestic natural disaster shocks, the Fijian economy is estimated to have expanded further by 2.5 percent in 2012, following a 1.9 percent growth a year earlier. Over the year, the strength in the domestic economy broadly came through the service and industrial sectors. Financial intermediation and wholesale, retail trade dominated growth in the services sector while the upbeat industrial performance was led by manufacturing and construction activities. On the downside, the primary sector was estimated to have contributed marginally as a result of losses to agricultural output from the floods in the first quarter and Cyclone Evan in the fourth quarter of 2012. The prolonged softness in global demand for forestry products negatively impacted the growth in forestry industry.



Fiji's GDP Growth Rates



Sources: Fiji Bureau of Statistics and Macroeconomic Policy Committee

Consumer spending gained further momentum during the year, which further translated into improved business confidence and investment sentiments. The surge in spending by households was supported by the Government through reductions in income tax rates to historically low levels, effective from 1 January 2012. Higher disposable incomes were also complemented by stronger labour market, higher inward remittance flows, and the relaxed credit environment. Consistent with this, net VAT collections rose annually by 9.3 percent to \$675.9 million, while new lending for consumption purposes rose by 25.4 percent to \$246.8 million during the year. Personal remittances were close to their peak in 2006 after rising by 5.3 percent to \$305.8 million in 2012.

The Reserve Bank's various surveys and industry liaison confirmed that business confidence and investment have improved following positive developments in the household sector, and the Government's stimulative and facilitative measures during the year. Construction activity was buoyant as reflected by the total value of work-put-in-place by the sector, which increased by 8.0 percent in 2012. This was led by public sector activity which increased by 160.3 percent although private sector activity fell by 12.5 percent in the same period. Majority of the projects that eventuated during 2012 focussed largely on tourism and residential as well as public related sectors. This reflects some restraint by other sectors to expand their productive capacities as well as concerns of continued uncertainty in the world economy. New lending for investment related purposes grew by 28.1 percent over the year, underpinned by the real estate and building and construction sectors. In addition, trade data for 2012 showed that imports of capital goods rose by 2.1 percent from 2011.

The labour market noted a turnaround during the year as demand for labour rose to match growing business activity and investment. Survey based recruitment

measures throughout the year showed that more firms were expecting to hire additional workers over the short to long-term. The number of job advertisements<sup>1</sup> rose by 24.6 percent during the year, driven by most sectors except agriculture, finance and manufacturing.

In terms of fiscal policy, the Government directed its resources to key sectors and industries to generate quick returns while placing emphasis on fast-tracking structural reforms, in order to entice private sector investment. In this respect, a fiscal deficit of 1.9 percent of Gross Domestic Product (GDP) was budgeted for 2012, which was revised downwards to 1.6 percent of GDP in November. Fiscal sustainability through prudent fiscal policies continues to be the cornerstone of the Government's key macroeconomic objectives in the medium term. At the end of December 2012, Government debt stood at 50.2 percent of GDP, compared to 52.9 percent at the end of 2011.

Inflationary pressures during the year were generally subdued, consistent with the persistent weakness in global demand and easing commodity prices. However, weather related domestic supply shocks at the beginning of 2012 caused temporary disturbances with inflation peaking at 6.4 percent in April but the resilience in domestic supply resulted in prices normalising earlier-than-expected. Inflation consistently fell subsequently, even during the peak Christmas period towards the end of the year, suggesting the near absence of demand-side pressures on prices. At the end of 2012, inflation was 1.5 percent, the lowest in 13 years.

Expansion in money and credit aggregates continued during the first half of 2012, however, growth slowed for the next six months as it responded endogenously to movements in foreign reserves. Growth in broad money slowed to 5.8 percent in December 2012, down from 11.5 percent in December 2011. The slow growth was mainly on account of a deceleration in narrow money, which fell to 4.4 percent compared to 41.8 percent a year earlier. In 2012, domestic credit growth averaged around 3.4 percent, led by a gradual improvement in credit to the private sector which recorded an average growth of 4.8 percent.

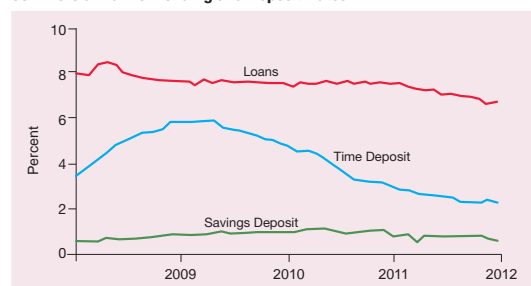
Reflecting the high level of liquidity and competition in the banking system, the commercial banks' weighted average lending rate declined and reached a historical low level of 6.57 percent in November 2012, before increasing slightly to 6.65 percent at year-end. Weighted average savings and time deposit rates fell to 0.74 percent and 2.28 percent respectively. The continued

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

improvement in the investment climate should sustain credit growth and support broad economic activity into the medium term.

Fiji's overall trade performance improved marginally in 2012, as the merchandise trade deficit (excluding aircraft) narrowed by 2.2 percent to \$1,877.6 million. Domestic export earnings rose by 3.7 percent to \$1,045.4 million, underpinned by higher earnings from sugar, mineral water, timber, ginger and textiles

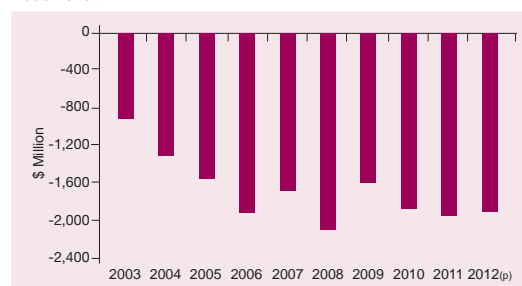
#### Commercial Banks' Lending and Deposit Rates



Source: Reserve Bank of Fiji

which more than offset the decreases in fruits & vegetables, gold, garments and other domestic exports. Earnings from re-exports rose significantly by 26.2 percent to \$1,146.3 million, while total exports (excluding aircraft) grew by 12.1 percent in 2012 compared to 19.2 percent growth in 2011. Over the same period, growth in imports (excluding aircraft) slowed to 4.9 percent to \$4,020.3 million, compared to a growth 10.8 percent in 2011. All broad categories of imports noted increases.

#### Trade Deficit



Source: Fiji Bureau of Statistics

*Kulawai* (Red-throated Lorikeet), our smallest member of the parrot family. Predominantly green, the *Kulawai* is a very rare inhabitant of the mountain forest canopy which feeds on nectar and pollen.

*Kulawai* has only been recorded from Viti Levu, Vanua Levu, Taveuni and Ovalau.

The last confirmed sighting was in 1993 and searches in the last few years have failed to find it. The arboreal ship rat *Rattus rattus*, a common rat in Fiji's forest is an aggressive predator of small nesting birds, and is believed to be the major culprit in the demise of the *Kulawai*.



## Mission: Conduct Monetary Policy to Foster Economic Growth

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

### MONETARY POLICY FORMULATION

#### Chronology of Monetary Policy Actions

Monetary policy formulation in 2012 was conducted against a background of comfortable foreign reserves levels, subdued inflationary pressures, recovering domestic demand and uncertainty in the global economy. While an increasingly uncertain global economy posed renewed threats to the stability gains since 2009, the need to set the economy on a firm growth path warranted a delicate approach in balancing pro-growth policies with the threats on the external front. Thus, the OPR was held steady at 0.5 percent throughout 2012, unchanged from November 2011, in order to facilitate economic growth as Government continued with structural reforms.

The beginning of the year, however, ushered in fresh economic challenges due to massive floods in the Western and Northern Divisions with an estimated cost of \$99.7 million to the Government alone. The RBF responded with the reintroduction of the FRF to assist in reconstruction and maintenance in the private sector. A total of \$20 million was made available immediately on 27 January 2012 under the Facility at an interest rate of up to 6 percent per annum to assist businesses in restoring flood-related losses to production and assets.

In January, the RBF also announced the removal and imposition of ceilings on select fees and charges by commercial banks, in line with the review of the Accountability and Disclosure Guidelines on Interest rates, Fees and Charges for Licensed Banks in Fiji. The Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) of \$2.5 million, which was announced by the Government as part of the 2012 budgetary policies, was also implemented in the same month.

Given the prevailing weakness in domestic demand, the RBF announced the reintroduction of directed lending ratios, which required commercial banks to maintain a certain level of loans in its lending portfolio to agriculture (including forestry and fisheries) and renewable energy. Commercial banks were required to hold 4 percent of their total deposits

and similar liabilities in loans to agricultural activity and 2 percent in loans to the renewable energy sector. The directive, which was effective from the end of February, required commercial banks to comply within a year. At the end of 2012, the agriculture loan ratio for the banking sector as a whole was 2.3 percent while the renewable energy loan ratio was 2.2 percent.

In March, the RBF provided sponsorship for three local chefs to attend the inaugural South Pacific Food and Wine Festival in Denarau, Nadi, as part of ongoing support programs to promote local value adding and import substitution policies and initiatives. This is the second time that the RBF has sponsored training for local chefs in the tourism sector, given the sizable proportion of food imports by the sector. In addition, an agreement was also signed with the Fiji National University (FNU) for the planning and coordination of seminars and workshops in order to promote knowledge sharing and innovation in the utilisation of domestic edible produce in the design of food menus. Moreover, a sponsorship of \$12,000 was also provided by the RBF for the 2012 Agriculture Show in August.

In August, a \$25 million credit line was approved by the RBF Board to the Housing Authority to support housing developments targeted for low income households. The line of credit, which is available at an interest rate of 2 percent per annum and a term of up to five years, should contribute to existing policy programs oriented towards reviving domestic demand and enhancing the welfare of low income households.

Given the comfortable level of foreign reserves and the need to augment confidence in the economy, the Prime Minister, in the 2013 National Budget address in November, announced further relaxations to restrictions on certain exchange control and capital account transactions, with effect from 2 January 2013. These measures applied to dividends and profit repatriation, withdrawal of investments, offshore investments, and outward remittances for medical and educational purposes.

In December, the RBF Board approved an increase in the funding capacity for ISEFF by an additional \$40







Mission:  
Conduct Monetary Policy  
to Foster Economic Growth

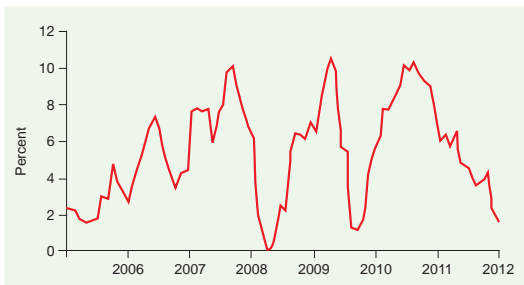
million to a total of \$80 million, given the demand for funds under the Facility and the need to strengthen efforts targeted at promoting growth.

### Monetary Policy Outcomes for 2012

The twin objectives of monetary policy remained intact throughout 2012.

Despite a temporary hike in consumer inflation in the second quarter as a result of supply side disruptions due to the floods in quarter one, inflation generally eased through the year. Inflation fell from a peak of 6.4 percent in April to a low of 1.5 percent in December, on the back of easing international prices of food and oil.

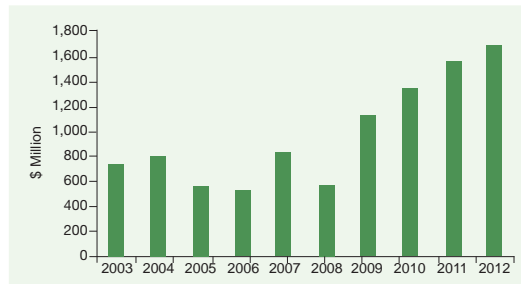
#### Inflation (Annual Percent Change)



Source: Fiji Bureau of Statistics

Foreign reserves held steady at above 4.5 months of retained imports cover through most of the year, before resting comfortably at over 5 months during the last quarter. During the year, foreign reserves rose by \$123.0 million to \$1,635.5 million from the end of 2011.

#### Foreign Reserves



Source: Reserve Bank of Fiji

Generally, there was a moderate appreciation of the Fiji dollar against the basket of trading partner currencies during the year. The Nominal Effective Exchange Rate (NEER) Index was 0.4 percent higher at the end of the year compared to its corresponding level in 2011. The Real Effective Exchange Rate (REER) Index, however, generally eased through the year, the growth of which slowed from a peak of 4.9 percent in April to 0.5 percent at the end of the year, in line with the easing in domestic inflation.

#### REER/NEER (Monthly Average)



Source: Reserve Bank of Fiji





**Mission:**  
Conduct Monetary Policy  
to Foster Economic Growth

## MONETARY POLICY IMPLEMENTATION

### Open Market Operations

Since 1989, the Reserve Bank of Fiji has implemented monetary policy through OMO. This mainly involves the auctioning of Reserve Bank of Fiji's securities or RBF Notes, to adjust the level of liquidity in the banking system in order to influence short-term money market interest rates in line with the OPR.

During 2012, the Reserve Bank maintained an accommodative monetary policy stance by keeping the OPR unchanged at 0.5 percent. There were no issues of RBF Notes throughout 2012 as liquidity levels were consistent with the monetary policy stance. Consequently, there were no associated monetary policy costs for the year compared to \$5.3 million in 2011.

### Management of Foreign Reserves

The RBF Act (1983) grants the Bank custodial and management authority over the country's foreign reserves. In order to ensure a balance between risk and return, the Bank manages foreign reserves within the parameters of capital safety, convertibility to cash and investment returns.

During 2012, foreign reserves were maintained in line with the Fiji dollar basket and largely comprised holdings of the Japanese Yen, the Euro and the Australian, New Zealand and US dollars. Additionally, holdings included IMF Special Drawing Rights and small portions of Gold and the British Pound.

Foreign reserves were on a slight seasonal downtrend during the first half of the year, reaching an annual low of F\$1,445.8 million in June. However, a strong upward trend was recorded afterwards on the back of sugar and airline receipts. Reserves were F\$1,635.5 million at year-end, close to the all-time high of F\$1,651.7 million established in August 2011. Average foreign reserves in the year were around F\$1,529.5 million.

In 2012, global financial markets were impacted by political and economic uncertainties surrounding the major developed nations of the world. Given the imminent global economic slowdown, central banks in trading partner countries continued to maintain accommodative monetary policies and exceptionally low interest rates. As a result, yields in most investment destinations recorded new or close to all-time lows,

while a few European and US government securities posted negative yields.

The adverse global investment environment was largely responsible for a decline in foreign reserves income. Net foreign exchange income on investible reserves fell to \$39.0 million compared to \$43.1 million in 2011.

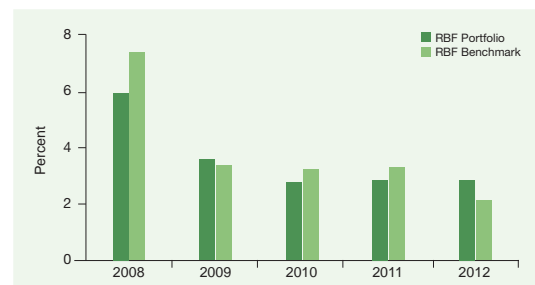
#### Return on External Reserves

	2010	2011	2012
Net Foreign Exchange Income (\$M)	30.6(r)	43.1(r)	39.0
Average Month-End Level of Investible Reserves (\$M)	920	1,281	1,350
Annual Return on:			
RBF Benchmark (%)	3.3	3.4	2.2
RBF Portfolio (%)	2.8	2.9	2.9

Source: Reserve Bank of Fiji

The return on foreign reserves (RBF Portfolio) was 2.9 percent, higher than the Bank's Investment Benchmark,<sup>2</sup> which registered a return of 2.2 percent. The RBF Portfolio's overweight cash position was the main reason for the outperformance.

#### Return on Investments



Source: Reserve Bank of Fiji

The impact of exchange rate movements on the value of foreign reserves is recorded in the RRA. In order to counter currency risk, foreign reserve investments are generally aligned to currency weightings in the Fiji dollar basket. At the end of 2012, the RRA balance stood at F\$49.9 million.

The RBF Act (1983) requires that 20 percent of the RRA year-end balance is transferred to Government. Hence, F\$10.0 million will be transferred to Government in 2013. This compares with \$13.3 million transferred in April 2012.

### Exchange Rates

On a daily basis, the Bank fixes the mid rate of the Fijian dollar against the US dollar. This rate is used to calculate the value of the Fiji dollar against other currencies in the basket, which are then disseminated to various stakeholders. Commercial banks use the exchange rates provided by the RBF to calculate rates at which they

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



Mission:  
Conduct Monetary Policy  
to Foster Economic Growth

transact with customers. The spread between the rates at which local commercial banks buy and sell certain foreign currencies is regulated by the RBF.

### Forward Facility

The Bank continued to monitor the Forward Foreign Exchange Facility throughout 2012 in order to ensure compliance with RBF Guidelines.<sup>3</sup> The relaxation of policies in early 2012 resulted in a notable increase in activity in the first half of the year as commercial banks undertook additional contracts, although activity normalised to historical averages in the latter part of the year.

### Foreign Currency Receipts and Payments

The Reserve Bank continued to provide banking services to the Fijian Government, statutory bodies, as well as other central banks and supranational organisations.<sup>4</sup>

### Exchange Control

Exchange controls in 2012 were further relaxed as

foreign reserves remained comfortably high. The changes which included additional increases to the delegated limits of certain foreign exchange transactions to authorised foreign exchange dealers were aimed at instilling confidence and facilitating investment.

Further relaxations of exchange controls were announced by the Minister for Finance during the National Budget address, effective from 2 January 2013.

Compliance with exchange control policy guidelines continued to be central in the monitoring of transactions undertaken by commercial banks and other stakeholders.

### Export Proceeds Reconciliation and Monitoring

During the year, the Reserve Bank continued work on ensuring the repatriation of export proceeds into the country. In 2012, the Export Proceeds Monitoring Unit reconciled \$1.6 billion in unreconciled export proceeds, bringing the total reconciliations for the 2004-2012 period to \$5.5 billion.

<sup>3</sup> Effective 2 January 2012, commercial banks are allowed to write forward sales contracts up to F\$20 million without matching purchases; except for additional forward sales cover on investment related projects which are available upon application.

<sup>4</sup> This includes the Asian Development Bank, IMF and the International Bank for Reconstruction and Development.





Fiji's endemic *Beli* (Lever's Goby). *Beli* is one of few true fresh water fish, living all its life in fast-running fresh water as it flows over stones to which they often attach.

*Beli* are widespread and found in mid reaches of clear streams on all the high islands, sometimes over a hundred metres above sea level. They are generally absent from muddy water and are threatened by alteration in either water flow or water quality. Their presence in any river is an indicator of good habitat quality and minimal catchment disturbance.



## Mission: Develop an Internationally Reputable Financial System

*A sound financial system is essential for a well functioning economy and is a pre-condition for economic growth. The financial system consists of financial institutions, financial markets, and clearing and settlement systems. The Reserve Bank promotes the safety and efficiency of the financial system by regulating and supervising financial institutions and markets which fall within its supervisory ambit. These financial institutions include licensed banks and credit institutions, insurance underwriters, brokers and agents, the Fiji National Provident Fund (FNPF), restricted foreign exchange dealers (RFEDs) and money changers (MCs). Financial markets under the Reserve Bank's supervision are the capital markets.*

*The Reserve Bank Act (1983) entrusts the responsibility of maintaining a sound financial system to the Reserve Bank. In line with this responsibility, the Banking Act (1995), Insurance Act (1998), Exchange Control Act (Rev. 1985), Reserve Bank of Fiji (Amendment) Decree (2009), FNPF Decree (2011) and Capital Markets Decree (2009) confer on the Reserve Bank powers to issue licences, regulations, prudential guidelines and directives to financial institutions and the capital markets and to conduct offsite supervision and onsite examinations.*

### FINANCIAL SYSTEM REGULATION AND SUPERVISION

2012 was a challenging year for the financial sector. However, financial soundness indicators remained intact signifying a satisfactory performance of Fiji's financial system. The insurance industry, in particular, experienced three natural disasters during the year but maintained its solvency requirements, posted positive and satisfactory earnings and recorded growth in asset size. The banking industry also registered positive growth in assets underpinned by increased deposits that were channelled into more loans. The banking industry recorded higher earnings despite the fee reforms undertaken and maintained a satisfactory asset quality. FNPF reforms were implemented during the year, which geared the Fund for a more sound footing of the pension scheme. Overall, despite the removal of and reduction in bank fees and charges brought on by the fee reviews, the 2012 floods and Cyclone Evan, and the pension scheme reform, Fiji's financial system remained sound.

#### Supervisory Developments

Supervisory efforts during the year continued towards the core objective of maintaining a sound financial system. Closer and more intensive monitoring of the FNPF continued in 2012. Reforms implemented by the Fund and its effects on the soundness and sustainability of the pension scheme were examined and reported on a monthly basis. Offsite monitoring and onsite examinations of the FNPF, commercial banks, credit institutions, insurance underwriters and brokers, RFEDs and MCs were conducted throughout 2012. Further to this, the regulatory reforms put in place in 2011 to raise awareness on product affordability and transparency of licensed financial

institutions operations were implemented and closely monitored. The RBF continued to roll out these regulatory measures to credit institutions to increase consumer protection for the banking public.

For the banking industry, the Reserve Bank finalised and implemented a supervision policy to increase the transparency and accountability of licensed credit institutions in Fiji in 2012. The Banking Supervision Policy 8B on Accountability and Disclosure Guidelines on Interest Rates, Fees and Charges for Licensed Credit Institutions in Fiji was issued in September, following the issuance of Banking Supervision Policy 8A in 2011. The Reserve Bank consulted extensively with the Finance Companies Association (FCA) on the proposed and final requirements of the policy.

As part of banking reforms for accountability and transparency of fees and charges, the Reserve Bank continued its work on the review of bank fees and charges, which was completed in September. This resulted from the RBF and the Association of Banks in Fiji (ABIF) agreement in 2011, with any introduction of a new fee or an increase in the existing ones to be justified to the Reserve Bank. Further liaison with the industry continued throughout the year on implementation issues. The full implementation of the Banking Supervision Policy 8A disclosure requirements for banks was held back during the year to await the outcome of the review of fees and charges. Upon the completion of the review, fees and charges for individual products were to be disclosed at different stages of banking relationship through product brochures, pre-contractual disclosure documents, letters of offer and fees and charges brochures issued by individual commercial banks. Monitoring of these disclosure requirements resumed towards the final months of the year and will continue into 2013. A



similar approach for a full review and finalisation of disclosure documents will be implemented with credit institutions in 2013.

For the insurance industry, the Reserve Bank continued with the review of the Insurance Act (1998). A discussion paper was issued to the industry and consultation was undertaken with the Insurance Taskforce Committee (ITFC). The review focussed on improving the efficiency and effectiveness of a number of the provisions in the Act. The ITFC comprises licensed insurers, brokers and the Reserve Bank. Work on finalising the agreed amendments will continue in 2013. Further to this review, the Reserve Bank also commenced reforms for the licensing framework for insurance agents. A review of Insurance Agents Licensing Requirements and the licensing process was aimed at improving the efficiency of the agent licensing process and ensuring consumer protection through a more stringent fit and proper assessment of agents. Consultation with the industry will continue in 2013.

Further to the above reviews, the implementation of two Insurance Supervision Policies issued in 2011 was closely monitored by the Reserve Bank. The two policies were aimed at strengthening the soundness of licensed underwriters and improving their transparency, and in turn foster market discipline. In 2012, licensed insurers in Fiji, as required under Insurance Supervision Policy 10, prepared and submitted to the Reserve Bank the Actuarial Reports examining their liability valuations and financial conditions. Another significant development was the requirement under Insurance Policy Supervision 11, which resulted in the publication of key disclosure statements of licensed insurers in the newspapers.

For RFEDs and MCs, the Reserve Bank continued to monitor the implementation of supervision policies in place. New appointments and other supervisory issues were dealt with during the year.

Onsite examination of licensed financial institutions is an integral part of the Reserve Bank's supervision. During the year, onsite examinations were carried out on two banks, two credit institutions, two insurers and two brokers, and 11 spot checks on nine Foreign Exchange Dealers. There were two onsite examinations of the FNPF. In 2012, a pre-operation inspection was also carried out at the BRED Bank before it opened its doors for business. To strengthen supervisory capacity for onsite examinations, the RBF participates in regional cooperation through the Association of Financial System Supervisors of the Pacific Islands. Through this cooperation, two onsite examinations were assisted with technical advisors from the Australian Prudential Regulation Authority (APRA). The Reserve Bank also

hosted supervisors from other Pacific island supervisory authorities during these APRA assisted onsite examinations.

The Reserve Bank's controllership of the NBF Asset Management Bank (AMB) continued into its fifth year. In 2011, the Reserve Bank presented a petition to the Courts to wind up the AMB under the Banking Act 1995. However, the petition was dismissed by the Courts in 2012 on technical grounds. The Reserve Bank explored other options and is currently pursuing an Executive Order under Section 55 of the Banking Act. Work on drafting the order and consultation with relevant authorities commenced during the year, with the final approval to be sought from the Minister for Finance.

For the insurance industry, the Reserve Bank continued to wind down the operations of the Insurance Trust of Fiji. The focus during the year was on liquidating existing policies. Recovery efforts involving legal cases disputed before the Courts continued. Actuarial valuations on the surrender values of existing policies were carried out and subsequently paid out to customers.

The RBF also undertook a review of the No Surcharge Rule of card schemes such as Visa, MasterCard and American Express, as a result of the ongoing issue of surcharging practices by Electronic Funds Transfer at Point of Sale (EFTPOS) merchants in Fiji. Three of the five existing banks offer EFTPOS facilities to their customers. An examination of the credit card regulatory framework indicated that card schemes ban the practice of surcharging unless there are legal provisions in the jurisdiction which explicitly allow surcharging. Consequently, merchant agreements with commercial banks in Fiji also ban the practice of surcharging. It was also noted that some merchants were surcharging and levels of surcharge differed. Given the efficiency gains of electronic card payments, the Reserve Bank at its August Board meeting resolved to uphold the No Surcharge Rule for both credit and debit cards in Fiji. This decision was implemented in November 2012 and monitoring continues.

The interchange of EFTPOS continued between Bank South Pacific, Australian and New Zealand Banking Group Limited and Westpac Banking Corporation. The remaining banks are working towards achieving interchange.

### The Financial System

2012 was marked with the new entrant into the financial system. BRED Bank (Fiji) Limited opened its Suva Branch for business in November 2012.

**Mission:**  
Develop an Internationally  
Reputable Financial System

The number of banks licensed under the Banking Act 1995 now stands at five. For branches and agencies however, a consecutive decrease was noted since 2009, now with 98 in 2012. This development is in line with the move by banks towards more cost-effective channels to improve the availability and convenient use of their banking services. Over the year, the points of representation of banks increased significantly with the increased number of EFTPOS machines and Automated Teller Machines (ATMs). These improvements in access were complemented by the interchange available in both EFTPOS and ATMs. Bank customers were able to use their electronic cards at other Bank EFTPOS and ATM machines, improving convenience to customers and saving costs for banks.

A new application for a banking licence was received and evaluated during the year. Home Finance Company Limited (HFC) was issued a conditional approval to transform its existing operations as a credit institution into a commercial bank. The Reserve Bank continues to monitor HFC's progress in meeting these conditions.

The number of credit institutions remained at three, although one additional branch and two agencies were opened in 2012 as credit institutions increase their points of representation.

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

	2008	2009	2010	2011	2012
Commercial Banks <sup>1</sup>	5	5	5	4	5
Branches	64	63	63	63	60
Agencies	56	57	51	43	38
ATMs	154	164	202	212	226
EFTPOS	1,589	1,785	1,896	2,937	3,639
Credit Institutions	3	3	3	3	3
Branches	11	12	13	14	15
Agencies	0	0	0	0	2
Life Insurance Companies	2	2	2	2	2
General Insurance Companies <sup>2</sup>	8	8	8	8	8
Insurance Brokers	4	4	4	4	4
Insurance Agents <sup>3</sup>	378	320	329	357	312
Foreign Exchange Dealers	8	7	8	8	8
Money Changers	3	3	3	3	2
Securities Exchange	1	1	1	1	1
Unit Trusts	3	2	2	2	2
Property Trusts	1	1	1	1	0
Investment Advisors	10	11	10	11	11
Brokers	3	3	3	3	3
Dealers	2	2	3	3	3

<sup>1</sup> AMB is excluded from 2008 onwards, when it went under the controllership of the RBF. It is currently being wound up.  
<sup>2</sup> Includes FAI Insurance (Fiji) Limited, which is currently being wound up.  
<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

There were no movements in the number of players in the insurance industry with two life insurance companies, eight general insurance companies and four insurance brokers. The number of licensed insurance agents decreased from 357 to 312. For the foreign exchange industry, the RFED Licence of Capital Foreign Exchange (Fiji) Ltd T/A CAMBIO and Money Changer Licence of Natadola Tourism Holdings T/A Just

Exchange were cancelled during the year upon the cessation of their operations. In addition, a new RFED Licence was issued to Real Forex Proprietary (Fiji) Limited which is required to commence operations in 2013. At the end of the year, the number of licensed foreign exchange dealers stood at eight RFEDs and two MCs.

#### Gross Assets of the Financial System

Fiji's financial system further grew by 7.4 percent in 2012, compared to a growth of 6.2 percent in 2011 and 2.1 percent in 2010. The banking system accounted for more than half of the industry growth (52.6%), followed by growth in contributions from insurers and FPNF. At an industry level, the highest growth was reported by insurers (16.1%) followed by credit institutions (12.9%). In terms of the structure of the financial system, the banking industry comprised 44.9 percent of total gross assets, a slight increase from 44.3 percent in the previous year. FPNF remained the most systemically important institution accounting for 35.3 percent, although slightly lower than the 36.5 percent in 2011.

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

	2008	2009	2010	2011(r)	2012(p)
<b>Regulated Financial Entities</b>					
Commercial Banks	4,008	4,452	4,514	4,954	5,389
Credit Institutions	348	372	418	448	506
Insurance Companies	804	921	940	1,044	1,212
FPNF	3,696	3,841	3,928	4,077	4,235
Insurance Brokers	32	31	34	34	35
<b>Total</b>	<b>8,888</b>	<b>9,617</b>	<b>9,834</b>	<b>10,557</b>	<b>11,377</b>
<b>Non Regulated Financial Entities</b>					
NBFIs <sup>1</sup>	680	690	692	621	628
<b>Total</b>	<b>680</b>	<b>690</b>	<b>692</b>	<b>621</b>	<b>628</b>
<b>Total Financial System<sup>2</sup></b>	<b>9,568</b>	<b>10,307</b>	<b>10,526</b>	<b>11,178</b>	<b>12,005</b>

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

Source: Reserve Bank of Fiji

The value of the capital markets totalled \$3.9 billion in 2012, an increase of 0.6 percent over the previous year.

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

	2008	2009	2010	2011	2012
Equities Market <sup>1</sup>	1,002	902	778	744	816
Unit Trust Market <sup>2</sup>	138	116	111	117	123
Bonds Market <sup>3</sup>	2,827	3,003	3,212	3,025	2,972
<b>Total</b>	<b>3,967</b>	<b>4,021</b>	<b>4,101</b>	<b>3,886</b>	<b>3,911</b>

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

Source: Reserve Bank of Fiji

#### The Banking Industry

The banking industry's capital position was strong during the year, reflecting stable earnings and asset

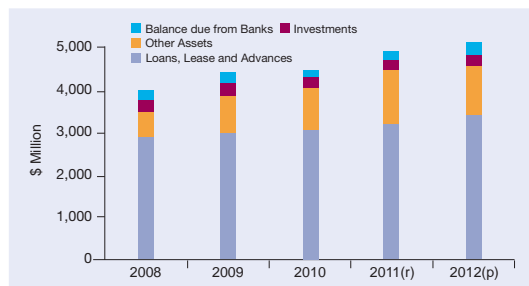




quality. Liquidity holdings remained at high levels throughout the year.

The banking industry grew by 8.8 percent to \$5.4 billion in 2012. This compares with 9.7 percent in 2011. The growth in 2012 was mainly a result of a rise in the level of lending coupled with increased balances held with the Reserve Bank.

#### Commercial Banks' Assets



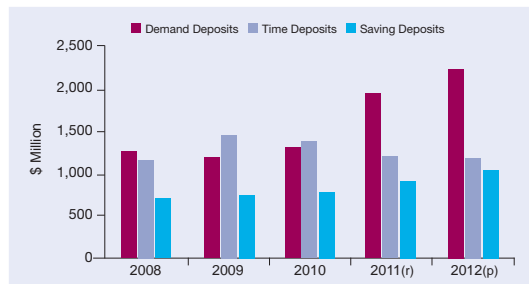
Source: Reserve Bank of Fiji

Credit growth, as measured by total loans increased over the year by 7.4 percent to \$3.5 billion in 2012. This is a significant improvement when compared to 4.4 percent in 2011 and an average growth of 6.3 percent over the last five years.

The upward surge in credit was broad based, led by increased lending to the wholesale, retail and hotels and restaurants sector, real estate, manufacturing, private individuals, agriculture, professional & business services, mining & quarrying, building & construction and other sectors.

Total investment by commercial banks fell by 11.9 percent to \$225.3 million. However, balance due from head offices, branches and commercial banks abroad rose significantly by 42.3 percent to \$332.9 million.

#### Components of Deposits



Source: Reserve Bank of Fiji

On the liabilities side, total deposits rose to another record high of \$4.5 billion, a significant increase of 10.6 percent over the year. The increase was a result of higher savings and demand deposits led by a rise in private individual and private sector business entity deposits. However, time deposits declined over the year.

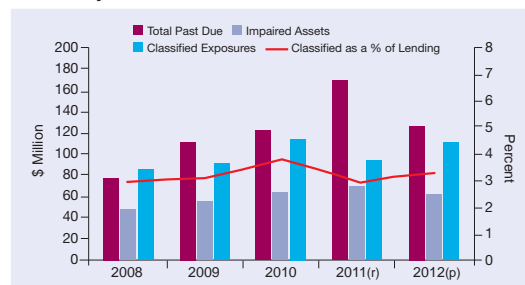
During the year, commercial banks continued to remit profits to their head offices from their retained earnings. Notwithstanding this, total capital and reserves of the industry recorded a significant rise with the addition of the new commercial bank.

The capital adequacy ratio for the industry in relation to risk weighted assets, however, fell to 14.7 percent from 15.5 percent in 2011 and 18.9 percent in 2010. This was mainly due to a larger rise in risk weighted assets (6.6%) than the total capital which increased by 2.2 percent. Despite the fall, the ratio remained strong above 12 percent, with all commercial banks complying with the minimum requirement.

Following a recovery in 2011, asset quality slightly deteriorated in 2012 with the total classified accounts to total loans ratio increasing from 3.0 percent to 3.3 percent. Classified accounts rose by 18.6 percent over the year to \$113.2 million, largely due to more accounts displaying substandard characteristics. Impaired accounts, however, fell by 11.9 percent to \$62.7 million, led mainly by recovery of doubtful accounts.

Total provisions (individually and collectively assessed) on classified accounts for the banking industry, fell marginally by 1.1 percent to \$43.3 million. In terms of coverage, this represented 38.3 percent of total classified loans.

#### Asset Quality



Source: Reserve Bank of Fiji

The total past due loans of the industry was \$128.3 million. This was a decline of \$44.1 million, led mainly by a reduction in the 1-3 months category (\$31.6 m). This positive development arose mainly from accounts under special monitoring where borrowers were experiencing difficulties. In terms of sectors, the majority of problem loans were in the private individuals sector (24.8%), followed by the wholesale, retail, hotels and restaurants sector (17.8%).

In line with developments in the economy, the banking industry's profitability recovered following three years of deterioration. Total before-tax profits were \$127.1 million for the 2011-2012 financial year. The positive result was largely driven by better net interest income



Mission:  
Develop an Internationally  
Reputable Financial System



along with increased non-interest income while operating costs recorded a lower growth of 1.8 percent compared to the growth for 2011 (9.2%).

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

	2008	2009	2010	2011(r)	2012(p)
Net Interest Income	187.4	187.5	159.8	168.3	177.0
Add: Non Interest Income:	96.5	114.3	130.6	141.2	147.1
Income from Overseas					
Exchange Transactions	44.3	46.4	55.0	66.9	66.6
Commission and Charges	54.2	56.7	68.2	69.9	73.3
Other Income	(2.0)	11.3	7.4	4.6	7.2
<b>Total Operating Income</b>	<b>283.9</b>	<b>301.8</b>	<b>290.4</b>	<b>309.5</b>	<b>324.1</b>
Less: Operating Expenses	133.0	135.6	173.6	189.5	192.9
Less: Bad debts and Provisions	7.3	38.9	(8.2)	8.0	4.1
<b>Profit Before-Tax and Extraordinary Items</b>	<b>143.5</b>	<b>127.3</b>	<b>125.0</b>	<b>112.0</b>	<b>127.1</b>
Less: Tax	41.8	38.1	32.6	32.9	31.6
<b>Net Profit After Tax</b>	<b>101.7</b>	<b>89.2</b>	<b>92.5</b>	<b>79.1</b>	<b>95.6</b>
Add/Less: Extraordinary Items	0.0	0.0	0.0	0.0	0
<b>Net Profit After Tax and Extraordinary items</b>	<b>101.7</b>	<b>89.2</b>	<b>92.5</b>	<b>79.1</b>	<b>95.6</b>
<b>Average Assets</b>	<b>3,766.7</b>	<b>4,033.5</b>	<b>4,337.1</b>	<b>4,973.1</b>	<b>5,278.1</b>
After Tax Return on Equity (%)	32.2	21.1	17.7	13.8	17.5
Efficiency (%)	46.9	44.9	59.8	61.2	59.5
Yield on Earning Assets (%)	7.5	7.2	7.2	5.9	5.3
Cost of Funding Liabilities (%)	1.9	1.9	3.1	2.1	1.3

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

Source: Reserve Bank of Fiji

As a result, the efficiency ratio (ratio of operating expenses to operating income) improved from 61.2 percent to 59.5 percent. In relative terms to equity and assets, in line with the increase in profits and reduced taxation rates, commercial banks' returns improved in 2012.

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

	2008	2009	2010	2011(r)	2012(p)
Net Interest Income	5.0	4.7	3.7	3.4	3.4
Charges for Bad & Doubtful Debts	0.2	1.0	-0.2	0.2	0.1
Non-interest Income	2.6	2.3	3.0	2.8	2.8
Operating Expenses	3.5	3.4	4.0	3.8	3.7
Net Profit Before-Tax	3.8	2.6	2.9	2.3	2.4
Net Profit After Tax	2.7	1.6	2.1	1.6	1.8

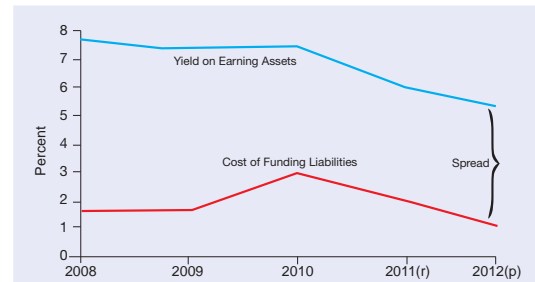
<sup>1</sup> Financial year-end profits for all commercial banks used.

Source: Reserve Bank of Fiji

The combined interest spread for commercial banks rose over the year to 4 percent due to a relatively larger decline in the cost of funding liabilities (8 basis points) compared to the 6 basis points reduction in the yield on earning assets. This was driven by a general downward trend of interest rates in the market amidst high levels of liquidity; with a faster pace of decline noted in deposit rates than in lending rates.

As at December 2012, total liquid assets of the banking industry were at record high of \$1.4 billion. The bulk of this (45.6%) was in exchange settlement balances held with the Reserve Bank.

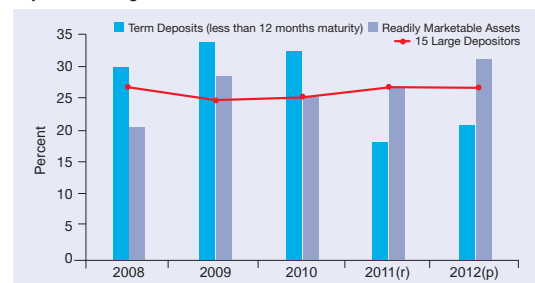
#### Commercial Banks' Annual Spread



Source: Reserve Bank of Fiji

The ratio of marketable assets (liquid assets to total deposits) strengthened from 26.8 percent to 28.1 percent. However, the ratio of the 15 largest depositors as a percentage of total deposits increased over the year to 29.8 percent from 28.9 percent, indicating the slight rise in concentration risk. In terms of upcoming maturities, term deposits maturing within the next 12 months increased to \$933.2 million, representing 20.7 percent of total deposits.

#### Deposits Coverage



Source: Reserve Bank of Fiji

#### Credit Institutions

Credit institutions continued to perform satisfactorily with strong capital levels, marginal liquidity and asset quality. Similar to commercial banks, credit institutions' balance sheet expanded over the year by 12.9 percent to \$506.0 million. This development was driven by loans and advances which grew by 14.0 percent to \$407.5 million.

The significant rise was led by an increase in lending to private sector business entities which rose by 17.8 percent to \$264.3 million and private individuals by 7.9 percent to \$142.5 million. Loans were disbursed to wholesale, retail and hotels and restaurants sector, manufacturing, agriculture, mining & quarrying, building & construction sectors while private individual loans were mainly disbursed for housing purposes.

Total investments rose by 13.7 percent to \$30.9 million with credit institutions investing more in Fiji Government Bonds.

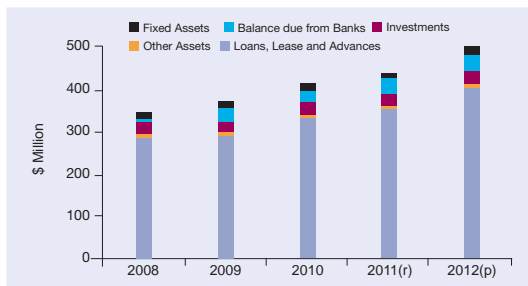


# 10



Mission:  
Develop an Internationally  
Reputable Financial System

### Credit Institutions' Assets



Source: Reserve Bank of Fiji

Credit institutions' deposits rose by 15.2 percent to \$315.3 million. The increase was underpinned by a significant increment in deposits received from Non-Bank Financial Institutions (NBFIs)<sup>5</sup> (197.4%) and public enterprise (48.4%). Borrowing from shareholders declined slightly by \$1.2 million to \$42.9 million.

Capital reserves increased to \$7.5 million over the year, due to a \$5.0 million capital injection at a credit institution. Retained earnings also contributed to the higher capital reserves.

The capital adequacy ratio remained strong at 25.2 percent, but was slightly lower than the 26.2 percent recorded in 2011. This was a result of a higher growth recorded in total risk weighted assets (12.5%) over the year when compared with total eligible capital, which grew by 10.7 percent.

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

	2008	2009	2010	2011(r)	2012(p)
Interest Income	46.2	41.4	45.5	49.3	48.3
Interest Expense	15.2	11.9	17.3	18.6	16.1
<b>Net Interest Income</b>	<b>30.9</b>	<b>29.5</b>	<b>28.2</b>	<b>30.7</b>	<b>32.2</b>
Add: Non Interest Income	4.2	3.7	4.1	4.2	5.7
<b>Total Operating Income</b>	<b>35.1</b>	<b>33.2</b>	<b>32.3</b>	<b>34.8</b>	<b>37.9</b>
Less: Operating Expenses	11.0	11.6	11.9	12.7	13.3
Less: Bad debts and Provisions	5.5	3.6	0.7	4.2	4.1
<b>Profit Before Tax</b>	<b>18.6</b>	<b>18.0</b>	<b>19.7</b>	<b>17.9</b>	<b>20.5</b>
Less: Tax	5.7	5.6	5.2	5.5	6.0
<b>Net Profit After Tax</b>	<b>12.9</b>	<b>12.4</b>	<b>14.5</b>	<b>12.4</b>	<b>14.5</b>
<b>Earning Assets</b>	<b>324.0</b>	<b>309.6</b>	<b>326.5</b>	<b>358.7</b>	<b>396.5</b>
<b>Cost of Funds</b>	<b>279.5</b>	<b>250.3</b>	<b>262.9</b>	<b>299.5</b>	<b>323.8</b>
<b>Average Assets</b>	<b>354.5</b>	<b>334.3</b>	<b>356.9</b>	<b>399.7</b>	<b>431.5</b>
After Tax Return on Equity (%)	21.4	18.6	19.5	15.6	17.3
Efficiency (%)	31.3	35.0	36.7	36.3	35.2
Yield on Earning Assets (%)	14.3	13.4	14.0	13.7	12.2
Cost of Funding Liabilities (%)	5.5	4.8	6.6	6.2	5.0

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

Source: Reserve Bank of Fiji

Asset quality indicators suggested that credit institutions' asset quality deteriorated further in 2012. Classified exposures rose by 16.9 percent to \$50.0 million. As a result, the ratio of classified exposures-

to-loans advances & leases increased further to 12.3 percent from 12.0 percent in 2011. In line with this, provisions on classified exposures rose by 27.9 percent to \$23.3 million.

Similar to commercial banks, credit institutions' profitability improved in 2012 and reached a record high. Profits before-tax for the financial year 2011-2012 was \$20.5 million. The positive result was underpinned by an improvement in net interest income, a significant rise in non-interest income and a marginal increment in expenses. However, in relative terms, the return on equity and assets remained at lower levels than in 2010 despite an improvement in efficiency. The efficiency ratio of credit institutions improved to 35.2 percent from 36.3 percent.

The combined credit institutions' spread was 7.2 percent compared to 7.5 percent in 2011, reflecting a higher reduction in yield on earning assets led by falling interest rates in the market.

Credit institutions' holding of liquid assets strengthened by 3.8 percent to \$72.3 million, attributed to the rise in investments.

### The Insurance Industry

The insurance industry remained resilient in 2012, despite a challenging year for general insurers amidst a series of catastrophic events. Both life and general insurers continued to comply with solvency requirements under Section 31 of the Insurance Act (1998). The solvency surplus position of life and general insurers was \$125.6 million and \$67.9 million respectively, as at 31 December 2012.

Total assets of the insurance industry grew annually by 16.1 percent to \$1.2 billion in 2012. Life insurers' assets noted a major increase of \$93.7 million over the year to \$843.9 million. This was mainly underpinned by an appreciation of the market value holdings in Government securities and a rise in cash on hand balances. The assets of general insurers also recorded an increase of \$74.6 million to \$368.2 million in 2012. This was due to an increase in the amounts due from reinsurers on outstanding claims. The life insurers dominated the assets of the industry at 69.6 percent.

Similarly, net premium income expanded by 10.9 percent over the year to \$213.2 million. Both life and general insurers net premium income grew by 17.8 percent and 4.0 percent respectively. Life insurers accounted for 52.7 percent of the combined industries total net premium income.

<sup>5</sup> The NBFIs include the Fiji Development Bank and the non-regulated finance companies.





Mission:  
Develop an Internationally  
Reputable Financial System

Net claims paid noted a significant increase of 24.7 percent to \$134.6 million in 2012 mainly due to claims arising from floods and Cyclone Evan for the general insurers. As a result, the net claims ratio<sup>6</sup> for general insurers deteriorated to 87.3 percent in 2012 from 49.9 percent in the prior year. However, general insurers' reinsurance arrangements continued to cushion such impacts.

Insurance brokers continued to effectively intermediate for insurance premiums and claims, by arranging policies locally with the licensed insurers in Fiji and offshore. The insurance brokers placed 900 applications, amounting to \$29.7 million in premiums, with offshore insurers. This compares with 872 applications approved by the Reserve Bank and placed with offshore insurers in 2011, amounting to \$22.2 million in premiums.

#### Fiji National Provident Fund

The FNPF remained the single largest supervised institution in terms of asset size, accounting for 35.3 percent of the financial system assets at the end of 2012. Given this systemic significance, the Reserve Bank continued with its closer monitoring of the institution and the reform program it has been undertaking. The FNPF Decree (2011) became effective from 25 November 2011 after which the Reserve Bank promptly took action to clearly understand its responsibilities under the Decree. In this regard, monthly prudential consultations continued with the FNPF in 2012 as a means of information exchange on the reform updates and supervisory issues.

As at 31 December 2012, the total assets of FNPF rose by 3.9 percent to \$4.2 billion, due to an expansion in the Fund's investment portfolio. The Fund's asset base continued to be dominated by investments, which amounted to \$3.9 billion (92.9% of total assets). Of total investments, cash and fixed interest-bearing securities accounted for 82.5 percent, while growth assets made up 17.5 percent of the portfolio.

Members' balances grew by 6.4 percent to \$3.2 billion, compared to a growth of 4.6 percent in 2011, backed by a reduction in withdrawals. Interest credited for the year however, noted a slight reduction of 0.5 percent from \$133.6 million in 2011. Reserves decreased by 7.6 percent to \$695.7 million, compared to a growth of 11.2 percent in 2011. This was largely due to the closure of the pension buffer reserve and the establishment of the Retirement Income Fund (RIF).

Total contributions collected over the year was \$332.9 million, an increase of 8.4 percent from \$307.2 million in 2011. Withdrawals decreased by 10.5 percent to \$268.2 million, underpinned by the reduction in retirement withdrawals from \$2,148.9 million to \$113.0 million.

In addition to the submission of prudential reporting returns and the monthly prudential consultations, regular liaisons were also undertaken with key personnel of the Fund on the progress of the reform program in areas including the finalisation of the pensioners' validation process, establishment of the RIF, development of the new Pension Administration System, and the confirmation of solvency of the RIF and the FNPF under the FNPF Decree (2011). The Reserve Bank conducted two onsite examinations in 2012, targeted at the adequacy of the FNPF's risk management framework for the oversight of pension, governance and investment risks inherent in its operation.

With the near completion of the Fund's reform program, the Reserve Bank has assessed the need to develop a separate law on Superannuation Supervision which would provide for specific and relevant powers for its supervision of Fiji's superannuation industry. A separate legal framework in this regard is expected to be in place in 2014. The Reserve Bank is grateful for the funding by the Asian Development Bank (ADB) to provide technical assistance for this project.

The development of the Superannuation Supervision Decree is timely in bringing about the first major review of the regulatory and supervisory framework for the Reserve Bank's supervision of Fiji's superannuation industry, after the FNPF was included under the Bank's supervisory ambit from January 2004.

#### Capital Markets

The level of trading on the South Pacific Stock Exchange (SPSE) improved in 2012 from 2011. The overall stock market capitalisation increased by 9.7 percent to \$816.2 million, reflecting increases in share price of 10 from the 18 listed securities. In line with movement of market capitalisation, the SPSE Total Return Index which is a better measure of performance as it includes the total return (price, dividend and interest returns) from the stock market, increased by 14.1 percent and stood at 1,893.30.

In 2012, 19.9 million shares and notes were traded in 891 transactions resulting in a total consideration of \$119.0 million. Compared to 2011, 1.7 million shares

<sup>6</sup> Net Claims Ratio is Net Claims Incurred as a percentage of Net Earned Premiums.



and notes were traded in 718 transactions resulting in a total consideration of \$3.5 million. The increased level of trading activity is largely due to the special crossing transactions.<sup>7</sup> There were 18 special crossing transactions executed in 2012 for nine listed securities with the largest trade in the history of the SPSE in Paradise Beverages (Fiji) Limited (trading as Foster's Group Pacific (FGP) Limited) of 9.3 million with a consideration of \$108.6 million. This was a result of Coca Cola Amatil (Fiji) Limited acquiring 89.6 percent shareholding from Foster's Australia Limited.

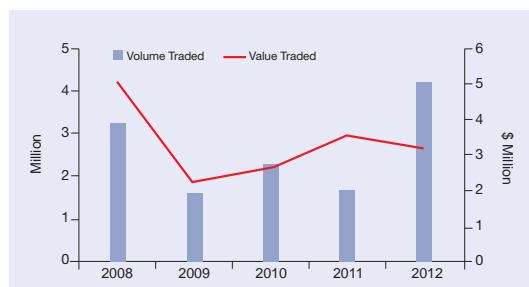
#### SPSE Total Return Index



Source: South Pacific Stock Exchange

Even after the special crossing transactions are excluded, the level of trading in 2012 noted significant improvements when compared to 2011. A total of 4.2 million shares and notes were traded in 873 transactions resulting in a total consideration of \$3.2 million.

#### Volume and Value of Shares Traded



Source: Reserve Bank of Fiji

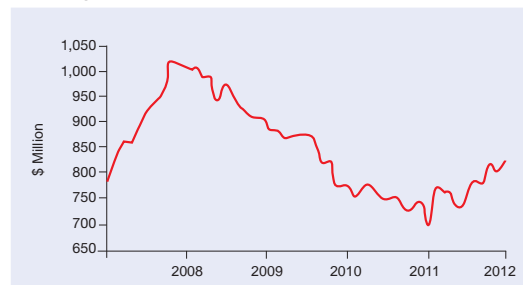
The buy-to-sell ratio improved from 1:61 to 1:9. This improvement was attributed to the new buy and sell orders that were placed on the trading board particularly in the second half of 2012 and the active trading in the stock market.

In terms of total market capitalisation by security, Amalgamated Telecom Holdings (ATH) Limited accounted for 45.5 percent, followed by FGP Limited at 16.8 percent, RB Patel Group Limited at 7.9 percent, FMF Foods Limited (FMF) at 7.4 percent and Toyota Tsusho (South Sea) Limited at 3.8 percent. The top

five largest companies represented 81.3 percent of the total stock market as at the end of 2012.

In 2012, the average total return from the stock market stood at 6.5 percent compared to 8.8 percent in 2011, with an average dividend and interest yield of 4.0 percent and an average capital growth of 2.5 percent.

#### Market Capitalisation



Source: South Pacific Stock Exchange

The Kontiki Price Matching Services, which provides an over-the-counter price matching system/trading registry for four unlisted public companies, noted two trades each in Fiji Gas Limited and Yatu Lau Company Limited (B Class) shares with a total consideration of \$0.2 million. Over 2012, the market capitalisation of the companies utilising this facility decreased by 3.5 percent from \$63.3 million to \$61.0 million.

Despite the closure of one Fijian Holdings Property Trust in 2012, the unit trust market grew by 4.6 percent, as the total value of funds under management rose from \$117.2 million in 2011 to \$122.6 million. This outcome was underpinned by a \$7.4 million (222.4%) increase in net sales of units during the year which allowed for the availability of more funds for investment. Government bonds continued to be the largest component of the unit trust market's consolidated investment portfolio (28.9%) followed by unlisted securities (28.7%), listed securities (20.3%), cash equivalents (14.5%), other interest bearing securities (7.5%) and managed investments (0.1%).

The number of unit holders increased by 7.9 percent to 16,559. Of the total unit holders, 70.5 percent were individuals whilst institutions and other groups accounted for 29.5 percent.

On other capital market developments, the Bank organised two corporate finance seminars for company directors and executives. Both the seminars were well attended.

<sup>7</sup> Special crossing transactions are bilateral deals on the sale and purchase of larger quantities of shares in a security which are one-off transactions.



**Mission:**  
Develop an Internationally  
Reputable Financial System

A market consultation paper was issued by the Reserve Bank in September to assist the Capital Markets Development Taskforce in the development of the Capital Markets Master Plan (2013-2020). The paper was issued to capital market intermediaries and approved persons to obtain comments on and additional recommendations of priority areas and development strategies for inclusion in the Master Plan.

The Taskforce met twice in 2012 to revise their Terms of Reference and finalise an implementation framework for the Capital Markets Master Plan (2013-2020). Following the finalisation of the Master Plan implementation framework, the Reserve Bank in collaboration with the Taskforce organised a National Capital Markets Workshop in November 2012. The Workshop was attended by market practitioners, national policy makers and members of the public. It generated a lot of awareness and discussions on the current state of Fiji's Capital Markets and strategies to be considered by the Taskforce for future development.

### **Complaints Management**

In 2012, 63 complaints against regulated financial

institutions were lodged with the Bank, the majority of which related to commercial banks and insurance companies. Customer complaints against commercial banks were largely associated with mortgages and repayment terms, while complaints against insurance companies related mainly to mortgage protection policies, disagreements on insurance claims, in particular life and motor vehicle insurance. There were marginal increases in complaints against capital market participants, the FNPF and NBFIs.

To address these complaints, the Reserve Bank held 44 meetings with consumers, and also consulted with relevant financial institutions and other organisations. Of the total complaints, 55 were resolved, seven remained under investigation and one is before the Courts. In addition, the Complaints Management Forum<sup>8</sup> met twice in 2012 where financial industry complaints were discussed together with consumer protection legislations. The Bank also met on two occasions with the Consumer Council of Fiji to discuss consumer issues. Three onsite inspections were also conducted to ensure compliance with the Policy Guideline on Complaints Management.

<sup>8</sup> The Forum membership includes representatives from the Ministry of Finance, Fiji Retailers Association, Consumer Council of Fiji, ABIF, Insurance Council of Fiji, USP, Fiji Commerce Commission, FCA, Fiji Institute of Accountants and the RBF.





Mission:  
Develop an Internationally  
Reputable Financial System

## COMBATING MONEY LAUNDERING

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

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

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

### Financial Institutions' Compliance with the FTR Act

The FIU and the RBF worked closely with financial institutions in 2012 to encourage and ensure that they implement and comply to the various provisions of the FTR Act and Regulations. Another function of the FIU is to provide policy advice as and when requested by financial institutions. In 2012, the FIU issued 43 ad-hoc policy advisories explaining various requirements of the FTR Act and Regulations. The majority (19) of the ad-hoc policy advisories related to customer due diligence requirements of the relevant AML and CFT laws.

During the year, the director of a previously licensed foreign exchange dealer was convicted for failing to report a series of suspicious transactions to the FIU, the first conviction of this sort in Fiji's history.

### Receipt and Analysis of Financial Transaction Information

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

In 2012, the FIU received 579 suspicious transaction reports (STRs) from various financial institutions, a decline of 20.5 percent from the previous year.

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

	2008	2009	2010	2011	2012
STRs	479	750	629	728	579

Source: Financial Intelligence Unit

The majority of STRs received in 2012 were from

commercial banks and money remittance service providers.

#### Reporting Financial Institutions 2012

Reporting Financial Entities or Persons	No. of STRs Received
Commercial Banks	477
Money Remittance Service Providers <sup>1</sup>	68
Finance Companies	-
Members of the Public	22
Regulatory Authorities	3
Law Firms	4
Accounting Firms	1
Insurance Companies and Superannuation	2
Real Estate Businesses	1
Others	1
<b>Total</b>	<b>579</b>

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

Source: Financial Intelligence Unit

The FIU referred 246 STR case reports to relevant law enforcement agencies for further investigation of possible money laundering and other serious offences. In 2012, there were five convictions for money laundering cases in the Fiji courts, with the FIU involved in four of these cases. Three cases involved STRs reported by a financial institution to the FIU, after which analyses were forwarded to law enforcement agencies for further investigations and laying of charges. In the fourth case, the FIU provided assistance to law enforcement agencies during their investigations.

#### Case Reports Disseminated to Law Enforcement Agencies

Law Enforcement Agency	Number of STRs Disseminated				
	2008	2009	2010	2011	2012
Inland Revenue Services	131	143	125	195	168
Police	25	37	44	89	61
Immigration	7	3	1	6	4
Customs	4	2	0	4	0
Others <sup>1</sup>	35	11	97	24	13
<b>Total</b>	<b>202</b>	<b>196</b>	<b>267</b>	<b>318</b>	<b>246</b>

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

Source: Financial Intelligence Unit



**Mission:**  
Develop an Internationally  
Reputable Financial System

In 2012, the FIU issued eight alert notices to financial institutions on adversely reported individuals or entities that require enhanced scrutiny.

Financial institutions are also required under the FTR Act to report to the FIU all cash transactions of \$10,000 and above, and all international electronic fund transfers. In 2012, the FIU received 200,404 cash transaction reports (CTRs) and 830,959 international electronic funds transfer reports (EFTRs).

#### Cash Transactions and Electronic Fund Transfers Reported

No. of Reports Received	2008	2009	2010	2011	2012
CTRs	37,551	132,547	133,487	144,191	200,404
EFTRs	95,859	303,380	315,634	450,849	830,959

Source: Financial Intelligence Unit

#### Border Currency Reporting

Persons travelling in or out of Fiji are required under the FTR Act to declare if they are carrying currency or negotiable bearer instruments of F\$10,000 and above. In 2012, the FIU received 477 border currency reports, compared to 194 received in 2011. These reports are analysed for possible currency smuggling, money laundering and related criminal offences.

#### Cash/Fund Declarations by Travellers

Persons Declaring	2009	2010	2011	2012
Declarations made by <b>inbound</b> travellers	139	119	93	117
Declarations made by <b>outbound</b> travellers	105	104	101	360
<b>Total</b>	<b>244</b>	<b>223</b>	<b>194</b>	<b>477</b>

Source: Financial Intelligence Unit

#### Assistance to Partner Agencies

A key role of the FIU under the FTR Act is to provide assistance to various partner agencies. In 2012, the FIU handled 122 requests from Government agencies for due diligence checks on persons or entities of interest. These requests related to background checks on 174 business entities and 250 individuals. The FIU also attended to 133 requests from local and foreign law enforcement agencies for assistance in money laundering and other related investigations.

#### Requests for Background Checks from National Agencies - 2012 (Number)

Requesting Agency	Requests	Entities	Individuals
Attorney General's Office/Ministry of Justice	7	11	11
Fiji Pharmaceutical Services	25	30	46
Investment Fiji	36	59	83
Ministry of Finance	5	6	12
Ministry of Public Enterprise, Tourism, Civil Aviation, Industry & Trade	13	25	44
Reserve Bank of Fiji	24	30	37
Others	12	13	17
<b>Total</b>	<b>122</b>	<b>174</b>	<b>250</b>

Source: Financial Intelligence Unit

#### Domestic Coordination and Information Sharing

In October 2012, the FIU together with the Fiji Police Force organised a workshop for 25 police officers titled "Proceeds of Crime: Follow the Money Workshop".

The FIU continued to provide secretarial support to the National AML Council as well as its three working groups in 2012. The National AML Council held four meetings during the year. The Governor of the RBF and Director FIU are members of the National AML Council and contributed to the Council's discussions and decisions in 2012.

The FTR Act provides the FIU with the mandate to enter into Memorandum of Agreements (MOAs) with other agencies. In 2012, the FIU signed a MOA with the Maritime Safety Authority of Fiji. To date, the FIU has signed MOAs with 10 domestic partner agencies.

The FIU uses its website and the media to inform the general public of key AML/CFT initiatives and developments. To this end, the FIU issued six press releases during the year on major events and issues.

#### International Coordination and Initiatives

The FIU participated at the 2012 Egmont Group's 20th Annual Plenary Meeting that was held in Russia. The Egmont Group is an international association of 131 FIUs from various jurisdictions. The goal of the Egmont Group is to provide a forum for its member FIUs to improve support to their respective governments in the fight against money laundering, terrorist financing and other financial crimes.

In 2012, the FIU signed MOAs with four foreign FIUs. This brings to 18 the total number of MOAs that the Fiji FIU has signed with foreign FIUs.

During the year, the FIU also liaised closely with the Asia Pacific Group on Money Laundering (APG) on various AML programs and initiatives held in the region. The FIU attended the APG's 15th Annual Plenary which was held in Brisbane, Australia. Fiji was appointed the co-chair of the APG typologies working group. Director FIU co-chaired the 2012 APG Typologies workshop held in Hanoi, Vietnam. The FIU also contributed to various surveys conducted by the APG and liaised with the APG on AML/CFT issues relevant to Fiji.

During the year, the FIU was also involved in consultations through the APG on the revisions to the Financial Action Taskforce recommendations, with the outcome relayed to the National AML Council.



Mission:  
Develop an Internationally  
Reputable Financial System

## 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. The Reserve Bank issues notes and coins that are commensurate with demand for payment purposes and redeems any notes or coins that are mutilated or no longer fit for circulation and destroys them accordingly. The Bank also determines the denomination and design of Fiji's notes and coins, subject to the approval of the Minister for Finance.*

### Currency Review

The Currency Review that commenced in 2010 progressed well in 2012. The new flora and fauna design notes and coins, including Fiji's first \$2 coin and new green coloured \$5 polymer notes were officially unveiled by His Excellency the President of the Republic of Fiji, Ratu Epeli Nailatikau on 12 December 2012.

The new flora and fauna designs replace the portrait of Her Majesty Queen Elizabeth II across all denominations. Public education programs commenced in December 2012. The new flora and fauna design notes and coins were issued from 2 January 2013.

### Note Processing

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

In 2012, 37.4 million notes were processed, compared to 29.0 million for 2011. Of this total volume, 6.3 million pieces were deemed fit for reissue while 31.1 million pieces, considered unfit for further circulation, were destroyed. Unfit notes mainly consisted of \$2, \$10 and \$20 denominations.

#### Notes Processed

Notes Processed	2011		2012	
	Value (\$ Million)	Pieces (Million)	Value (\$ Million)	Pieces (Million)
Notes Saved for Reissue	144.1	4.8	161.7	6.3
Notes Destroyed	368.1	24.2	526.1	31.1
Total Processed	512.2	29.0	687.8	37.4

Source: Reserve Bank of Fiji

### Currency in Circulation

In 2012, the total currency in circulation grew by 12.4 percent to \$558.8 million. The growth is notable due to the increase in demand for notes and coins. The growth is also partly attributed to the withdrawal of the new flora and fauna design notes and coins by commercial banks from the Reserve Bank for issuance to the public on 2 January 2013.

The value of notes in circulation in 2012 increased annually by 12.6 percent to \$524.3 million. The \$50 denomination recorded the highest increase of 15.4 percent to \$195.7 million, while the \$2 denomination recorded the lowest increase of 6.4 percent to \$14.9 million. The \$2 note remained the highest volume of notes in circulation.

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

Notes in Circulation (\$ Million)			
Denomination	2010	2011	2012
\$0.50	0.1	0.1	0.1
\$1	1.7	1.7	1.7
\$2	13.2	14.0	14.9
\$5	13.9	14.5	15.7
\$10	35.5	38.0	41.9
\$20	67.1	67.4	74.1
\$50	166.1	169.6	195.7
\$100	152.2	160.2	179.9
<b>Pre-decimal Currency</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
<b>Total</b>	<b>450.1</b>	<b>465.8</b>	<b>524.3</b>
Coins in Circulation (\$ Million)			
Denomination	2010	2011	2012
1c	1.3	1.3	1.3
2c	1.1	1.1	1.1
5c	3.1	3.2	3.4
10c	3.6	3.8	4.0
20c	5.0	5.2	5.7
50c	6.0	6.3	6.9
\$1	9.5	10.1	11.4
\$2	-	-	0.5
<b>Pre-decimal Currency</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>Total</b>	<b>29.8</b>	<b>31.2</b>	<b>34.5</b>
Notes & Coins in Circulation (\$ Million)			
	2010	2011	2012
Notes	450.1	465.8	524.3
Coins	29.8	31.2	34.5
<b>Currency in Circulation</b>	<b>479.9</b>	<b>497.0</b>	<b>558.8</b>

Source: Reserve Bank of Fiji

The value of coins in circulation in 2012 also rose year-on-year by 10.6 percent to \$34.5 million. The \$1 and 10 cent coins registered growth of 12.9 percent to \$11.4 million, and 5.3 percent to \$4.0 million, respectively. The 5 cent coin remained the highest volume of coins in circulation.

### Cost of Currency

In 2012, the cost of currency issued by the Bank increased significantly by 40.6 percent to \$4.5 million due to the issuance of the new notes and coins series





**Mission:**  
Develop an Internationally  
Reputable Financial System

to meet increased demand. The cost of notes issued increased annually by 34.6 percent in 2012 to \$3.5 million while the cost of coins rose by 66.7 percent to \$1.0 million.

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

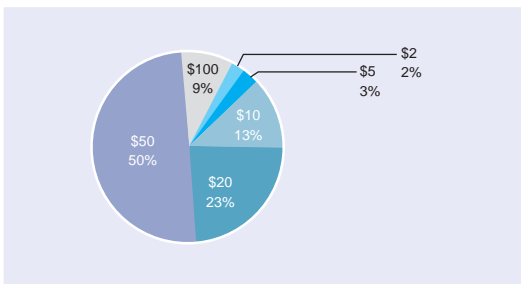
	2010	2011	2012
Notes	2.2	2.6	3.5
Coins	0.9	0.6	1.0
Total	3.1	3.2	4.5

Source: Reserve Bank of Fiji

#### Banking Transactions

In 2012, the value of currency issued to commercial banks increased by 22.6 percent to \$803.5 million, of which \$799.7 million was issued in notes and \$3.8 million in coins.

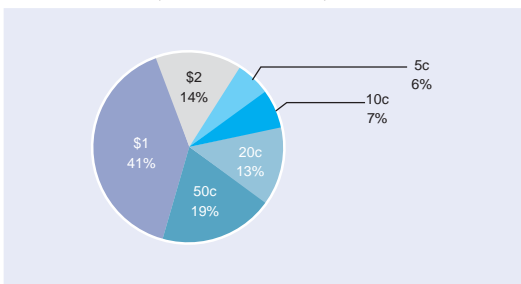
#### Notes Issued in 2012 (Total Value: \$799.7 million)



Source: Reserve Bank of Fiji

With the exception of the 10 cent and \$1 denominations, the demand for all other denominations increased in 2012. The value of \$20, \$50 and \$100 notes issued recorded the highest increases of 23.0 percent to \$187.4 million, 25.0 percent to \$403.5 million and 23.6 percent to \$69.5 million respectively. The marked increase in demand for \$20 and \$50 notes was attributed to their predominant usage in ATMs for cash dispensing and distribution. In addition, the increase in \$100 notes demonstrates the public's growing reliance on higher denominations for daily transactions.

#### Coins Issued in 2012 (Total Value: \$3.8 million)



Source: Reserve Bank of Fiji

During the year, there was a fluctuation in the demand for different coin denominations. The value of the 50 cent coin registered the highest increase of 16.4 percent, while the demand for 10 cent and \$1 coins fell by 11.1 percent to \$0.2 million and 3.6 percent to \$1.5 million respectively. In December 2012, new flora and fauna design notes and coins, except the new green coloured \$5 polymer notes, were issued to commercial banks for distribution to branches for issuance from 2 January 2013.

#### Mutilated and Old Design Currency Assessments

In 2012, \$0.31 million was reimbursed to commercial banks, businesses and individuals for mutilated and old design currency, an increase of 47.6 percent compared to 2011.

#### Counterfeit notes

The volume of counterfeit notes discovered during the year increased by 62.5 percent to 91 notes, compared to 56 in 2011. The value of counterfeits also increased over the same period, by 126.5 percent to \$3,221, although it remained negligible at less than 0.1 percent of currency in circulation.

#### Counterfeit Note Summary

	2011		2012	
	Value (\$)	Number of Notes	Value (\$)	Number of Notes
\$2	2	1	6	3
\$5	-	-	25	5
\$10	220	22	70	7
\$20	300	15	520	26
\$50	900	18	2,400	48
\$100	-	-	200	2
<b>Total</b>	<b>1,422</b>	<b>56</b>	<b>3,221</b>	<b>91</b>

Source: Reserve Bank of Fiji

The \$20 and \$50 notes were the most counterfeited denominations as these are commonly used. In its efforts to address counterfeiting, the Bank continued to assist the Fiji Police Force with relevant investigations and distributed awareness materials to various organisations, schools and the general public.

#### Numismatics

In 2012, numismatic income increased by 15.2 percent to \$1,017,785 over 2011. This was attributed to the increase in royalties received from existing and new partner Mints, sale of large volumes of silver coins, single, pairs and uncut sheets of the millennium \$2 notes and other currency collectible items. During the year, the Bank signed a number of agreements with partner Mints for various new programs.



## History of Money in Fiji

Many of us are aware that there was a time when people did not need money and relied on the land and the sea to meet their basic needs for food, shelter and clothing. As more complex social structures emerged, self-sufficiency was no longer enough. Increasing contact between different tribes and communities brought about the concept of swapping or barter of commodities such as trading a cow for five pigs or a bundle of dalo for a bag of rice.

Europeans were the first to bring money to Fiji. During the early nineteenth century, visiting ships' captains bartered with Fijians for sandalwood and beche-de-mer. However, once a European settlement was established, hard currency was required by planters and traders to conduct business with the outside world. Attempts at commercial development of these islands were hampered by the lack of any acceptable tender until the establishment of the Pax Britannica in 1874, a period of relative peace in Europe and the world (1815-1914) during which the British Empire controlled most of the key maritime trade routes and enjoyed unchallenged sea power.

Before the founding of a recognised regulator of currency in Fiji, paper money used included bills of exchange, cheques on colonial banks in Australia, New Zealand as well as Tonga, notes in hand, drafts, promissory notes, currency tokens, foreign currency and certificate of indebtedness.

In 1914, the Fiji Currency Board was established to manage Fiji's monetary affairs and to issue and redeem currency which was the focal point of Fiji's currency system for the next 60 years. English coins were used at first. In 1934, the Currency Board introduced Fiji's first coinage of pennies and shillings, which were manu-

factured at the Royal Mint in London. The British system of measuring currency in pounds, shillings and pence remained in circulation until 1969. The pennies and halfpennies, made of copper mixed with nickel, had a distinctive feature - a hole through the centre. In World War II, these became popular souvenirs with American soldiers based in Fiji. The other denominations were sixpences, shillings and two shillings made from 50 percent silver.

At the time of the first coin issue, Fiji got a consignment of notes which became the sole notes to be legal tender, meaning they became the only money to be accepted in Fiji in exchange for goods and services.

In 1936, Fiji was one of the few Commonwealth countries to mint a one penny coin featuring the name of King Edward VIII, who abdicated in one of the great constitutional dramas of the 20<sup>th</sup> Century. In 1947, a 12-sided nickel and brass three penny bits made their appearance and were minted until 1967.

The world wars presented many disruptions and challenges. For a while, coins had to be minted in San Francisco on the West Coast of America instead of the Royal Mint. The San Francisco coin manufacturers produced halfpennies and pennies in brass, and sixpence, one shilling and two shilling pieces in 90 percent silver. At one stage during the war, with acute shortage of metal, the Government Printer printed a supply of notes in one shilling and two shilling denominations and some Fiji one penny notes were printed in Australia.

In 1942 when some normal notes became scarce, the Reserve Bank of New Zealand agreed that the New Zealand £1 and £5 notes, being printed by the Commonwealth Bank of Australia, be overprinted for local use by the Government Printer.

In 1969, Fiji changed to a decimal currency. The currency structure was the 1c, 2c, 5c, 10c and 20c coins, and the \$0.50, \$1, \$2, \$5, \$10, and \$20 notes. The 50 cents and the one dollar note were converted to coins in 1975 and 1995 respectively.

In November 1995, a \$50 note denomination was introduced, followed by a new set of notes in 2007 including the new \$100 denomination, in varying sizes, to aid the visually impaired.

In October 2008, the issuance of 1 and 2 cents coins ceased. In February 2009, a new set of smaller size and lighter coins were introduced. The larger size coins of 5, 10, 20 and 50 cents as well as the 1 and 2 cents were demonetised in April 2009. These changes arose from the global rise in metal prices and RBF's efforts to contain currency production costs.

In December 2012, Fiji launched a completely new family of notes and coins. This included historic currency design changes - the replacement of Her Majesty Queen Elizabeth II's portrait with local flora and fauna designs on all note and coin denominations, introduction of Fiji's first \$2 coin and Fiji's first polymer note in \$5 denomination. These changes were made to promote Fiji's biodiversity, improve note durability and save costs for the nation.

Fiji's notes of today are printed by De La Rue Currency, United Kingdom who has been our suppliers since 1914 while coins are minted by the Royal Canadian Mint who minted Fiji's 1 and 2 cent coins. Fiji's current currency structure comprises the 5c, 10c, 20c, 50c, \$1 and \$2 coins, and the \$5, \$10, \$20, \$50, and \$100 notes.





Mission:  
Develop an Internationally  
Reputable Financial System

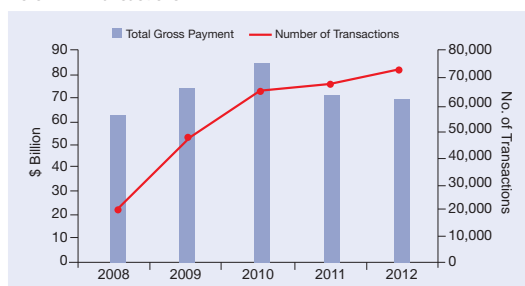
## PAYMENTS AND SETTLEMENTS SYSTEM

*The Payments and Settlements System is critically important to the Reserve Bank of Fiji because it is the primary channel used to transmit monetary policy impulses and facilitates the movement of large value transactions. The Reserve Bank has continued to update its payments and settlements system since the late 1990's when it subscribed to the Society for Worldwide Interbank Financial Telecommunication settlement system for foreign currency transactions. In the last decade, FIJICLEAR was introduced to settle large value low volume Fiji dollar payments for commercial banks on a real time gross settlement basis. This dynamism in growth saw the introduction of e-money into Fiji's payments systems and has led to the Bank providing oversight of electronic payment systems.*

Fiji's real time gross settlement system, FIJICLEAR was introduced in 2007 to reduce settlement risk associated with deferred interbank payments and improve the overall efficiency of Fiji's financial system. FIJICLEAR allows citizens to make payments anywhere a commercial bank operates in Fiji. The settlement of transactions takes place irrevocably and in real-time out of credit funds in commercial banks' Exchange Settlement Accounts (ESAs). FIJICLEAR offers commercial banks up-to-date information on accounts maintained with the Reserve Bank, improves liquidity management and provides secure interbank funds transfers.

### FIJICLEAR

FIJICLEAR Transactions



Source: Reserve Bank of Fiji

In 2012, while volume measures suggested an increase in activity, value indicators contracted due to a decline in high-value transactions. A total of 72,989 transactions valued at \$70.1 billion were recorded during 2012. Despite the 8.2 percent increase in the volume of transactions, the total value fell by 2.3 percent due to the fall in large value payments. A similar trend was recorded in the monthly averages.

Monthly Average FIJICLEAR Transactions

Monthly Average	2008	2009	2010	2011	2012
Gross Payments (\$M)	5,218	6,218	7,085	6,218	5,838
No. of Transactions	1,741	3,927	5,410	5,623	6,082

Source: Reserve Bank of Fiji

BRED Bank (Fiji) Limited commenced operations in the final quarter of 2012 with full access to the FIJICLEAR system and with the same fees and charges set by the RBF.

### National Payment Systems

The Bank continued work on drafting laws that will govern payments systems in Fiji that are not currently captured by existing payments regulations. These include large value wholesale and smaller retail payments including mobile money transfers and other innovative new financial services offered through mobile phones and non-bank Microfinance Institutions (MFIs). Technical assistance for this project was provided by the World Bank. The draft Payment Systems Decree is currently with the Attorney General's office and is expected to become effective by the end of 2013.

### Mobile Money Development

The mobile money ecosystem continues to expand across Fiji and is now becoming an accepted mode of payment. Consumers in Fiji have access to a wider range of services at their disposal through their mobile phones for many purposes such as bill payments, international remittances, domestic transfers, online shopping payments, savings, insurance repayments, and payments for judicial fines and for municipal council services. The Fiji Development Bank (FDB) was the first organisation to open up Vodafone's M-PAiSA service as a medium for its clients to repay their loans through a mobile phone. This service is available at no cost to their customers.

The year 2012 also marked another milestone in the development of mobile money in Fiji. Fiji reportedly became the first country in the world to roll out mobile money as a payment option for civil servants to receive part of their salary directly deposited into their mobile money accounts.





This initiative will also contribute to a broader national objective of including as many of the unbanked sector into the mainstream economic activity under its financial inclusion program. For this to be a reality, there is a great need to provide access to regular banking and financial services at an affordable cost. Mobile money through the mobile phone and its extensive outreach is providing one of the most cost effective means to support this government objective.

Mobile money continued to grow in 2012 with an increasing number of active mobile phone users, including merchants and agents that now accept mobile money. A total of 27,437 Person to Person (P2P) transfers valued at \$2,292,172 were recorded in 2012, compared to 10,923 transfers valued at \$820,545 in 2011. The average P2P transfer was \$81.14, up from \$65.36 in 2011. The number of activated mobile money customers was at 287,178 from 241,823, whilst the number of active agents grew to 653 from 511 in 2011.

Inward remittances received through the mobile money platform continued to increase steadily. Since its commercial launch in August 2011, the total amount of inward remittances received through this channel was around \$569,093 by the end of 2012.

The total value of electronic money in circulation was \$3.1 million at the end of 2012, up from \$1.9 million in the previous year.

### **e-Money Taskforce**

The e-Money Taskforce met three times in 2012 to

monitor the development of mobile money services in Fiji. The RBF is committed to making necessary improvements to the current trust account arrangements in place amongst the mobile money providers based on the recommendations of a study sponsored by the Pacific Financial Inclusion Program (PFIP). Apart from developing and expanding the mobile money ecosystem, the Taskforce will also continue to focus on policies and laws that will ensure the protection of consumer rights, and will closely monitor the progress of the electronic ticketing system that will be launched in 2013.

### **Remittances**

Inward remittances continue to record positive growth over the past decade and remains the second largest foreign exchange earner for Fiji. Australia continues to be the largest source of foreign remittance followed by the US.

After the launch of international remittance by Mobile Network Operators in Fiji, the Reserve Bank liaised with all of Fiji's foreign missions to raise awareness on the availability of these new providers. Money Transfer Organisations are still the most commonly used channels to remit funds to Fiji.

The Reserve Bank continued collaboration with stakeholders with the view to providing an enabling environment that is conducive to the provision of secure, accessible and affordable services and channels.

The *Kacau ni Gau* (Fiji Petrel) which is known to nest only on Gau Island in Fiji. Experts believe that no more than 50 pairs survive. For much of its life, the *Kacau ni Gau* is a true ocean bird and remains at sea probably well outside Fijian waters for months on end. Adults return to Gau only to breed in a burrow in the upland forests, and do so only at night and leave for the ocean before dawn.

The *Kacau ni Gau* is almost never seen on the island, except when individuals are blinded by light and become grounded in villages. Research over many years has failed to find the nesting sites but this activity is continuing. The *Kacau ni Gau* has a very distinctive flight style which helps to make it stand out.



## Mission: Enhance our Role in the Development of the Economy

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

### Import Substitution and Assistance to the Export Sector

Leading to import substitution related businesses and exporters under the Reserve Bank's ISEFF continued in 2012. During the year, 17 applications were approved with a combined value of \$8.7 million. By December 2012, around 76 percent of the initial \$40 million allocation had been advanced to businesses. Given the success of the Facility, the RBF increased the total ISEFF allocation to \$80 million in late December to cater for future demand.

At year-end, utilisation of the Facility stood at \$30.3 million. Funds lent in 2012 were mainly for export finance while import substitution funding noted a pick up compared to the previous year, particularly on lending to the renewable energy sector.

The Reserve Bank will continue to work closely with stakeholders to ensure that more businesses benefit from this Facility and therefore contribute towards improving Fiji's balance of payments position.

### Flood Assistance

The Reserve Bank reintroduced the FRF in early 2012 to assist businesses affected by the January and March flash floods with the recovery of their operations. Throughout the year, the Facility assisted 33 businesses with loans amounting to \$13.7 million. By the end of the year, total outstanding FRF loans stood at \$14.5 million against the \$20 million allocation.

### Housing Facility

The Reserve Bank of Fiji established a Housing Facility for low income first home owners in line with the Bank's mission to enhance its role in the development of the economy. The new Facility will be channelled through the Housing Authority of Fiji and complements Government's initiatives in providing low-cost homes for Fijian citizens.

A total allocation of \$25 million has been set aside for this Facility. Eligible applicants must earn below \$16,500 annually and the maximum interest rate charged will be 6.0 percent per annum.

### Small and Medium Enterprises Credit Guarantee Scheme

At the 2012 National Budget announcement, the Fiji Government introduced its SMECGS to promote and develop the local business industry, improve private sector lending to small and medium enterprises (SMEs) and stimulate growth. The SMECGS, which came into effect on 1 January 2012, is administered by the Reserve Bank and allows lending institutions to apply for a Government guarantee cover of up to \$50,000 per business on eligible SME loan facilities. The Fijian Government contributed an initial \$2.5 million to start off the Scheme and pledged an additional \$1.5 million in the 2013 National Budget.

One of the key conditions for eligibility under the guarantee scheme is that the lending rate for SME loan facilities should be below 10.0 percent per annum. At the end of the year, 187 SME loans valued at \$10.3 million had been registered under the SMECGS. In addition, the Bank received no claims on the initial \$2.5 million allocation throughout the review year.

### Retail & Secondary Bond Market

In April 2012, the Fijian Government introduced its retail bond series titled Fiji Government Viti Bonds. The new security is a Government initiative aimed at boosting the limited number of investment choices available in the domestic market. The Fijian Government reserved a \$20 million allocation for Viti Bond issues which were available at fixed interest rates until 31 December 2012.

Although only \$2.8 million in Viti Bonds were issued to 59 investors, the year registered a significant increase in retail investor participation in the bond market compared to the past 30 years.

In 2012, secondary market bond trades picked up significantly in both volume and value terms. During the year, a total of 43 bonds were traded and valued at \$248.2 million compared to two bonds totalling \$0.01 million in 2011. The outturn was mainly attributed to internal institutional transfers of ownership including streamlining of bond holdings by the FNPF into two separate accounts: FNPF and FNPF RIF.



Mission:  
Enhance our Role in the  
Development of the Economy

Furthermore, the Reserve Bank purchased seven parcels of Viti Bonds valued at \$0.02 million into its domestic bond portfolio. This compares with the purchase of 22 bonds valued at \$74.1 million in 2011. The outturn reflects RBF's commitment to develop the bond market by standing ready to purchase any Viti Bonds in the event that bondholders would like to liquidate their investments. The nominal value of the domestic bond portfolio fell to \$135.6 million from \$153.0 million in 2011 as a result of net redemptions worth \$17.4 million. Consequently, the annual net income earned from the portfolio declined by 7.9 percent to \$11.7 million.

### Microfinance Development

The delivery of financial services and financial inclusion remains key priorities for the Reserve Bank of Fiji. The Bank, in partnership with stakeholders, which include the PFIP, continues to raise awareness about finance and microfinance services around the country. The Bank organised four finance expositions in 2012; a one day microfinance exposition at Korovou, Tailevu during May, two expositions in August in the week long Agriculture Show at Lautoka, a financial inclusion village set up in Suva for the duration of the Hibiscus Festival and a one day microfinance exposition at Sigatoka during October. Financial institutions, micro and small entrepreneurs and MFIs participated in these expositions.

The Agent Banking Guidelines, which is a part of the Reserve Bank's efforts to expand the reaches of financial services to all communities in Fiji, was approved in 2012. It requires commercial banks to appoint agents to provide safe and reliable banking services to communities that do not have any access to basic banking services.

The Reserve Bank also began drafting the Other Deposit Taking Institutions Decree to regulate depository financial institutions operating outside the regulatory ambit of the Reserve Bank.

In September, the Reserve Bank, Macroeconomic Policy Committee (MPC) and relevant Government agencies consisting of the Fiji Bureau of Statistics (FBOS), National Centre for Small and Medium Enterprises Development, Ministry of Strategic Planning, National Development and Statistics and the Ministry of Industry and Trade set up a committee to develop a national Micro, Small and Medium Enterprises Database.

### National Financial Inclusion Taskforce

In collaboration with stakeholders from the private and public sectors, civil society and donor groups, the Reserve Bank continued efforts to provide some form of financial service to citizens classified as unbanked.<sup>9</sup> During the year, 74 percent of the 150,000 unbanked Fijian citizens who are targeted to be reached by 2014 had been reached.

The NFIT, a multistakeholder representative committee led by the RBF, met three times during the year. NFIT's primary role is that of coordinating national efforts towards financial inclusion. The apex body is supported by three subcommittee working groups (Financial Literacy, Microfinance and Statistics) which oversees and rolls out relevant projects during the year.

### Microinsurance

The necessary development of the local microinsurance market requires an enabling regulatory environment. The RBF as the regulator continues to support financial inclusion. During the year, three staff participated in a regional capacity building workshop hosted by the PFIP that focused on developing National Action Plans.

Two pilot programs facilitated by the PFIP in partnership with insurance providers and low income target groups were selected to trial tailored micro-insurance products for Fiji. The first pilot project was launched in Wailevu, Savusavu with Partners in Community Development Fiji while the second was with Then India Sanmarga Ikya Sangam in Nadi. The launch was successful and upon the successful completion of the pilot, a full roll-out of the products is expected.


The review of the Insurance Act (1998) with a view to strengthen and support an enabling environment commenced in 2012.

### Financial Literacy

The report on the national financial competency survey undertaken in 2011 by the FBOS, PFIP and the Reserve Bank was released in 2012 and constitutes a major output from the financial inclusion work plan. The report provided a baseline document for stakeholders and participants, at the National Financial Competency Development Workshop held in September 2012, to strategise plans towards developing a National Policy for Financial Literacy for Fiji.

<sup>9</sup> Fiji citizens that do not have access to some form of financial services.





**Mission:**  
Enhance our Role in the  
Development of the Economy

As part of ongoing efforts to raise public awareness on financial literacy, the NFIT partnered with VISA Australia in launching a Financial Literacy radio campaign to highlight important personal financial management. The six-week radio campaign and the training seminars provided by various institutions are some of the programs targeted to building financial literacy of the adult population in both urban and rural locations.

The Ministry of Education in partnership with the PFIP successfully launched and completed the pilot FinEd program to 28 champion schools during the year. From 2013, all school students from classes one to form six will have financial lessons integrated into existing core curricula subjects.<sup>10</sup>

### Local Value Added

Several new initiatives were undertaken and completed by the Reserve Bank to support local value adding. The Reserve Bank sponsored three local chef trainers from FNU to attend the week long “South Pacific Food and Wine Festival” at Denarau, Nadi, which provided exposure on innovative ways of preparing local foods for hotel menus. The Reserve Bank also launched the recipe book titled “Kana Mada” produced in

collaboration with FNU to support and promote local foods and produce.

Another critical area of focus for local value adding is the energy sector where the RBF is collaborating with stakeholders towards making finance accessible for more renewable energy related projects.

### Local Advisory Board (LAB)

Commercial banks have each established a LAB to assume a consultative and advisory role in ensuring that foreign owned banks better understand and align their strategies to Fiji’s regulatory and supervisory environment, and to support national development objectives.

During the year, the Bank continued to hold individual meetings with LABs. The Reserve Bank made presentations to the non-executive LAB members of all the commercial banks in 2012. The presentations focused mainly on the Government’s national development objectives and key policies issued by the Bank.

One onsite inspection was also conducted to ensure compliance with the Policy Guideline on LAB.

<sup>10</sup> The FinED Fiji Project is a global ground-breaking initiative aimed at introducing and strengthening education within the school curriculum from class one to form six, by integrating personal money management and investment lessons into the existing subjects.

## RBF in the Community



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

As part of the Bank's efforts to keep the public informed of its assessment of the economy, the Governor and senior staff of the Bank regularly give presentations on the latest economic developments to Government, businesses, industry groups, community groups and educational institutions. The Bank also assisted Fiji's High Commissions and Embassies abroad with presentations on economic update on the Fijian economy and policies of the Bank. The Bank also makes available information on its website that users can easily access.

The Bank funds the chair of the Associate Professor/Senior Lecturer in Monetary Economics at the USP. This agreement has been in place since February 1998. A 'Reserve Bank of Fiji' prize is also awarded annually to the outstanding Economics graduate at the USP. The Bank also supports the USP's Open Day where students are provided information about the Bank.

In support of SMEs, the Reserve Bank sponsors the FDB's Small Business Award. The Bank also sponsors Investment Fiji's (Agriculture) Exporter of the Year Award.

The Reserve Bank participated in the Earth Hour initiative, an annual international event by the World Wide Fund for Nature/World Wildlife Fund, held on the last Saturday of March. The Bank turned off non-essential lights and electrical appliances for one hour to raise awareness on climate change.

The Bank also makes donations to national charitable organisations as part of its corporate social responsibility. In 2012, cash donations were made to Suva Special Education School, Fiji Crippled Children's Society, St. Christopher's Home, Dilkusha Orphanage, Fiji Disabled People's Association, Fiji Society for the Blind, Father Law Home and Home of Compassion.

The Bank also provided used computers and new printers to selected schools and old office furniture was also donated to a church and some squatter settlements.

A Microfinance Village was set up by the Bank during the 2012 Hibiscus Festival supporting the theme 'Financial Inclusion: Accessible and Affordable Financial Service for All'. Financial institutions and microfinance vendors displayed, promoted and sold their products and services to the public. Other financial inclusion initiatives included setting up one day microfinance villages in Sigatoka and Korovou.

The Bank was one of the sponsors for the Agriculture Show, provided cash prizes for the Farmer of the Year Award and hosted Financing Day during the show. The Bank also took the opportunity to launch the cook book 'Kana Mada' which was jointly published by the RBF and FNU.

In support of health promotion, the Bank hosted a morning tea as part of the 'biggest morning tea initiative' for cancer awareness. A silent auction on donated items and accommodation vouchers was also conducted to raise funds for this initiative.

Apart from formal donations, Team RBF also voluntarily contributes and participates in community projects. Some of the charitable projects undertaken by staff in 2012 included contributing cash to the Prime Minister's Flood Appeal, clean up at Homes of Hope and Christmas gifts to prisoners' children. During the Bank's Library Week book drive, books were collected and donated to schools.

In addition, the Bank's Sports and Social Club organises social events and cultural activities for staff. In 2012, Bank staff participated in various business house sports events including the sports event organised by the Ministry of Finance for the Bainimarama Trophy.

The *Tagimoucia* (*Medinella waterhousei*) flower which is perhaps Fiji's best known flower and has, in the past, been recommended as the national flower. It is the subject of songs, stories and folk lore.

*Tagimoucia* is a liana of the upland forest and where it occurs it often flowers profusely in bunches of vivid scarlet petals contrasting with the pure white centres.

The name *Tagimoucia* is synonymous with the plant in its home in upland Taveuni around the lake with the same name, but *Medinella waterhousei* also occurs on Mount Seatura in Bua.



## Mission: Provide Proactive and Sound Advice to Government

*The provision of policy advice to Government occurs in many forms. During 2012, the Governor met with Government officials on a number of occasions to discuss various issues pertaining to the economy. The Governor and some staff also accompanied Government officials on visits and consultations abroad. Presentations on the economy were also made to Cabinet, Ministries and other government agencies, as and when requested.*

### Policy Coordination

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

The MPC and its Technical Committees prepared projections on Fiji's GDP, trade and balance of payments. These projections are critical inputs to monetary policy formulation and other national policy decision making. The MPC is chaired by the Governor of the Reserve Bank. Membership of these Committees comprise officials from the Ministry of Finance, Ministry of Strategic Planning, National Development & Statistics, Ministry of Industry and Trade, FBO, Prime Minister's Office, Ministry of Foreign Affairs, International Cooperation and Civil Aviation, Fiji Revenue & Customs Authority and the Reserve Bank. During the year, there were two MPC forecasting rounds, six Technical Committee meetings and one GDP 2008 rebase meeting with MPC members.

As part of the macroeconomic forecasting process, the Reserve Bank conducted meetings with key industry groups in 2012. At these meetings, the Bank provided updates on the economy and received feedback from representatives on the performance and prospects for their industry and the economy. Bank staff also met with representatives of employers and private businesses and conducted onsite industry visits to selected companies. Information gathered from these meetings are used as a basis for forecasting economic indicators, as well as providing advice to Government through the MPC reports and input to the National Budget submission.

In 2012, the Reserve Bank continued to be actively involved in many Committees of national interest, including the Sugar Taskforce of which the Governor is a member, as part of efforts to rebuild the sugar industry. The Reserve Bank continued to participate in the Debt and Cashflow Policy Committee, which evaluates Government's financing needs. The Debt and Cashflow Policy Committee met four times in 2012.

### Registry and Banking Services

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

As at 31 December 2012, the nominal value of bonds on the Reserve Bank's register declined marginally to \$2,972.3 million from \$3,024.6 million in 2011. The record includes the Fijian Government's new fixed income retail security called the Fiji Government Viti Bonds and the Fiji Infrastructure Bonds which were formally known as Fiji Development Loan bonds. Over the year, the value of outstanding Government bonds declined by 1.5 percent to \$2,622.1 million. The outturn is attributed to Government's first ever early redemption exercise as well as its lower domestic funding requirement for the year which resulted in net bond redemptions. A similar trend was noted with statutory corporation bonds where outstanding balances fell by a combined 3.1 percent to \$350.2 million.

#### Outstanding Bonds in 2012 (\$ Million)

	Issued	Redeemed	Outstanding
Total Government	192.1	233.3	2,622.1
o/w Fiji Development Loan Bonds	-	233.3	2,430.0
o/w Fiji Infrastructure Bonds	189.3	-	189.3
o/w Viti Bonds	2.8	-	2.8
Fiji Development Bank	57.0	45.1	146.7
Fiji Electricity Authority	-	22.0	91.0
Housing Authority	10.0	11.0	80.0
Fiji Sugar Corporation	-	-	32.5
<b>Total</b>	<b>259.1</b>	<b>311.4</b>	<b>2,972.3</b>

Source: Reserve Bank of Fiji

During the review year, total registry payments made by the Bank declined considerably by 21.3 percent to \$786.8 million. The notable decrease was largely driven by less redemptions of both Government Treasury Bills and Statutory Corporation bonds in 2012 when compared with the previous year. Similarly, interest on Government bonds fell slightly to \$209.8 million in 2012 from \$213.4 million in 2011.

Interest rates on Government bonds fell marginally in comparison to the previous year. The lower yields were underpinned by ample liquidity in the system and the



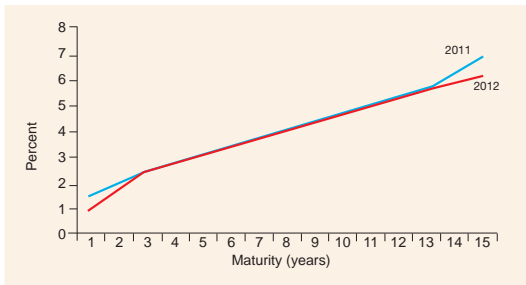


# 50

Mission:  
Provide Proactive and  
Sound Advice to Government

oversubscription of tenders stemming from Government's lower domestic funding needs, both of which exerted downward pressure on rates.

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



Source: Reserve Bank of Fiji

Gross Treasury Bill issues in 2012 registered a 25.6 percent decline to \$308.0 million. The lower issues

reflected the issuance of longer dated Treasury Bills which offered attractive interest rates. However, the outstanding value of Treasury Bills at the end of the year almost doubled to \$130.7 million as redemptions were valued at \$248.4 million. Similar to Government bond yields, interest rates on Treasury Bills declined during the year due to high bank liquidity and a continuous oversubscription of tenders. At the end of 2012, Treasury Bill interest rates had declined by between 30 to 72 basis points.

**Treasury Bills (\$ Million)**

	2010	2011	2012
Flotations	680.0	430.0	295.0
Allotments	688.7	413.8	308.0
Redemptions	713.3	418.1	248.4
Outstanding	75.4	71.1	130.7

Source: Reserve Bank of Fiji



Fiji's *Nanai* (Cicada). Fiji has the richest fauna of cicadas in the south west Pacific with 19 species, all of which are endemic. Cicadas are well known for their loud calls, some of which resound through Fiji's forests. Larval cicadas live under-ground and feed on the sap from roots of forest trees.

They then emerge, shed their larval skins and enjoy a short, noisy adult life in Fiji's forests. *Maka* is the common Fijian name for cicadas in general, but the *Nanai* is unique due to its striking appearance. *Nanai* is extremely well known to the inland communities of Viti Levu as it emerges in enormous numbers once every eight years and is not otherwise seen.



## Mission: Disseminate Timely and Quality Information

*In line with the mission to disseminate timely and quality information to the public and relevant stakeholders, the Reserve Bank releases economic and financial information through major publications (monthly Economic Reviews, Quarterly Reviews and Annual Reports), Press Releases and its website. The Bank also ensures that its financial statements and Annual Reports are produced as prescribed by law.*

### Financial Performance

#### Income

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

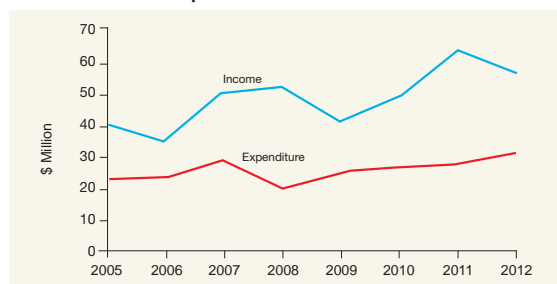
Reserve Bank of Fiji Foreign Reserves and Domestic Income (\$ Million)

	2009	2010	2011	2012
Foreign Reserves Income	23.9	29.5	39.6	38.4
Domestic Income	16.0	16.6	14.8	13.7

Source: Reserve Bank of Fiji

For the 2012 financial year, total income decreased by 9.6 percent to \$56.6 million. Whilst the Reserve Bank experienced record high foreign reserves, the declining global interest rates had a significant impact on the level of income recorded for the 2012 financial year.

Total Income and Total Expenses

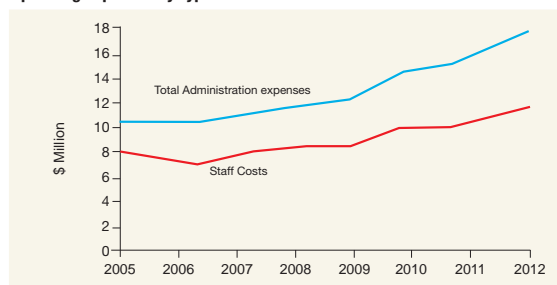


Source: Reserve Bank of Fiji

#### Expenditure

Total expenditure incurred in 2012 noted a 11.8 percent increase to \$31.3 million from 2011.

Operating Expenses by Type



Source: Reserve Bank of Fiji

Administration expenses increased by 11.9 percent, driven by costs for staffing, training and capacity building, insurance premiums and audit costs. Exchange rate

movements also underscored the increased outlays for systems and software licences and maintenance.

Other expenses increased by 117.5 percent in 2012, mainly attributed to the write-off of the \$20 and \$50 2007 design note series.

#### Operating Profit and Payment to Government

The operating profit for 2012 was \$25.4 million, compared to \$34.5 million in 2011. There was no transfer to the General Reserve Account in 2012. Therefore, as required under the RBF Act (1983), the total operating profit was transferred to the Government in April 2013.

The Act also requires the Reserve Bank to transfer one-fifth of the RRA balance to the Government. For 2012, this amounted to a total of \$10.0 million. Consequently, the Bank paid a total of \$35.4 million to Government for its 2012 operations, compared to the \$47.8 million paid in the previous year. The decrease in the payment for 2012 is attributed to the reduction in the Bank's RRA Balance and its annual operating profit.

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

	2009	2010	2011	2012
Operating Profit	16.6	21.5	34.5	25.4
Less				
Transfer to General Reserves	0.0	0.0	0.0	0.0
Balance Paid to Government	16.6	21.5	34.5	25.4
One-fifth of RRA	22.6	17.4	13.3	10.0
<b>Total Paid to Government</b>	<b>39.2</b>	<b>38.9</b>	<b>47.8</b>	<b>35.4</b>

Source: Reserve Bank of Fiji

#### Publications/Press Releases

The Reserve Bank continued to release economic and financial information during the year through its major publications: the monthly Economic Reviews, Quarterly Reviews and Annual Reports. In 2012, the Reserve Bank also issued 41 press releases. The 2011 Bank, Insurance and FIU Annual Reports were also published in 2012. In addition, the Bank participated in the 2012 SPSE Annual Report Competition. The 2011 Annual Report was awarded first prize in the Statutory Authorities, Government Bodies and Unlisted Trusts category.

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

During the year, the Reserve Bank continued to disseminate information through media interviews,





Mission:

Disseminate Timely  
and Quality Information

newspaper articles, presentations and brochures. The Reserve Bank's website was continuously updated to include the latest information disseminated by the Bank.

### Information Technology

The Bank continues to align its processes for delivery of IT services with industry best practices and international standards. This includes working towards improving its IT governance, IT standards, information security and project management roles.

The Bank continues to leverage user experience with upgraded IT infrastructure. In 2012, the Bank undertook a major infrastructure upgrade project which involved both the primary site and BRS. During the upgrade work, replication and failover systems and procedures were also setup and enhanced. FIJICLEAR was also upgraded to make it more robust and efficient.

During the year, development work continued on the Central Database project which is designed to automate the Bank's critical processes and provide reliable and clean data while strengthening the business processes. The upgrade works for the new HR and Payroll systems was completed in 2012, with the system now in parallel run.

The Bank is also stepping up efforts on capacity building in IT. This will ensure the Bank has the required talents and appropriate level of competency to carry on with a more forward-looking perspective.

### Records Management and Library

The Bank continued with the principle of record keeping for good governance. The Bank uses the digitised, indexed and integrated Electronic Document Records Management System, for storing and retrieving records. The Bank's Electronic Document Records Management System project continued in 2012 and will be ongoing in 2013 and 2014.

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

In 2012, the Library Advisory Committee organised the Bank's Library week themed 'Reading Unlocks the Future'. The Committee also coordinated a book drive and donated these books to schools in 2013. The Bank participated in the National Library Week Road show with the Library Services of Fiji.

### Domestic Relations

During 2012, the Reserve Bank continued to engage and

conduct presentations to different stakeholders across Fiji. These presentations focused on explaining the economic situation and rationale for monetary policy decisions.

The Bank continued its industry consultation with commercial banks, credit institutions, insurers, brokers and foreign exchange dealers. Industry meetings were held on a quarterly basis with the ABIF, FCA, Insurance Taskforce and the Association of Foreign Exchange Dealers. The Reserve Bank also conducted individual meetings with commercial banks, insurance companies and the FNPf. The Board and Management visited Vanua Levu, attended the Labasa Agriculture Show and shared information with stakeholders.

The Bank also assisted with briefings for officials from Government ministries and statutory bodies when required.

During the year, various schools visited the Reserve Bank to learn about the role and responsibilities of the Bank as well as 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 was also visited by several foreign dignitaries. Reserve Bank officials also participated in a range of international conferences and workshops.

The Reserve Bank liaised with the IMF, World Bank, ADB and central banks in the Pacific and South East Asia region. During the year, the Bank received technical assistance from international institutions such as the IMF and the APRA, in the areas of monetary and financial statistics, foreign exchange, insurance, superannuation and banking supervision. The Reserve Bank of Australia provided technical assistance on macroeconomic modelling.

Senior Reserve Bank officials attended annual meetings of the IMF/World Bank, South East Asian Central Banks (SEACEN) Board of Governors, SEACEN Executive Committee, ADB, SEACEN Directors of Supervision Meeting, SEACEN Directors of Research and Training, SEACEN Directors of Payments and Settlements Systems and the South Pacific Governors' Meeting.

The Bank continued its association with the Pacific Financial Technical Assistance Centre (PFTAC),<sup>11</sup> which continues to provide guidance in the areas of financial supervision, statistics and macroeconomic modelling analysis. The Bank also hosted attachments from central banks in the region.

<sup>11</sup> The PFTAC office is responsible for providing technical assistance and training to Pacific Island countries. It is a collaborative venture between the IMF, the recipient countries, and bilateral and multi-lateral donors.



### Fiji's First \$2 Coin

The *Ga ni Vatu* (Peregrine Falcon). The Peregrine Falcon is one of the world's best known 'birds of prey'. Fiji has a distinctive subspecies – *nesiotis* – or 'the islander'. This subspecies is the darkest and according to many, the most handsome of all the Peregrines worldwide.

For Fijians, the *Ga ni Vatu* has a powerful mystique which stems perhaps from a now largely forgotten legend of a fabulous *Ga ni Vatu* from the Yasawa Islands. In Fiji, the population of the *Ga ni Vatu* is less than a hundred pairs and is believed to be declining.



## Mission: Recruit, Develop and Retain a Professional Team

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

### Staffing

At the end of 2012, the Reserve Bank staff complement increased to 207 from 205 in 2011.

#### RBF Staff Statistics (31 December)

	2008	2009	2010	2011	2012
Total Staff	171	200	203	205	207
Average Years of Service	9.1	7.6	7.6	8.0	8.3
Annual Staff Turnover (%)	9.9	4.5	7.4	8.3	5.3

Source: Reserve Bank of Fiji

During the year, the Bank recruited 14 staff, for the positions of Technical Assistant, Librarian, Human Resources Officer, Systems Officers (4), Analysts (3), Manager Human Resources, Economists (2) and FIU IT Officer. In addition, nine staff resigned to take up alternative employment, one staff was dismissed and two long serving staff retired from service.

### Management Remuneration in 2012

Executive Management salaries approval is vested with the Minister for Finance. Other management staff are employed on individual contract basis and remunerated in line with the market.

#### Management Remuneration in 2012

	Total Fixed Remuneration <sup>1</sup>	Staff Numbers
i.	\$226,248	1
ii.	\$174,191	1
iii.	\$124,391	7
iv.	\$70,862- \$92,789	29

<sup>1</sup> Total Fixed Remuneration is exclusive of any performance bonus.  
(i)-(iii) Executive Management as previously approved by the Higher Salaries Commission in 2011.  
(iv) Other management staff.

Source: Reserve Bank of Fiji

### Staff Development

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

One Chief Manager was promoted and appointed to his current position in 2012. One staff was confirmed

to managerial position in the Financial Systems Development and Compliance Group.

There are two staff on study leave with pay, pursuing their Masters Degree at the Australian National University. They are both recipients of the Australian Development Scholarship and are expected to complete their studies in December 2013.

Two staff graduated with Certificates in Statistical Quality Control from FNU, two staff graduated with Masters in International Economics and Finance from the University of Queensland, Australia and one staff graduated with Masters in International Trade from Southeast University, China. In addition, 22 staff pursued part-time studies at USP, Central Queensland University and FNU towards Masters, Post Graduate, Degree and Diploma programs.

In 2012, 82 staff attended various short courses locally such as those organised by USP, FNU, Fiji Institute of Accountants (FIA), DATEC (Fiji) Ltd and the Fiji Human Resources Institute (FHRI). Moreover, 46 staff attended various courses abroad that were organised by the IMF-Singapore Technical Institute, SEACEN Training Centre, Bank Negara, ADB, Australia Asia-Pacific Economic Cooperation, APRA, Bank of Korea, Bank of England, Reserve Bank of Australia, World Bank and Pacific Regional Branch International Council on Archives.

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

During the year, staff were seconded to the Ministry of Finance, FBOS, the IMF Regional Resident Representative Office, Fiji Trade Commission in Los Angeles, and the Alliance for Financial Inclusion in Bangkok. The Bank also hosted a few short-term attachments from the Ministry of Finance.

### Employment Relations

The Bank implemented the new salary structure as a result of the 2012 PricewaterhouseCoopers Market Survey. The Salary Review Successor Agreement signed between the Bank and the Fiji Bank and Finance Sector



Mission:  
Recruit, Develop and  
Retain a Professional Team

Employees Union (FBFSEU) in 2011 will remain effective until 2014.

### Labour Management Consultative Cooperation

The Employment Relations Promulgation No. 36 of 2007 Section 9(3) requires the Bank to establish a Labour Management Consultation and Cooperation Committee as a forum for meaningful consultation, cooperation and exchange of workplace information to promote good faith employment relations and improve productivity. The Committee was registered with the Ministry of Labour under Regulation 7 in August 2009. The Committee comprises seven management and seven staff representatives. There were four meetings held in 2012.

### National Employment Centre (NEC)

The Bank signed an agreement with NEC in compliance with the NEC Decree. Under this agreement, the Bank is required to provide workplace attachments to at least 11 unemployed persons registered with NEC. To date, the Bank has fully complied with the NEC requirements and the Bank's vacancy advertisements also encourage candidates registered under NEC to apply.

### Quality Performance Management

During 2012, the Reserve Bank's quality performance management program continued with the objective of achieving higher quality performance. The Chief Managers drove the quality program in their respective Groups.

An audit of maps and manuals was coordinated and the 16 quality teams are working towards achieving their targets as set out by their Chief Managers. The self driven teams continue to meet regularly and focus their meeting on work process improvements and building effective work relationships.

The teams held 133 meetings during 2012, reviewed 269 processes and 223 processes were approved.

### 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. The Bank continues to maintain the gymnasium provided to staff, in promoting staying fit and healthy.

In 2012, the Reserve Bank's Occupational Health &

Safety (OHS) Committee met four times. A total of 43 staff including management attended training on OHS related courses. A fire drill exercise was also coordinated under the guidance of officers from the National Fire Authority and the Bank's fire wardens. In addition, Executive Management attended three hours of basic First Aid training facilitated by the St. John Ambulance.

### General Administration Services

The Bank coordinated the renewal of General Insurance Policies and Staff Insurance programs for 2013.

### Property Management and Security

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

The Bank initiated the gate replacement project in 2012. One gate was replaced with a higher impact resistance and durable energy efficient motor powered grilled mechanism.

Following the 2011 Energy Audit exercise report by the Fiji Electricity Authority's Demand Side Management team, the Bank implemented changes as recommended. Work will continue on some medium-term measures planned for completion in 2013. Improvements were noted in the monthly energy usage bankwide.

There were refurbishments to maximise the usage of space and to cater for staff seating requirements and meeting room venues.

In 2012, the Bank continued with its plant and machinery efficiency survey for continuous systems improvement and energy saving initiatives. Consultants were engaged to conduct a review of the air conditioning systems.

Preliminary work on maintaining the exterior cladding of the RBF building continued in 2012. The Bank awarded the tender for services to an architectural company to work on the designs for the exterior refurbishment of the building, including measures to make the building more energy efficient. This project is expected to be completed in 2014.

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



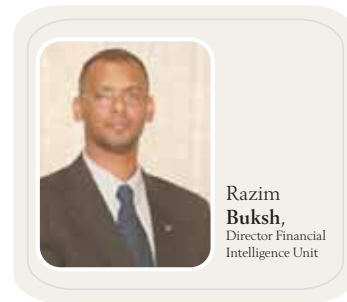


Mission:  
Recruit, Develop and  
Retain a Professional Team

### Service Recognition

The Governor's Service Recognition and Long Service Loyalty Award, recognises dedicated long and meritorious service to the Bank.

In 2012, two staff reached 15 years, four staff reached 20 years and one staff reached 25 years. The Governor, Mr Barry Whiteside achieved 35 years of service and the Director Financial Intelligence Unit, Mr Razim Buksh completed 25 years of service at the Bank.



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

### Acknowledgement

The Board sincerely acknowledges the efforts and contributions of all staff in 2012. The RBF Board's gratitude is also extended to the Fijian Government, the IMF, the World Bank, the ADB, SEACEN, PFTAC and regional central banks for their continued support and assistance. Furthermore, the Bank wishes to express its sincere appreciation to the FBFSEU for its support and assistance in industrial relations matters.





*The Reserve Bank will continue to focus on fulfilling its core responsibilities in 2013. Listed below are priority areas where special effort will be focused during 2013.*

### Monetary Policy

The Reserve Bank will continue to implement appropriate monetary policy to safeguard its twin objectives of maintaining low inflation and ensuring a comfortable level of foreign reserves. The Bank will also focus on supporting investment and economic growth, in addition to its conventional monetary policy goals.

### Laws

The review of the Reserve Bank Act (1983) will continue in 2013. Further evaluation will continue to ensure the proposed law is in line with international best practices.

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

The Insurance Act (1998) review will continue.

With the confirmation of funding for technical assistance secured in 2012, a Superannuation Supervision Decree is to be drafted in 2013 to strengthen the supervision of Fiji's superannuation industry.

Work on the framework for the law on payments and settlements system for Fiji will be completed in 2013.

### Currency

The Reserve Bank will continue to review its currency stock. The new series flora and fauna Fiji currency notes and coins which were launched on 12 December 2012 will be issued on 2 January 2013 with the \$5 note issued on 1 April 2013.

### Strategic Plan 2014 - 2018

The Bank will continue to review its Strategic Plan for

2009 - 2013 and finalise its 2014 - 2018 Plan.

### Enhanced Supervision

The Reserve Bank will continue to boost its risk based supervision practices in 2013. The progress of FNPF reforms will continue to be monitored, together with further work on the development of supervision policies.

Further development and review of supervisory policies for the banking and insurance industries are also targeted.

In addition, work on strengthening macroprudential surveillance will take place.

### Financial System Developments

The Reserve Bank will continue to promote financial inclusion, complaints management and development initiatives in collaboration with stakeholders.

The Bank will conduct onsite examinations on licensed financial institutions to ensure that consumer and complaints management issues are addressed effectively and efficiently.

### Corporate Services Enhancements

In 2013, work will continue on record keeping for good governance. The appropriate processes and systems will continue to be employed to convert all forms of documentation to digital form.

Work processes will continue to be strengthened to reduce the Reserve Bank's carbon footprint.

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



## Contents

Directors' report	49-50
Statement by Directors	51
Independent auditors' report to the Board of Directors of the Reserve Bank of Fiji	52
Statement of comprehensive income	53
Statement of changes in equity	54-55
Statement of financial position	56
Statement of cash flows	57
Notes to and forming part of the financial statements	58-80

The Directors present their report together with the financial statements of the Reserve Bank of Fiji ("the Bank") for the year ended 31 December 2012 and the auditors' report thereon.

### Directors

The Directors in office at the date of this report were:

Barry Whiteside (Chairman and Governor)  
Iowane Naiveli  
Filimone Waqabaca (Ex-officio member)  
Robin Yarrow  
Adish Narayan  
Deo Saran

### State of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the financial position of the Bank as at 31 December 2012 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 of the Bank for the year then ended.

### Principal activities

The Reserve Bank's role as a central bank, as defined in the Reserve Bank of Fiji Act, 1983, is:

- 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; and
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country.

### Trading results

The net profit of the Bank for the year ended 31 December 2012 was \$25.4m (2011: \$34.5m).

### Reserves

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

### External reserves

Under the provisions of Section 31 of the Reserve Bank of Fiji Act, 1983, the value of the External reserves provided for in Section 30 shall not be less than 50% of the total Demand liabilities of the Bank. At 31 December 2012, the value of the External reserves was 92% (2011: 93%) of total Demand liabilities.

### Payable to the Fijian Government

In accordance with the Reserve Bank of Fiji Act, 1983, the following amounts totalling \$35.4m (2011: \$47.8m) are payable to the Fijian Government:

Section 8(3): Net profit after transfer to General reserves - \$25.4m (2011: \$34.5m)

Section 34: One-fifth balance of Revaluation reserve account - foreign currency - \$10.0m (2011: \$13.3m).

### 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.





**Bad and doubtful debt - continued**

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

**Provisions**

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

**Assets**

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

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

**Directors' benefit**

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

**Events subsequent to balance date**

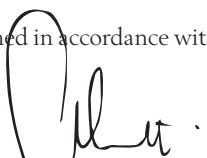
During the financial year, the Bank decided to put into circulation the new flora and fauna design note and coin series with effect from 2 January 2013. The new designs will replace the portrait of Her Majesty Queen Elizabeth II across all denominations. The Bank also decided to cease issuance of the \$2 note from 31 December 2012 and the \$5 old design note from 2 April 2013. The Bank put into circulation the new \$2 coin from 2 January 2013 and the new \$5 polymer note from 2 April 2013.

**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.....<sup>28<sup>th</sup></sup>.....of March 2013.

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

  
\_\_\_\_\_  
Barry Whiteside  
Governor

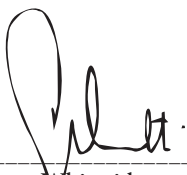
  
\_\_\_\_\_  
Iowane Naiveli  
Director

In the opinion of the Directors:

- (a) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2012;
- (b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2012;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in equity of the Bank for the year ended 31 December 2012;
- (d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2012; and
- (e) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") except as noted in Note 2(a) to the financial statements. In accordance with the provisions of Section 34 of the Reserve Bank of Fiji Act, 1983, exchange gains and losses are credited or charged directly to the Revaluation reserve account - foreign currency and are not included in the computation of annual profits or losses of the Bank. This is at variance with International Accounting Standard 21 ("IAS 21") "Effects of Changes in Foreign Exchange Rates" which requires that exchange gains and losses be credited or charged to profit or loss.

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of Section 34 of the Reserve Bank of Fiji Act, 1983. Had the Bank adopted IAS 21 there would have been a net profit of \$22.3m, a decrease of \$3.1m, being the exchange loss for the year.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 28<sup>th</sup> of March 2013.



Barry Whiteside  
Governor



Iowane Naiveli  
Director



## Independent auditors' report to the Board of Directors of the

### Reserve Bank of Fiji

We have audited the accompanying financial statements of the Reserve Bank of Fiji, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 53 to 80.

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

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the Directors and Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 the 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 qualified audit opinion.

#### Qualification

As noted in Note 1(a) to the financial statements, exchange gains and losses are credited or debited directly to the Revaluation Reserve Account - Foreign Currency as required under Section 34 of the Reserve Bank of Fiji Act, 1983. This accounting treatment is not in accordance with International Financial Reporting Standard IAS 21 "Effects of Changes in Foreign Exchange Rates" which requires exchange gains and losses to be credited or charged to profit or loss.

Had the Bank adopted IAS 21, the Revaluation Reserve Account - Foreign Currency would be increased by \$2.5m in respect of the year ended 31 December 2012, being the net exchange losses debited to that account of \$3.1m offset by an increase of \$0.6m in amount payable to the Fijian Government. The net profit for the year would have been reduced by \$3.1m to \$22.3m, being the exchange losses for the year.

#### Qualified audit opinion

In our opinion, except for the effects of non-compliance with IAS 21 as noted above, the financial statements give a true and fair view of the financial position of the Reserve Bank of Fiji as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Reserve Bank of Fiji Act, 1983.

Suva, Fiji  
28 March, 2013

  
KPMG  
Chartered Accountants



# Statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
<b>Income</b>			
Interest income	4(a)	52,994	54,756
Net (losses)/gains on realisation of securities		(61)	2,372
Other revenue	4(b)	3,715	5,441
<b>Total income</b>		56,648	62,569
<b>Expenses</b>			
Interest expense	4(c)	1,498	6,663
Amortisation of securities		419	591
Administration expenses	4(d)	16,945	15,107
Other expenses	4(e)	12,419	5,671
<b>Total expenses</b>		31,281	28,032
<b>Net profit</b>	11	25,367	34,537
<b>Other comprehensive losses</b>			
Fair value gains/(losses)		765	(3,674)
Net losses arising from translation of currency balances to Fijian currency		(3,104)	(3,301)
<b>Total other comprehensive losses</b>		(2,339)	(6,975)
<b>Total comprehensive income</b>		23,028	27,562

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 58 to 80.

## Statement of changes in equity

For the year ended 31 December 2012

	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 2011	2,000	39,050	69,565	19,255	7,990	-	137,860
<b>Total comprehensive income for the year</b>							
Net profit	-	-	-	-	-	34,537	34,537
<i>Other comprehensive losses</i>							
Fair value losses	-	-	-	(3,674)	-	-	(3,674)
Net losses arising from translation of foreign currency balances to Fijian currency	-	-	(3,301)	-	-	-	(3,301)
Total other comprehensive losses	-	-	(3,301)	(3,674)	-	-	(6,975)
<b>Total comprehensive income for the year</b>	-	-	<b>(3,301)</b>	<b>(3,674)</b>	-	<b>34,537</b>	<b>27,562</b>
	<b>2,000</b>	<b>39,050</b>	<b>66,264</b>	<b>15,581</b>	<b>7,990</b>	<b>34,537</b>	<b>165,422</b>
<i>Transactions with owners, recorded directly in equity</i>							
Payable to the Fijian Government (Note 11)	-	-	(13,253)	-	-	(34,537)	(47,790)
<b>Balance at 31 December 2011</b>	<b>2,000</b>	<b>39,050</b>	<b>53,011</b>	<b>15,581</b>	<b>7,990</b>	<b>-</b>	<b>117,632</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 58 to 80.

## Statement of changes in equity - continued

For the year ended 31 December 2012

	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 2012	2,000	39,050	53,011	15,581	7,990	-	117,632
<b>Total comprehensive income for the year</b>							
Net profit	-	-	-	-	-	25,367	25,367
<i>Other comprehensive income/(losses)</i>							
Fair value gains	-	-	-	765	-	-	765
Net losses arising from translation of foreign currency balances to Fijian currency	-	-	(3,104)	-	-	-	(3,104)
Total other comprehensive losses	-	-	(3,104)	765	-	-	(2,339)
<b>Total comprehensive income for the year</b>	-	-	<b>(3,104)</b>	<b>765</b>	-	<b>25,367</b>	<b>23,028</b>
	<b>2,000</b>	<b>39,050</b>	<b>49,907</b>	<b>16,346</b>	<b>7,990</b>	<b>25,367</b>	<b>140,660</b>
<i>Transactions with owners, recorded directly in equity</i>							
Payable to the Fijian Government (Note 11)	-	-	(9,981)	-	-	(25,367)	(35,348)
<b>Balance at 31 December 2012</b>	<b>2,000</b>	<b>39,050</b>	<b>39,926</b>	<b>16,346</b>	<b>7,990</b>	<b>-</b>	<b>105,312</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 58 to 80.



## Statement of financial position

As at 31 December 2012

**Foreign currency assets**

Short-term commercial paper and current accounts

Marketable securities

Gold

Accrued interest

International Monetary Fund

- Reserve tranche position

- Special drawing rights

- PRGF - HIPC Trust

- Currency subscription

**Total foreign currency assets****Local currency assets**

Cash on hand

Domestic securities

Other assets

Intangible assets

Property, plant and equipment

**Total local currency assets****Total assets****Foreign currency liabilities**

Demand deposits

IMF - PRGF- HIPC Trust

IMF - Special drawing rights allocation

**Total foreign currency liabilities****Local currency liabilities**

Demand deposits

Payable to the Fijian Government

Currency in circulation

Statutory reserve deposits

IMF - Notes currency subscription

Other liabilities

**Total local currency liabilities****Total liabilities****Net assets****Capital and reserves**

Paid-up capital

General reserves

Revaluation reserve account - foreign currency

Available-for-sale reserve

Asset revaluation reserve

Note	2012 \$000	2011 \$000
5	951,805	966,827
5	495,413	354,770
5	2,469	2,323
	6,628	4,812
5/17	45,290	45,808
5/17	140,544	142,795
17	534	542
17	148,115	150,677
	<b>1,790,798</b>	<b>1,668,554</b>
14	1,693	1,686
6	149,564	169,215
7	74,435	45,455
8	798	858
9	22,109	22,695
	<b>248,599</b>	<b>239,909</b>
	<b>2,039,397</b>	<b>1,908,463</b>
10	165	149
17	534	542
17	184,595	187,525
	<b>185,294</b>	<b>188,216</b>
10	576,593	517,578
11	35,348	47,790
12	558,791	496,992
	419,320	386,155
	147,913	150,431
13	10,826	3,669
	<b>1,748,791</b>	<b>1,602,615</b>
	<b>1,934,085</b>	<b>1,790,831</b>
	<b>105,312</b>	<b>117,632</b>
15	2,000	2,000
16	39,050	39,050
16	39,926	53,011
16	16,346	15,581
16	7,990	7,990
	<b>105,312</b>	<b>117,632</b>

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


Barry Whiteside  
Governor

Iowane Naiveli  
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 58 to 80.

## Statement of cash flows

For the year ended 31 December 2012

	Note	2012 \$000	2011 \$000
<b>Operating activities</b>			
Rental lease income		383	431
Numismatic sales		1,018	884
Interest received and securities trading income		51,111	56,659
Other income		2,353	4,150
Interest paid		(1,498)	(6,663)
New currency payments		(20,481)	(806)
Administration and other expenses		(10,238)	(16,720)
Net movement of domestic securities		17,471	14,052
Net movement in short-term commercial paper		(53,703)	(17,840)
Net movement in fixed deposit accounts		(45,449)	93,096
Net movement in International Monetary Fund accounts		(129)	499
Net movement in other receivables		(18,774)	(20,478)
<b>Cash flows (used in)/from operating activities</b>		<b>(77,936)</b>	<b>107,264</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangibles		(1,298)	(1,725)
Net movement of bonds		(92,669)	(1,410)
Net movement in gold		(146)	(192)
<b>Cash flows (used in) investing activities</b>		<b>(94,113)</b>	<b>(3,327)</b>
<b>Financing activities</b>			
Net movement in currency in circulation		61,799	17,014
Net movement in demand deposits		59,260	157,621
Net movement in statutory reserve deposits		33,166	49,803
Payment to the Fijian Government		(47,790)	(38,910)
<b>Cash flows from financing activities</b>		<b>106,435</b>	<b>185,528</b>
<b>Net effect of exchange rate</b>		<b>(3,104)</b>	<b>(3,301)</b>
<b>Net (decrease)/increase in cash</b>		<b>(68,718)</b>	<b>286,164</b>
<b>Cash at the beginning of the financial year</b>		<b>579,214</b>	<b>293,050</b>
<b>Cash at the end of the financial year</b>	14	<b>510,496</b>	<b>579,214</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 58 to 80.

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

The Reserve Bank's role as a central bank, as defined in the Reserve Bank of Fiji Act, 1983 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; and
- (d) to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country.

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

**2. Statement of significant accounting policies**

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, IFRS and other disclosure requirements of the Fiji Institute of Accountants except as detailed below.

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

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

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

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of Section 34 of the Reserve Bank of Fiji Act, 1983. Had the Bank adopted IAS 21 there would have been a net profit of \$22.3m, a decrease of \$3.1m, being the exchange loss for the year.

**(b) Basis of preparation**

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

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

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

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



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

### (b) Basis of preparation - continued

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below.

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues.

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

#### *IFRS 13 Fair Value Measurement (2011)*

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already applicable under the existing accounting standards, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3 referred to in Note 19. IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

### (c) Foreign currency transaction

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

### (d) Functional currency

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

### (e) Financial assets and liabilities

#### *Investment securities*

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

Investment securities with fixed maturities where the Bank has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities to be held for an indefinite period



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

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

of time, which may be sold in response to needs for liquidity or changes in interest rate, exchange rates or equity prices, are classified as held-for-trading. Investment securities that are not classified in any of the other categories are classified as available-for-sale. The Bank determines the appropriate classification of its investments at the time of the purchase.

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

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 19). 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.

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

#### *Other financial assets and liabilities*

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

#### *Derecognition*

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

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

### (f) Gold

Gold is valued at the market price ruling at year end.

### (g) Numismatic items

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

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

### (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 includes the new note and coin design series. The amount expensed in profit or loss is based on the cost of notes and coins that are issued for circulation.

### (j) Loans and advances

Loans are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for an allowance for bad and doubtful debts.

A provision for bad and doubtful debts is made based on the appraisal carried out at year end. Movement in the provision is charged to profit or loss.

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

### (k) Demand deposits

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

### (l) Currency in circulation

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

### (m) Property, plant and equipment

#### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2006, the date of transition to IFRS, was determined by its fair value at that date. Costs include expenditures that are directly attributable to the acquisition of the asset.

#### *Depreciation*

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





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

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

Freehold buildings	50 years
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. However, under Section 31 of the National Bank of Fiji (NBF) Restructuring Act, 1996, this section does not apply to the NBF Asset Management Bank ("AMB").

### (p) Impairment

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

### (q) Employee entitlements

#### *Short-term benefits*

Short-term employee benefits comprising of annual leave and entitlement to Fiji National Provident Fund (FNPF) 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.

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

### (s) Revenue recognition

#### *Interest income*

Interest income is brought to account on an accruals basis.

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

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

### (t) Operating leases

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

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

### (u) Comparative figures

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

### (v) Rounding

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

## 3. Critical accounting estimates and judgements

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

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

#### *Impairment of property, plant and equipment*

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

#### *Impairment of financial assets*

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

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



4. Revenue and expenses	2012 \$000	2011 \$000
<b>(a) Interest income</b>		
Overseas investments	38,148	38,798
International Monetary Fund	218	792
Domestic securities	13,742	14,778
Loans and advances	886	388
	52,994	54,756
<b>(b) Other revenue</b>		
Rent received	383	431
Numismatic sales	1,018	884
License and application fees	285	220
Foreign currency trading gains	1,814	2,508
Other miscellaneous income	215	1,398
	3,715	5,441
<b>(c) Interest expense</b>		
Bank demand deposits	-	5,298
International Monetary Fund	231	808
Other	1,267	557
	1,498	6,663
<b>(d) Administration expenses</b>		
Staff costs	11,138	10,168
Other costs	5,807	4,939
	16,945	15,107
	207	205
<b>(e) Other expenses</b>	2012 \$000	2011 \$000
Depreciation	1,625	1,582
Amortisation of intangible assets	278	517
Auditor's remuneration		
- Audit fees	68	66
- Accounting services	30	66
- Other services	22	30
Board remuneration	31	48
Currency issue	4,566	3,191
Write-off of old design currency inventory	5,499	152
Numismatic	300	19
	12,419	5,671

During the financial year, the Bank decided to put into circulation the new flora and fauna design note and coin series with effect from 2 January 2013. The new designs will replace the portrait of Her Majesty Queen Elizabeth II across all denominations. The new design notes and coins were officially unveiled by His Excellency, the President of the Republic of Fiji, Ratu Epeli Nailatikau, on 12 December 2012. The Bank also decided to cease issuance of the \$2 note from 31 December 2012 and the \$5 old design note from 2 April 2013. The Bank put into circulation the new \$2 coin from 2 January 2013 and the new \$5 polymer note from 2 April 2013.

Consequently, the Bank made an assessment of its old design notes inventory that is not expected to be issued which resulted in a write-off of old design notes of \$5.5m.



**5. External reserves**

	2012 \$000	2011 \$000
Short-term commercial paper	769,324	853,219
Current accounts	182,481	113,608
	951,805	966,827
Marketable securities		
- Fixed term deposits	325,145	279,696
- Bonds	170,268	75,074
	495,413	354,770
Gold	2,469	2,323
International Monetary Fund		
- Reserve tranche position	45,290	45,808
- Special drawing rights	140,544	142,795
	185,834	188,603
Total External reserves	1,635,521	1,512,523

Under the provisions of Section 31 of the Reserve Bank of Fiji Act, 1983, the value of the External reserves provided for in Section 30 shall not be less than 50% of the total Demand liabilities of the Bank. At 31 December 2012, the value of the External reserves was 92% (2011: 93%) of total Demand liabilities.

**6. Domestic securities**

	2012 \$000	2011 \$000
Held-to-maturity	149,564	169,215

In 2011, the total underwritten bonds of \$86.5m, was reclassified from Available-for-sale to Held-to-maturity securities. The transfer to the Domestic Bond Portfolio reflects the change of intention to hold the investments to maturity. These securities have varying maturity dates up to 20 years.

During the year, \$0.4m (2011: \$0.6m) was amortised in respect of securities held in the Domestic Bond Portfolio.

	2012 \$000	2011 \$000
<i>Reconciliation of Available-for-sale financial assets</i>		
Opening balance	-	86,472
Transfer to Held-to-maturity	-	(86,472)
Total investments	-	-

**7. Other assets**

	2012 \$000	2011 \$000
Accrued interest	3,287	3,388
Currency inventory	24,472	14,056
Other assets and prepayments	45,434	26,644
	73,193	44,088
Staff loans and advances	1,259	1,369
Provision for doubtful debts on staff loans and advances	(17)	(2)
	1,242	1,367
	74,435	45,455

## Notes to and forming part of the financial statements

For the year ended 31 December 2012

## 8. Intangible assets

*Cost*

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

*Accumulated amortisation*

Balance at 1 January
Amortisation charge for the year
Balance at 31 December

*Carrying amount*

At 1 January
At 31 December

	2012 \$000	2011 \$000
Balance at 1 January	4,368	3,670
Acquisitions	66	73
Transfers from work in progress	152	625
Balance at 31 December	4,586	4,368
Balance at 1 January	3,510	2,993
Amortisation charge for the year	278	517
Balance at 31 December	3,788	3,510
At 1 January	858	677
At 31 December	798	858

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.

## 9. Property, plant and equipment

	Freehold land and buildings	Improve- ments	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 2011	21,214	3,381	272	2,035	4,633	60	31,595
Additions	107	3	160	223	-	1,159	1,652
Transfers	24	297	-	117	-	(1,063)	(625)
Disposals	-	-	-	(93)	-	(24)	(117)
Balance at 31 December 2011	21,345	3,681	432	2,282	4,633	132	32,505
Balance at 1 January 2012	21,345	3,681	432	2,282	4,633	132	32,505
Additions	-	5	-	254	-	973	1,232
Transfers	-	89	-	142	-	(383)	(152)
Disposals	-	-	(92)	(280)	-	(39)	(411)
Balance at 31 December 2012	21,345	3,775	340	2,398	4,633	683	33,174
<b>Accumulated depreciation</b>							
Balance at 1 January 2011	1,306	2,513	154	1,375	2,972	-	8,320
Depreciation for the year	710	189	35	325	323	-	1,582
Depreciation on disposals	-	-	-	(92)	-	-	(92)
Balance at 31 December 2011	2,016	2,702	189	1,608	3,295	-	9,810
Balance at 1 January 2012	2,016	2,702	189	1,608	3,295	-	9,810
Depreciation for the year	711	232	57	307	318	-	1,625
Depreciation on disposals	-	-	(92)	(278)	-	-	(370)
Balance at 31 December 2012	2,727	2,934	154	1,637	3,613	-	11,065
<b>Carrying amount</b>							
Balance at 1 January 2011	19,908	868	118	660	1,661	60	23,275
Balance at 31 December 2011	19,329	979	243	674	1,338	132	22,695
Balance at 31 December 2012	18,618	841	186	761	1,020	683	22,109

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

**10. Demand deposits**

	2012 \$000	2011 \$000
Foreign		
International Monetary Fund	165	149
Local		
Banks' exchange settlement balances	573,974	510,158
Fijian Government	989	5,196
State NBF Trust account	940	1,060
International Monetary Fund	193	246
Other depositors	497	918
	576,593	517,578

*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.

**11. Payable to the Fijian Government**

	2012 \$000	2011 \$000
Net profit	25,367	34,537
One-fifth balance of 'Revaluation reserve account - foreign currency'	9,981	13,253
	35,348	47,790

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

**12. Currency in circulation**

	2012 \$000	2011 \$000
Notes	524,332	465,824
Coins	34,459	31,168
	558,791	496,992

The exclusive rights of national currency issue are vested with the Bank. Currency in circulation comprises notes and coins issued by the Bank and represents a claim on the Bank in favour of the holder. Currency in circulation relates to the issue of notes and coins less notes and coins redeemed.



**13. Other liabilities****Current**

Employee entitlements  
Other liabilities

Movements in employee entitlements:

Balance at 1 January  
Net movement during the year  
Balance at 31 December

	2012 \$000	2011 \$000
Employee entitlements	1,048	924
Other liabilities	9,778	2,745
	10,826	3,669
Movements in employee entitlements:		
Balance at 1 January	924	854
Net movement during the year	124	70
Balance at 31 December	1,048	924

**14. Cash and cash equivalents**

Cash and cash equivalents included in the statement of cash flows comprise of the following:

Cash on hand - local currency  
Cash and cash equivalents - foreign currency

	2012 \$000	2011 \$000
Cash on hand - local currency	1,693	1,686
Cash and cash equivalents - foreign currency	508,803	577,528
	510,496	579,214

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

**15. Share capital**

Authorised capital

Issued and paid-up capital

	2012 \$000	2011 \$000
Authorised capital	5,000	5,000
Issued and paid-up capital	2,000	2,000

**16. Reserves**

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

*General reserves*

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

*Available-for-sale reserve*

This reserve records fair value gains and losses on Available-for-sale investments of the Bank.

*Revaluation reserve account - foreign currency*

Exchange gains and losses arising from revaluation of foreign currencies are transferred to the Revaluation reserve account - foreign currency (refer Note 2(c)).

*Asset revaluation reserve*

This reserve records movements between the cost and the fair values of the Bank's properties.

## 17. International Monetary Fund

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

As at 31 December 2012, the Republic of Fiji's membership subscription to the International Monetary Fund was \$193.4m (2011: \$196.5m). Of this amount \$45.3m (2011: \$45.8m) 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 local Currency subscription portion of \$148.1m (2011: \$150.7m) 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 \$140.5m (2011: \$142.8m) 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 \$184.6m (2011: \$187.5m) 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.

## 18. Financial risk and 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 Committee on internal audit and related issues. All areas in the Bank are subject to periodic internal audit review.

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



**18. Financial risk and management policies - continued****b) Liquidity risk**

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

*Management of liquidity risk*

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

*Exposure to liquidity risk*

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

As at 31 December 2012, the value of External reserves was 92% (2011: 93%) of the total Demand liabilities.



## 18. Financial risk and management policies - continued

## b) Liquidity risk - continued

## Maturity analysis as at 31 December 2012

	0 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	No Specific Maturity	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Foreign currency assets</b>						
Short-term commercial paper and current accounts	508,803	443,002	-	-	-	951,805
Marketable securities	154,479	268,897	72,037	-	-	495,413
Gold	2,469	-	-	-	-	2,469
Accrued interest	6,628	-	-	-	-	6,628
IMF - Reserve tranche position	45,290	-	-	-	-	45,290
- Special drawing rights	140,544	-	-	-	-	140,544
- PRGF - HIPC Trust	-	-	-	534	-	534
- Currency subscription	148,115	-	-	-	-	148,115
	1,006,328	711,899	72,037	534	-	1,790,798
<b>Local currency assets</b>						
Cash on hand	1,693	-	-	-	-	1,693
Domestic securities	1,002	21,294	42,845	84,423	-	149,564
Other assets	74,435	-	-	-	-	74,435
Intangibles	-	-	-	-	798	798
Property, plant & equipment	-	-	-	-	22,109	22,109
	77,130	21,294	42,845	84,423	22,907	248,599
<b>Total assets</b>	<b>1,083,458</b>	<b>733,193</b>	<b>114,882</b>	<b>84,957</b>	<b>22,907</b>	<b>2,039,397</b>
<b>Foreign currency liabilities</b>						
Demand deposits	165	-	-	-	-	165
IMF - PRGF - HIPC Trust	-	-	-	534	-	534
IMF - Special drawing rights allocation	-	-	-	-	184,595	184,595
	165	-	-	534	184,595	185,294
<b>Local currency liabilities</b>						
Demand deposits	576,593	-	-	-	-	576,593
Payable to the Fijian Government	35,348	-	-	-	-	35,348
Currency in circulation	-	-	-	-	558,791	558,791
Statutory reserve deposit	-	-	-	-	419,320	419,320
IMF - Notes currency subscription	-	-	-	-	147,913	147,913
Other liabilities	9,778	-	486	562	-	10,826
	621,719	-	486	562	1,126,024	1,748,791
<b>Total liabilities</b>	<b>621,884</b>	<b>-</b>	<b>486</b>	<b>1,096</b>	<b>1,310,619</b>	<b>1,934,085</b>
<b>Net assets</b>	<b>461,574</b>	<b>733,193</b>	<b>114,396</b>	<b>83,861</b>	<b>(1,287,712)</b>	<b>105,312</b>

## 18. Financial risk and management policies - continued

## b) Liquidity risk - continued

## Maturity analysis as at 31 December 2011

	0 - 3 Months \$000	3 - 12 Months \$000	1 - 5 Years \$000	Over 5 Years \$000	No Specific Maturity \$000	Total \$000
<b>Foreign currency assets</b>						
Short-term commercial paper and current accounts	577,528	389,299	-	-	-	966,827
Marketable securities	134,096	145,326	75,348	-	-	354,770
Gold	2,323	-	-	-	-	2,323
Accrued interest	4,812	-	-	-	-	4,812
IMF - Reserve tranche position	45,808	-	-	-	-	45,808
- Special drawing rights	142,795	-	-	-	-	142,795
- PRGF - HIPC Trust	-	-	-	542	-	542
- Currency subscription	150,677	-	-	-	-	150,677
	1,058,039	534,625	75,348	542	-	1,668,554
<b>Local currency assets</b>						
Cash on hand	1,686	-	-	-	-	1,686
Domestic securities	1,302	12,971	62,697	92,245	-	169,215
Other assets	45,455	-	-	-	-	45,455
Intangibles	-	-	-	-	858	858
Property, plant & equipment	-	-	-	-	22,695	22,695
	48,443	12,971	62,697	92,245	23,553	239,909
<b>Total assets</b>	<b>1,106,482</b>	<b>547,596</b>	<b>138,045</b>	<b>92,787</b>	<b>23,553</b>	<b>1,908,463</b>
<b>Foreign currency liabilities</b>						
Demand deposits	149	-	-	-	-	149
IMF - PRGF - HIPC Trust	-	-	-	542	-	542
IMF - Special drawing rights allocation	-	-	-	-	187,525	187,525
	149	-	-	542	187,525	188,216
<b>Local currency liabilities</b>						
Demand deposits	517,578	-	-	-	-	517,578
Payable to the Fijian Government	47,790	-	-	-	-	47,790
Currency in circulation	-	-	-	-	496,992	496,992
Statutory reserve deposit	-	-	-	-	386,155	386,155
IMF - Notes currency subscription	-	-	-	-	150,431	150,431
Other liabilities	2,505	77	310	777	-	3,669
	567,873	77	310	777	1,033,578	1,602,615
<b>Total liabilities</b>	<b>568,022</b>	<b>77</b>	<b>310</b>	<b>1,319</b>	<b>1,221,103</b>	<b>1,790,831</b>
<b>Net assets</b>	<b>538,460</b>	<b>547,519</b>	<b>137,735</b>	<b>91,468</b>	<b>(1,197,550)</b>	<b>117,632</b>

## 18. Financial risk and management policies - continued

## c) Credit risk

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

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

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

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

	2012 \$000	2011 \$000
<b>Foreign currency assets</b>		
Short-term commercial paper and current accounts	951,805	966,827
Marketable securities	495,413	354,770
International Monetary Fund	334,483	339,822
	1,781,701	1,661,419
<b>Local currency assets</b>		
Domestic securities	149,564	169,215
Staff loans and advances	1,259	1,369
	150,823	170,584
	1,932,524	1,832,003



## 18. Financial risk and management policies - continued

## c) Credit risk - continued

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

	2012		2011	
	\$000	%	\$000	%
<b>Concentration by currency</b>				
USD	432,589	23	406,794	22
YEN	62,897	3	62,681	3
EURO	100,880	5	94,747	5
AUD	508,677	26	460,073	25
NZD	342,175	18	297,302	16
SDR	334,483	17	339,822	19
FJD	150,823	8	170,584	10
<b>Total financial assets</b>	<b>1,932,524</b>	<b>100</b>	<b>1,832,003</b>	<b>100</b>
<b>Concentration by sector</b>				
<b>Foreign currency assets</b>				
Central banks	159,347	9	81,308	5
Commercial banks	895,546	50	759,775	46
Government	221,215	12	197,785	12
Semi Government	108,643	6	179,149	11
Supranational	62,467	4	103,580	6
International Monetary Fund	334,483	19	339,822	20
	<b>1,781,701</b>	<b>100</b>	<b>1,661,419</b>	<b>100</b>
<b>Local currency assets</b>				
Government and statutory bodies	149,564	99	169,215	99
Staff loans and advances	1,259	1	1,369	1
	<b>150,823</b>	<b>100</b>	<b>170,584</b>	<b>100</b>
<b>Total financial assets</b>	<b>1,932,524</b>		<b>1,832,003</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:

	2012		2011	
	\$000	%	\$000	%
<b>Summary by major credit category</b>				
<i>Foreign currency financial asset by major credit category:</i>				
Aaa	121,007	7	261,770	16
Aa1	91,019	5	72,515	4
Aa2	108,843	6	210,459	13
Aa3	597,653	34	437,454	26
A1	129,117	7	138,013	8
A2	126,291	7	41,768	3
International Monetary Fund	334,483	19	339,822	20
Others and Not rated	273,288	15	159,618	10
	<b>1,781,701</b>	<b>100</b>	<b>1,661,419</b>	<b>100</b>
<i>Local currency financial asset by major credit category:</i>				
Others	150,823	100	170,584	100
<b>Total financial assets</b>	<b>1,932,524</b>	<b>100</b>	<b>1,832,003</b>	<b>100</b>

## 18. Financial risk management policies - continued

## c) Credit risk - continued

## Credit exposure by credit rating - continued

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

## d) Market risk

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 December 2012**

	USD	YEN	STG	EURO	AUD	NZD	SDR
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b><i>Foreign currency assets</i></b>							
Short-term commercial paper and current account	162,670	3,021,590	55	39,635	207,296	81,508	-
Marketable securities	79,364	-	-	3,001	66,789	152,026	-
Gold	1,381	-	-	-	-	-	-
Accrued interest	1,053	-	-	11	937	2,037	-
International Monetary Fund							
- Reserve tranche position	-	-	-	-	-	-	16,463
- Special drawing rights	-	-	-	-	-	-	51,086
- PRGF - HIPC Trust	-	-	-	-	-	-	194
- Currency subscription	-	-	-	-	-	-	53,898
<b><i>Total foreign currency assets</i></b>	<b>244,468</b>	<b>3,021,590</b>	<b>55</b>	<b>42,647</b>	<b>275,022</b>	<b>235,571</b>	<b>121,641</b>
<b><i>Foreign currency liabilities</i></b>							
Demand deposits	-	-	-	-	-	-	(60)
IMF - PRGF - HIPC Trust	-	-	-	-	-	-	(194)
IMF - Special drawing rights allocation	-	-	-	-	-	-	(67,094)
<b><i>Total foreign currency liabilities</i></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(67,348)</b>
<b><i>Carrying amount</i></b>	<b>244,468</b>	<b>3,021,590</b>	<b>55</b>	<b>42,647</b>	<b>275,022</b>	<b>235,571</b>	<b>54,293</b>

## 18. Financial risk and management policies - continued

## d) Market risk - continued

## Notional carrying amounts as at 31 December 2011 - continued

	USD	YEN	STG	EURO	AUD	NZD	SDR
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Foreign currency assets</b>							
Short-term commercial paper and current account	136,255	2,675,245	21	38,515	215,369	119,697	-
Marketable securities	87,197	-	-	1,671	34,036	92,130	-
Gold	1,276	-	-	-	-	-	-
Accrued interest	848	-	-	7	673	1,432	-
International Monetary Fund							
- Reserve tranche position	-	-	-	-	-	-	16,390
- Special drawing rights	-	-	-	-	-	-	51,090
- PRGF - HIPC Trust	-	-	-	-	-	-	194
- Currency subscription	-	-	-	-	-	-	53,910
<b>Total foreign currency assets</b>	<b>225,576</b>	<b>2,675,245</b>	<b>21</b>	<b>40,193</b>	<b>250,078</b>	<b>213,259</b>	<b>121,584</b>
<b>Foreign currency liabilities</b>							
Demand deposits	-	-	-	-	-	-	(53)
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>(67,341)</b>
<b>Carrying amount</b>	<b>225,576</b>	<b>2,675,245</b>	<b>21</b>	<b>40,193</b>	<b>250,078</b>	<b>213,259</b>	<b>54,243</b>

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

## Reporting date spot rate

	2012	2011
USD	0.5595	0.5493
YEN	48.04	42.68
STG	0.3461	0.3568
EURO	0.4233	0.4244
AUD	0.5398	0.5421
NZD	0.6825	0.7125
SDR	0.3640	0.3578

## Sensitivity analysis

A 10% strengthening of the Fijian Dollar against the above currencies at 31 December would have decreased equity by the amounts shown below.

## Effect on equity

	2012	2011
	\$000	\$000
<b>31 December</b>		
USD	43,259	41,066
YEN	6,290	6,269
STG	16	6
EURO	10,072	9,471
AUD	50,868	46,131
NZD	34,217	29,931
SDR	33,401	15,160
	<b>178,123</b>	<b>148,034</b>

A 10% weakening of the Fijian Dollar against the above currencies at 31 December would have had the equal but opposite effect.



**18. Financial risk and management policies - continued****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 separation of duties between the Front Office (dealing) and the Back Office (Settlements function). The Front Office comprises authorised 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.

**19. 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 \$176.5m (2011: \$195.7m), based on quoted market prices.

*Statutory reserve deposits*

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

*Demand deposits*

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

*Currency in circulation*

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



**19. Fair values of financial assets and liabilities - continued***Other financial assets and liabilities*

The reported values of other financial assets and liabilities are considered to be its 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.

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

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>31 December 2012</b>				
<i>Foreign currency assets</i>				
Available-for-sale financial assets at quoted market price	98,231	-	-	98,231
Fijian Government bonds	-	72,037	-	72,037
	98,231	72,037	-	170,268
<b>31 December 2011</b>				
<i>Foreign currency assets</i>				
Available-for-sale financial assets at quoted market price	20,459	-	-	20,459
Fijian Government bonds	-	54,615	-	54,615
	20,459	54,615	-	75,074

During the financial period ended 31 December 2012, there were no transfers in and out of the fair value hierarchy levels mentioned above.

*Sensitivity analysis*

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

**19. Fair values of financial assets and liabilities - continued***Sensitivity analysis - continued***Effect on equity**

	2012 \$000	2011 \$000
USD	8,017	6,467
EURO	644	358
AUD	6,148	-
NZD	668	-
	15,477	6,825

**20. Related parties*****Identity of related parties***

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

The Board of Directors during the year were:

Barry Whiteside (Chairman and Governor)  
Iowane Naiveli  
Filimone Waqabaca (Ex-officio member)  
Robin Yarrow  
Adish Narayan  
Deo Saran

Filimone Waqabaca who is on secondment without remuneration to the Fijian Government, was appointed as Permanent Secretary for Finance on 7 February 2011. He was previously Chief Manager Financial Systems Development and Compliance for the Bank. Filimone Waqabaca has a related party relationship with Caroline Waqabaca (Chief Manager Economics) through marriage.

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

Barry Whiteside	Governor
Inia Naiyaga	Deputy Governor
Lorraine Seeto	Advisor to the Governors
Ariff Ali	Chief Manager Financial Markets
Esala Masitabua	Chief Manager Financial Institutions
Razim Buksh	Director Financial Intelligence Unit
Caroline Waqabaca	Chief Manager Economics
Susan Kumar	Chief Manager Currency and Corporate Services
Veremi Levula	Chief Manager Financial Systems Development and Compliance
Subrina Hanif	Board Secretary



**20. Related parties - continued*****Transactions with related parties***

In the normal course of its operations, the Bank enters into transactions with related parties identified above. The transactions with the Board of Directors and Executive Management include the payment of board remuneration and salaries, respectively.

The transactions with the Fijian Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received \$18.3m (2011:\$17.7m) of interest income relating to their investments in Government securities. The Bank also paid \$35.3m (2011: \$47.8m) to the Government in accordance with Section 8(3) of the Reserve Bank of Fiji Act, 1983. The balance of the Bank's investment in Government securities at year end amounted to \$214.7m (2011: \$214.8m).

The Bank also provides an overnight standby facility to the Fijian Government. At year end, the approved facility of \$20m (2011: \$20m) was not utilised.

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

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

	2012 \$000	2011 \$000
Board remuneration expenses	31	48
Short-term employee benefits	1,461	1,680
Long-term employee benefits	195	201
	1,687	1,929

**21. Commitments**

Commitments not otherwise provided for in the financial statements and which existed at 31 December 2012 comprise:

	2012 \$000	2011 \$000
Foreign exchange transactions:		
- Sales	9,665	11,496
- Purchases	25,000	28,443
Capital commitments	70	102

**22. Lease receivable**

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

	2012 \$000	2011 \$000
Receivable not later than one year	369	493
Receivable later than one year but not later than five years	589	1,294
	958	1,787

**23. Events subsequent to balance date**

During the financial year, the Bank decided to put into circulation the new flora and fauna design note and coin series with effect from 2 January 2013. The new designs will replace the portrait of Her Majesty Queen Elizabeth II across all denominations. The Bank also decided to cease issuance of the \$2 note from 31 December 2012 and the \$5 old design note from 2 April 2013. The Bank put into circulation the new \$2 coin from 2 January 2013 and the new \$5 polymer note from 2 April 2013.

## Selected Events in 2012

04 Jan.	Press Release - Implementation of the Credit Card Levy	22 Aug.	Press Release - Financial Institutions may use Voter Identification Card to Verify Customers
17 Jan.	Press Release - Approved Capital Markets License Holders for 2012	29 Aug.	Board Audit Committee Meeting
20 Jan.	Press Release - Removal of Select Bank Penalty Fees and Charges	30 Aug.	Ordinary Board Meeting
24 Jan.	Board Audit Committee Meeting	01 Sep.	Deputy Governor addressed the Merchant Finance Strategic Planning Session at Novotel, Lami
25 Jan.	Governor, Speaker at Fijian Holdings Ltd's Corporate Governance Workshop	03 Sep.	Press Release - Monetary Policy Stance Remains Unchanged
26 Jan.	Ordinary Board Meeting	03 Sep.	Fiji Financial Intelligence Unit signs Memorandum of Understanding with Belgium Financial Intelligence Unit
27 Jan.	Press Release - Reserve Bank Reintroduces Flood Rehabilitation Facility to Assist Businesses Affected by the January Floods	04 Sep.	Press Release - National Financial Competency Development Workshop
30 Jan.	Press Release - Monetary Policy Stance Remains Unchanged	04 Sep.	Press Release - Reserve Bank of Fiji 2011 Insurance Annual Report
10 Feb.	Press Release - Reserve Bank Introduces Agriculture and Renewable Energy Loans Ratio	13 Sep.	Press Release - Reserve Bank of Fiji Upholds "No Surcharge Rule" for Fiji
16 Feb.	RBF Presentation at Heads of Missions Consultation Forum, Holiday Inn, Suva	15 Sep.	RBF, Speaker at the Fiji Institute of Bankers Seminar, Lautoka
17 Feb.	Press Release - Reserve Bank of Fiji Issues New Banking Licence	17 Sep.	Governor as representative of the Fijian Government at the Launch of China UnionPay Cards with Bank South Pacific
23 Feb.	Ordinary Board Meeting	20 Sep.	Governor officially opened Home Finance Company Limited's new branch in Lautoka
27 Feb.	Press Release - Beware of Employment Scam	24-25 Sep.	Deputy Governor attended the 11th SEACEN Executive Committee Meeting and Seminar, South Korea
28 Feb.	Press Release - Monetary Policy Stance Remains Unchanged	03 Oct.	Press Release - Reserve Bank Issues Revised Disclosure Requirements for Licensed Credit Institutions and Urges Banking Public to Make Informed Decisions
09 Mar.	Press Release - Reserve Bank of Fiji Sponsors Local Chefs for Training at the South Pacific Food and Wine Festival	04 Oct.	Governor officially opened the rebranded BSP Life Dominion House branch, BSP Life's Customer Service Centre and BSP's Thomson Street Branch
12 Mar.	Deputy Governor presented a Banking License to BRED Bank (Fiji) Limited	04 Oct.	Deputy Governor officially launched Life Insurance Corporation of India's new 'Double Bula Life' Policy at Holiday Inn, Suva
14 Mar.	Board Governance Committee Meeting	09-14 Oct.	Governor and Chief Manager Economics attended the 2012 IMF/World Bank Annual Meetings in Japan
14 Mar.	Board Audit Committee Meeting	12 Oct.	Governor and Chief Manager Economics attended the Fiji Trade and Investment Seminar in Japan
22 Mar.	Fiji Institute of Bankers Annual General Meeting, JJ's on the Park	19 Oct.	Press Release - Police Officers Receive Specialised Training on Investigating Money Laundering
27 Mar.	December 2011 Quarterly Review Issued	19 Oct.	June 2012 Quarterly Review Issued
28 Mar.	Board Audit Committee Meeting	24 Oct.	Board Governance Committee
29 Mar.	Ordinary Board Meeting	25 Oct.	Ordinary Board Meeting
30 Mar.	2011 RBF Accounts and Annual Report to Minister for Finance	26 Oct.	Press Release - Monetary Policy Stance Remains Unchanged
02 Apr.	Press Release - Reserve Bank of Fiji Transfers \$47.8 million to Government	26 Oct.	Microfinance Exposition - Sigatoka
11 Apr.	Press Release - Monetary Policy Stance Remains Unchanged	03 Nov.	Governor officially opened Bred Bank (Fiji) Limited's Thomson Street Branch, Suva
19 Apr.	Governor officially launched ANZ's new Small and Medium Enterprise Credit Scheme	07 Nov.	Board Audit Committee Meeting
26 Apr.	Ordinary Board Meeting	14-15 Nov.	Capital Markets Development workshop on "Developing Fiji's Capital Markets - 10 years and Beyond", Novotel, Lami
27 Apr.	Press Release - Monetary Policy Stance Remains Unchanged	22 Nov.	Press Release - Further Exchange Control Relaxations effective 1 January 2013
30 Apr.	Press Release - Credit Card Surcharges	22-24 Nov.	Deputy Governor attended the 48th SEACEN Governors Conference, High Level Seminar and 32nd Meeting of SEACEN Board of Governors, Mongolia
02-05 May	Governor and Board Secretary attended the 45th Annual Meeting of the Board of Governors Asian Development Bank in Manila, Philippines	26 Nov-07 Dec.	RBF hosted a Financial Programming & Policies course jointly organised by PFTAC and the IMF Singapore Regional Training Institute
16-18 May	Capital Markets Corporate Finance Workshop	29 Nov.	Press Release - Reserve Bank of Fiji Announces Introduction of Flora and Fauna Series Banknotes and Coins
19 May	Microfinance Expo - Korovou, Tailevu	29 Nov.	Ordinary Board Meeting
22-25 May	Deputy Governor and Manager Currency attended the De La Rue Regional Conference in New Zealand	30 Nov.	Press Release - Monetary Policy Stance Remains Unchanged
31 May	Ordinary Board Meeting	03 Dec.	September 2012 Quarterly Review Issued
01 Jun.	Press Release - Revised Economic Projections	11 Dec.	Press Release - Live Television Coverage of the Official Unveiling of the New Flora and Fauna Design Banknotes and Coins
04 Jun.	Press Release - Monetary Policy Stance Remains Unchanged	11 Dec.	Deputy Governor officially opened Home Finance Company's Nakasi Branch at Tebara Complex
08 Jun.	The FIU hosted Ms. Sisilia Ete Uati, Director Technical Assistance and Training, Asia Pacific Group against Money Laundering for a presentation at the Bank	12 Dec.	Press Release - Fiji's New Flora and Fauna Design Banknotes and Coins officially unveiled by His Excellency the President of Fiji
12 Jun.	March 2012 Quarterly Review Issued	13 Dec.	Board Governance Committee
15 Jun.	Press Release - Authorities Tackle Cyber-Crime in Fiji	13 Dec.	Ordinary Board Meeting
20 Jun.	Governor officiated at the launch of Westpac's newest loan facility for Small and Medium Enterprises	14 Dec.	Press Release - Agent Banking Guideline for Commercial Banks
27 Jun.	Board Audit Committee Meeting	17 Dec.	Press Release - Bank Holiday
27 Jun.	Board Governance Committee Meeting	18 Dec.	Press Release - Bank Holiday Cancelled
28 Jun.	Ordinary Board Meeting	21 Dec.	Press Release - RBF increases Import Substitution and Export Finance Facility Funding Allocation
29 Jun.	Submission of 2011 Insurance Annual Report to the Minister for Finance		
29 Jun.	2011 FIU Annual Report submitted to the Attorney General and Minister for Justice		
03 Jul.	Press Release - Monetary Policy Stance Remains Unchanged		
05 Jul.	Press Release - Financial Intelligence Unit Annual Report 2011		
18 Jul.	Press Release - Reserve Bank of Fiji Supports 2012 Agriculture Show		
02 Aug.	Press Release - Reserve Bank Provides an Update on Credit Card Surcharge		
02 Aug.	Press Release - Licensed Restricted Foreign Exchange Dealers		
03 Aug.	Press Release - Reserve Bank of Fiji Releases 2011 Annual Report		
15 Aug.	Board Governance Committee Meeting		
16 Aug.	Press Release - Maritime Safety Authority of Fiji Signs Memorandum of Understanding with Fiji Financial Intelligence Unit		
16 Aug.	Governor launched Vodafone's M-PAISA Service at Post Fiji Limited		
18-25 Aug.	Microfinance Village - Hibiscus Festival		

## Fiji: Key Economic and Financial Indicators

	2008	2009	2010	2011	2012
<b>I. GROSS DOMESTIC PRODUCT</b>					
GDP at Market Price (\$ Million)	5,785.0	5,721.5(r)	6,186.7(r)	6,730.8(p)	7,316.6(e)
Per Capita GDP at Current Factor Cost (\$)	5,848.5	5,801.9(r)	6,153.1(r)	6,608.2(p)	7,078.8(e)
Constant Price GDP Growth Rate (%)	1.0	-1.3(r)	0.1(r)	1.9(p)	2.5(e)
<b>II. LABOUR MARKET</b>					
Labour Force	329,755(e)	332,582(e)	335,400(e)	338,300(e)	341,200(e)
Wage and Salary Earners (mid-year)	130,600(e)	132,600(e)	134,600(e)	136,600(e)	138,700(e)
<b>III. INFLATION (year-on-year % change)</b>					
All Items	6.6	6.8	5.0	7.7	1.5
<b>IV. GOVERNMENT FINANCE (\$ Million)</b>					
Total Revenue and Grants	1,454.9	1,415.9	1,537.8	1,804.1	1,960.0(r)
Total Expenditure (excluding loan repayments)	1,426.8	1,644.7	1,668.7	1,898.3	2,077.9(r)
<b>V. EXTERNAL TRADE<sup>1</sup></b>					
Current Account Balance (\$ Million)	-867.7	-233.3(r)	-270.0(r)	-152.4(r)	70.2(p)
Capital Account Balance (\$ Million)	8.2	4.6(r)	5.6(r)	10.6(r)	7.1(p)
Financial Account Balance (\$ Million)	-713.6	-497.0(r)	-298.6(r)	-463.7(r)	-310.9(p)
Current Account Balance (% of GDP)	-15.0	-4.1(r)	-4.4(r)	-2.3(r)	1.0(p)
<b>VI. FOREIGN EXCHANGE RESERVES (\$ Million)</b>					
Foreign Reserves	558.7	1,090.6	1,302.7	1,512.5	1,635.5
<b>VII. MONEY AND CREDIT (year-on-year % change)</b>					
Narrow Money	-16.3	-7.0	11.8	41.8	4.4
Currency in Circulation	8.5	13.0	8.2	5.4	7.0
Quasi-Money	3.6	17.1	0.2	-1.2	7.8
Domestic Credit <sup>2</sup>	4.1	7.2	-0.6	0.5	2.7
<b>VIII. INTEREST RATES (% p.a.)</b>					
RBF Overnight Policy Rate <sup>3</sup>	n.a	n.a	2.50	0.50	0.50
Lending Rate	7.72	7.52	7.42	7.42	6.65
Savings Deposit Rate	0.64	0.92	1.02	0.91	0.74
Time Deposit Rate	3.00	5.83	4.73	2.97	2.28
Minimum Lending Rate	6.32	3.50	3.00	1.00	1.00
<b>IX. EXCHANGE RATES</b>					
United States dollar <sup>4</sup>	0.5669	0.5185	0.5496	0.5493	0.5595
Real Effective Exchange Rate (January 1999 = 100)	107.45	91.65	94.26	99.27	100.02

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

### Notes:

<sup>1</sup> Balance of payments data for 2008-2012 has been compiled in accordance with the International Monetary Fund Balance of Payments Manual (BPM), 6th edition.

<sup>2</sup> Credit to the private sector is adjusted for AMB's non-performing loans and advances.

<sup>3</sup> The RBF Overnight Policy Rate came into effect in 2010.

<sup>4</sup> Mid rates, F\$1 equals: end of period.

### Key:

(e): estimate

(p): provisional

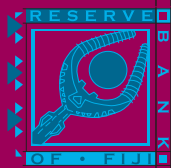
(r): revised

n.a: not available



## Abbreviations

<b>ABIF</b>	Association of Banks in Fiji	<b>ITFC</b>	Insurance Taskforce Committee
<b>ADB</b>	Asian Development Bank	<b>ITSC</b>	Information Technology Steering Committee
<b>APRA</b>	Australian Prudential Regulation Authority	<b>KPI</b>	Key Performance Indicator
<b>AMB</b>	NBF Asset Management Bank	<b>LAB</b>	Local Advisory Board
<b>AML</b>	Anti-Money Laundering	<b>MC</b>	Money Changer
<b>APG</b>	Asia Pacific Group on Money Laundering	<b>MFI</b>	Microfinance Institution
<b>ATM</b>	Automated Teller Machine	<b>MPC</b>	Macroeconomic Policy Committee
<b>BCP</b>	Business Continuity Plan	<b>MOA</b>	Memorandum of Agreement
<b>BRS</b>	Business Resumption Site	<b>NBFI</b>	Non-Bank Financial Institution
<b>BSP</b>	Bank South Pacific	<b>NEC</b>	National Employment Centre
<b>CFT</b>	Combating the Financing of Terrorism	<b>NEER</b>	Nominal Effective Exchange Rate
<b>CTR</b>	Cash Transaction Report	<b>NFIT</b>	National Financial Inclusion Taskforce
<b>EFTPOS</b>	Electronic Funds Transfer at Point of Sale	<b>OHS</b>	Occupational Health & Safety
<b>FBFSEU</b>	Fiji Bank and Finance Sector Employees Union	<b>OMO</b>	Open Market Operations
<b>FBOS</b>	Fiji Bureau of Statistics	<b>OPR</b>	Overnight Policy Rate
<b>EFTR</b>	Electronic Funds Transfer Report	<b>P2P</b>	Person to Person
<b>FCA</b>	Finance Companies Association	<b>PFIP</b>	Pacific Financial Inclusion Programme
<b>FDB</b>	Fiji Development Bank	<b>PFTAC</b>	Pacific Financial Technical Assistance Centre
<b>FGP</b>	Foster's Group Pacific Limited	<b>RBF</b>	Reserve Bank of Fiji
<b>FHRI</b>	Fiji Human Resources Institute	<b>REER</b>	Real Effective Exchange Rate
<b>FIA</b>	Fiji Institute of Accountants	<b>RFED</b>	Restricted Foreign Exchange Dealers
<b>FIU</b>	Financial Intelligence Unit	<b>RIF</b>	Retirement Income Fund
<b>FMF</b>	FMF Foods Limited	<b>RRA</b>	Revaluation Reserve Account
<b>FNPF</b>	Fiji National Provident Fund	<b>SEACEN</b>	South East Asian Central Banks
<b>FNU</b>	Fiji National University	<b>SME</b>	Small and Medium Enterprise
<b>FRF</b>	Flood Rehabilitation Facility	<b>SMECGS</b>	Small and Medium Enterprises Credit Guarantee Scheme
<b>FTR</b>	Financial Transactions Reporting	<b>SPSE</b>	South Pacific Stock Exchange
<b>GDP</b>	Gross Domestic Product	<b>STR</b>	Suspicious Transaction Report
<b>HFC</b>	Home Finance Company Limited	<b>US</b>	United States
<b>IMF</b>	International Monetary Fund	<b>USP</b>	University of the South Pacific
<b>ISEFF</b>	Import Substitution and Export Finance Facility	<b>VAT</b>	Value Added Tax
<b>IT</b>	Information Technology		



### RESERVE BANK OF FIJI

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

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



**Reserve Bank of Fiji**

**Postal:**

Private Mail Bag, Suva, Fiji

**Telephone:**

(679) 331 3611

**Facsimile:**

(679) 330 2094

**Email:**

[info@rbf.gov.fj](mailto:info@rbf.gov.fj)

**Website:**

[www.rbf.gov.fj](http://www.rbf.gov.fj)



