



Reserve Bank of Fiji
ANNUAL REPORT 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;
- to foster credit and exchange conditions conducive to the orderly and balanced economic development of the country;
- to regulate the insurance industry; and
- to regulate the capital markets and the securities industry.

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

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RESERVE BANK OF FIJI



Governor

31 March 2014

Rear Admiral J V Bainimarama
Prime Minister and Minister for Finance
Ministry of Finance
Ro Lalabalavu House
Victoria Parade
SUVA

Dear Sir

RBF Annual Report and Accounts 2013

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

- (i) A copy of the RBF Annual Accounts for the year ended 31 December 2013 certified by the Auditors.
- (ii) A report on the RBF's Operations for the 2013 fiscal year.

Yours sincerely

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

Barry Whiteside
Governor

Our Functions

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

Monetary Policy

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

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

Financial Stability

Under Section 4(c), the RBF Act requires the Bank to promote a sound financial structure. In undertaking this function, the Bank monitors and takes 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 requirement for these industries, supervised institutions are required to comply with prudential policies and guidelines issued by the Bank. These policies and guidelines complement the Bank's supervisory function with the aim of fostering financial stability and ensuring the soundness of supervised institutions. Supervised institutions are required to comply with the RBF Act, Banking Act (1995), Insurance Act (1998), the Fiji National Provident Fund Decree (2011) and the Exchange Control Act (Rev. 1985).

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

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

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

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

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

Currency

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

Other

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

The RBF 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 13.

Governor's Foreword



The year 2013 ushered in a wave of optimism and improved confidence in the Fijian economy, despite a weaker global economic performance and recovery from the devastation of Cyclone Evan in late 2012. The surge in domestic economic activity was on the back of robust consumption and investment expenditure. Major macroeconomic indicators noted significant turnaround during the year supported by accommodative monetary and fiscal policies as well as improved investor and consumer confidence. In contrast, the global economy was mired with poor confidence and falling output for most of the year. However, a turnaround was seen towards the latter half of 2013, when global economic activity improved led largely by the pick-up in the advanced economies.

The Fijian economy expanded by an estimated 3.6 percent in 2013 with positive contributions from all sectors except mining & quarrying and fishing. The improvement in business and consumer confidence and the subsequent increase in consumption and investment spending were supported by low inflationary pressures, increased disposable income, higher inward remittances, lower lending rates, increased credit by financial institutions and continuation of structural reforms and concerted efforts towards the return to parliamentary democracy by the Government.

The twin objectives of monetary policy - a comfortable level of foreign reserves and low inflation - remained intact throughout 2013. This allowed the Bank to continue its accommodative monetary policy stance as well as implement unconventional policy tools to further support growth in the economy. In line with this stance, the Overnight Policy Rate was maintained at 0.5 percent throughout the year. For the unconventional policy tools, an additional \$20 million was set aside for the revamped Natural Disaster Rehabilitation Facility. In addition, the income threshold for the Housing Facility administered by the Housing Authority was increased to \$25,000 per annum and the facility was also extended to the Public Rental Board. Subsequently, to encourage greater utilisation and in line with the recent trends, the maximum interest rate allowed to be charged on all the RBF's facilities was reduced from 6.0 percent to 5.0 percent per annum.

Fiji's financial system soundness and stability remained intact in 2013 and in fact prudential indicators showed improved levels of financial soundness and safety of supervised institutions. Credit growth accelerated amid high system liquidity and record low lending rates. The banking industry posted higher profits and capital positions remained supportive. In the insurance industry, solvency requirements were met and satisfactory earnings were noted, despite the escalation

in claims reported and settled in relation to major catastrophes in 2012. In the superannuation industry, the reforms by the Fiji National Provident Fund have led to improved sustainability of the pension scheme while its investment portfolio recorded satisfactory performance. The Reserve Bank also confirmed the provision of a new banking licence to Home Finance Company Limited in November 2013, paving the way for increased competition in the banking sector.

The Bank also continued its work towards improving financial inclusion and literacy amongst the populace in 2013. A number of microfinance expositions were held outside the urban centers while a financial inclusion village was set up during the Hibiscus festival to create awareness on the various financial services available. In addition, the Bank in partnership with the Life Insurance Corporation of India and the Pacific Financial Inclusion Programme sponsored the inaugural National Microfinance Awards in October themed "Bringing out the Best" to recognise and reward budding microentrepreneurs.

I am pleased to highlight that the Reserve Bank's pioneering work in promoting financial inclusion has received international recognition. The Alliance for Financial Inclusion Global Policy Forum in September 2013 awarded the inaugural Maya Declaration Award to the Reserve Bank of Fiji.

Fiji's new flora and fauna design series notes (\$10, \$20, \$50 and \$100) and coins, including the new \$2 coin came into circulation from January 2013, while the first polymer \$5 note in its new vibrant green colour was issued in April 2013. In September, the Bank also unveiled and issued into circulation the Iliesa Delana commemorative 50 cents circulation coin in recognition of Mr Delana's gold medal win at the London 2012 Paralympic Games, a first for Fiji.

The Reserve Bank reached a new milestone in 2013 as it celebrated its 40th year as a central bank. As Fiji's

central bank, the Reserve Bank has achieved many milestones over the last four decades from its humble beginnings as the Central Monetary Authority in 1973. To ensure that the Bank remains relevant and steadfast in meeting its objectives in the future, a Strategic Plan for 2014-2018 was unveiled in 2013. Apart from strategising on how to meet the Bank's objectives over the next five years, the new Strategic Plan is also geared to better manage risk across the Bank. In this regard, a new Group dedicated to add a second layer of defence in the management of risks will be established in 2014.

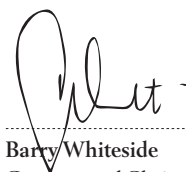
International relations continued to be maintained and fostered with multinational organisations and other central banks. At the same time, the Bank received technical assistance from international institutions in the areas of monetary and financial statistics, foreign exchange, insurance, superannuation and banking supervision. The Bank also provided technical assistance to some South Pacific central banks and hosted attachments in general and specialised areas of central banking operations. To continue with its corporate social responsibility, the Bank and staff also made cash and in-kind donations to assist the disadvantaged in our community.

The Reserve Bank successfully met all its objectives in 2013. Our monetary policy objectives were achieved and provided the necessary impetus for economic growth. Inflation was 3.4 percent at the end of the year while foreign reserves reached a new record of \$1,869.7 million in November before falling to \$1,778.1 million

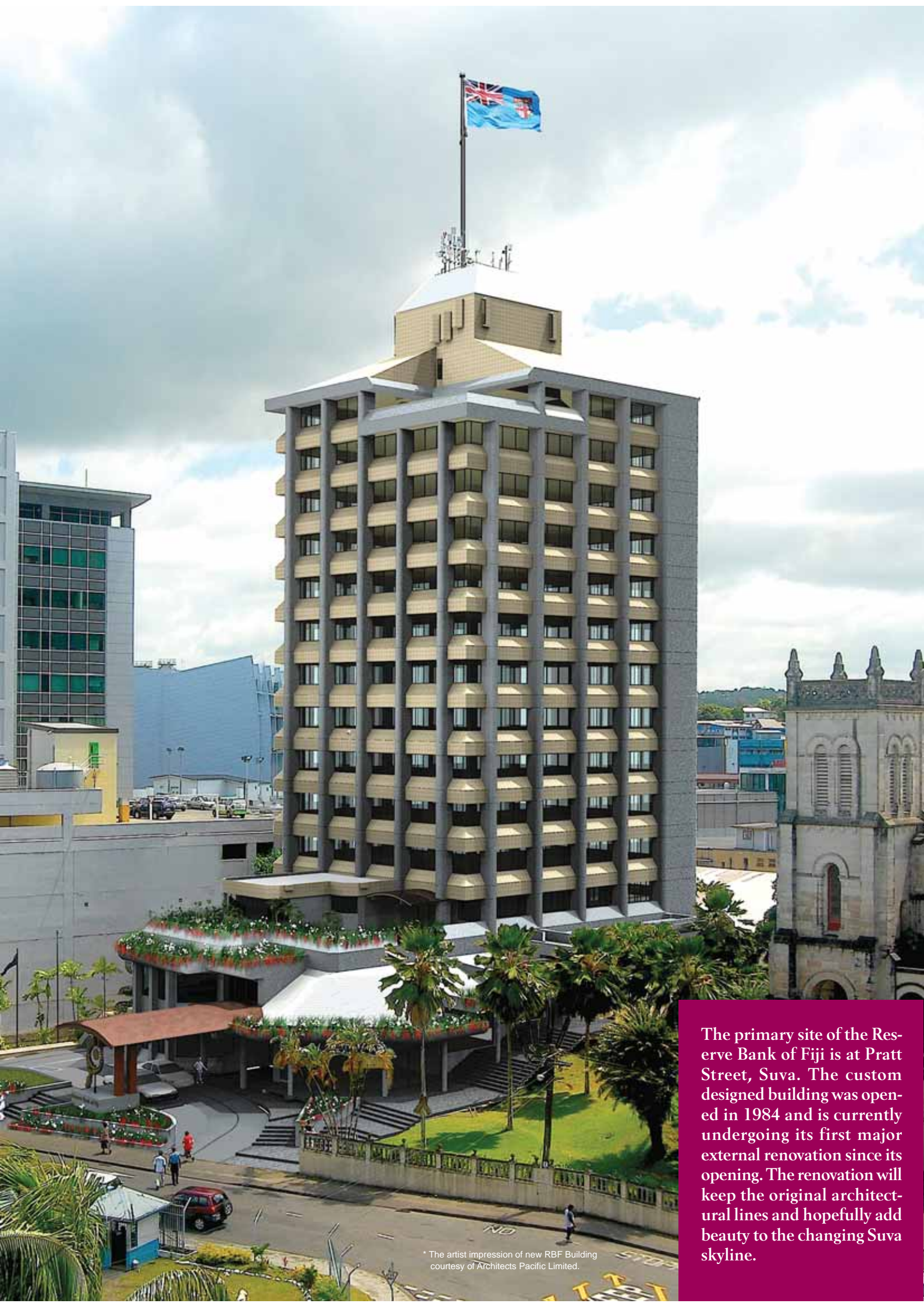
at the end of 2013. The end-year figure was equal to 5.4 months of retained imports cover. The Bank recorded a profit of \$31.9 million, higher than the \$25.4 million in 2012. The outturn was due to a combination of higher income and lower expenditure. The Bank transferred all of its profits to Government and in accordance with the Reserve Bank of Fiji Act, the Bank also transferred to Government one-fifth of the balance of the revaluation reserves, which amounted to \$8.0 million. The total amount transferred to Government was \$39.9 million.

The Board Audit and Governance Committees continued to ensure that the Bank maintained its integrity and accountability during the year. In this regard, assessment forms were designed for the Board, its Committees as well as the internal and external auditors. Additionally, I must add that the 2013 Constitution of the Republic of Fiji sets out additional reporting requirements for the Reserve Bank to Parliament, to further enhance transparency and good governance.

I would like to take this opportunity to sincerely thank the Board of Directors for their support and guidance during 2013. Thank you also to all our stakeholders throughout Fiji. Finally, I also extend my deep appreciation to Team Reserve Bank for their drive and commitment in successfully meeting all our objectives during the year.



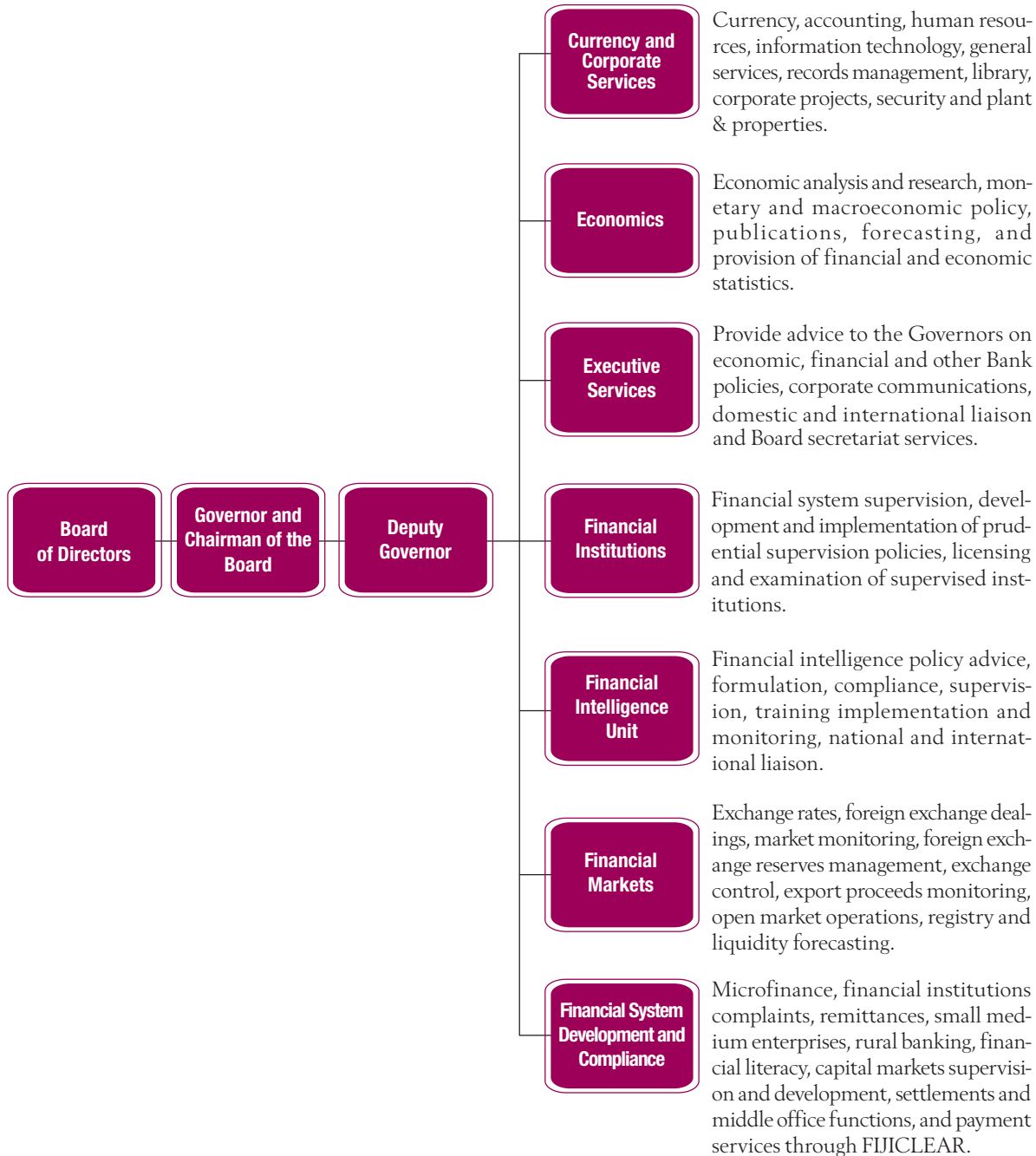
Barry Whiteside
Governor and Chairman of the Board



The primary site of the Reserve Bank of Fiji is at Pratt Street, Suva. The custom designed building was opened in 1984 and is currently undergoing its first major external renovation since its opening. The renovation will keep the original architectural lines and hopefully add beauty to the changing Suva skyline.

* The artist impression of new RBF Building courtesy of Architects Pacific Limited.

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. Chairman of the Capital Markets Development Taskforce. Honorary Fellow of Fiji Institute of Bankers. Member of the National Anti-Money Laundering Council and National Financial Inclusion Taskforce. President of the Fiji Badminton Association.

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

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

3. Iowane Naiveli

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

4. Robin Yarrow

Appointed to the Board on 5 August 2005. 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. Chairman of the National Financial Inclusion Taskforce. Currently serves on a number of boards including Vodafone Fiji Limited, the Fiji Red Cross Society and the National Trust of Fiji.

5. Deo Saran

Appointed to the Board on 11 February 2009. Chairman of the Board Governance Committee 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. Board member and Treasurer of the Foundation for Rural Integrated Enterprise and Development. Deputy Chairman of the Australian Institute of Company Directors (Fiji Chapter).

6. Dr Esther Williams

Appointed to the Board on 3 March 2013 for 3 years. Member of the Board Governance Committee. Deputy Vice Chancellor of the University of the South Pacific. Former Pro Vice Chancellor and Director Planning and Development at the University of the South Pacific. Board Member of the Fiji Rugby Union. Served on a number of national boards in Fiji including the Fiji Audio Visual Commission and Fiji Commerce Commission.

7. Dr Mahendra Reddy¹

Appointed to the Board towards the end of 2013 for 3 years. Dean of the College of Business, Hospitality and Tourism Studies at the Fiji National University. Chairman of the Fiji Commerce Commission since March 2009. Has served as the Head of School of Economics and Associate Professor of Economics at the University of the South Pacific.

¹ Given the timing of the official appointment to the Board, Dr Mahendra Reddy commenced attending the Board meetings from January 2014.

Executive Management



1. Inia Naiyaga
Deputy Governor

2. Lorraine Seeto
Advisor to the Governors

3. Esala Masitabua
Chief Manager Financial Institutions
(upto 12 April 2013)
Chief Manager Financial Markets
(from 15 April 2013)

4. Razim Buksh
Director Financial Intelligence Unit

5. Ariff Ali
Chief Manager Financial Markets
(upto 12 April 2013)
Chief Manager Economics
(from 15 April 2013)

6. Susan Kumar
Chief Manager Currency and Corporate Services

7. Vereimi Levula
Chief Manager Financial System
Development and Compliance

8. Vilimaina Dakai
Acting Chief Manager Financial Institutions
(from 15 April 2013)

9. Subrina Hanif
Board Secretary

* **Caroline Waqabaca**
Chief Manager Economics
(upto 12 April 2013)

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), RBF Amendment Decree (2009), the Banking Act (1995), the Insurance Act (1998), the Exchange Control Act (Rev. 1985), the FTR Act (2004), Payment and Settlement Systems Oversight Regulations (2004), Fiji National Provident Fund Decree (2011), and the Capital Markets Decree (2009). These laws define the boundaries of the Bank's responsibilities and accountabilities.

Article 153 of the 2013 Constitution of the Republic of Fiji makes provision for the Reserve Bank of Fiji as follows: -

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

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

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

The Governor

Persuant to Section 15(1) of the RBF Act the Governor shall serve as the Chief Executive Officer of the Bank 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. 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 Adish Narayan's term ended on 2 August 2013. Dr Esther Williams was appointed as a Board Director on 3 March 2013 for a period of three years. Other Board Directors holding office in 2013 were Mr Iowane Naiveli, Mr Robin Yarrow, Mr Deo Saran and Mr Filimone Waqabaca. Dr Mahendra Reddy was appointed as a Board Director towards the end of the year for a three year term and officially came on board from January 2014.

Board Meetings

Under the RBF Act, the Board is required to meet at least 10 times in a calendar year. Four directors form a quorum for a meeting of the Board. In the absence of the Governor, the Deputy Governor may participate in Board meetings and is entitled to exercise a vote. The Board met on 11 occasions in 2013.

Board Meetings in 2013 - Attendance by Members¹

Director	Board (11)	Board Audit Committee (8)	Board Governance Committee (5)
Barry Whiteside	10	NM	NM
Iowane Naiveli	9	8	5
Robin Yarrow	11	6	5
Adish Narayan*	6	NM	2
Deo Saran	11	8	5
Filimone Waqabaca	5	NM	0
Dr Esther Williams**	7	NM	4

¹ Dr Mahendra Reddy attended the first Board meeting in January 2014.

*Member until 2 August 2013 | **Appointed on 3 March 2013 | NM - Not a Member

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 ratification.

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.

During the year, the Board Audit Committee met on eight occasions.

The role of the Board Governance Committee is to strengthen the governance of the Bank and to ensure full transparency and accountability of the Office of the Governor to the Board. All Board Directors are members of the Committee, except the Governor. The main functions of the Committee are to oversee compliance with the Bank's Corporate Governance Principles Guidelines and also undertake the annual performance appraisal of the Governor and Deputy Governor based on agreed key performance indicators (KPIs).

In 2013, the Board embarked on a performance assessment system for the Board and its Committees. In doing so, the Board Governance Committee designed comprehensive assessment forms to evaluate the performance of the Board and its two Committees including self-assessment for the Board Directors. Assessments are conducted internally with the aim to identify areas of improvement. Assessment forms for the Bank's internal and external auditors were also designed in 2013. The auditors' performance will be assessed annually from 2014.

The Terms of Reference for the two Committees and the Corporate Governance Principle Guidelines were reviewed in 2013 to capture the additional responsibili-

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

During 2013, the Board Governance Committee met five times.

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 meets weekly to consider the management and day-to-day operations of the Bank;
- Monetary Policy Committee meets monthly, or more often as necessary, to discuss economic and monetary developments;
- Market Operations Policy Committee meets monthly to discuss the Bank's management of foreign reserves and quarterly for domestic market operations;
- Financial System Policy Committee meets quarterly to review financial system soundness and efficiency;
- Currency and Corporate Services Policy Committee meets quarterly to discuss issues relating to currency and internal services;
- Information Technology Steering Committee (ITSC) meets quarterly to discuss Information Technology (IT) development and operations;
- Financial System Development and Compliance Policy Committee 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 with ethical standards. The Declaration of Compliance, signed annually by staff, provides assurance that each staff have complied with the Code of Ethics, Delegation of Authority, Internal Rules and Orders and IT policies of the Bank.

Strategic Plan

In 2013, work was completed on the Bank's Strategic Plan for the period 2014-2018. A bottom-up approach was undertaken and feedback was sought from all staff. An internal workshop attended by Board Directors, Executive Management and Managers was held in January to discuss future strategies for the Bank. Another workshop, facilitated by an external consultant, was held in February to finalise the strategies and formulate a plan going forward. A committee comprising members from Executive Management and Managers was subsequently formed and a draft plan was put together and discussed by the Board in July. The Plan was approved in December 2013.

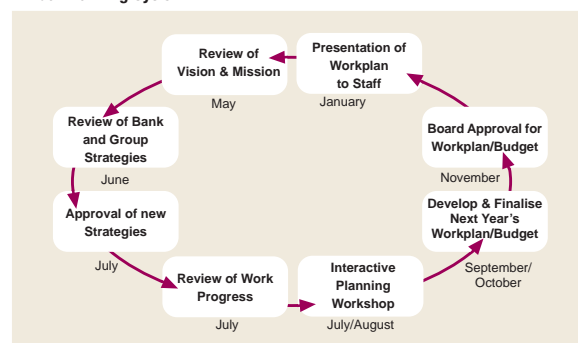
Other strategic plans still to be approved by the Board for the same period include those in regard to IT, Human Resources and the FIU. All these plans will be aligned to the Bank's Strategic Plan.

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 and Group strategies are reviewed accordingly in June. 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 then 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 contributes to the achievement of the vision of the Bank. Each mission statement has a list of KPIs. Resources are applied to the workplan. The Bank uses zero based budgeting in determining the necessary financial resources for the coming year, based on the work plans submitted by the Groups. Heads of Group are responsible and accountable for their respective Group's KPIs and budgets. These indicators are monitored quarterly by the Governors and bi-annually by the Board.

In November 2013, the Board approved the annual workplan and budget for 2014.

Risk Management

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

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

Other risks relate to:-

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

As per the 2014-2018 Strategic Plan, a new Group is to be established from 2014 to add a second layer of defence in the management of risks. There was greater bankwide awareness conducted on the risk identification and assessment process, to streamline and standardise the methodology used by the teams in managing their risks.

The Business Continuity Plan (BCP) continued to be rolled out during 2013. In addition, the Bank implemented other initiatives including planning for and documenting procedures for reference, as well as strengthening procedures in the case of natural disasters.



The BCP strategy includes a Business Resumption Site (BRS) as a backup site for critical operations in the event the Bank and systems 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 2013, 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 continued to conduct training, drills and call tree exercises to familiarise staff with

emergency response procedures and to enhance disaster preparedness and planning and continued to review and strengthen its processes relating to BCP.

Monitoring of the performance and operational procedures of the Bank relating to its external and domestic investments was continued by the Middle Office. An outsourced internal audit function by 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 Board Audit and Governance Committees also contribute to the review and strengthening of the Bank's risk management process.

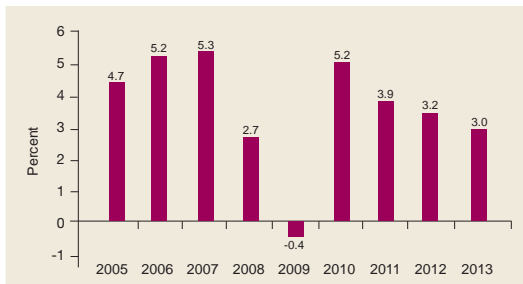
Economic Overview

Growth in the world economy slowed for the third consecutive year in 2013 as most advanced economies struggled to recover from a slump, while performances of emerging market economies moderated considerably due to tighter financial conditions and weaker domestic demand. Consequently, the International Monetary Fund (IMF) revised global growth projections downwards four times during the year, and highlighted the need for continuation of supportive macroeconomic policies to sustain recovery.

International Economic Developments

The global economic activity started picking up in the second half of the year led by improved demand in advanced economies and China, and the subsequent export led rebound in other emerging market economies. As per the IMF's latest assessment, the global economy expanded by 3.0 percent in 2013 from 3.2 percent growth in 2012.

World GDP Growth Rates



Source: IMF World Economic Outlook (April 2014)

Aside from the Euro zone, performances of Fiji's other major trading partner economies were positive in 2013.

As one of the major highlights of the year, the United States (US) economy performed better than expected, despite uncertainty linked to the partial Government shutdown and concerns of fiscal tightening. The US economy grew by 1.9 percent in 2013 as domestic demand picked up, resulting in the unemployment rate falling to 6.7 percent at the end of the year. With these developments, the US Federal Reserve decided to taper its bond-buying program from US\$85 billion to US\$75 billion a month, beginning January 2014. The federal funds rate was maintained at 0.25 percent for the entire year to stimulate recovery in the economy.

The performance of many economies in the Euro zone was a drag on the overall global growth in 2013, as tight fiscal and financial conditions, low demand and depressed confidence dented prospects for recovery. However, the Euro zone economy regained strength and emerged out of a recession in the second quarter of 2013, as manufacturing and external trade recovered, albeit at varying pace across the region. High unemployment, financial fragmentation and risks arising from falling

inflation have been impeding overall recovery and led the Euro zone economy to contract by 0.5 percent in 2013. Accordingly, the European Central Bank reduced its benchmark interest rate by 25 basis points in May and November to a low of 0.25 percent, in order to ease financial conditions further.

In Japan, the various accommodative monetary and fiscal policy measures boosted confidence and private demand in 2013. The Bank of Japan continued with its quantitative and qualitative monetary easing throughout 2013 in order to boost economic recovery and achieve its inflation target of 2.0 percent. The benchmark interest rate was maintained at 0.1 percent in 2013. The economy expanded by 1.5 percent in 2013 from 1.4 percent growth in 2012.

The Australian economy expanded slightly below trend in 2013 at 2.4 percent, led by lower mining investment and weaker consumer spending. The Reserve Bank of Australia (RBA) reduced its benchmark interest rate twice in the year to a record low of 2.5 percent, in an attempt to rebalance growth from mining investment to manufacturing, residential construction and services.

In New Zealand, growth was supported by a pick-up in the dairy, manufacturing and construction sectors. Nevertheless, high house price inflation due to housing shortages and demand pressures associated with low interest rates was a concern for its central bank during the year. The Reserve Bank of New Zealand left its benchmark interest rate unchanged at 2.5 percent in 2013 but introduced restrictions on high loan-to-value mortgage lending to curb house price inflation. The New Zealand economy expanded by 2.4 percent in 2013.

Economic Developments in Fiji

Domestic economic outcomes were much more favourable in 2013, as the Fijian economy expanded by an estimated 3.6 percent, following a 1.7 percent growth in 2012. Over the year, domestic activity continued to strengthen broadly as a result of increased consumption and investment spending. An expansionary fiscal and monetary policy also propelled aggregate demand and financial intermediation in 2013. Over the year, the services sector and industrial

performances for sugar, electricity and cement production were relatively better when compared to 2012. However, gold production and earnings were subdued, as Vatukoula Gold Mines Limited focused more on capital and exploratory works.

Fiji's GDP Growth Rates



Sources: Fiji Bureau of Statistics and Macroeconomic Policy Committee

Consumer spending was robust throughout 2013, underpinned by better labour market conditions, increases in the income tax threshold and wages for Government workers, higher inward remittances and increased lending by financial institutions. This was reflected by higher Value Added Tax collections (11.1%) and the almost doubling (89.6%) of new consumption lending by commercial banks in 2013. Likewise, new vehicles sales and imports of consumption goods rose by 39.3 percent and 5.4 percent, respectively.

Investment indicators also showed continued resilience and growth during the year, evident by favourable performances in the construction sector, surge in new investment lending and acceleration in the imports of investment goods. Construction activity was buoyant in 2013 as the total value of work-put-in-place by the sector increased by 29.0 percent. The higher domestic demand for construction increased cement production and sales by 27.6 percent and 19.8 percent, respectively. Moreover, new lending for investment purposes more than doubled, as a result of higher disbursements to the real estate and building & construction sectors.

The improved investment climate and confidence has translated well into the demand for labour. The Reserve Bank survey based recruitment measure showed that the number of job advertisements² rose by 9.3 percent during the year, driven by improved recruitment intentions in the community, social & personal services sector followed by the wholesale, retail trade, restaurants & hotels; construction and the manufacturing sectors.

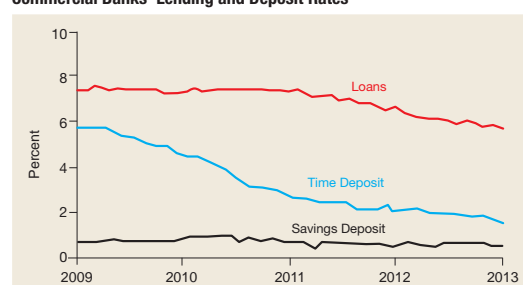
In terms of fiscal policy, Government continued its expansionary stance in 2013. In an effort to stimulate economic growth and investment, a substantial amount was spent on capital works, particularly infrastructure development. Hence, the net fiscal deficit was estimated at 2.6 percent of Gross Domestic Product (GDP). Total Government debt is estimated at 49.0 percent of GDP at the end of 2013.

Inflationary pressures remained generally soft in 2013, mainly on account of stable food and oil prices. The year end inflation rate was 3.4 percent compared to 2.5 percent at the end of 2012.

Developments in money and credit aggregates were positive in 2013. Broad money grew by 19.0 percent after a 6.3 percent expansion in 2012. The acceleration was led by an upswing in net foreign assets (20.4%) and a surge in net domestic credit (14.0%). Growth in net domestic credit was in turn led by private sector credit and credit to non-financial public sector which grew by 9.2 percent and 134.8 percent, respectively.

Reflecting the high level of liquidity and enhanced competition in the banking system, the commercial banks' weighted average lending rate persistently trended downwards and reached a historical low of 5.86 percent in December 2013. Over the same period, the commercial banks' weighted average savings and time deposit rates fell to 0.72 percent and 1.79 percent, respectively.

Commercial Banks' Lending and Deposit Rates



Source: Reserve Bank of Fiji

Fiji's balance of payments position remained stable throughout 2013 despite the significant acceleration in imports due to strong demand in the economy. The merchandise trade deficit (excluding aircraft) widened by 26.8 percent to \$2,381.7 million. Domestic exports fell by 6.6 percent to \$976.5 million driven largely by lower exports of gold and sugar. Total re-exports also fell by 6.8 percent to \$1,068.4 million while total

² The Job Advertisement survey is drawn from jobs advertised in the Fiji Times every Saturday.

exports (excluding aircraft) fell by 6.3 percent to \$2,007.4 million, compared to a 12.1 percent growth in 2012.

Trade Deficit



Source: Fiji Bureau of Statistics

Over the same period, imports (excluding aircraft) grew by 9.2 percent to \$4,389.1 million compared to a growth of 4.9 percent in 2012. Investment and consumption related imports led the growth in total imports, reflecting the surge in domestic demand.

However, the trade deficit was financed to some extent by healthy inflows of tourism and personal remittances. Annually, tourism earnings rose by 1.4 percent to \$1,318.2 million while inward personal remittances grew by 10.9 percent to a record high of \$339.1 million. The current account deficit (excluding aircraft imports) was around 2.1 percent of GDP in 2013.

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

The accommodative monetary policy stance adopted throughout 2012 continued at the beginning of 2013 against the backdrop of a weaker world economic growth forecast and reconstruction of the domestic economy affected by the devastation of Cyclone Evan in mid-December 2012.

As the year progressed, the monetary policy setting continued to be influenced by the fragile and subdued global economy. However, some improvements were noted in the advanced economies, particularly the US and Euro zone towards the latter part of the year. In contrast, developments in the domestic economy showed notable signs of expansion resulting in an upward revision to the growth forecast. Consumption and investment indicators showed strong growth supported by improved business confidence, lower interest rates, increased capital expenditure by the Government and lower corporate as well as personal income taxes.

As a result, monetary and credit aggregates expanded at a faster pace during the year, requiring closer scrutiny by the Reserve Bank. Nevertheless, the twin objectives of monetary policy - price stability and a comfortable foreign reserves position - remained intact throughout 2013. As a result, with no risks to the twin objectives in the near term, the Reserve Bank maintained an accommodative monetary policy stance throughout 2013 by keeping the OPR at 0.5 percent to support a more sustainable economic recovery in the short to medium term.

To complement the accommodative monetary policy, the Reserve Bank continued with some of its unconventional policy initiatives to support the economy. In this regard, in January, following the devastating impact of Cyclone Evan, the RBF extended and renamed its Flood Rehabilitation Facility (FRF) to Natural Disaster Rehabilitation Facility (NDRF) in order to assist businesses affected by all natural disasters. In addition, the funding allocation for the Facility was increased by \$20 million to \$40 million.

Given the downward trend in commercial bank lending rates and to promote the utilisation of both the Import Substitution and Export Finance Facility (ISEFF) and

the NDRF, the maximum interest rate charged under both the Facilities was lowered from 6.0 percent to 5.0 percent per annum. Similarly, the interest rate that the RBF charged the lending institutions was also reduced by a similar margin to 1.0 percent per annum.

In light of the favourable outlook for Fiji's foreign reserves over the medium term and with the objective of supporting confidence in the economy, the Prime Minister during the 2014 National Budget address in November, announced further relaxations to restrictions on certain exchange control and capital account transactions. These measures were applied to dividends and profit repatriation, emigration, forward cover contracts and outward remittances for gifts, maintenance and wedding expenses with effect from 1 January 2014.

Monetary Policy Outcomes for 2013

Given the accommodative monetary policy stance, ample liquidity in the banking system and the record low interest rate environment, financial intermediation was more favourable in 2013. New loans particularly for consumer spending and investment purposes grew strongly aided by improvements in business and consumer confidence. Consequently, broad money expanded by 19.0 percent in 2013 supported by net domestic credit which grew by 14.0 percent.

Annual inflation peaked in January at 4.3 percent as a result of higher prices of fresh fruit and vegetables due to the impact of Cyclone Evan. However, it eased in the course of the year due to relatively contained global food and oil prices and subdued trading partner inflation. By year end, inflation was 3.4 percent, slightly higher than the 3.0 percent forecast by the Bank. The outturn was underpinned by higher prices of certain items in the food & non-alcoholic beverages and alcoholic beverages, tobacco & narcotics categories.

Inflation (Annual Percent Change)

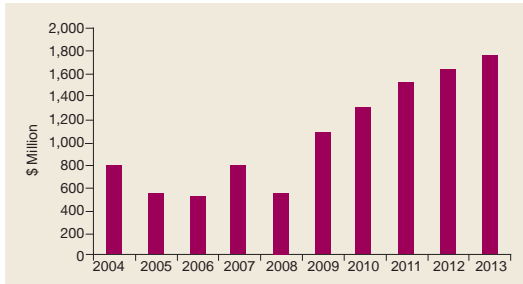


Source: Fiji Bureau of Statistics



Foreign reserves rose in 2013 for the fifth consecutive year and reached a new record of \$1,869.7 million on 27 November 2013. However, foreign reserves fell to \$1,778.1 million at the end of 2013, though still \$142.6 million higher than at the end of 2012 and equivalent to cover 5.4 months of retained imports of goods and non-factor services.

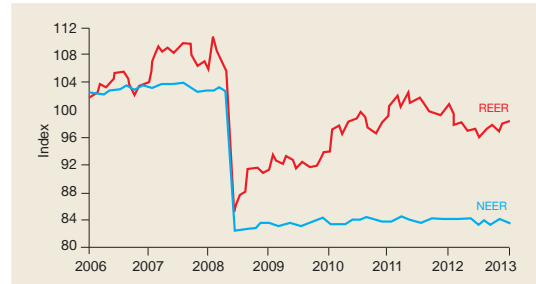
Foreign Reserves



Source: Reserve Bank of Fiji

During 2013, there was a slight depreciation of the Fiji dollar against the basket of trading partner currencies as the Nominal Effective Exchange Rate (NEER) Index fell by 0.7 percent. However, the Real Effective Exchange Rate (REER) Index rose by 0.1 percent during the same period, indicating a marginal loss in Fiji's international competitiveness.

REER/NEER (Monthly Average)



Source: Reserve Bank of Fiji



MONETARY POLICY IMPLEMENTATION

Open Market Operations

OMO involves the auctioning of RBF securities to adjust the level of liquidity in the banking system in order to influence short term money market rates in line with the OPR. During the year, liquidity was assessed to be supportive of the OPR and the Bank's monetary policy stance. As a result, there was no OMO conducted for the third year in succession.

Management of Foreign Reserves

The RBF is the custodian and manager of Fiji's foreign reserves as mandated under the RBF Act (1983). In performing these roles, the Bank is concerned with preserving the capital value of foreign reserves, ensuring adequate liquidity and optimising returns.

In 2013, central banks of advanced economies continued with their highly accommodative monetary policy. The Bank of Japan and the US Federal Reserve had the largest monetary easing programs of all central banks and consequently, market yields were at levels significantly lower than long run averages. Equity markets in these advanced economies were beneficiaries of the low funding costs with major share indexes moving to record high levels.

Seasonal factors resulted in a downtrend in the level of foreign reserves during the first half of the year to a low of \$1,421.7 million in April, following which reserves increased strongly to \$1,778.1 million at the end of the year.

Currencies in the Fiji dollar basket, namely the Australian, New Zealand and US dollars, the Euro and Japanese Yen are the largest components of the Bank's foreign reserves holdings. Other foreign assets include IMF Special Drawing Rights (SDR) and minor holdings of Gold and the British Pound.

Return on External Reserves

	2011	2012	2013
Net Foreign Exchange Income (\$M)	43.1	39.0	38.3
Average Month-End Level of Investible Reserves (\$M)	1,281	1,350	1,511
Annual Return on:			
RBF Benchmark (%)	3.4	2.2	1.6
RBF Portfolio (%)	2.9	2.9	2.4

Source: Reserve Bank of Fiji

The average level of investible reserves in 2013 was \$1,510.6 million, an increase of \$160.4 million from

2012. Despite the record high level of reserves, net foreign exchange income declined slightly by \$0.7 million to \$38.3 million as a result of the lower investment yields.

The composition of foreign reserves (RBF portfolio) was skewed towards shorter term investments relative to the RBF Investment Benchmark³. This strategy resulted in a positive outcome for the RBF investment portfolio which recorded a return of 2.4 percent against the 1.6 percent return of the Benchmark.

Return on Investments



Source: Reserve Bank of Fiji

As a measure to minimise losses due to exchange rate volatility, foreign reserves are invested in line with the composition of the Fiji dollar basket currencies. The exchange rate gains or losses are recorded in the Revaluation Reserve Account (RRA). In line with the RBF Act (1983), a fifth of the end of year RRA balance is transferred to Government. Thus, \$8.0 million will be transferred to Government in 2014 compared to \$10.0 million transferred in April 2013. After allowing for the transfer to Government, the RRA had a balance of \$32.1 million at the end of 2013.

Exchange Rates

The value of the Fiji dollar relative to the US dollar is fixed daily by the RBF and published along with exchange rates for other Fijian dollar basket currencies on the RBF website, Reuters and Bloomberg platforms. Commercial banks use the RBF's exchange rates to establish rates at which they transact with their customers. Retail spreads on currencies in the Fiji dollar basket are regulated by the RBF.

Foreign Exchange Derivatives Markets

Commercial banks are able to offer forward foreign exchange and swaps contracts to customers while options contracts can be offered upon application to

³ The RBF benchmark portfolio uses a customised version of the JP Morgan Index.



the RBF. Compliance with the RBF policy on forward foreign exchange contracts⁴ was monitored throughout 2013. The value of forward contracts written registered a notable increase compared to 2012.

Foreign Currency Receipts and Payments

Foreign currency banking services for the Fijian Government, statutory bodies, other central banks and supranational organisations⁵ continued to be provided during 2013.

Exchange Control

For the first time since 2000, the Reserve Bank eased restrictions on capital outflows by allowing businesses to repatriate profits upto \$500,000 without the approval of the Reserve Bank. Similarly, delegated personal payments for medical and education were

increased from \$5,000 to \$10,000. These changes were made in light of the healthy level of foreign reserves.

In an effort to promote collaboration and improve efficiency in the services provided to the public, the Bank continued dialogue with other government agencies. As such, the use of export licence forms for monthly reporting by Fiji Revenue and Customs Authority (FRCA) to RBF was phased out during the year and replaced by electronic reporting. This brought to a successful conclusion a project that had spanned several years.

Export Proceeds Reconciliation and Monitoring

Monitoring of export receipts continued to be a priority in 2013. A total of \$1.1 billion in outstanding export receipts was reconciled during the period compared with \$1.6 billion in 2012.

⁴ In 2013, commercial banks were allowed to write sales contracts upto \$20 million without matching purchases. The limit was increased to \$40 million effective 1 January 2014.
⁵ This includes the Asian Development Bank, International Monetary Fund and the International Bank for Reconstruction and Development.

Mission: | Develop an Internationally Reputable Financial System

A safe and sound financial system is essential for a robust economy and is a precondition 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 commercial banks and credit institutions, insurance underwriters and intermediaries, the Fiji National Provident Fund (FNPF), restricted foreign exchange dealers (RFEDs) and money changers (MCs). Financial market players under the Reserve Bank's supervision are the South Pacific Stock Exchange (SPSE) and unit trusts.

The RBF Act (1983) and the RBF Amendment Decree (2009) entrusts the responsibility of promoting a sound financial structure to the Reserve Bank. In line with this responsibility, the Banking Act (1995), Insurance Act (1998), Exchange Control Act (Rev. 1985), FNPF Decree (2011) and Capital Markets Decree (2009) confer 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

Fiji's financial system continued to be stable in 2013 with prudential indicators showing improved levels of financial soundness and safety of supervised institutions. The domestic banking industry posted record high profits and improved asset quality management. Credit growth was significant amid prevailing high system liquidity, while capital positions remained supportive. There were no major insurable events in 2013 however, the general insurance industry was significantly impacted with the claims reported and settled in relation to the major catastrophes of 2012. Nevertheless, the overall insurance industry continued to meet solvency requirements and recorded satisfactory earnings. The reform program of the FNPF continued with improved indications of the sustainability of the pension scheme, after the separation of the Retirement Income Fund from the Accumulation Fund, and improved investment performance.

Supervisory Developments

Supervisory activities during the year continued towards the objective of maintaining financial stability. Closer monitoring of the FNPF continued in respect of the reforms being implemented and its effects on the soundness and sustainability of the Fund and the pension scheme. As part of strengthening the regulatory framework for the FNPF, the Reserve Bank conducted a review of the Superannuation Supervision Policy Statement No.1 on Corporate Governance for the FNPF, and issued the revised draft policy to the Fund for comments.

In other policy development initiatives, the Reserve

Bank revised the Banking Supervision Policy 8B on Accountability and Disclosure Guidelines on Interest Rates, Fees and Charges for Licensed Credit Institutions. In addition, the Reserve Bank followed through on the implementation of Banking Supervision Policy 8A issued in 2011 by closely liaising with the banks in 2013.

For the insurance industry, the Reserve Bank finalised the review of the Insurance Act (1998) after extensive discussions with the insurance industry and submitted the proposed amendments to the Solicitor General's Office. In addition to the legislative review, the Reserve Bank also issued the draft Insurance Supervision Policy Statement No.12 on the Minimum Requirements for the Appointment and the Supervision of Insurance Agents in Fiji for industry consultation. The policy provides the minimum guidelines for insurers on the appointment and supervision of their insurance agents to ensure that the interests of the insurer, the insured and the appointed agents are protected at all times.

The Reserve Bank continued to monitor the compliance of RFEDs and MCs to the requirements of supervision policies relevant to their operations.

Onsite examinations of licensed financial institutions are an integral part of the Reserve Bank's supervision framework. During the year, onsite examinations were conducted on four banks, three credit institutions, two insurers and four brokers, and 10 spot checks were made on foreign exchange dealers. Two of the onsite examinations were supported with technical advisors from the Australian Prudential Regulation Authority (APRA) as part of the Australian Agency for International Development funded Pacific Onsite Supervision Program administered by APRA. The Reserve Bank also hosted supervisors from supervisory

authorities of other Pacific Islands during these APRA assisted onsite examinations as part of developing capacities of Pacific supervisors.

The Reserve Bank's controllership of the National Bank of Fiji's (NBF) Asset Management Bank (AMB) continued into its sixth year. In 2013, the Reserve Bank with assistance from the Solicitor General's Office drafted the Executive Order under Section 55 of the Banking Act initiating the final windup process of AMB. Cabinet is expected to make a decision on the windup order in 2014, paving the way for the conclusion of the controllership function by the Reserve Bank of Fiji.

In another form of controllership, the Reserve Bank continued to wind down the operations of the Insurance Trust of Fiji (ITF) with the balance of policyholder liabilities to be transferred to the Government as unclaimed monies by 31 December 2013. The ITF's books are expected to be closed after the final audit and after all pending litigations and accrued management fees are settled. De-registration of ITF will be undertaken in 2014.

The licence of FAI Insurance (Fiji) Limited was cancelled by the Bank after the acquisition process of the company was completed in 2013.

Significant work was undertaken during the year on the review of the current levels of Merchant Service Fee. As a result of the review, the Reserve Bank deemed it appropriate not to intervene in the setting of this fee, but to allow competition amongst banks to determine the level of the fee. On a related issue, after the receipt of pertinent data and market feedback, the Reserve Bank revised its stance on the No Surcharge Rule (NSR) on credit cards. In announcing the stance on the NSR in November 2013, the Reserve Bank confirmed that it would continue to monitor surcharging practices in close consultation with the commercial banks.

In order to encourage payment system safety and efficiency, the Reserve Bank has developed a draft Payment System legislation to address payment system issues. This proposed Decree sets the framework to ensure the reliability and effectiveness of payments systems in Fiji.

Efforts towards improving Electronic Fund Transfer at Point of Sale (EFTPOS) interchange capabilities continued between the banks with the inclusion of the Bank of Baroda in early 2013. The number of banks with EFTPOS interchange capabilities now stands at

four with another bank working towards achieving interchange in 2014.

The Financial System

Five banks were in operation in 2013 with 64 branches, 11 agencies and 99 agent banking centres⁶. The use of agent banking reflects the increased investment by banks in more cost-effective channels to improve the availability and convenient use of their banking services. The points of representation of banks also improved because of the increased number of EFTPOS machines and Automated Teller Machines (ATMs). These improvements in access have been complemented by the interchange available in both EFTPOS and ATMs.

The number of credit institutions remained at three. The Reserve Bank completed the assessment of Home Finance Company's (HFC) application to transition its existing operations from a credit institution into a full commercial bank. The licence was granted with some conditions to HFC Bank in November 2013. The Bank continues to monitor HFC's progress in meeting all pre-operation plans and requirements before it starts commercial banking operation in early 2014.

Licensed Financial Entities including Branches/Agencies (Number)

	2009	2010	2011	2012	2013(p)
Commercial Banks ¹	5	5	4	5	5
Branches	63	63	63	60	64
Agencies and Agent Banking	57	51	43	38	110
ATMs	164	202	212	226	259
EFTPOS	1,785	1,896	2,937	3,639	4,907
Credit Institutions	3	3	3	3	3
Branches	12	13	14	15	17
Agencies	0	0	0	2	1
Life Insurance Companies	2	2	2	2	2
General Insurance Companies ²	8	8	8	8	7
Insurance Brokers	4	4	4	4	4
Insurance Agents ³	320	329	357	312	334
Foreign Exchange Dealers	7	8	8	8	8
Money Changers	3	3	3	2	2
Securities Exchange	1	1	1	1	1
Unit Trusts	2	2	2	2	2
Property Trusts	1	1	1	0	0
Investment Advisors	11	10	11	11	11
Brokers	3	3	3	3	3
Dealers	2	3	3	3	3

1 AMB is excluded from 2009 onwards, when it went under the controllership of the RBF. It is currently being wound up.
2 Includes FAI Insurance (Fiji) Limited till 2012.
3 An agent may hold more than one licence to sell various classes of insurance in a calendar year.

Source: Reserve Bank of Fiji

In 2013, the number of players that provide general insurance reduced by one to seven, while the number of other participants in the insurance industry remained the same with two life insurance companies and four insurance brokers. The number of licensed insurance agents however, increased from 312 to 334.

⁶ An agent is defined as a branch which does not offer full branch services while agent banking is as per Banking Supervision Policy 18 "Agent Banking Guidelines".

In seeking to enable innovation in Fiji's payments system, the Reserve Bank allowed an applicant to pilot its proposed voucher based remittance system for six months. Though similar to a money remittance system, the main difference with this service is that it allows the sender more control on how the voucher proceeds are used by dictating at which merchant or organisation the voucher may be redeemed.

In the foreign exchange industry, the MC Licence of Sandalwood Limited was cancelled during the year for non-compliance to the set conditions of licence. A new MC licence was issued to McPala's Foreign Exchange Limited, which commenced operations in 2013. At the end of the year, there were eight licensed foreign exchange dealers and two money changers.

Gross Assets of the Financial System

Fiji's financial system recorded a healthy growth of 10.7 percent in 2013, the highest in the last five years. The banking system continued to dominate the financial sector (46.7%), followed by the FPNF and insurance sector. In terms of growth, the highest growth was reported by the banking sector (15.4%) followed by credit institutions (8.0%).

FNPF's assets as a percentage of the total financial system have recorded a downward trend. Nevertheless, FNPF remains the single-most systemically important institution accounting for 34.0 percent of the system in 2013 compared to 35.3 percent of the system in 2012.

Gross Assets of the Financial System (\$ Million)

	2009	2010	2011	2012(r)	2013(p)
Regulated Financial Entities					
Commercial Banks	4,452	4,514	4,954	5,389	6,222
Credit Institutions	372	418	448	506	546
Insurance Companies	921	940	1,044	1,212	1,307
FNPF	3,841	3,928	4,077	4,235	4,521
Insurance Brokers	31	34	34	41	62
Total	9,617	9,834	10,557	11,383	12,658
Non Regulated Financial Entities					
NBFIs ¹	690	692	621	635	648
Total	690	692	621	635	648
Total Financial System²	10,307	10,526	11,178	12,018	13,306

¹ Includes Fiji Development Bank, Housing Authority, AMB (from 2010).

² Excludes Reserve Bank of Fiji.

Source: Reserve Bank of Fiji

The value of the capital markets contracted in 2013 to \$3.8 billion mainly due to a contraction of the equities market.

Composition of the Capital Markets (\$ Million)

	2009	2010	2011	2012	2013
Equities Market ¹	902	778	744	816	768
Unit Trust Market ²	116	111	117	123	142
Bonds Market ³	3,003	3,212	3,025	2,972	2,930
Total	4,021	4,101	3,886	3,911	3,840

¹ Based on the market capitalisation of the listed companies.

² Based on the funds under management.

³ Based on outstanding bonds.

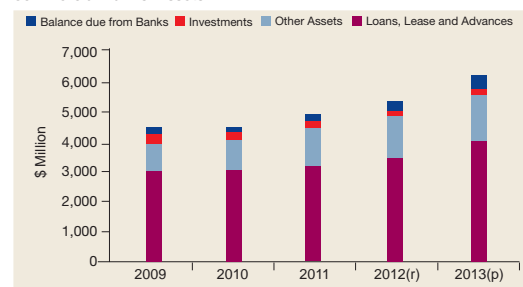
Source: Reserve Bank of Fiji

The Banking Industry

The banking industry's capital position and earnings and asset quality were considered satisfactory. Liquidity holdings remained at high levels throughout the year.

Total assets of the banking industry recorded high growth (15.4%) in 2013 to \$6.2 billion, underpinned by an increase in the level of lending.

Commercial Banks' Assets



Source: Reserve Bank of Fiji

An upward surge in credit growth was noted in 2013, with total loans increasing by 15.8 percent to \$4.0 billion. This is significant compared to the 7.4 percent increase in 2012 and an average growth of 6.5 percent over the last five years.

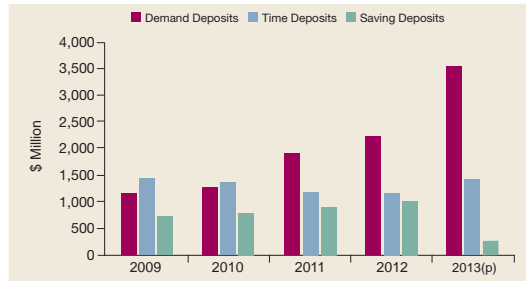
All sectors except for the central/local Government sector recorded increases with 29.6 percent of the growth being attributed to the private individuals sector.

Total investments increased by 3.7 percent to \$233.6 million while balance due from head offices and branches recorded a significant decrease of 36.0 percent to \$83.4 million.

On the liabilities side, total deposits rose by 17.5 percent to another record high of \$5.3 billion. The increase was led by growth in demand deposits⁷ (57.4%) and time deposits (21.9%).

⁷ In 2013, the definition of savings deposits was revised to exclude deposits transferable by cheque, draft, direct debit/credit, automatic teller machine, internet banking, or other direct payment facilities. As a result, some savings deposits were reclassified as demand deposits.

Components of Deposits



Source: Reserve Bank of Fiji

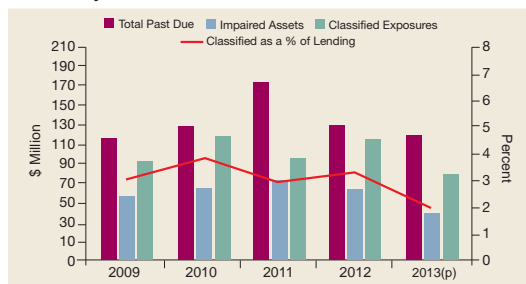
During the year, commercial banks continued to remit profits to their head offices from their retained earnings however, capital and reserves still noted an increase of 10.2 percent to \$550.7 million.

The capital adequacy ratio for the industry was at 13.7 percent in 2013, a decline from 14.7 percent in 2012. This was mainly due to a larger increase in risk weighted assets (26.9%) than the total eligible capital, which grew by 12.5 percent.

In line with the economic recovery, asset quality improved slightly in 2013 indicated by the decrease in the level of classified, impaired and past due exposures. The total classified accounts to total loans ratio declined further from 3.3 percent to 2.0 percent. Classified accounts declined by 30.6 percent over the year to \$78.6 million, largely due to the decline in the loss category. Recoveries on loss accounts also resulted in a decline in the level of impaired accounts by 37.8 percent to \$39.0 million.

Total provisions (individually and collectively assessed) on classified accounts increased by 4.7 percent to \$45.3 million. In terms of coverage, this represented 57.7 percent of total classified loans, an increase compared to 38.3 percent in 2012. The improved coverage was mainly due to a relatively large decline in classified accounts.

Asset Quality



Source: Reserve Bank of Fiji

The total past due loans of the industry declined by \$10.2 million to \$118.0 million, led mainly by a

reduction in the 1-2 years and over 2 years categories. This trend was attributed to refinancing of some accounts in the loss category. In terms of sectors, problem loans were concentrated in the private individuals sector (25.5%) and the wholesale, retail, hotels & restaurants sector (22.6%).

Summary of Commercial Banks' Profitability¹ (\$ Million)

	2009(r)	2010(r)	2011	2012(r)	2013(p)
Net Interest Income	187.5	159.8	168.3	177.0	187.3
Add: Non Interest Income:	114.3	130.6	141.2	147.1	161.0
Income from Overseas					
Exchange Transactions	46.4	55.0	66.9	66.6	67.3
Commission and Charges	56.7	68.2	69.9	73.3	87.4
Other Income	11.3	7.4	4.6	7.2	6.4
Total Operating Income	301.8	290.4	309.5	324.1	348.2
Less: Operating Expenses	135.6	173.6	189.5	193.0	204.2
Less: Bad debts and Provisions	38.9	(8.2)	8.0	4.1	10.4
Profit Before-Tax and Extraordinary Items	127.3	125.0	112.0	127.1	133.6
Less: Tax	38.1	32.6	32.9	31.6	27.6
Net Profit After-Tax	89.2	92.5	79.1	95.4	105.9
Add/Less: Extraordinary Items	0.0	0.0	0.0	0.0	0.0
Net Profit After-Tax and Extraordinary items	89.2	92.5	79.1	95.4	105.9
Average Assets	4,043.7	4,347.2	4,973.1	5,278.1	5,492.6
After-Tax Return on Equity (%)	21.1	17.7	13.8	17.5	20.4
Efficiency (%)	44.9	59.8	61.2	59.5	58.6
Yield on Earning Assets (%)	7.2	7.2	5.9	5.3	5.0
Cost of Funding Liabilities (%)	1.9	3.1	2.1	1.3	0.9

¹ Financial year end profits for commercial banks used.

Source: Reserve Bank of Fiji

The banking industry reported a record level of after-tax profits in 2013. Total after-tax profits stood at \$105.9 million for the 2012-2013 financial year. The positive result was largely driven by increase in net interest income and non-interest income.

A relatively higher increment in operating income (7.5%) than operating expenses (5.8%) led to the improvement in the efficiency ratio (ratio of operating expenses to operating income) from 59.5 percent to 58.6 percent. In line with the increase in profits and reduction in taxation expenses, commercial banks returns on equity and average assets improved further in 2013.

Commercial Banks' Profitability (% of Average Assets)¹

	2009(r)	2010	2011	2012	2013(p)
Net Interest Income	4.7	3.7	3.4	3.4	3.4
Charges for Bad & Doubtful Debts	1.0	-0.2	0.2	0.1	0.2
Non-interest Income	2.8	3.0	2.8	2.8	2.9
Operating Expenses	3.4	4.0	3.8	3.7	3.7
Net Profit Before-Tax	3.2	2.9	2.3	2.4	2.4
Net Profit After-Tax	2.2	2.1	1.6	1.8	1.9

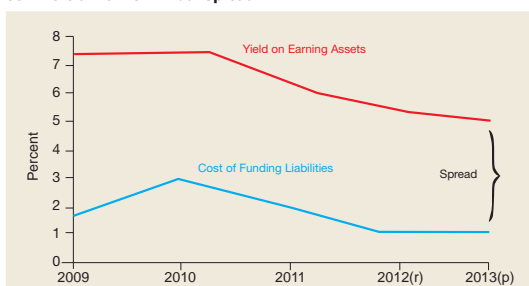
¹ Financial year end profits for all commercial banks used.

Source: Reserve Bank of Fiji



The combined interest spread for commercial banks expanded slightly over the year to 4.0 percent. This was due to a relatively larger decline in the cost of funding liabilities (37 basis points) compared to the 28 basis points reduction in the yield on earning assets. High levels of liquidity and competition in the industry led to declining interest rates in the market, with a faster pace of decline noted in deposit rates than in lending rates.

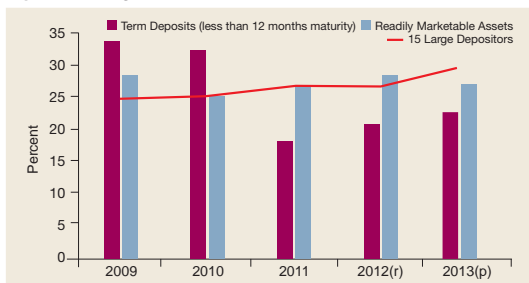
Commercial Banks' Annual Spread



Source: Reserve Bank of Fiji

Total liquid assets of the banking industry were at a record high of \$1.4 billion and the bulk of this (41.9%) was in exchange settlement balances held with the Reserve Bank.

Deposits Coverage



Source: Reserve Bank of Fiji

The ratio of marketable assets (liquid assets to total deposits) weakened from 28.1 percent to 26.9 percent. The ratio of the 15 largest depositors as a percentage of total deposits increased from 29.8 percent to 30.2 percent, indicating a growth in concentration risk. In terms of upcoming maturities, 22.3 percent of total deposits were maturing within the next 12 months, representing an increase compared to 20.7 percent in 2012. This indicates a slight shift to short term deposits and more short term liquidity requirements.

Credit Institutions

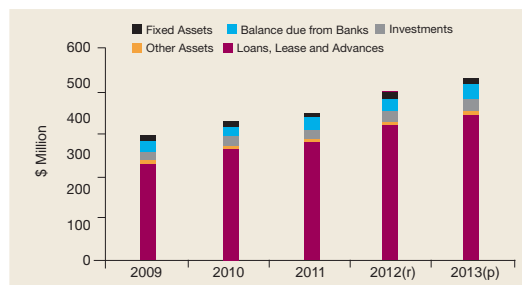
Credit institutions continued to post satisfactory performance in 2013 with strong capital levels, although liquidity and asset quality were assessed to be

marginal. Similar to commercial banks, credit institutions' combined balance sheet expanded further by 8.0 percent over the year to \$545.8 million.

The expansion was driven by loans and advances which grew by 6.8 percent to \$435.2 million. Leading the trend was lending to private sector business entities which rose by 12.2 percent to \$296.6 million. Lending to private individuals declined by 3.3 percent to \$137.7 million.

Total investments declined by 4.9 percent to \$29.4 million in 2013.

Credit Institutions' Assets



Source: Reserve Bank of Fiji

On the liabilities side, deposits rose by 13.0 percent to \$356.4 million. The increase was underpinned by a significant increase in deposits received from Non-Bank Financial Institutions (NBFIs) (41.5%) and private sector business entities (20.6%). Borrowing from shareholders declined slightly by 32.6 percent to \$28.9 million.

Capital and reserves stood at \$111.4 million in 2013, a growth of 15.9 percent, mainly due to an increase in the level of retained earnings and further capital injections of \$5.0 million by one credit institution.

The capital adequacy ratio was strong at 26.0 percent, slightly higher than the 25.2 percent recorded in 2012. The rise was attributed to total eligible capital growing by 17.0 percent while total risk weighted assets rose by 13.5 percent over the year.

Asset quality of credit institutions reflected improvements in 2013 with a substantial decline noted in classified exposures, impaired assets and past due levels. Classified exposures declined by 18.3 percent to \$40.9 million resulting in a decline in the ratio of classified exposures-to-loans advances & leases from 12.3 percent to 9.4 percent. Past due levels declined by 8.0 percent to \$64.3 million.

The improvement in overall asset quality also led to a decline in total provisions (individually and collectively

assessed) on classified accounts by 23.6 percent to \$13.2 million.

Summary of Credit Institutions' Profitability¹ (\$ Million)

	2009(r)	2010(r)	2011(r)	2012(r)	2013(p)
Interest Income	41.4	45.5	49.3	48.3	51.7
Interest Expense	11.9	17.3	18.6	16.1	13.7
Net Interest Income	29.5	28.2	30.7	32.2	38.0
Add: Non Interest Income	3.7	4.1	4.2	5.7	5.5
Total Operating Income	33.2	32.3	34.8	37.9	43.5
Less: Operating Expenses	11.6	11.9	12.7	13.3	15.0
Less: Bad debts and Provisions	3.6	0.7	4.2	4.1	5.2
Profit Before-Tax	18.0	19.7	17.9	20.5	23.3
Less: Tax	5.6	5.2	5.5	6.0	4.4
Net Profit After-Tax	12.4	14.5	12.4	14.5	18.8
Earning Assets	319.6	343.2	386.1	415.6	457.3
Cost of Funds	250.3	262.9	299.5	323.8	352.4
Average Assets	335.2	357.4	399.7	431.5	476.2
After-Tax Return on Equity (%)	18.6	19.5	15.6	17.3	19.5
Efficiency (%)	35.0	36.7	36.3	35.2	34.5
Yield on Earning Assets (%)	13.0	13.3	12.8	11.6	11.3
Cost of Funding Liabilities (%)	4.8	6.6	6.2	5.0	3.9

¹ Financial year end profits for credit institutions used.

Source: Reserve Bank of Fiji

Similar to commercial banks, credit institutions achieved record high profits in 2013. Profits after-tax for the financial year 2012-2013 was at \$18.8 million. The positive result was underpinned by an improvement in net interest income despite the marginal increase in expenses and bad debts expenses. In line with the improvement in profits, the return on equity and assets improved in 2013. Similarly the efficiency ratio also improved over the year from 35.2 percent to 34.5 percent.

The combined credit institutions' spread increased to 7.4 percent due to a higher reduction in the cost of funding liabilities than yield on earning assets.

Credit institutions' holding of liquid assets strengthened by 9.0 percent to \$78.8 million, attributed to the increase in deposits with banks.

The Insurance Industry

Both the life and general insurance sectors continued to maintain adequate capital as required under section 31 of the Insurance Act (1998). As at 31 December 2013, life and general insurers' solvency surplus was \$200.8 million and \$62.4 million, respectively.

The assets of the insurance industry grew by 7.6 percent to \$1.3 billion in 2013, reflective of the growth in life insurers' assets. Life insurers' total assets grew by \$115.3 million to \$958.5 million, emanating from increases in cash on hand, investments in government securities

and bank deposits. The total assets of general insurers however, decreased by \$23.3 million to \$348.3 million. Claims settled during the year led to a significant decline in the general insurers' cash holdings and amounts due from reinsurers.

The insurance industry reported a consolidated net premium income of \$244.8 million in 2013, an increase of 13.8 percent. Both the life and general sectors recorded increases of 13.9 percent and 13.6 percent, respectively. Life insurers continued to account for the majority of the insurance industry's net premium income at 52.2 percent.

Net claims paid increased by 8.1 percent to \$145.3 million. The life insurance sector reported an increase of \$4.1 million to \$71.3 million. Similarly, the general insurance sector's net claims paid increased by \$6.8 million to \$74.0 million. General insurers' net claims ratio improved to 74.5 percent in 2013 as a result of the greater increase in net premiums.

The insurance broking industry continued with the procurement of offshore placements of insurance covers not available locally. The Reserve Bank approved 998 applications in 2013, with total premiums amounting to \$28.9 million. While the number of approvals increased from 900 in 2012, total premiums remitted decreased from \$29.7 million remitted in 2012. The majority of the premiums (49.1%) remitted were for the material damage and business interruption class.

Fiji National Provident Fund

The total assets of the FNPF stood at \$4.5 billion, representing 34.0 percent of the financial system assets, at the end of 2013. Given this systemic significance, the Reserve Bank continued with its closer monitoring of the institution and the reform program it has been undertaking. In this regard, monthly prudential consultations along with regular liaison with key personnel were undertaken on the progress of the reform program in areas including investment rehabilitation and the IT review.

The total assets of the FNPF recorded an annual growth of 6.7 percent from \$4.2 billion, attributed to the expansion (\$104.0m) in the Fund's investment portfolio and the continued increase in its demand deposit holdings by \$190.6 million over the year. The asset base of the Fund continued to be dominated by investments, which amounted to \$4.0 billion or 87.9 percent of total assets. The Fund's investment portfolio



is heavily weighted towards fixed income securities which accounted for 78.5 percent of the portfolio in 2013.

On the liabilities side, members' balances grew by 7.1 percent to \$3.4 billion, compared to a growth of 6.4 percent in 2012. The upward growth in member liabilities in 2013 was due to a relatively higher growth in contributions compared to withdrawals.

Overall, reserves increased significantly by 12.6 percent to \$783.1 million compared to a decline of 7.6 percent in 2012 (\$695.7 million). This was largely due to transfers from retained earnings after the declaration of the crediting rate from the last financial year.

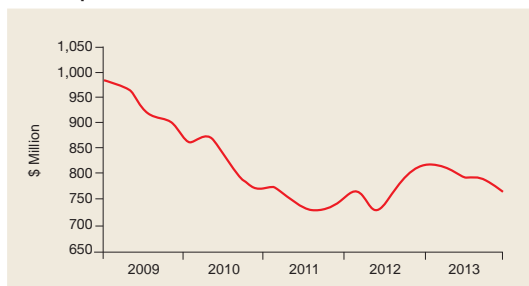
Total contributions collected in 2013 amounted to \$373.2 million, an increase of 13.5 percent from \$328.7 million recorded in 2012. Total withdrawals increased to \$291.2 million from \$260.6 million, largely attributed to the increase in retirement and partial withdrawals.

The Reserve Bank, in a joint funding program with the Asian Development Bank (ADB), has engaged two specialised consultants to draft the new legislation on Superannuation Supervision, which would provide for specific and relevant powers for the supervision of Fiji's superannuation industry. This legislation is expected to be in place in 2015.

Capital Markets

The level of trading, by volume and value of shares traded on the SPSE improved significantly in 2013 particularly when 2012 special crossing transactions⁸ are excluded.

Market Capitalisation



Source: South Pacific Stock Exchange

The overall stock market capitalisation dropped by 5.9 percent to \$768.1 million in 2013. While ten of the listed securities experienced an increase in share price,

the reduction in the share price for two securities was significant enough to result in the overall reduction in market capitalisation. Amalgamated Telecom Holdings Limited and Paradise Beverages (Fiji) Limited's share price fell by 17.0 percent and 9.1 percent, respectively.

At the end of 2013, the top five listed securities accounted for 78.8 percent of the stock market.

In line with the reduction in market capitalisation, the SPSE Total Return Index (STRI) decreased by 1.5 percent to 1,865.52. STRI is deemed a better measure of stock market performance as it includes the total return (price, dividend and interest returns).

SPSE Total Return Index



Source: South Pacific Stock Exchange

In 2013, a total of 8.2 million shares and notes were traded via 1,206 transactions, resulting in a total consideration of \$12.7 million, a significant decline compared to 19.9 million shares and notes traded in 891 transactions with a total consideration of \$119.0 million in 2012.

The number of trades however, recorded a growth of 35.4 percent which was a result of market based dividend reinvestments by FHL shareholders. FHL was the most active stock for 2013 accounting for 67.2 percent of the 1,206 trades.

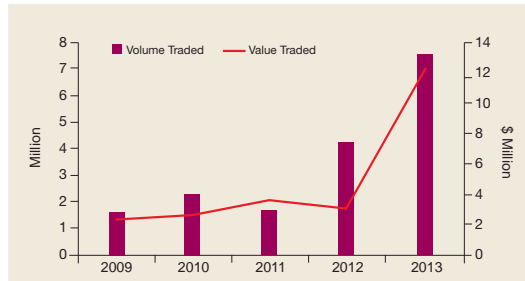
Only one special crossing transaction valued at \$0.3 million was recorded in 2013, compared to the 18 special crossing transactions recorded in 2012 valued at \$115.8 million.

Excluding special crossing transactions, the volume (7.6m) and value of shares (\$12.4m) traded in 2013 recorded the highest growth since 2009.

In 2013, the buy-to-sell order ratio further improved to 1:2 from 1:9. This improvement was attributed to the new buy and sell orders that were placed on the trading board and executed during the year.

⁸ Special Crossing Transactions are bilateral deals on the sale and purchase of larger quantities of shares in a security which are one-off transactions.

Volume and Value of Shares Traded



Source: South Pacific Stock Exchange

The average total return from the stock market in 2013 was 9.0 percent compared to 6.5 percent in 2012, with an average dividend and interest yield of 4.4 percent and an average capital growth of 4.6 percent.

Total trades totalling 0.3 million shares with a consideration of \$0.6 million, was noted by the Kontiki Price Matching Services, which provides an over-the-counter price matching system/trading registry for four unlisted public companies. In 2013, the market capitalisation of the companies utilising this facility decreased by 14.1 percent to \$52.4 million.

A 16.1 percent growth was noted in the unit trust market, as the total value of funds under management increased to \$142.3 million from \$122.6 million in 2012. This outcome was largely underpinned by the continuous growth in units sold to investors which recorded a net value of \$18.5 million for the year.

Government bonds continued to be the largest component of the unit trust market's consolidated investment portfolio (29.4%) followed by unlisted securities (26.6%), listed securities (17.9%), loans and receivables (15.6%) and deposits held at financial institutions (10.4%).

There was an 8.4 percent increase in the number of unit holders to 17,955. Of the total unit holders, 72.9 percent were individuals, and institutions and other groups accounted for the remaining 27.1 percent.

As part of future development initiatives, the Capital Markets Master Plan (2013-2020) was drafted and approved by the Board in 2013. The Capital Markets Development Taskforce which comprises of the Governor of the Reserve Bank of Fiji as Chairperson, the Permanent Secretary for Finance and experts from the public and private sectors will be monitoring the implementation of the Master Plan in the years ahead.

Three Working Groups were established to assist the Taskforce in implementing the Master Plan Strategies.

Complaints Management

In 2013, the Reserve Bank received a total of 71 complaints against regulated financial institutions, compared to 63 complaints received in 2012. The majority (55 complaints) of these were against the banking industry and were related to loan terms, implementation of the mortgagee sale process and fees and charges. The complaints against licensed insurers (11 complaints) related to the declinature of policy holder claims and dispute of policy terms and conditions. There were two complaints received against the FNPf in 2013 compared to one in the previous year. There were three complaints received against the non-regulated financial institutions. However, no complaint was received against the other NBFIs.

During the course of its investigations, the Reserve Bank held 53 meetings with the aggrieved parties, compared to 44 in the previous year. Relevant financial institutions and other organisations were also consulted where necessary, with the consent of the complainant. Of the total complaints received, 64 were closed and 7 remained under investigation at year end.

One onsite inspection and 16 spot checks were conducted during the year to ensure compliance with the Policy Guideline on Complaints Management. In addition, the Complaints Management Forum⁹ met three times during the year where financial industry complaints and consumer protection issues were discussed. The Bank met with the Fiji Commerce Commission to discuss the Draft Self Regulating Guideline for Financial Services in Fiji and agreed that a Memorandum of Understanding (MOU) be established between the Fiji Commerce Commission and the Reserve Bank to address overlapping regulatory issues.

As part of raising public awareness, the Complaints Management Forum worked together with the Reserve Bank to require all licensed financial institutions to publish and display a Complaints Management Poster. These posters were to inform the public about the complaints management framework that have been implemented. Complainants are to first raise their concerns with financial institutions and if the complainants remain dissatisfied, they can then refer their complaints to the Reserve Bank for mediation and resolution.

⁹ The forum membership includes representatives from the Ministry of Finance, Fiji Retailers Association, Consumer Council of Fiji, Association of Banks in Fiji, Insurance Council of Fiji, Fiji Commerce Commission, Fiji Institute of Accountants and the RBF.

COMBATING MONEY LAUNDERING

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

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

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

Financial Institutions' Compliance with the FTR Act

The FIU and the RBF continued to work closely with financial institutions in 2013 to encourage and ensure that they implement and comply with the various provisions of the FTR Act and Regulations. Another function of the FIU is to provide policy advice as and when requested by financial institutions. In 2013, the FIU issued 43 ad-hoc policy advisories explaining various requirements of the FTR Act and Regulations. The majority of the ad-hoc policy advisories related to customer due diligence requirements of the relevant AML and CFT laws.

Receipt and Analysis of Financial Transaction Information

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

In 2013, the FIU received 522 suspicious transaction reports (STRs) from various financial institutions, a decline of 9.8 percent from the previous year.

Suspicious Transactions Reported to the FIU (Number)

	2009	2010	2011	2012	2013
STRs	750	629	728	579	522

Source: Financial Intelligence Unit

The majority of STRs received in 2013 were from commercial banks and money remittance service providers.

Reporting Financial Institutions 2013

Reporting Financial Entities or Persons	No. of STRs Received
Commercial Banks	425
Money Remittance Service Providers ¹	42
Finance Companies	5
Members of the Public	40
Regulatory Authorities	3
Law Firms	0
Accounting Firms	2
Insurance Companies and Superannuation	3
Real Estate Businesses	1
Others	1
Total	522

¹ Includes foreign exchange dealers and mobile phone banking service providers.

Source: Financial Intelligence Unit

The FIU referred 284 STR case reports to relevant law enforcement agencies for further investigation of possible money laundering and other serious offences.

Case Reports Disseminated to Law Enforcement Agencies

Law Enforcement Agency	Number of STRs Disseminated				
	2009	2010	2011	2012	2013
Inland Revenue Services	143	125	195	168	176
Police	37	44	89	61	58
Immigration	3	1	6	4	0
Customs	2	0	4	0	19
Others ¹	11	97	24	13	31
Total	196	267	318	246	284

¹ Includes Reserve Bank of Fiji, Transnational Crime Unit, Fiji Independent Commission Against Corruption.

Source: Financial Intelligence Unit

Financial institutions are also required under the FTR Act to report to the FIU all cash transactions of \$10,000 and above, and all international electronic fund transfers. In 2013, the FIU received 380,430 cash transaction reports (CTRs) and 1,147,728 international electronic funds transfer reports (EFTRs).

Cash Transactions and Electronic Fund Transfers Reported

No. of Reports Received	2009	2010	2011	2012	2013
CTRs	132,547	133,487	144,191	200,404	380,430
EFTRs	303,380	315,634	450,849	830,959	1,147,728

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 \$10,000 and above. In 2013, the FIU received 459 border currency reports, compared to 477 received in 2012. These reports are analysed for possible currency smuggling, money laundering and related criminal offences.

Cash/Fund Declarations by Travellers (Number)

Persons Declaring	2009	2010	2011	2012	2013
Declarations made by inbound travellers	139	119	93	117	141
Declarations made by outbound travellers	105	104	101	360	318
Total	244	223	194	477	459

Source: Financial Intelligence Unit



Assistance to Partner Agencies

Under the FTR Act, the FIU may provide assistance to various partner agencies. In 2013, the FIU handled 46 requests from Government agencies for due diligence checks on persons or entities of interest. These requests related to background checks on 71 business entities and 70 individuals. The FIU also attended to 160 requests from local and foreign law enforcement agencies for assistance in money laundering and other related investigations.

Requests for Background Checks from National Agencies - 2013 (Number)

Requesting Agency	Requests	Entities	Individuals
Attorney General's Office/Ministry of Justice	3	15	7
Fiji Pharmaceutical Services	4	6	3
Investment Fiji	3	7	5
Ministry of Finance	4	4	9
Ministry of Public Enterprise, Tourism, Civil Aviation, Industry & Trade	5	3	4
Reserve Bank of Fiji	16	22	29
Others	11	14	13
Total	46	71	70

Source: Financial Intelligence Unit

Domestic Coordination and Information Sharing

In September 2013, the FIU with the Fiji Police Force organised a workshop for 15 police officers titled "Proceeds of Crime: Follow the Money Workshop".

The 4th national AML conference, themed "Detecting Money Laundering Crimes" was held in November 2013. The conference was attended by 149 delegates with distinguished speakers from the public and private sector discussing a wide range of issues related to the conference theme.

Secretarial support continued to be provided by the FIU to the National AML Council as well as its three working groups in 2013. The National AML Council held three 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 2013.

International Coordination and Initiatives

During the year, the FIU provided one week work attachment for officers from the FIUs of Vanuatu, Tonga, Nauru and Kiribati. The attachment program covered the areas of policy, compliance, intelligence management and national and international coordination. In late 2013, the FIU also provided technical assistance to the Cook Islands FIU on their information management system.

The FIU participated at the 2013 Egmont Group's Annual Plenary Meeting that was held in South Africa. 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 2013, the FIU signed MOU with five foreign FIUs. This brings to 23 the total number of MOU 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 16th Annual Plenary which was held in Shanghai, China. Director FIU also co-chaired the 2013 APG Typologies workshop held in Ulaanbaatar, Mongolia. The FIU also contributed to various surveys conducted by the APG and liaised with the APG on AML/CFT issues relevant to Fiji.

CURRENCY

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

Currency Review

New flora and fauna design series notes (\$10, \$20, \$50 and \$100) and coins, including the new \$2 coin were issued in January 2013, while Fiji's first \$5 polymer note in its new vibrant green colour was issued in April 2013.

The legal tender status for the old design \$2 and \$5 notes ceased from 31 March 2013 and 30 June 2013, respectively and these notes were recalled from circulation in the respective periods. All other old design notes continue to be legal tender and will be withdrawn from circulation gradually.

In addition, the issuance of the remaining stock of old design \$20 and \$50 notes to commercial banks was also ceased effective from 31 December 2013.

After noting the accelerated tarnishing of the newly issued \$2 coins and the concerns being raised by the public on the confusion between the \$1 and \$2 coins, the Bank successfully negotiated with the suppliers on the replacement of the existing \$2 coins with new specification \$2 coins to address both issues. The new specification \$2 coin is expected to be issued into circulation in August 2014 and the old design \$2 coins will be recalled from circulation.

Note Processing

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

Notes Processed

Notes Processed	2012		2013	
	Value (\$ Million)	Pieces (Million)	Value (\$ Million)	Pieces (Million)
Notes Saved for Reissue	161.7	6.3	82.6	4.2
Notes Destroyed	526.1	31.1	658.2	26.2
Total Processed	687.8	37.4	740.8	30.4

Source: Reserve Bank of Fiji

In 2013, 30.4 million notes were processed, compared to 37.4 million for 2012. Of this total volume, 4.2 million pieces were deemed fit for reissue while 26.2 million pieces, considered unfit for further circulation,

were destroyed. Unfit notes mainly consisted of old design notes that were being withdrawn from circulation.

Currency in Circulation

In 2013, the total currency in circulation grew by 2.5 percent to \$572.8 million.

Notes & Coins in Circulation (\$ Million)

Notes in Circulation (\$ Million)			
Denomination	2011	2012	2013
\$0.50	0.1	0.1	0.1
\$1	1.7	1.7	1.7
\$2	14.0	14.9	7.4
\$5	14.5	15.7	18.3
\$10	38.0	41.9	47.2
\$20	67.4	74.1	80.1
\$50	169.6	195.7	210.4
\$100	160.2	179.9	163.8
Pre-decimal Currency	0.3	0.3	0.3
Total	465.8	524.3	529.3
Coins in Circulation (\$ Million)			
Denomination	2011	2012	2013
1c	1.3	1.3	1.3
2c	1.1	1.1	1.1
5c	3.2	3.4	3.5
10c	3.8	4.0	4.0
20c	5.2	5.7	5.6
50c	6.3	6.9	6.7
\$1	10.1	11.4	10.9
\$2	-	0.5	10.2
Pre-decimal Currency	0.2	0.2	0.2
Total	31.2	34.5	43.5
Notes & Coins in Circulation (\$ Million)			
	2011	2012	2013
Notes	465.8	524.3	529.3
Coins	31.2	34.5	43.5
Currency in Circulation	497.0	558.8	572.8

Source: Reserve Bank of Fiji

The value of notes in circulation in 2013 marginally rose by 1.0 percent to \$529.3 million. The \$5 note denomination recorded the highest growth of 16.6 percent to \$18.3 million while the \$2 note denomination registered a decrease of 50.3 percent to \$7.4 million mainly attributed to the introduction of a new \$2 coin and the withdrawal of the \$2 note denomination from circulation. The \$10 note was the highest volume of notes in circulation.

In 2013, the value of coins in circulation increased by 26.1 percent to \$43.5 million. The significant growth

was attributed to the introduction of the new \$2 coin. Apart from the new \$2 coin, the 5 cents coins registered a growth of 2.9 percent to \$3.5 million while all other denominations registered a decline with \$1 coins in circulation decreasing by 4.4 percent to \$10.9 million. The 5 cents remained the highest volume of coins in circulation.

Cost of Currency

In 2013, the cost of currency issued by the Bank decreased by 17.4 percent to \$3.8 million.

Over the same period, the cost of notes issued declined by 11.4 percent to \$3.1 million while the cost of coins fell by 36.4 percent to \$0.7 million.

Cost of Currency Issued (\$ Million)

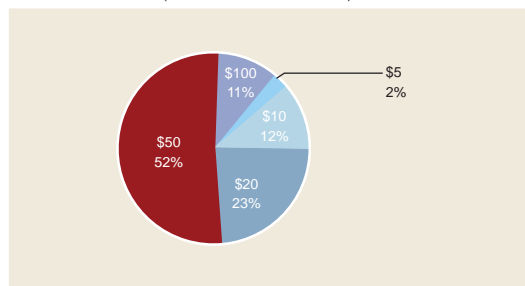
	2011	2012(r)	2013
Notes	2.6	3.5	3.1
Coins	0.6	1.1	0.7
Total	3.2	4.6	3.8

Source: Reserve Bank of Fiji

Banking Transactions

In 2013, the value of currency issued to commercial banks increased by 14.5 percent to \$920.2 million, of which \$904.6 million was issued in notes and \$15.6 million in coins.

Notes Issued in 2013 (Total Value: \$904.6 million)



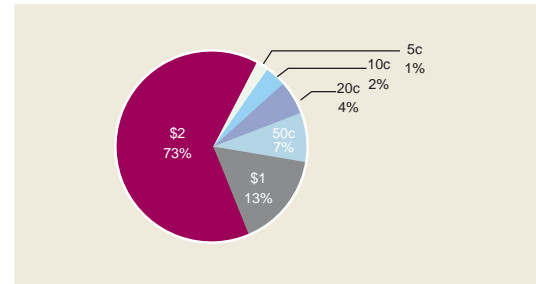
Source: Reserve Bank of Fiji

The value of \$100 notes issued recorded the highest increase of 39.3 percent to \$96.8 million while the value of \$20 and \$50 notes issued recorded increases of 12.7 percent to \$211.2 million and 15.7 percent to \$466.9 million, respectively. The marked increase in demand for \$20 and \$50 notes was attributed to their continued 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.

During the year, there was a fluctuation in the demand

for different coin denominations. The value of the 50 cents coin registered the highest increase of 45.3 percent, while the demand for the 5 cents coin fell by 12.3 percent to \$0.2 million.

Coins Issued in 2013 (Total Value: \$15.6 million)



Source: Reserve Bank of Fiji

With the exception of the 5 cents coin denomination, the value of coins issued for all other coin denominations increased in 2013.

Mutilated and Old Design Currency Assessments

In 2013, \$1.0 million was reimbursed to commercial banks, businesses and individuals for mutilated and old design currency compared to \$0.3 million in 2012. The significant increase is attributed to the high volume of old design notes received by the Bank.

Counterfeit Notes

The volume of counterfeit notes discovered during the year increased to 105 notes from 91 in 2012. However, the value of counterfeits decreased over the same period, by 5.0 percent to \$3,059 and remained negligible, at less than 0.1 percent of currency in circulation.

Counterfeit Note Summary

	2012		2013	
	Value (\$)	Number of Notes	Value (\$)	Number of Notes
\$2	6	3	4	2
\$5	25	5	45	9
\$10	70	7	100	10
\$20	520	26	960	48
\$50	2,400	48	1,650	33
\$100	200	2	300	3
Total	3,221	91	3,059	105

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 2013, numismatic or “collector” currency income increased by a significant 123.2 percent to \$2.3 million over 2012. This was attributed to the sale of uncut sheets of the new flora and fauna design notes and other currency collectables and an increase in royalties received from numismatic partner Mints.

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

The Bank also unveiled and issued into circulation the Iliesa Delana commemorative 50 cents circulation coin in recognition of Mr Delana’s gold medal win at the London 2012 Paralympic Games in September 2013.

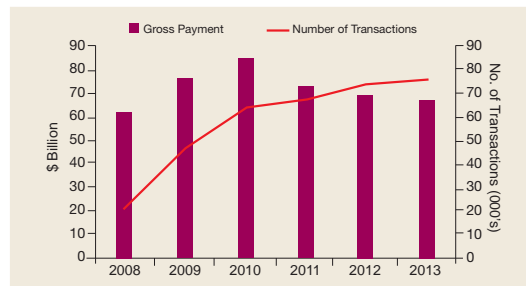
PAYMENTS AND SETTLEMENTS SYSTEM

The Payments and Settlements System is critically important to the Reserve Bank of Fiji as it is the primary channel to transmit monetary policy impulses and facilitate the movement of large value transactions. The Reserve Bank has continued to update its payments and settlements systems since the late 1990's when it subscribed to the Society for Worldwide Interbank Financial Telecommunication settlement system for foreign currency transactions.

FIJICLEAR

FIJICLEAR is Fiji's real time gross settlement system which is owned and operated by the Reserve Bank. The system was introduced in 2007 and at the end of its sixth year in operation had five participating commercial banks.

FIJICLEAR Transactions



Source: Reserve Bank of Fiji

In 2013, FIJICLEAR recorded a total of 75,186 transactions valued at \$67.9 billion. Despite the 3.0 percent increase in transaction volume, the total value fell by 3.1 percent due to the fall in large value payments.

Monthly Average FIJICLEAR Transactions

Monthly Average	2009	2010	2011	2012	2013
Gross Payments (\$M)	6,218	7,085	6,218	5,838	5,658
No. of Transactions	3,927	5,410	5,623	6,082	6,265

Source: Reserve Bank of Fiji

National Payment System

The Bank with the assistance of International Financial Corporation and the World Bank continued to work on drafting a specific legislation to govern the payments systems in Fiji that are not captured by existing payments regulations. The aim of the legislation is to strengthen the legal framework for payment systems in Fiji by providing the Reserve Bank with oversight powers and legal backing of transactions executed in conformity with the internal rules of the respective systems.

Mobile Money Development

The use of mobile money has continued to expand gradually since its introduction in 2010. The range of

services through mobile money include bill payments, international remittances, domestic transfers, online shopping payments, savings, insurance repayments and payments for judicial fines and municipal council services.

The mobile money service was also integrated with the electronic ticketing card for bus fares in 2013. Consumers can now top up their electronic ticketing card via their mobile money accounts.

In 2013, the number of mobile money agents around the country grew to 520, with 45 percent of the total agents having a presence in the rural areas. A total of 50,839 person to person (P2P) transfers valued at \$4.3 million were recorded in 2013 compared to a total of 27,437 P2P transfers valued at \$2.3 million in 2012. The average value of P2P transfers rose to \$84.7 from \$81.1 in 2012. The number of activated mobile money customers stood at 334,559 compared to 287,178 in 2012.

Since its commercial launch in August 2011, the total amount of inward remittances received through this mobile channel stood at \$1.2 million. The total value of electronic money in circulation rose to \$4.9 million at the end of 2013 from \$3.1 million at the end of 2012.

e-Money Taskforce

The e-Money Taskforce met five times in 2013 to monitor the developments in the e-money ecosystem in Fiji. As part of the Bank's goal to strengthen the safety of customer funds currently held in the trust accounts, the Taskforce consulted and drafted the Trust Deed between the Mobile Money Service Providers and the customers. The execution of these agreements is earmarked for early 2014.

Other payments system initiatives, such as Government's e-ticketing regime and the development of a National Switch, along with other market proposals were closely monitored during the year.

Remittances

The flow of inward remittance to Fiji has seen a steady



growth over the years and continues to remain the second largest foreign exchange earner for Fiji. There has been a notable increase in the volume and value of funds remitted and this in part is due to the large number of skilled emigrants and Fiji citizens living and working abroad.

In 2013, majority of the funds transferred to Fiji were from Australia, the US and New Zealand while Money Transfer Operators continued to be the most common

channel used by remitters.

Key Remittance Service Providers have been innovative in their approach to developing new products and services to facilitate the transfer of funds in an effective and cheaper manner to the recipients. The Reserve Bank as part of its financial inclusion initiative will continue to engage with relevant stakeholders to improve the services, channels and cost of sending remittances to Fiji.



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

Since the inception of the ISEFF in 2010, lending to import substitution related businesses and exporters under the Facility has continued to grow. In 2013, the Facility assisted 20 businesses with loans amounting to \$26.0 million as compared to 17 businesses with the total loan value of \$8.6 million in the previous year.

At the end of the year, total outstanding ISEFF loans stood at \$51.6 million, an increase of \$21.3 million from the previous year. Similar to 2012, majority of the funds were lent for export finance rather than to import substitution related businesses.

In March 2013, the maximum interest rate that lending institutions could charge on ISEFF loans to businesses was reduced from 6.0 percent to 5.0 percent per annum. The interest rate charged by RBF to lending institutions under the Facility was subsequently lowered to 1.0 percent from 2.0 percent per annum.

Natural Disaster Assistance

In January 2013, the Reserve Bank renamed the FRF as the NDRF and as such extended coverage under the Facility to include loans to businesses affected by Cyclone Evan. In addition, the total amount allocated for lending under the Facility was increased from \$20.0 million to \$40.0 million. During the first nine months of the year, the Facility assisted seven businesses with a total loan value of \$1.3 million. The Facility expired on 30 September 2013 with a balance of \$15.7 million in total outstanding loans.

Housing Facility

The Reserve Bank established a Housing Facility with the Housing Authority (HA) in 2012 to assist low income earners to own a home. From the total allocation of \$25.0 million under the Facility, \$10.0 million was lent to HA in early 2013. During the year, the Bank reviewed the Housing Facility and a number of changes were made including raising the income threshold for those eligible from \$16,500 to \$25,000 per annum for single income earners and extending the eligibility to refinancing of loans for existing customers earning less than the threshold. Consistent with the lowering of lending rates on the other RBF special lending facilities, the maximum interest rate that HA can charge customers under the Housing Facility was revised from 6.0 percent to 5.0 percent per annum and the RBF lending rate to HA was also lowered from 2.0 percent to 1.0 percent per annum. At the end of December 2013, a balance of \$15.0 million remained for lending to HA.

In late 2013, the Reserve Bank extended the Housing Facility to the Public Rental Board (PRB) for the construction of rental accommodation for low income earners. A total of \$10.0 million has been set aside for the PRB.

Small and Medium Enterprises Credit Guarantee Scheme

The Reserve Bank continued to administer the Government's Small and Medium Enterprise (SME) Credit Guarantee Scheme in its second year of operation. In 2013, Government provided an additional \$1.5 million in guarantee funding taking the total amount allocated under the Scheme to \$4.0 million. Funds under this guarantee can cover for default of up to \$50,000 per business of eligible SME loans. SME loans registered under the cover increased more than twofold over the year. At year end, a total of 460 SME loans valued at \$27.2 million were covered under the Scheme compared with 187 SME loans valued at \$10.3 million in 2012. The Reserve Bank received no claims on the \$4.0 million allocation for the year.

Retail and Secondary Bond Market

Given that the first issue of Viti Bond in 2012 had led to a surge in retail investor participation in the bond market, the Government floated Viti Bonds again in 2013, allocating \$10.0 million for this purpose. Throughout the year, a total of \$6.8 million in Viti Bonds was issued to 78 retail investors. This compares with the allotment of \$2.8 million to 57 investors in 2012. The notable increase in retail bond investment was primarily attributed to the awareness through various RBF expositions, Government road shows and radio talk back shows over the past two years. The Reserve Bank stands ready to purchase any Viti Bonds in the event that bond holders would like to liquidate their investments. During the year, the Bank bought 15 parcels of Viti Bonds valued at \$0.06 million from investors compared with seven parcels of Viti Bonds valued at \$0.02 million bought in 2012.

Activity in the secondary bond market declined in 2013 in both number and value of transactions. During the year, a total of 29 bonds were traded valued at \$3.1 million in contrast to 43 trades amounting to \$248.2 million in 2012. The low activity was associated with high liquidity in the banking system coupled with limited reinvestment opportunities available to investors. The relatively higher trading in 2012 reflected the separation of FNPF's bond holdings into two separate accounts.

Microfinance Development

Financial service providers continue to play a vital role in



enabling access to financial services for the unbanked and underserved.

During the year, the Reserve Bank organised financial inclusion expositions in both rural and urban areas to raise awareness about financial services. A total of 16 expositions have been organised to date since 2010, with four expositions held in 2013. A maritime microfinance exposition was organised in Kadavu in July at Kavala, Vunisea and Daviqele, with participation by financial inclusion stakeholder representatives from the private-public sector, civil society and development partners. In August, the Bank organised a financial inclusion village during the Hibiscus festival.

The Bank hosted the inaugural National Microfinance Awards in October 2013 in conjunction with the biennial Pacific Microfinance Week that was held in Nadi. The Awards were co-sponsored by the Pacific Financial Inclusion Programme (PFIP) and the Life Insurance Corporation of India (LICI). The National Microfinance Awards will be an annual event to encourage microfinance service providers and to recognise outstanding microentrepreneurs.

On the regulatory side, the Reserve Bank's Banking Supervision Policy No. 18 on Agent Banking Guidelines came into effect on January 2013. The policy was aimed at ensuring banks effectively extend financial services into the rural areas. Commercial banks have established agents in rural areas around the country using merchants and post office agents to provide basic banking services such as cash withdrawals, deposits and payments. At the end of 2013, a total of 99 agents were in operation, providing financial services to rural communities.

In 2013, the Bank continued to engage with Government on the regulation of microfinance institutions and other deposit taking institutions, such as Credit Unions and Credit and Thrift Cooperatives which are currently outside the regulatory ambit of the Bank. Work will continue on this front with Government and the industry in 2014.

In addition, the Bank continued its development of a Micro Small and Medium Enterprises (MSME) database in collaboration with partner agencies. This should assist in addressing information gaps in the MSME sector.

National Financial Inclusion Taskforce

The National Financial Inclusion Taskforce (NFIT) is a national committee that was established in February 2010 to provide greater focus in achieving financial inclusion in Fiji through a more coordinated and integrated national effort. It has three working groups focusing specifically on financial literacy, microfinance and statistics. Significant

progress was made in 2013 on its strategic objective to reach 150,000 unbanked adults by 2014. This target was set in 2010 and at the end of 2013, 98 percent of the target was achieved through the collaborative efforts of the various national stakeholders. The Taskforce held four meetings in 2013 and the Reserve Bank played the key facilitative role in providing leadership and secretariat to the NFIT.

In September 2013, the Reserve Bank received international recognition for its contribution and work on financial inclusion at the 2013 Alliance for Financial Inclusion Global Policy Forum, and was awarded the inaugural Maya Declaration Award¹⁰.

Microinsurance

The Reserve Bank has been working closely with key stakeholders in the insurance industry and development agencies like the PFIP and the ADB with a common goal to develop the nascent microinsurance market in Fiji. Currently there are two insurance companies that offer microinsurance products. A National Action Plan has been developed to identify and understand the issues and key pitfalls that hinder growth of the microinsurance market as well as creating an enabling regulatory environment that will support innovation in this area.

Financial Literacy

In 2013, under the leadership of the Reserve Bank and NFIT, the first National Financial Literacy Strategy for Fiji was formulated. The Strategy which is an overarching policy framework to guide the coordination and implementation of initiatives and programs aimed at building on financial competencies and wellbeing of all Fijians was endorsed by Government.

As part of the strategy and in collaboration with the Ministry of Education and PFIP, the Fiji Financial Education Curriculum Development was rolled out in the schools. As of April 2013, financial education has been embedded and integrated into the core subjects of the curriculum from Class 1 to Form 6. Work on implementing other aspects of the Strategy will continue in 2014.

Local Advisory Board

During the year, the Bank held four individual and one collaborative meeting with the Local Advisory Boards (LAB) of four commercial banks in Fiji. In addition, the Reserve Bank made a presentation to the non-executive LAB members. The presentations focused mainly on the Government's national development objectives and the key policy areas of the Reserve Bank.

¹⁰ Maya Declaration Award recognises the institution that has set clear and measurable targets for financial inclusion, put in concerted efforts to measure progress, and regularly reported on progress since time of commitment.

RBF in the Community



Governor Barry Whiteside (left) receives the inaugural "Maya Declaration Award" in Kuala Lumpur, Malaysia; at the Alliance for Financial Inclusion (AFI), Global Policy Forum.

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

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

The Bank funds the chair of the Associate Professor/Senior Lecturer in Monetary Economics at the University of the South Pacific (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 Fiji Development Bank's (FDB) Small Business Award. The Bank also sponsors Investment Fiji's (Agriculture) Exporter of the Year Award. For the first time, the Bank introduced the Microfinance Awards with the theme "Bringing Out the Best". There were three categories of winners and the Awards were sponsored by the Bank in partnership with LICl and the PFIIP.

In September 2013, the Reserve Bank of Fiji was awarded the inaugural Maya Declaration Award for promoting financial inclusion at the Alliance for Financial Inclusion Global Policy Forum, Kuala Lumpur, Malaysia.

Donations are also made to national charitable organisat-

ions as part of the Bank's corporate social responsibility. In 2013, cash donations were made to Suva Special Education School, Fiji Crippled Children's Society, Saint Christopher's Home, Dilkusha Orphanage, Fiji Disabled People's Association, Fiji Society for the Blind, Father Law Home and Home of Compassion.

To assist the community, part of the Bank's 40th anniversary budget was used to donate a fridge, microwave and kitchen items to the Intensive Care Unit of the Maternity Ward at the Colonial War Memorial Hospital. Used computers and new printers were also provided to selected schools, particularly for those in the rural areas.

Apart from formal donations, Team RBF also voluntarily contributes and participates in community projects. Some of the charitable projects undertaken by staff in 2013 included contributing cash to the Father Law Home to assist with capital projects, cash

donation to Save the Children's Fund, groceries for Saint Vincent House, sponsoring children for the Heart to HART (Housing Assistance and Relief Trust) youth camp, Christmas gifts to prisoners' children, lining floors with lino at Valelevu HART, children's book drives for schools and Leadership Fiji and providing chairs and a table to the New Wing and Maternity Ward of the Colonial War Memorial Hospital. During the Bank's Library Week staff 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. A major project was done in December where Bank staff donated groceries for each family and gifts for all children in the Vesida HART Village - a HART community that is least visited.

In 2013, Bank staff also participated in various business house sports events including the sports event organised by the Ministry of Finance for the Bainimarama Trophy.

Mission: Provide Proactive and Sound Advice to Government

The provision of policy advice to Government occurs in many forms. During 2013, 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 Macroeconomic Policy Committee (MPC) and its Technical Committees prepared projections on Fiji's GDP, trade and balance of payments. These projections are critical inputs to monetary policy formulation and other national policy decision making. The MPC is chaired by the Governor of the Reserve Bank and membership comprise officials from the Ministry of Finance, Ministry of Strategic Planning, National Development & Statistics, Ministry of Industry and Trade, Fiji Bureau of Statistics, Prime Minister's Office, FRCA, Investment Fiji and the Reserve Bank. During the year, there were two forecasting rounds, two MPC meetings, six Macroeconomic 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 2013. Information gathered from these meetings were used as a basis for forecasting national economic indicators, as well as providing advice to Government through the MPC reports and input to the National Budget submission.

In 2013, the Reserve Bank continued to be actively involved in many Committees of national interest. The Reserve Bank continued to participate in the Debt and Cashflow Policy Committee, which evaluates Government's financing needs. The Debt and Cashflow Policy Committee met four times in 2013.

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.

At the end of 2013, bonds with a total nominal value of \$2,930.3 million were recorded on the RBF registry compared to \$2,972.3 million at the end of 2012. The level of outstanding Government bonds rose by 0.5 percent to \$2,635.2 million in 2013 from \$2,622.1 million in 2012 while outstanding statutory corporation bonds fell by 15.7 percent to \$295.1 million over the year as bond redemptions exceeded issues.

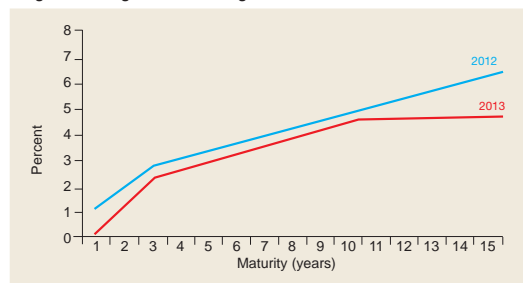
Outstanding Bonds in 2013 (\$ Million)

	Issued	Redeemed	Outstanding
Total Government	172.8	159.7	2,635.2
o/w Fiji Development Loan Bonds	-	159.7	2,270.3
o/w Fiji Infrastructure Bonds	166.0	-	355.3
o/w Viti Bonds	6.8	-	9.6
Fiji Development Bank	20.0	49.4	117.3
Fiji Electricity Authority	-	15.5	75.5
Housing Authority	5.0	15.2	69.8
Fiji Sugar Corporation	-	-	32.5
Total	197.8	239.8	2,930.3

Source: Reserve Bank of Fiji

Total registry payments amounted to \$595.1 million in 2013, a decline of 24.4 percent or \$191.7 million from the previous year. The notable decline was primarily due to lower Treasury Bills and Government bond redemptions in 2013 when compared to the previous year. Similarly, interest on Government bonds fell to \$207.1 million in 2013 from \$209.8 million in 2012 while redemption payments on statutory corporation bonds rose slightly in 2013 from the previous year.

Weighted Average Yields on Long Term Government Securities



Source: Reserve Bank of Fiji

Throughout 2013, yields on Government bonds declined across the maturity spectrum as the continued high financial system liquidity in combination with



Government's lower domestic funding needs led to downward pressure on rates.

Treasury Bills (\$ Million)

	2011	2012(r)	2013
Flotations	430.0	295.0	158.0
Allotments	413.8	308.0	138.5
Redemptions	418.1	266.7	148.3
Outstanding	71.1	112.4	102.6

Source: Reserve Bank of Fiji

There was a notable decline in the amount of Treasury Bills issued in 2013 with the Government opting to

meet its financing requirements through long term funding. During the year, gross issues of Treasury Bills decreased by 55.0 percent. The outstanding value of Treasury Bills at the end of the year fell to \$102.6 million as a result of net redemptions worth \$9.8 million. Similar to movements in Government bond yields, interest rates on Treasury Bills declined during the year due to ample liquidity in the financial system and continuous oversubscription of tenders. At the end of the 2013, Treasury Bills interest rates had declined by between 2 to 67 basis points.

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.

Financial Performance

Income

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

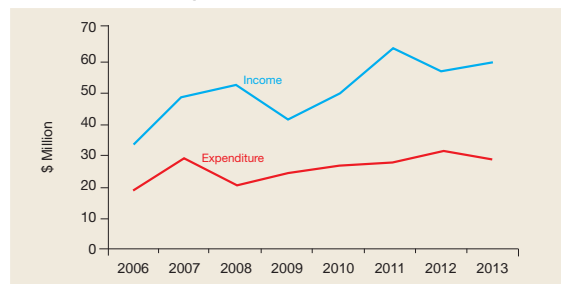
Reserve Bank of Fiji Foreign and Domestic Income (\$ Million)

	2010	2011	2012	2013
Foreign Interest Income	29.5	39.6	38.4	40.8
Domestic Interest Income	16.6	14.8	13.7	12.0
Other Income	2.3	5.8	4.6	7.0
Total	48.4	60.2	56.7	59.8

Source: Reserve Bank of Fiji

For the 2013 financial year, total income was recorded at \$59.8 million. The increase in foreign interest income was driven by the record high foreign reserves during the financial year, despite the declining global interest rates.

Total Income and Total Expenses



Source: Reserve Bank of Fiji

Expenditure

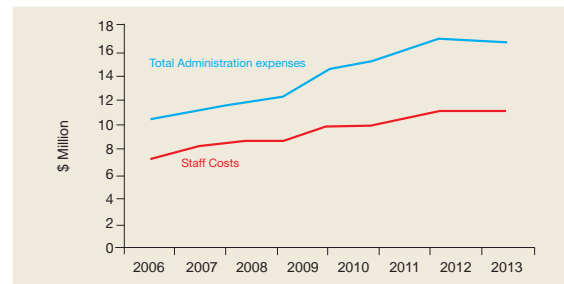
Total expenditure incurred in 2013 declined by 10.9 percent or \$3.4 million to \$27.9 million, from 2012. Administrative expenditure was \$16.7 million in 2013, a slight decrease of \$0.2 million from 2012.

Staff costs represent the single largest operating expenditure for the Reserve Bank accounting for over 40.0 percent of total operating costs.

The Reserve Bank incurred realisation losses of \$2.3 million on matured bonds during the financial year, an

increase from the prior year. However, the other expenses for the 2013 financial year were lower by 52.6 percent, a direct result of the currency write-off in the prior year.

Operating Expenses by Type

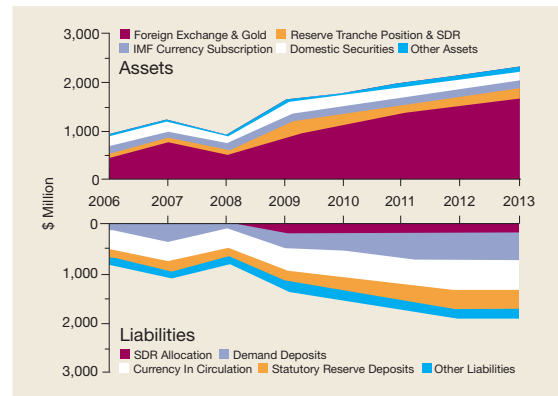


Source: Reserve Bank of Fiji

Assets and Liabilities

The Bank's total assets were \$2.2 billion at the end of 2013. Over the year, total assets rose by 7.9 percent led by higher foreign reserves holding. The increase in liabilities is mainly reflected in the buildup in bank liquidity and currency in circulation.

Composition of RBF's Balance Sheet



Source: Reserve Bank of Fiji

Operating Profit and Payment to Government

The operating profit for 2013 was \$31.9 million, compared to \$25.4 million in 2012. There was no transfer to the General Reserve Account in 2013. Therefore, as required under the RBF Act (1983), the total operating

profit will be transferred to the Government in April 2014.

The Act also requires the Reserve Bank to transfer one-fifth of the RRA balance to the Government. For 2013, this amounted to \$8.0 million. Consequently, the Bank will pay a total of \$39.9 million to Government for its 2013 operations, compared to the \$35.4 million paid in the previous year. The increase in the payment for 2013 is directly attributed to the increase in the Bank's profit.

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

	2010	2011	2012	2013
Operating Profit	21.5	34.5	25.4	31.9
Less				
Transfer to General Reserves	0.0	0.0	0.0	0.0
Balance Paid to Government	21.5	34.5	25.4	31.9
One-fifth of RRA	17.4	13.3	10.0	8.0
Total Paid to Government	38.9	47.8	35.4	39.9

Source: Reserve Bank of Fiji

Publications and Press Releases

Economic and financial information continued to be released by the Bank during the year through its major publications: the monthly Economic Reviews, Quarterly Reviews and Annual Reports. In 2013, the Reserve Bank also issued 41 press releases. The 2012 Bank, Insurance and FIU Annual Reports were also published in 2013. In addition, the Bank participated in the 2013 SPSE Annual Report Competition and the 2012 Annual Report was awarded first prize in the Statutory Authorities, Government Bodies and Unlisted Trusts category. A Student Diary for 2013 was produced and disseminated to schools.

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

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

Information Technology

The Bank continues to align its processes for delivery of IT Services with industry best practises and international standards. This includes IT strategy and planning, investment proposal preparation, information security,

business continuity, technological innovation and development projects.

The IT Strategic Plan for 2014-2018 was developed in 2013. The plan focuses on strengthening IT governance; risk management; safeguarding the corporate environment; maintaining a robust, reliable and adaptable enterprise infrastructure; creating and managing business continuity; leveraging technology and business process automation to increase organisational efficiency; promoting cost effective and green initiatives and developing and retaining an engaged team of professionals. Work on the development of the Governance and Risk Framework for IT also commenced.

During the year, work continued on implementing Information Technology Infrastructure Library Standards. The Bank also performed failover simulation tests between its primary site and the BRS.

Development work continued on the Central Database Project with the development of a number of inhouse applications to automate the Bank's critical processes and provide reliable and clean data while strengthening the business processes.

Records Management and Library

The Reserve Bank's Archives repository is located at the Bank's BRS and aligns with the requirements of good governance and the Public Records Act (Rev. 2006) for proper recording and preservation of all official records. The Bank uses the integrated Electronic Document Records Management System (EDRMS), for storing and retrieving indexed and digitised records. The Bank's EDRMS Project continued in 2013 and will be ongoing in 2014 and 2015.

Domestic Relations

During 2013, the Reserve Bank continued to engage and conduct presentations to different stakeholders across Fiji. These presentations focused on explaining the economic situation and rationale for monetary policy decisions.

Industry consultation with commercial banks, credit institutions, insurers, brokers and foreign exchange dealers continued in 2013. Industry meetings were held on a quarterly basis with the Association of Banks in Fiji, Finance Companies Association, Insurance Taskforce and the Association of Foreign Exchange Dealers. The Reserve Bank also conducted individual meetings with commercial banks, insurance companies and the FNPF. The Board and Executive Management visited and shared information



with stakeholders in Nadi, Lautoka and Ba and provided economic briefings to the business community.

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

International Relations

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

The Governor led the Fiji delegation to the Annual ADB and the IMF/World Bank meeting while senior officials attended annual meetings of South East Asian Central Banks (SEACEN) Board of Governors, SEACEN Executive Committee, SEACEN Directors of Supervision Meeting,

SEACEN Directors of Research and Training, SEACEN 30th anniversary seminars, IMF Pacific Financial Technical Assistance Centre (PFTAC)¹¹ Tripartite meeting and the South Pacific Governors' Meeting. The Governor was also visited by several foreign dignitaries. Reserve Bank officials also participated in a range of international conferences and workshops.

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 Bank also provided technical assistance to some South Pacific central banks and hosted attachments in general and specialised areas of central bank operations.

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

¹¹ The PFTAC office of the IMF is responsible for providing technical assistance and training to Pacific Island countries. It is a collaborative venture between the IMF, the recipient countries, and bilateral and multilateral donors.

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 2013, the Reserve Bank staff complement increased to 213 from 207 in 2012.

RBF Staff Statistics (31 December)

	2009	2010	2011	2012	2013
Total Staff	200	203	205	207	213
Average Years of Service	7.6	7.6	8.0	8.3	9.4
Annual Staff Turnover (%)	4.5	7.4	8.3	5.3	4.3

Source: Reserve Bank of Fiji

During the year, the Bank recruited 14 staff while seven staff resigned to take up alternative employment and one staff retired from service.

Management Remuneration in 2013

The approval of Executive Management's salaries 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 2013

	Total Fixed Remuneration ¹	Staff Numbers
i.	\$226,248	1
ii.	\$174,191	1
iii.	\$124,391*	6
iv.	\$75,603 - \$97,813	29

¹ 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.
 * A Chief Manager was seconded to the IMF in May 2013 for 2 years.

Source: Reserve Bank of Fiji

Staff Development

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

The Bank continued to sponsor staff for further academic qualifications through full-time, part-time, correspondence, short courses and seminars at local and overseas institutions. In 2013, three staff were on study leave with pay pursuing postgraduate studies abroad. In addition, 34 staff pursued part-time studies

at USP, Central Queensland University and Fiji National University (FNU) towards Masters, postgraduate, Degree and Diploma programs.

In 2013, 159 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, 88 staff attended various courses abroad that were organised by the IMF, SEACEN Training Centre, Bank Negara, ADB, Australia Asia-Pacific Economic Cooperation, APRA, Bank of Korea, Bank of England, RBA and the World Bank amongst others.

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

Employment Relations

The Bank implemented the new salary structure as a result of the 2013 PricewaterhouseCoopers Market Survey. The Salary Review Successor Agreement signed between the Bank and the Fiji Bank and Finance Sector Employees Union (FBFSEU) in 2011 will remain effective until 2014.

Labour Management Consultation and Cooperation

The Employment Relations Promulgation No. 36 of 2007 Section 9(3) requires the Bank to establish a Labour Management Consultation and Cooperation (LMCC) 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 three meetings held in 2013.

National Employment Centre

The Bank signed an agreement with National Employment Centre (NEC) in compliance with the NEC Decree (2009). 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 2013, 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 and monitored the performance of their teams.

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

The teams held 146 meetings during 2013, reviewed 376 processes and 175 processes were approved for implementation.

Health and Safety in the Workplace

The Bank is committed to providing and maintaining a safe and healthy working environment for its employees and visitors to the Bank's premises. The Bank continues to maintain the gymnasium provided to staff, in promoting staying fit and healthy. The Bank participated in various business house sporting events and also won two sports competitions in the 2013 Bainimarama Sports Tournament.

In 2013, the Reserve Bank's Occupational Health & Safety (OHS) Committee met four times. A total of 35 staff including management attended training on OHS related courses. A fire drill exercise was also coordinated under the guidance of officers from the National Fire Authority and the Bank's fire wardens. In accordance with the requirements of the Health & Safety at Work [General Workplace] Regulations 2003 copies of emergency response plans for each floor level were mounted on either side of the floor.

General Administration Services

The Bank coordinated the renewal of General Insurance Policies and Staff Insurance programs for 2014.

Property Management and Security

The Bank ensured that the main RBF Building, the Domodomo House and the BRS were well maintained during the year. Repairs and maintenance programs

were completed to ensure all systems were operating at efficient levels.

The contract for the RBF Building exterior refurbishment project was awarded in November 2013. The project involves removal of the granosite which is now wearing out after 29 years of protecting the building's exterior surface. The new exterior will provide the building with a new lease of life and the 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 was also maintained during the year.

Service Recognition

The Governor's Service Recognition and Long Service Loyalty Award, recognises dedicated long and meritorious service to the Bank. In 2013, four staff achieved 25 years of service milestones.

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

25 Years



Panapasa
Muaheahea



Theresa
Navuku



Rigamoto
Motufaga



Vereimi
Levula

Acknowledgement

The Board sincerely acknowledges the efforts and contribution of all staff in 2013.

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 of Fiji - 40 Years of Central Banking in Fiji

"Central bankers are just like other officials in the government of course; they are supposed to be politically colour-blind; they are not supposed to be involved in politics itself, but they should be aware of the political cross-currents and circuits that operate within the country. They should be aware of what motivates politicians. They should be allowed to present them with sound advice firmly with arguments for and against, and to project definite options. It is the prerogative of the government, of course, to accept or reject central bank advice, but it is its duty to present it firmly and fairly"

- Mr Savenaca Siwatibau¹

In July 2013, Fiji celebrated 40 years of central banking in the country. While many would see the notion of having a central bank as quite simple and ordinary, in reality it was a long and toilsome journey for Fiji. It was the culmination of years of gradual steps, some trial and error, a lot of assistance from multilateral organisations and above all the sheer determination, industriousness and foresight of the past Governments, Boards and staff of the Reserve Bank of Fiji and its predecessor institutions.

The story of the Reserve Bank stretches almost a century back to 1914 when the colonial Government took an important step in establishing the Currency Board with the sole right to issue notes and coins in the then Colony of Fiji. This function continues and, even today, the issue of currency is what the general public most commonly associates the Reserve Bank of Fiji with.

However, a central bank does much more than issue currency. As the Fijian economy developed, the Government realised the need for an organisation that went beyond the issuance of currency. Fiji's gaining of independence in 1970 further cemented the need for an institution not only to control the young nation's money, but also to supervise the banking sector and spearhead development through monetary policy.

This daunting challenge was handed over to the newly created Central Monetary Authority (CMA) in 1973 which was endowed with an enlarged role and with the aim to gradually evolve into a fully-fledged central bank. In the words of Mr David J Barnes, the first Chairman of the CMA, "the formation of the Central Monetary Authority came just when the reality of nationhood needed sudden maturity in a world that tended to qualify independence with interdependence." Therefore, the CMA supplemented the birth of a nation with a new and powerful avenue for nurturing development and maintaining independence in light of the heightened financial globalisation.

The CMA was tasked with regulating the issue of currency and the supply, availability and international exchange of money; promoting monetary stability; promoting a sound financial structure; and fostering credit and exchange conditions for the orderly and balanced economic development of the nation. Moreover, the CMA was also

appointed the banker and fiscal agent of the Government and was to provide advice on financial and economic matters. The CMA performed these roles for the next ten years until it metamorphosed into the Reserve Bank of Fiji in 1983 after the passing of the Reserve Bank of Fiji Act.

Change is of course inevitable and the Reserve Bank continues to evolve and over the course of the last 40 years has achieved many milestones and has continued to remain influential in Fiji's development. The Reserve Bank has endured political upheavals, accelerated globalisation, changing structure of the domestic and global economy, innovation in financial products and markets and dynamic technology amongst others, all of which have affected its policy stances and course of direction. However, despite the changes, the Reserve Bank has continuously strived to meet its objectives.

In its pioneering role of issuing currency, a number of changes and accomplishments have been made over the years. Fiji's first currency of Pound notes were issued in 1914 while the first coinage of pennies and shillings were issued in 1934 and later, in 1969, a year before independence, Fiji switched to decimal currency of dollars and cents. In 1995, a \$50 denomination banknote was introduced while the \$100 banknote was introduced in 2007. A historic overhaul of the notes and coins was made in 2012 when the portrait of Her Majesty Queen Elizabeth II was replaced with local flora and fauna designs. Another milestone was reached in 2013 when Fiji issued its first polymer note in the \$5 denomination. The changes over the years in Fiji's currency have resulted in cost savings, improved durability, enhanced security features and promotion of Fiji's biodiversity.

At the core of central banking is the formulation and implementation of monetary policy. In the initial days, monetary policy was implemented using direct controls, whereby limits were placed on commercial banks lending and the interest rates. Changes in the statutory reserve deposits were used to influence money and credit aggregates and ultimately inflation. However, from 1989 onwards the Reserve Bank switched to a market-based approach by using open market operations and its own securities, called RBF Notes, to conduct monetary policy.

¹ "Globalisation, Liberalisation and the Challenges for Small Island States", Reserve Bank of Fiji Seminar on the Occasion of 25th Anniversary Celebrations, July 1998.

Fiji's financial system has also undergone a significant transformation over the past 40 years. From gross assets of just over \$100 million in 1973, today the combined assets exceed \$13 billion. Apart from commercial banks and credit institutions, the Reserve Bank's supervision ambit was extended to include the insurance industry in 1981, the Fiji National Provident Fund in 2003 and capital markets in 2009. To ensure a sound and healthy financial system, the RBF implements international best practice policies in its prudential supervision.

Another key responsibility of the central bank is to manage the nation's foreign reserves. For a small open economy like Fiji, a comfortable level of foreign reserves gives confidence to investors and protects the value of the currency. On a number of occasions, the RBF has faced pressure as the level of reserves fell below what is considered as comfortable, thus requiring extreme responses. More recently, foreign reserves have been well above the normal benchmark of three months of import cover. At the end of 2013, Fiji's foreign reserves were around \$1.8 billion and are invested prudently within the three key objectives of safety, liquidity and profitability.

The Reserve Bank has now taken a much wider role in the development of the economy. Apart from the issue of currency, monetary policy and supervision of financial institutions, the Bank has taken new roles such as advocacy for financial inclusion & literacy, development of capital & financial markets and ensuring adequate protection and redress for consumers of financial services. The Bank also provides a number of facilities to support exports, import substitution, disaster rehabilitation and low cost housing.

The Reserve Bank family has also expanded over the years. From the seven local staff employed by the CMA in 1973, the RBF now employs 213 staff. In the initial days, the CMA was headed by General Managers seconded from the Bank of England, the first being Mr Ian Craik, followed by Mr R A Earland and Mr H J Tomkins. Mr Savenaca Siwatibau was appointed the first local General Manager in 1980 and eventually became the Governor of the Bank after the passing of the RBF Act in 1983. Other former Governors were Ratu Jone Kubuabola, Mr Savenaca Narube and Mr Sada Reddy. The current Governor is Mr Barry Whiteside.

As the Bank gained expertise in central banking over the years it started to share this knowledge and skills with fellow central bankers in the Pacific. It is also extremely proud of its current and former staff being recognised both locally and in the region for the expertise they have built up over the years. There are former staff who are consultants with regional, multilateral and international organisations, while some hold senior positions in Government, statutory bodies and financial institutions.

The initial operations of the CMA were based at the Young Women's Christian Association building in Sukuna Park and later in Dominion House which is the current BSP Life Centre building. In 1984, the Bank's operations were shifted to the newly constructed headquarters building in Pratt Street, Suva. The building is now undergoing its first external renovation in 30 years, a renovation which will keep the original architectural lines and hopefully add beauty to the changing Suva skyline. To better manage risk, the Bank also completed a Business Resumption Site in 2010 in Tamavua, as a backup for critical functions in case the main building becomes inaccessible.

While the Reserve Bank is not meant to be a profit-oriented organisation, it has nonetheless been prudent in its operations. Over the last 40 years, the Bank has transferred profits in excess of \$500 million to the Fijian Government, its only shareholder.

The Bank launched its 40th anniversary celebrations with a morning tea for present and former staff in July 2013 to reminisce over the past four decades. Other small events were planned throughout the year and will continue up until July 2014.

Past General Managers and Governors

Mr I A Craik
General Manager (1973 - 1974)

Mr R A Earland
General Manager (1974 - 1977)

Mr H J Tomkins
General Manager (1977 - 1980)



Mr Savenaca Siwatibau
General Manager (1980 - 1983)
Governor (1983 - 1988)



Ratu Jone Kubuabola
Governor (1988 - 2000)



Mr Savenaca Narube
Governor (2000 - 2009)



Mr Sada Reddy
Governor (2009 - 2010)

The Year Ahead

The Reserve Bank will continue to focus on fulfilling its core responsibilities in 2014. Listed below are priority areas where special effort will be focused.

Strategic Direction and Alliances

The Bank will implement its Strategic Plan 2014-2018 and ensure that the FIU, IT and HR Strategic Plans for the same period are linked.

The Bank will enhance its alliance with strategic partners and institutions/organisations abroad and locally. It will host some international meetings in Fiji to promote the country and the work of the Bank.

Legislations

The review of the Reserve Bank Act (1983) and the Reserve Bank of Fiji Amendment Decree (2009) will continue in 2014. Further evaluation will continue to ensure the proposed legislation is in line with international best practices.

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

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

The drafting of the Superannuation Supervision Decree will proceed in 2014.

The draft Payment Systems Decree has been completed with input from all stakeholders and will be tabled in Cabinet after vetting by the Solicitor General's Office.

Monetary Policy

The Reserve Bank will continue to implement appropriate monetary policy to safeguard its twin objectives of maintaining low inflation and ensuring an adequate level of foreign reserves.

The Bank will also focus on supporting investment and economic growth, in addition to its conventional monetary policy goals.

Currency

The Reserve Bank will continue to monitor its currency stock position to ensure adequate stocks of currency

are held to meet demand. A new \$2 coin will be issued into circulation in August 2014 to address accelerated tarnishing and confusion with the \$1 coin.

Enhanced Supervision

Our regulation and supervision practises will be further strengthened in 2014, with planned reviews and development of supervisory policies for the supervised industries and the boosting of micro and macroprudential supervision.

The FPNP's reforms will remain under close monitoring.

Financial Sector Developments

The Reserve Bank will continue its work towards the development of Fiji's financial system and the industries that provide financial services.

The promotion of financial inclusion, financial literacy, customer protection and redress, efficiency and safety of the payment systems will be paramount in all its developmental work. Consultation with Government and industry stakeholders will also be an integral part of the development work.

The Bank will seek the approval of Government for the Capital Markets Development Master Plan 2020 in early 2014.

Corporate Services Enhancements

In 2014, major refurbishment work will be carried out on the exterior of the RBF Building to enhance the appearance of the building.

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

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

RESERVE BANK OF FIJI
Financial Statements
For the year ended 31 December 2013

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The Directors present their report together with the financial statements of the Reserve Bank of Fiji (“the Bank”) for the year ended 31 December 2013 and the auditors’ report thereon.

Directors

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

Barry Whiteside (Chairman and Governor)
Iowane Naiveli
Filimone Waqabaca (Ex-officio member)
Robin Yarrow
Adish Narayan (up to 2 August 2013)
Deo Saran
Esther Williams (appointment gazetted on 12 April 2013)
Mahendra Reddy (appointment gazetted on 6 December 2013)

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 nor otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2013 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Bank for the year then ended.

Principal activities

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

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

Trading results

The net profit of the Bank for the year ended 31 December 2013 was \$31.9m (2012: \$25.4m).

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 2013, the value of the External reserves was 92% (2012: 92%) of total Demand liabilities.

Payable to the Fijian Government

In accordance with the Reserve Bank of Fiji Act, 1983, the following amounts totalling \$39.9m (2012: \$35.4m) are payable to the Fijian Government:

Section 8(3): Net profit after transfer to General reserves - \$31.9m (2012: \$25.4m)

Section 34: One-fifth balance of Revaluation reserve account - foreign currency - \$8.0m (2012: \$10.0m)

Bad and doubtful debt

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

At the date of this report, the Directors are not aware of any circumstances which would render the amount

written off for bad debts, or the amount of the provisions for doubtful debts, inadequate to any substantial extent.

Provisions

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

Assets

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

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

Directors' benefit

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

Significant events

On 2 January 2013, the Bank put into circulation the new flora and fauna design series notes and coins. The new design replaced the portrait of Her Majesty Queen Elizabeth II across all denominations. The Bank also ceased issuance of the \$5 old design note from 2 April 2013. The Bank put into circulation the new \$2 coin on 2 January 2013 and the new \$5 polymer note on 2 April 2013. On 31 December 2013, the Bank ceased issuance of all the old design notes.

Events subsequent to balance date

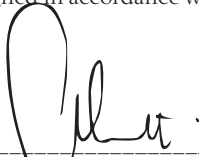
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Bank, to affect significantly the operations of the Bank, the results of those operations,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

Other circumstances

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

Dated at Suva this.....^{28th}.....of March 2014.

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



Barry Whiteside
Chairman of the Board and Governor



Iowane Naiveli
Director

Statement by Directors


For the year ended 31 December 2013

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 2013;
- (b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2013;
- (c) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2013;
- (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 2013;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank, and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") except as noted in Note 2(a) to the financial statements. In accordance with the provisions of Section 34 of the Reserve Bank of Fiji Act, 1983, exchange gains and losses are credited or charged directly to the Revaluation reserve account - foreign currency and are not included in the computation of annual profits or losses of the Bank. This is at variance with International Accounting Standard 21 ("IAS 21") "Effects of Changes in Foreign Exchange Rates" which requires that exchange gains and losses be credited or charged to profit or loss.

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

For and on behalf of the Board of Directors by authority of a resolution of the Directors this...~~28th~~...of March 2014.



Barry Whiteside
Chairman of the Board and Governor



Iowane Naiveli
Director



INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF RESERVE BANK OF FIJI

Report on the Financial Statements

We have audited the accompanying financial statements of the Reserve Bank of Fiji, which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and Notes 1 to 25 comprising of a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2(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 decreased by \$0.2m in respect of the year ended 31 December 2013, being the net exchange gains credited to that account of \$0.2m offset by a decrease of \$0.04m in amount payable to the Fijian Government. The net profit for the year would have been increased by \$0.2m to \$32.0m, being as a result of the exchange gain 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 2013, 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
28th March, 2014


KPMG
Chartered Accountants

Statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 \$000	2012 \$000
Income			
Interest income	4(a)	53,953	52,994
Other revenue	4(b)	5,819	3,715
Total income		59,772	56,709
Expenses			
Interest expense	4(c)	2,815	1,498
Amortisation of securities	6	202	419
Administration expenses	4(d)	16,716	16,945
Net losses on realisation of securities		2,304	61
Other expenses	4(e)	5,886	12,419
Total expenses		27,923	31,342
Net profit	13	31,849	25,367
Other comprehensive losses			
Fair value (losses)/gains		(1,855)	765
Net gains/(losses) arising from translation of currency balances to Fijian currency		193	(3,104)
Total other comprehensive losses		(1,662)	(2,339)
Total comprehensive income		30,187	23,028

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 59 to 80.

Statement of changes in equity

For the year ended 31 December 2013

	Paid-up capital \$000	General reserves \$000	Revaluation reserve account-foreign currency \$000	Available-for-sale reserve \$000	Asset revaluation reserve \$000	Retained earnings \$000	Total \$000
Balance at 1 January 2012	2,000	39,050	53,011	15,581	7,990	-	117,632
Total comprehensive income for the year							
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)
Total comprehensive income for the year	-	-	(3,104)	765	-	25,367	23,028
	2,000	39,050	49,907	16,346	7,990	25,367	140,660
<i>Transactions with owners, recorded directly in equity</i>							
Payable to the Fijian Government (Note 13)	-	-	(9,981)	-	-	(25,367)	(35,348)
Balance at 31 December 2012	2,000	39,050	39,926	16,346	7,990	-	105,312

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 59 to 80.

Statement of changes in equity - continued

For the year ended 31 December 2013

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

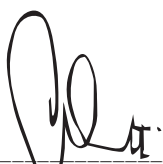
The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 59 to 80.

Statement of financial position

As at 31 December 2013

	Note	2013 \$000	2012 \$000
Foreign currency assets			
Short-term commercial paper and current accounts	5	879,819	951,805
Marketable securities	5	698,733	495,413
Gold	5	1,905	2,469
Accrued interest		9,653	6,628
International Monetary Fund			
- Reserve tranche position	5/19	48,333	45,290
- Special drawing rights	5/19	149,303	140,544
- PRGF - HIPC Trust	19	567	534
- Currency subscription	19	157,137	148,115
Total foreign currency assets		1,945,450	1,790,798
Local currency assets			
Cash on hand	16	2,660	1,693
Domestic securities	6	125,566	149,564
Financing facilities	7	77,267	44,837
Currency inventory	8	22,578	24,472
Other assets	9	5,079	5,126
Intangible assets	10	608	798
Property, plant and equipment	11	21,157	22,109
Total local currency assets		254,915	248,599
Total assets		2,200,365	2,039,397
Foreign currency liabilities			
Demand deposits	12	141	165
IMF - PRGF- HIPC Trust	19	567	534
IMF - Special drawing rights allocation	19	196,101	184,595
Total foreign currency liabilities		196,809	185,294
Local currency liabilities			
Demand deposits	12	633,066	576,593
Payable to the Fijian Government	13	39,873	35,348
Currency in circulation	14	572,825	558,791
Statutory reserve deposits		496,992	419,320
IMF - Notes currency subscription		156,840	147,913
Other liabilities	15	8,334	10,826
Total local currency liabilities		1,907,930	1,748,791
Total liabilities		2,104,739	1,934,085
Net assets		95,626	105,312
Capital and reserves			
Paid-up capital	17	2,000	2,000
General reserve	18	39,050	39,050
Revaluation reserve account - foreign currency	18	32,095	39,926
Available-for-sale reserve	18	14,491	16,346
Asset revaluation reserve	18	7,990	7,990
		95,626	105,312

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



Barry Whiteside
Chairman of the Board and 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 59 to 80.

Statement of cash flows

For the year ended 31 December 2013

	Note	2013 \$000	2012 \$000
Operating activities			
Rental lease income		347	383
Numismatic sales		2,272	1,018
Interest received and securities trading income		48,741	51,111
Other income		3,255	2,353
Interest paid		(2,814)	(1,498)
New currency payments		(1,856)	(20,481)
Administration and other expenses		(19,421)	(10,238)
Net movement of domestic securities		21,939	17,471
Net movement in short-term commercial paper		(60,467)	(53,703)
Net movement in fixed deposit accounts		(128,849)	(45,449)
Net movement in International Monetary Fund accounts		(310)	(129)
Net movement in other receivables		(32,603)	(18,774)
Cash flows (used in) operating activities		(169,766)	(77,936)
Investing activities			
Purchase of property, plant and equipment and intangibles		(838)	(1,298)
Net movement of bonds		(74,471)	(92,669)
Net movement in gold		564	(146)
Cash flows (used in) investing activities		(74,745)	(94,113)
Financing activities			
Net movement in currency in circulation		14,034	61,799
Net movement in demand deposits		56,473	59,260
Net movement in statutory reserve deposits		77,672	33,166
Payment to the Fijian Government		(35,348)	(47,790)
Cash flows from financing activities		112,831	106,435
Net effect of exchange rate		194	(3,104)
Net (decrease) in cash		(131,486)	(68,718)
Cash at the beginning of the financial year		510,496	579,214
Cash at the end of the financial year	16	379,010	510,496

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 59 to 80.

Notes to and forming part of the financial statements

For the year ended 31 December 2013

1. Principal activities and principal place of operations

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

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

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

2. Statement of significant accounting policies and statutory requirements

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

(a) Statement of compliance

The financial statements have been prepared in accordance with the provisions of the Reserve Bank of Fiji Act, 1983, IFRS except as detailed below.

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

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

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

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

(b) Basis of preparation

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

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

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

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

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

(b) Basis of preparation - continued

New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 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 (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together IFRS 9)

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

IFRS 9 is effective for annual periods beginning on or after 1 January 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.

(c) Foreign currency transaction

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

(d) Functional currency

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

(e) Financial assets and liabilities

Investment securities

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

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

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

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.

Notes to and forming part of the financial statements

For the year ended 31 December 2013

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

(e) Financial assets and liabilities - continued

Investment securities - continued

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

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.

(h) Cash and cash equivalents

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

(i) Currency inventory

Currency inventory relates to notes and coins purchased for circulation and include the new 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 and adjustments for write-offs relating to superseded design notes and coins.

(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.

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

(j) Loans and advances - continued

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

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

(k) Demand deposits

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

(l) Currency in circulation

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

(m) Property, plant and equipment

Recognition and measurement

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:

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.

Notes to and forming part of the financial statements

For the year ended 31 December 2013

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

(o) Statutory reserve deposit - continued

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 are measured on an undiscounted basis and are expensed as the related service is provided.

Other long-term employee benefits

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

(r) Income tax

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

(s) Revenue recognition

Interest income

Interest income is brought to account on an accruals basis.

Income from Available-for-sale securities

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

(t) Operating leases

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

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

Notes to and forming part of the financial statements

For the year ended 31 December 2013

3. Critical accounting estimates and judgements - continued

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

	2013 \$000	2012 \$000
(a) Interest income		
Overseas investments	40,656	38,148
International Monetary Fund	104	218
Domestic securities	12,040	13,742
Loans and advances	1,153	886
	53,953	52,994
(b) Other revenue		
Rent received	347	383
Numismatic sales	2,272	1,018
License and application fees	309	285
Foreign currency trading gains	2,692	1,814
Other miscellaneous income	199	215
	5,819	3,715
(c) Interest expense		
International Monetary Fund	139	231
Other	2,676	1,267
	2,815	1,498
(d) Administration expenses		
Staff costs	11,190	11,138
Other costs	5,526	5,807
	16,716	16,945
	2013	2012
Total number of employees at year end	213	207

Notes to and forming part of the financial statements

For the year ended 31 December 2013

4. Revenue and expenses - continued

	2013 \$000	2012 \$000
(e) Other expenses		
Depreciation	1,680	1,625
Amortisation of intangible assets	244	278
Auditors' remuneration		
- Audit fees	57	68
- Accounting services	28	30
- Other services	7	22
Board remuneration	45	31
Currency issue	3,750	4,566
Write-off of old design currency inventory	-	5,499
Numismatic	75	300
	5,886	12,419

5. External reserves

	2013 \$000	2012 \$000
Short-term commercial paper	769,823	769,324
Current accounts	109,996	182,481
	879,819	951,805
Marketable securities		
- Fixed term deposits	453,994	325,145
- Bonds	244,739	170,268
	698,733	495,413
Gold	1,905	2,469
International Monetary Fund		
- Reserve tranche position	48,333	45,290
- Special drawing rights	149,303	140,544
	197,636	185,834
Total External reserves	1,778,093	1,635,521

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 2013, the value of the External reserves was 92% (2012: 92%) of total Demand Liabilities.

6. Domestic securities

During the year, \$1.9m (2012: \$2.1m) was amortised in respect of securities held in the Domestic Bond Portfolio, of which \$0.2m (2012: \$0.4m) was recognised in the profit or loss and \$1.7m (2012: \$1.7m) was transferred to the Available-for-sale reserve.

	2013 \$000	2012 \$000
<i>Movement of Held-to-maturity financial assets</i>		
Opening balance at 1 January	149,564	169,215
Acquisitions	59	24
Redemptions	(22,195)	(17,514)
Amortisation	(202)	(419)
Transfer to Available-for-sale reserve	(1,660)	(1,742)
Closing balance as 31 December	125,566	149,564

Notes to and forming part of the financial statements

For the year ended 31 December 2013

7. Financing facilities	2013 \$000	2012 \$000
Import substitution and export financing facility	51,595	30,342
Natural disaster rehabilitation facility	15,672	14,495
Housing facility	10,000	-
	77,267	44,837
<p>During the year, the interest that was charged on these loans was reduced to 1% (2012: 2%). These facilities have varying maturities up to 5 years.</p>		
8. Currency inventory	2013 \$000	2012 \$000
<i>Movement of currency inventory</i>		
Opening balance at 1 January	24,472	14,056
Consignments received	1,856	20,481
Currency issued	(3,750)	(4,566)
Write-off of old design currency inventory	-	(5,499)
Closing balance at 31 December	22,578	24,472
9. Other assets	2013 \$000	2012 \$000
Accrued interest	3,267	3,287
Prepayments and other receivables	765	597
Staff loans and advances	1,077	1,259
Allowance for doubtful debts on staff loans and advances	(2)	(2)
Allowance for doubtful debts on other receivables	(28)	(15)
	5,079	5,126
10. Intangible assets	2013 \$000	2012 \$000
<i>Cost</i>		
Balance at 1 January	4,586	4,368
Acquisitions	39	66
Transfers from work in progress	15	152
Balance at 31 December	4,640	4,586
<i>Accumulated amortisation</i>		
Balance at 1 January	3,788	3,510
Amortisation charge for the year	244	278
Balance at 31 December	4,032	3,788
<i>Carrying amount</i>		
At 1 January	798	858
At 31 December	608	798

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

Notes to and forming part of the financial statements

For the year ended 31 December 2013

11. Property, plant and equipment

	Freehold land and buildings	Improvements	Motor vehicles	Computers and equipment	Plant & machinery, equipment & furniture & fittings	Work in progress	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost/Valuation							
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
Balance at 1 January 2013	21,345	3,775	340	2,398	4,633	683	33,174
Additions	-	4	-	197	-	598	799
Transfers	-	61	-	112	147	(335)	(15)
Disposals	-	(4)	-	(172)	(46)	(53)	(275)
Balance at 31 December 2013	21,345	3,836	340	2,535	4,734	893	33,683
Accumulated depreciation							
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
Balance at 1 January 2013	2,727	2,934	154	1,637	3,613	-	11,065
Depreciation for the year	711	245	55	351	318	-	1,680
Depreciation on disposals	-	(4)	-	(169)	(46)	-	(219)
Balance at 31 December 2013	3,438	3,175	209	1,819	3,885	-	12,526
Carrying amount							
Balance at 1 January 2012	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
Balance at 31 December 2013	17,907	661	131	716	849	893	21,157

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

12. Demand deposits

	2013 \$000	2012 \$000
Foreign		
International Monetary Fund	141	165
Local		
Banks' exchange settlement balances	598,296	573,974
Fijian Government	32,434	989
State NBF Trust account	1,250	940
International Monetary Fund	296	193
Other depositors	790	497
	633,066	576,593

State NBF Trust Account

In accordance with an agreement dated 12 September 1996 between the Fijian Government, the Reserve Bank of Fiji and NBF Asset Management Bank ('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.

Notes to and forming part of the financial statements

For the year ended 31 December 2013

13. Payable to the Fijian Government	2013 \$000	2012 \$000
Net profit	31,849	25,367
One-fifth balance of 'Revaluation reserve account - foreign currency'	8,024	9,981
	<u>39,873</u>	<u>35,348</u>

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

14. Currency in circulation	2013 \$000	2012 \$000
Notes	529,281	524,332
Coins	43,544	34,459
	<u>572,825</u>	<u>558,791</u>

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 and demonetised currency that have yet to be redeemed, less notes and coins redeemed.

15. Other liabilities	2013 \$000	2012 \$000
Current		
Employee entitlements	1,012	1,048
Other liabilities	7,322	9,778
	<u>8,334</u>	<u>10,826</u>
Movements in employee entitlements:		
Balance at 1 January	1,048	924
Net movement during the year	(36)	124
Balance at 31 December	<u>1,012</u>	<u>1,048</u>

16. Cash and cash equivalents	2013 \$000	2012 \$000
Cash on hand - local currency	2,660	1,693
Cash and cash equivalents - foreign currency	376,350	508,803
	<u>379,010</u>	<u>510,496</u>

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

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

17. Share capital	2013 \$000	2012 \$000
Authorised capital	5,000	5,000
Issued and paid-up capital	<u>2,000</u>	<u>2,000</u>

Notes to and forming part of the financial statements

For the year ended 31 December 2013

18. Reserves

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

General reserve

The General reserve 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(a)).

Asset revaluation reserve

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

19. International Monetary Fund

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

As at 31 December 2013, the Republic of Fiji's membership subscription to the International Monetary Fund was \$205.4m (2012: \$193.4m). Of this amount \$48.3m (2012: \$45.3m) is shown as Reserve Tranche Position and is included as part of the External reserves of the Reserve Bank (refer Note 5) and the balance representing the local Currency subscription portion of \$157.1m (2012: \$148.1m) is held mainly in the form of 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 \$149.3m (2012: \$140.5m) 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 \$196.1m (2012: \$184.6m) is included under foreign currency liabilities.

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

20. Financial risk 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.

20. Financial risk and management policies - continued

a) Introduction and overview - continued

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.

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 the 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 2013, the value of External Reserves was 92% (2012: 92%) of the total Demand liabilities.

Notes to and forming part of the financial statements

For the year ended 31 December 2013

20. Financial risk management policies - continued

b) Liquidity risk - continued

Maturity analysis as at 31 December 2013

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

	0 - 3 Months \$000	3 - 12 Months \$000	1 - 5 Years \$000	Over 5 Years \$000	No Specific Maturity \$000	Total \$000
Foreign currency assets						
Short-term commercial paper and current accounts	376,350	503,469	-	-	-	879,819
Marketable securities	179,568	398,383	120,782	-	-	698,733
Gold	1,905	-	-	-	-	1,905
Accrued interest	9,653	-	-	-	-	9,653
IMF - Reserve tranche position	48,333	-	-	-	-	48,333
- Special drawing rights	149,303	-	-	-	-	149,303
- PRGF - HIPC Trust	-	-	567	-	-	567
- Currency subscription	157,137	-	-	-	-	157,137
	922,249	901,852	121,349	-	-	1,945,450
Local currency assets						
Cash on hand	2,660	-	-	-	-	2,660
Domestic securities	300	27,556	15,877	81,833	-	125,566
Financing facilities	-	683	76,584	-	-	77,267
Currency inventory	22,578	-	-	-	-	22,578
Other assets	5,079	-	-	-	-	5,079
Intangibles	-	-	-	-	608	608
Property, plant & equipment	-	-	-	-	21,157	21,157
	30,617	28,239	92,461	81,833	21,765	254,915
Total assets	952,866	930,091	213,810	81,833	21,765	2,200,365
Foreign currency liabilities						
Demand deposits	141	-	-	-	-	141
IMF - PRGF - HIPC Trust	-	-	567	-	-	567
IMF - Special drawing rights allocation	-	-	-	-	196,101	196,101
	141	-	567	-	196,101	196,809
Local currency liabilities						
Demand deposits	633,066	-	-	-	-	633,066
Payable to the Fijian Government	39,873	-	-	-	-	39,873
Currency in circulation	-	-	-	-	572,825	572,825
Statutory reserve deposit	-	-	-	-	496,992	496,992
IMF - Notes currency subscription	-	-	-	-	156,840	156,840
Other liabilities	7,127	-	547	660	-	8,334
	680,066	-	547	660	1,226,657	1,907,930
Total liabilities	680,207	-	1,114	660	1,422,758	2,104,739
Net assets	272,659	930,091	212,696	81,173	(1,400,993)	95,626

Notes to and forming part of the financial statements

For the year ended 31 December 2013

20. Financial risk management policies - continued

b) Liquidity risk - continued

Maturity analysis as at 31 December 2012

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

	0 - 3 Months \$000	3 - 12 Months \$000	1 - 5 Years \$000	Over 5 Years \$000	No Specific Maturity \$000	Total \$000
Foreign currency assets						
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
Local currency assets						
Cash on hand	1,693	-	-	-	-	1,693
Domestic securities	1,002	21,294	42,845	84,423	-	149,564
Financing facilities	1,822	377	42,638	-	-	44,837
Currency inventory	24,472	-	-	-	-	24,472
Other assets	5,126	-	-	-	-	5,126
Intangibles	-	-	-	-	798	798
Property, plant & equipment	-	-	-	-	22,109	22,109
	34,115	21,671	85,483	84,423	22,907	248,599
Total assets	1,040,443	733,570	157,520	84,957	22,907	2,039,397
Foreign currency liabilities						
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
Local currency liabilities						
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
Total liabilities	621,884	-	486	1,096	1,310,619	1,934,085
Net assets	418,559	733,570	157,034	83,861	(1,287,712)	105,312

Notes to and forming part of the financial statements

For the year ended 31 December 2013

20. Financial risk management policies - continued

c) Credit risk

Credit risk relates to the risk of loss to the Bank from the failure of a 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:

	2013 \$000	2012 \$000
Foreign currency assets		
Short-term commercial paper and current accounts	879,819	951,805
Marketable securities	698,733	495,413
International Monetary Fund	355,340	334,483
	1,933,892	1,781,701
Local currency assets		
Domestic securities	125,566	149,564
Staff loans and advances	1,077	1,259
	126,643	150,823
	2,060,535	1,932,524

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

	2013		2012	
	\$000	%	\$000	%
Concentration by currency				
USD	529,157	26	432,589	23
YEN	52,861	2	62,897	3
EURO	80,883	4	100,880	5
AUD	553,767	27	508,677	26
NZD	361,884	18	342,175	18
SDR	355,340	17	334,483	17
FJD	126,643	6	150,823	8
Total financial assets	2,060,535	100	1,932,524	100

	2013		2012	
	\$000	%	\$000	%
Concentration by sector				
Foreign currency assets				
Central banks	83,845	4	159,347	9
Commercial banks	1,233,366	64	895,546	50
Government	78,442	4	221,215	12
Semi Government	8,442	1	108,643	6
Supranational	139,908	7	62,467	4
International Monetary Fund	355,340	18	334,483	19
Others	34,549	2	-	-
	1,933,892	100	1,781,701	100

Notes to and forming part of the financial statements

For the year ended 31 December 2013

20. Financial risk management policies - continued

c) Credit risk - continued

	2013		2012	
	\$000	%	\$000	%
Local currency assets				
Government and statutory bodies	125,566	99	149,564	99
Staff loans and advances	1,077	1	1,259	1
	126,643	100	150,823	100
Total financial assets	2,060,535		1,932,524	

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:

	2013		2012	
	\$000	%	\$000	%
Summary by major credit category				
<i>Foreign currency financial asset by major credit category:</i>				
Aaa	143,177	7	121,007	7
Aa1	22,186	1	91,019	5
Aa2	-	-	108,843	6
Aa3	591,073	31	597,653	34
A1	309,102	16	129,117	7
A2	309,756	16	126,291	7
International Monetary Fund	355,340	18	334,483	19
Others and Not rated	203,258	11	273,288	15
	1,933,892	100	1,781,701	100
<i>Local currency financial asset by major credit category:</i>				
Others	126,643	100	150,823	100
Total financial assets	2,060,535	100	1,932,524	100

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

d) Market risks

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

Interest rate risk management

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

Notes to and forming part of the financial statements

For the year ended 31 December 2013

20. Financial risk management policies - continued

d) Market risks - continued

Foreign exchange risk management

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

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

Notional carrying amounts as at 31 December 2013

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

Notional carrying amounts as at 31 December 2012

	USD \$000	YEN \$000	STG \$000	EURO \$000	AUD \$000	NZD \$000	SDR \$000
<i>Foreign currency assets</i>							
Short-term commercial paper and current account	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
Total foreign currency assets	244,468	3,021,590	55	42,647	275,022	235,571	121,641
<i>Foreign currency liabilities</i>							
Demand deposits	-	-	-	-	-	-	(60)
IMF - PRGF - HIPC Trust	-	-	-	-	-	-	(194)
IMF - Special drawing rights allocation	-	-	-	-	-	-	(67,094)
Total foreign currency liabilities	-	-	-	-	-	-	(67,348)
Carrying amount	244,468	3,021,590	55	42,647	275,022	235,571	54,293

Notes to and forming part of the financial statements

For the year ended 31 December 2013

20. Financial risk management policies - continued

d) Market risks - continued

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

Reporting date spot rate

	2013	2012
USD	0.5269	0.5595
YEN	55.38	48.04
STG	0.3190	0.3461
EURO	0.3818	0.4233
AUD	0.5912	0.5398
NZD	0.6422	0.6825
SDR	0.3421	0.3640

Sensitivity analysis for exchange rate

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

31 December	2013 \$000	2012 \$000
USD	53,315	43,259
YEN	5,286	6,290
STG	-	16
EURO	8,088	10,072
AUD	55,633	50,868
NZD	36,637	34,217
SDR	15,853	33,401
	174,812	178,123

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

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.

Notes to and forming part of the financial statements

For the year ended 31 December 2013

21. Fair values of financial assets and liabilities

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted market values represent fair value when a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader.

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

External reserves

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

Domestic securities

The fair value of the Bank's Domestic securities is \$157.7m (2012: \$176.5m), based on quoted market prices.

Statutory reserve deposits

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

Demand deposits

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

Currency in circulation

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

Other financial assets and liabilities

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

Valuation of financial instruments

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

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

Notes to and forming part of the financial statements

For the year ended 31 December 2013

21. Fair values of financial assets and liabilities - continued

Valuation of financial instruments - continued

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

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
31 December 2013				
<i>Foreign currency assets</i>				
Available-for-sale financial assets at quoted market price	166,296	-	-	166,296
Fijian Government bonds	-	78,442	-	78,442
	166,296	78,442	-	244,738
31 December 2012				
<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

During the financial period ended 31 December 2013, there were no transfers in and out of the fair value hierarchy levels mentioned above.

Sensitivity analysis

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

Effect on equity

	2013 \$000	2012 \$000
USD	7,131	8,017
EURO	-	644
AUD	12,804	6,148
NZD	2,097	668
	22,032	15,477

22. Related parties

Identity of related parties

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

The Board of Directors during the year were:
 Barry Whiteside (Chairman and Governor)
 Iowane Naiveli
 Filimone Waqabaca (Ex-officio member)
 Robin Yarrow
 Adish Narayan (up to 2 August 2013)
 Deo Saran
 Esther Williams (appointment gazetted on 12 April 2013)
 Mahendra Reddy (appointment gazetted on 6 December 2013)

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

Notes to and forming part of the financial statements

For the year ended 31 December 2013

22. Related parties - continued

Identity of related parties - continued

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

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

Barry Whiteside	Governor
Inia Naiyaga	Deputy Governor
Lorraine Seeto	Advisor to the Governors
Ariff Ali	Chief Manager Financial Markets from 1 January 2013 to 12 April 2013: Chief Manager Economics from 15 April 2013 to 31 December 2013
Esala Masitabua	Chief Manager Financial Institutions from 1 January 2013 to 12 April 2013: Chief Manager Financial Markets from 15 April 2013 to 31 December 2013
Razim Buksh	Director Financial Intelligence Unit
Caroline Waqabaca	Chief Manager Economics from 1 January 2013 to 12 April 2013: seconded to IMF
Susan Kumar	Chief Manager Currency and Corporate Services
Veremi Levula	Chief Manager Financial System Development and Compliance
Vilimaina Dakai	Acting Chief Manager Financial Institutions from 15 April 2013 to 31 December 2013
Subrina Hanif	Board Secretary

Transactions with related parties

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

The transactions with the Fijian Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received \$16.9m (2012: \$18.3m) of interest income relating to their investments in Government securities. The Bank also paid \$35.4m (2012: \$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 \$181.3m (2012: \$214.7m).

The Bank also provides an overnight standby facility to the Fijian Government. At year end, the approved facility of \$20m (2012: \$20m) was not utilised.

During the year, the Bank received \$0.1m (2012: \$0.1m) of rental income from NBF Asset Management Bank.

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:

	2013 \$000	2012 \$000
Board remuneration expenses	45	31
Short-term employee benefits	1,315	1,461
Long-term employee benefits	220	195
	1,580	1,687

Notes to and forming part of the financial statements

For the year ended 31 December 2013

23. Commitments

Commitments not otherwise provided for in the financial statements and which existed at 31 December 2013 comprise:

	2013 \$000	2012 \$000
Foreign exchange transactions:		
- Sales	16,015	9,665
- Purchases	8,627	25,000
Capital commitments		
- Reserve Bank building façade	6,180	-
- Other assets	9	70

The Bank has commenced major renovations to the external façade of its Pratt Street building. The project is expected to be completed towards the end of 2014.

24. Lease receivable

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

	2013 \$000	2012 \$000
Receivable not later than one year	342	369
Receivable later than one year but not later than five years	263	589
	605	958

25. Events subsequent to balance date

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

Selected Events in 2013

02 Jan.	New Banknotes and Coins (except \$5 polymer note) issued into circulation	22 Jul.	Press Release - Kadavu Microfinance Expos
09 Jan.	December 2012 Economic Review issued	23-27 Jul.	Microfinance Expo - Kadavu
30 Jan.	Board Audit Committee Meeting	25 Jul.	Ordinary Board Meeting
31 Jan.	Ordinary Board Meeting	25 Jul.	Press Release - Monetary Policy Stance Remains Unchanged
01 Feb.	Press Release - Reserve Bank of Fiji Natural Disaster Rehabilitation Facility	28 Jul.	Deputy Governor presented on the Fijian Economy at the Australia and Fiji Business Forum, Brisbane
01 Feb.	Press Release - Monetary Policy Stance Remains Unchanged		
06 Feb.	Press Release - Reserve Bank of Fiji Reduces Lending Rate on Its Import Substitution and Export Finance Facility	30 Jul.	July 2013 Economic Review issued
		01-15 Aug.	IMF Article IV Consultation Visit
13 Feb.	January 2013 Economic Review issued	02 Aug.	Press Release - Economic Growth Projections Revised Upward
20 Feb.	December 2012 Quarterly Review issued	09 Aug.	Press Release - Complaints Management Forum
21 Feb.	Governor opened Bank South Pacific (BSP) Nadi Branch	14 Aug.	Governor was Chief Guest at the Launch of FDB Small Business Awards
22-23 Feb.	IMF Staff Visit	17 Aug.	Governor opened Bred Bank's Tappoo City Kiosk
25 Feb.	Governor officiated at the ANZ/Fiji's Chinese Renminbi Currency Trading Launch	17-24 Aug.	Hibiscus Festival Week - Financial Inclusion Village
28 Feb.	Ordinary Board Meeting	20 Aug.	Governor addressed Fiji Economic Update, USP
01 Mar.	LMCC Quarter 1 Meeting	23 Aug.	June 2013 Quarterly Review issued
04 Mar.	Governor, Deputy Governor and CMCCS on Radio Fiji Talkback Show	26 Aug.	2012 Insurance Annual Report tabled in Cabinet
06 Mar.	Board Audit Committee Meeting	29 Aug.	Ordinary Board Meeting
07 Mar.	Deputy Governor presented at the Stakeholder's Consultative Workshop on Financial Inclusion in Fiji, Holiday Inn, Suva	29 Aug.	Economics Association of Fiji Seminar, RBF Building: Panel Discussion on "The Role of Central Bank in Supporting Growth"
07 Mar.	Press Release - Reserve Bank of Fiji Signs Memorandum of Understanding with the Reserve Bank of India	29 Aug.	Press Release - Monetary Policy Stance Remains Unchanged
08 Mar.	Governor presented at the FRCA Strategic Planning Workshop, InterContinental Fiji Golf Resort & Spa	03 Sep.	Press Release - Specialised Training on Investigating Money Laundering
		03 Sep.	August 2013 Economic Review issued
11 Mar.	February 2013 Economic Review issued	05 Sep.	Press Release - Money Scam on Individuals Posing as Officials of the Land Transport Authority
15 Mar.	Board Audit Committee Meeting	09 Sep.	Press Release - RBF Releases 2012 Insurance Annual Report
22-23 Mar.	Capital Markets Technical Workshop on "Understanding Financial Markets and Products"	11 Sep.	Press Release - RBF Wins Award at the 2013 Alliance for Financial Inclusion Global Policy Forum
23 Mar.	Governor, Speaker at Fiji Institute of Accountants' Workshop: "Effects of the Budget on the Economy" - InterContinental Fiji Golf Resort & Spa	17-18 Sep.	Capital Markets Technical Workshop on "Understanding Financial Markets and Products"
27 Mar.	Board Audit Committee Meeting	18 Sep.	Press Release - RBF Launches Iliasa Delana Commemorative 50 cent Circulation Coin
27 Mar.	21st Annual General Meeting of the Fiji Institute of Bankers	19 Sep.	Board Governance Committee Meeting
28 Mar.	Press Release - Complaints Management Forum	23-25 Sep.	Board and Executive Management Industry Visit to the Western Division
28 Mar.	Ordinary Board Meeting	25 Sep.	Chief Manager Financial System Development and Compliance Mr Vereimi Levula delivered keynote address at the 2013 Pacific Credit Union Technical Congress, Tanoa International Hotel, Nadi
29 Mar.	2012 RBF Accounts and Annual Report submitted to the Minister for Finance		
28 Mar.	Press Release - Reserve Bank of Fiji Releases New Polymer \$5 Banknote	02 Oct.	September 2013 Economic Review issued
02 Apr.	New \$5 polymer Banknote issued into circulation	04 Oct.	Governor opened Credit Corporation Ltd.'s new building in Namaka, Nadi
02 Apr.	Press Release - National Energy Consultation Forum	05 Oct.	Chief Manager Economics Mr Ariff Ali presented on "The Fijian Economy" and Acting Chief Manager Financial Institutions Ms Vilimaina Dakai presented on "Regulatory Framework for Financial Institutions" at the FIB Convention, Novotel, Lami
02 Apr.	Press Release - Reserve Bank of Fiji Transfers \$35.4 million to Government	11 Oct.	Press Release - RBF Wins Best Regional Banknote of the Year Award
03-04 Apr.	Department of Energy and Reserve Bank of Fiji, National Energy Forum, Holiday Inn, Suva	14 Oct.	Press Release - Officers Receive Certificate on Completion of Specialised Training at the National Anti-Money Laundering Learning Centre
04 Apr.	Governor Awarded Prize to Best Graduating Student in Economics at USP	17 Oct.	National Financial Inclusion Taskforce Committee Meeting
10 Apr.	March 2013 Economic Review issued	19 Oct.	Governor opened Bred Bank's Nausori Branch
12 Apr.	Press Release - Reserve Bank of Fiji Announced Changes in Executive Positions	22 Oct.	Press Release - Bringing Out the Best in Microfinance - Inaugural National Awards
15-19 Apr.	Chief Manager Economics Mr Ariff Ali represented the RBF at the Prime Minister's Trade and Investment Mission to Papua New Guinea	22 Oct.	Governor delivered Keynote Address at the 4th Pacific Microfinance Week at Sheraton Fiji Resort, Nadi
25 Apr.	Ordinary Board Meeting	30 Oct.	Board Audit Committee Meeting
26 Apr.	April 2013 Economic Review issued	30 Oct.	Board Governance Committee Meeting
29 May	Economics Association of Fiji Seminar - Presentation by Mr Scott Roger, Project Coordinator PFTAC on "Global Economic and Financial Outlook & Implications for Pacific Island Economies"	31 Oct.	Ordinary Board Meeting
08-10 May	Capital Markets Technical Workshop on "Finance for Non-Financial Executives and Directors"	31 Oct.	Press Release - Monetary Policy Stance Remains Unchanged
10 May	LMCC Quarter 2 Meeting	01 Nov.	October 2013 Economic Review issued
23 May	Press Release - Authorities to Tackle Unexplained Wealth	05 Nov.	Press Release - RBF Reviews "No Surcharge Rule" on Credit Card Transactions
27 May	March 2013 Quarterly Review issued	08 Nov.	Press Release - Further Exchange Control Relaxations Effective January 2014
28 May	Reserve Bank of Fiji Media Workshop	08 Nov.	Press Release - RBF Approves New Banking License
30 May	Board Governance Committee Meeting	11 Nov.	September 2013 Quarterly Review issued
30 May	Ordinary Board Meeting	14 Nov.	Board Audit Committee Meeting
30 May	Press Release - Monetary Policy Stance Remains Unchanged	14 Nov.	Press Release - National Anti-Money Laundering Conference
31 May	May 2013 Economic Review issued	15 Nov.	Press Release - Use of FNPF/FRCA Joint ID for Verification of Customers
04 Jun.	2012 FIU Annual Report submitted to the Attorney General and Minister for Justice	18 Nov.	Governor opened the APEC-FRTI Risk Focussed Supervision Workshop at Radisson Blu Resort, Nadi
12 Jun.	Press Release - Reserve Bank of Fiji Clarifies the Concerns of \$1 and \$2 Coins	20 Nov.	Deputy Governor closed the 4th National Anti-Money Laundering Workshop, Holiday Inn, Suva
13 Jun.	Governor launched Bula Elite Product by BSP Life	20-22 Nov.	Microfinance Expo - Naitasiri
18 Jun.	2012 RBF Annual Report tabled in Cabinet by Minister for Finance	22 Nov.	Deputy Governor closed the APEC-FRTI Risk Focussed Supervision Workshop at the Radisson Blu Resort, Nadi
18 Jun.	2012 FIU Annual Report tabled in Cabinet by Attorney General and Minister for Justice	26 Nov.	LMCC Quarters 3 and 4 Meeting
24 Jun.	Press Release - RBF Releases 2012 Annual Report	28 Nov.	Ordinary Board Meeting
24-29 Jun.	RBF participated at the Government Information Referral Centre, Thompson Street, Suva	28 Nov.	Press Release - Monetary Policy Stance Remains Unchanged
25 Jun.	Press Release - Financial Intelligence Unit Annual Report 2012	29 Nov.	Press Release - RBF Building Undergoes Major Façade Renovation
27 Jun.	Ordinary Board Meeting	29 Nov.	November 2013 Economic Review issued
28 Jun.	Governor launched 40th Anniversary of the Reserve Bank of Fiji at RBF Building	29-30 Nov.	Chief Manager Financial Markets Mr Esala Masitabua presented at the 2013 Institute of Valuation and Estate Management Annual Conference, Natadola
28 Jun.	Submission of the 2012 Insurance Annual Report to Minister for Finance		
28 Jun.	Press Release - Monetary Policy Stance Remains Unchanged	05 Dec.	Press Release - Complaints Management Forum
01 Jul.	40th Anniversary of Reserve Bank of Fiji	11 Dec.	Board Governance Committee Meeting
01 Jul.	June 2013 Economic Review issued	12 Dec.	Ordinary Board Meeting
02 Jul.	Press Release - Reserve Bank of Fiji Reduces Lending Rates on Special Facilities	13 Dec.	Address by Governor to the Fiji Bureau of Statistics Seminar on "Strengthening Official Statistics" at Holiday Inn, Suva
06 Jul.	RBF participated in Westpac's PSC Retirees Expo, Nakasi	20 Dec.	Press Release - Reserve Bank of Fiji Announces Executive Positions
10 Jul.	Press Release - Reserve Bank of Fiji Celebrated 40th Anniversary on 1 July 2013	31 Dec.	RBF donated to the CWM Maternity Ward as part of the 40th Anniversary Celebrations
15 Jul.	Governor officiated at the opening of Westpac MHCC Sales Centre, Suva		
17 Jul.	Board Audit Committee Meeting		
18 Jul.	Board Governance Committee Meeting		

Fiji: Key Economic and Financial Indicators

	2009	2010	2011	2012	2013
I. GROSS DOMESTIC PRODUCT					
GDP at Market Price (\$ Million)	5,614.1	6,024.5	6,538.8	6,893.7(p)	7,445.8(e)
Per Capita GDP at Current Factor Cost (\$)	5,674.5	5,955.8	6,317.1	6,551.4(p)	6,959.0(e)
Constant Price GDP Growth Rate (%)	-1.4	3.0	2.7	1.7(p)	3.6(e)
II. LABOUR MARKET					
Labour Force	331,935(r)	334,850(e)	336,900(e)	337,900(e)	339,400(e)
Wage and Salary Earners (mid-year)	125,000(r)	126,000(e)	127,100(e)	128,000(e)	129,000(e)
III. INFLATION (year-on-year % change)					
All Items	6.8	3.6	6.4	2.5	3.4
IV. GOVERNMENT FINANCE (\$ Million)					
Total Revenue and Grants	1,415.9	1,537.8	1,804.1	1,937.1(r)	2,052.6(r)
Total Expenditure (excluding loan repayments)	1,644.7	1,668.7	1,898.3	2,013.7(r)	2,257.1(r)
V. EXTERNAL TRADE¹					
Current Account Balance (\$ Million)	-233.3(r)	-265.1(r)	-345.9(r)	-123.9(r)	-1,103.5(p)
Capital Account Balance (\$ Million)	4.6(r)	5.6(r)	10.6(r)	7.1(r)	8.9(p)
Financial Account Balance (\$ Million)	-550.9(r)	-296.9(r)	-637.4(r)	-478.7(r)	-630.7(p)
Current Account Balance (% of GDP)	-4.2(r)	-4.3(r)	-5.1(r)	-1.8(r)	-14.8(p)
VI. FOREIGN EXCHANGE RESERVES (\$ Million)					
Foreign Reserves	1,090.6	1,302.7	1,512.5	1,635.5	1,778.1
VII. MONEY AND CREDIT (year-on-year % change)					
Narrow Money	-7.0	11.8	41.1	5.3	67.3
Currency in Circulation	13.0	8.2	3.8	9.6	1.1
Quasi-Money	6.8	3.8	15.8	6.3	23.2
Net Domestic Credit ²	6.7	-0.8	1.0	2.8	14.0
VIII. INTEREST RATES (% p.a.)					
RBF Overnight Policy Rate ³	n.a	2.50	0.50	0.50	0.50
Lending Rate	7.52	7.42	7.42	6.65	5.86
Savings Deposit Rate	0.92	1.02	0.91	0.74	0.72
Time Deposit Rate	5.83	4.73	2.97	2.28	1.79
Minimum Lending Rate	3.50	3.00	1.00	1.00	1.00
IX. EXCHANGE RATES					
United States dollar ⁴	0.5185	0.5496	0.5493	0.5595	0.5269
Real Effective Exchange Rate (January 1999 = 100)	91.65	93.01	96.77	98.45	98.51

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

Notes:

¹ Balance of payments data for 2009-2013 has been compiled in accordance with the International Monetary Fund Balance of Payments Manual (BPM), 6th edition. Data for 2013 includes aircraft imports and financing.

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

³ The RBF Overnight Policy Rate came into effect in 2010.

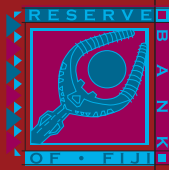
⁴ Mid rates, FS1 equals: end of period.

Key:

(e): estimate
(p): provisional
(r): revised
n.a: not available

Abbreviations

ADB	Asian Development Bank	ITSC	Information Technology Steering Committee
ABIF	Association of Banks in Fiji	KPI	Key Performance Indicators
AMB	Asset Management Bank	LAB	Local Advisory Board
AML	Anti-Money Laundering	LICI	Life Insurance Corporation of India
APG	Asia Pacific Group on Money Laundering	LMCC	Labour Management Consultative Cooperation
APRA	Australian Prudential Regulations Authority	MC	Money Changers
ATM	Automated Teller Machine	MOU	Memorandum of Understanding
BCP	Business Continuity Plan	MPC	Macroeconomic Policy Committee
BRS	Business Resumption Site	MSME	Micro, Small and Medium Enterprises
CFT	Combating the Financing of Terrorism	NBF	National Bank of Fiji
CMA	Central Monetary Authority	NBFI	Non-Bank Financial Institution
CTR	Cash Transaction Report	NDRF	National Disaster Rehabilitation Facility
EDRMS	Electronic Document Records Management System	NEC	National Employment Centre
EFTR	Electronic Funds Transfer Report	NEER	Nominal Effective Exchange Rate
EFTPOS	Electronic Fund Transfer at Point of Sale	NFIT	National Financial Inclusion Taskforce
FBFSEU	Fiji Bank and Finance Sector Employees Union	NSR	No Surcharge Rule
FDB	Fiji Development Bank	OHS	Occupational Health and Safety
FHL	Fijian Holdings Limited	OMO	Open Market Operations
FHRI	Fiji Human Resources Institute	OPR	Overnight Policy Rate
FIA	Fiji Institute of Accountants	P2P	Person to Person
FIB	Fiji Institute of Bankers	PFIP	Pacific Financial Inclusion Programme
FIU	Financial Intelligence Unit	PFTAC	Pacific Financial Technical Assistance Centre
FNPF	Fiji National Provident Fund	PRB	Public Rental Board
FNU	Fiji National University	RBA	Reserve Bank of Australia
FRCA	Fiji Revenue and Customs Authority	RBF	Reserve Bank of Fiji
FRF	Flood Rehabilitation Facility	REER	Real Effective Exchange Rate
FTR	Financial Transactions Reporting	RFED	Restricted Foreign Exchange Dealer
GDP	Gross Domestic Product	RRA	Revaluation Reserve Account
HA	Housing Authority	SEACEN	South East Asian Central Banks
HART	Housing Assistance and Relief Trust	SDR	Special Drawing Rights
HFC	Home Finance Company	SME	Small and Medium Enterprises
IMF	International Monetary Fund	SPSE	South Pacific Stock Exchange
ISEFF	Import Substitution and Export Finance Facility	STR	Suspicious Transaction Report
IT	Information Technology	STRI	SPSE Total Return Index
ITF	Insurance Trust of Fiji	TNA	Training Needs Analysis
		US	United States
		USP	University of the South Pacific



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

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the 1990s, the number of people in the UK who are employed in the public sector has increased from 10.5 million to 12.5 million, and the number of people in the public sector who are employed in health care has increased from 1.5 million to 2.5 million (Department of Health 2000).

There are a number of reasons why the public sector has expanded. One reason is that the population of the UK has increased from 55 million in 1990 to 60 million in 2000. Another reason is that the population is ageing, and the number of people aged 65 and over has increased from 10 million in 1990 to 15 million in 2000. A third reason is that the government has increased its spending on health care from 10% of GDP in 1990 to 12% of GDP in 2000.

There are a number of reasons why the public sector has expanded in the health care sector. One reason is that the population of the UK has increased from 55 million in 1990 to 60 million in 2000. Another reason is that the population is ageing, and the number of people aged 65 and over has increased from 10 million in 1990 to 15 million in 2000. A third reason is that the government has increased its spending on health care from 10% of GDP in 1990 to 12% of GDP in 2000.

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