

Reserve Bank of Fiji



Our Vision

Leading Fiji to Economic Success

Our Mission

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

Our Values

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

The principal purposes of the Reserve Bank shall be

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

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

What is Financial Innovation?

Financial innovation refers to new and creative advances in the financial sector that enhance the delivery of financial services and products, improves accessibility to institutions and provides convenience to end users. In the broadest sense, it is a continuous process that leads to systems enhancement; institutional changes and advancement; process and product development; and improved service delivery. A major benefit of financial innovation is that it boosts accessibility to financial services so that everyone, including the disadvantaged and low income segments of society, can enjoy these products at affordable costs.

Financial Innovation in Fiji

Fiji continues to lead the way for financial innovation in the South Pacific. In partnership with other stakeholders, the Reserve Bank of Fiji has been involved with the formulation, development and introduction of new products and services to advance Fiji's financial system. From the introduction of passbooks in 1876 to the launch of smart cards a century later, the emergence of new financial instruments and technological advances have enhanced convenience to everyday life. A chronological order of financial innovation in Fiji over the last 134 years is described below.

| | |
|-----------|--|
| 1876 | Passbook The passbook was introduced in Fiji by the Bank of New Zealand in 1876. |
| 1914 | Currency Board Set up by the Colonial Government in 1914, Fiji's Currency Board had the sole right to issue Fiji's currency notes and coins. The Board was in existence for almost 60 years. This was replaced by the Central Monetary Authority in 1973 and the Reserve Bank of Fiji in 1984. |
| 1934-1968 | Introduction of Fiji coins and notes Fiji introduced its currency of pounds, shillings and pence. |
| 1969 | Fiji dollar introduced On 13 January, the Fijian Government proclaimed that the Fiji dollar and cent would serve as the official unit of currency for the country. |
| 1993 | Automated Teller Machine (ATM) Introduced to the Fiji market in 1993, the ATM was considered a significant innovation as it allowed customers to personally access their funds at any time without the need for human interaction. As at the end of 2010, there were 202 ATMs in Fiji. |
| 1995 | Electronic Funds Transfer at Point of Sale (EFTPOS) Used with debit card based systems for processing transactions through terminals at points of sale, this service provided a convenient and secure means of transferring large sums of money. At the end of 2010, there were 1,896 EFTPOS terminals around Fiji. |
| | National Survey A national survey on microfinance was conducted by the Reserve Bank of Fiji (RBF) with technical assistance from the United Nations Economic and Social Commission for Asia and the Pacific to assess the availability and quality of services available to assist in poverty alleviation and promote economic activities. |
| 1996 | Open Outcry System The trading system of the Suva Stock Exchange moved from a trading post to the open outcry system. |
| 1998 | National Conference A national conference organised by the RBF in collaboration with the Government resulted in the establishment of the National Microfinance Unit and a formal agenda for the development of microfinance in Fiji |
| 1999 | Telephone Banking Allowed customers to conduct financial transactions over the telephone. This service provided by the commercial banks, required customers to authenticate their passwords for security purposes and access banking services. |
| 2002 | Internet Banking A convenient and secure alternative to traditional over-the-counter transactions where a computer is used to access an instant banking platform. |
| 2007 | Real Time Gross Settlement (RTGS) System FIJICLEAR is the name of Fiji's RTGS system which went live on 30 August. The system enables the transfer of money from one bank to another in 'real time' and on a 'gross' basis. |
| 2009 | Microfinance Initiatives The RBF announced that all commercial banks would be required to set up microfinance units and provide essential financial services to the unbanked in Fiji. |
| 2010 | EFTPOS Interchange Allows for the use of any commercial bank debit card with any other commercial bank EFTPOS terminal throughout Fiji. |
| | Mobile Phone Money Services The two local mobile network operators, Vodafone Fiji and Digicel Fiji, were granted approval by the RBF to launch their respective mobile money services. The service is the first of its kind in the Pacific region and allows customers to complete simple financial transfers using mobile phones. |
| | Short Message Service (SMS) Banking Launched on 20 June, SMS banking allows commercial banks' customers to check balances, view past transactions and transfer money using mobile phones. |
| | Electronic Trading Platform (ETP) On 1 July, the South Pacific Stock Exchange (SPSE) launched the ETP to replace its antique open outcry system of call market. The ETP enables stockbrokers to transact electronically without having to leave their offices. |
| | Microinsurance Newly introduced in Fiji, microinsurance is currently limited to a few products focused on life insurance. |
| | Remittance Card As an alternative to traditional money transfer options, commercial banks introduced remittance cards that assist out-of- country customers to send money back to Fiji. |
| | Development Committees A number of committees like the National Financial Inclusion Taskforce, e-MONEY Taskforce and Capital Markets Advisory and Development Taskforce were set up by the Reserve Bank to formulate strategies, achieve greater financial inclusion as well as to develop the capital markets. |



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LETTER TO THE MINISTER

RESERVE BANK OF FIJI



Governor

31 March 2011

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

Dear Minister

RBF Annual Report and Accounts 2010

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

- (i) A copy of the RBF Annual Accounts for the year ended 31 December 2010 certified by the Auditors.
- (ii) A report on the RBF's Operations for the 2010 fiscal year.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Barry Whiteside', written over a horizontal dotted line.

Barry Whiteside
Acting Governor

Postal: Private Mail Bag, Suva, Fiji Tel: (679) 331 3611 Fax: (679) 330 4363 Email: info@rbf.gov.fj Website: www.rbf.gov.fj

OUR FUNCTIONS

The Reserve Bank of Fiji 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 open market operations (OMO), statutory reserve deposits (SRD), 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

The RBF Act requires the Bank to promote a sound financial structure. In undertaking this function, the Bank licenses and supervises institutions in the banking, insurance and superannuation industries, as well as foreign exchange dealers.

In addition to the legislative environment for these industries, licensed 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 through sound licensed institutions. The licensed financial institutions (LFIs), including the Fiji National Provident Fund (FNPF), are required to comply with the RBF Act, Banking Act (1995) and the Insurance Act (1998).

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.

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 banknotes and minting of coins and is also responsible for the destruction and disposal of used and unserviceable currency. The Reserve Bank also determines the denominational structure, design, content, material and composition of Fiji's currency, subject to the approval of the Minister for Finance.

Other

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

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

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 9 to 12. The Bank's organisation structure is illustrated on page 6.

GOVERNOR'S FOREWORD



In 2010, the global economic and financial environment had seemingly recovered from the worst recession in 60 years. The upturn estimated by the International Monetary Fund (IMF) at 5.1 percent was largely on the strength of rebounding exports as well as accommodative fiscal stimulus, unconventional monetary policies and measures to support the financial system.

Over the same period, the Fiji economy continued to face many challenges as it pulled itself back from an extremely difficult year in 2009 - a year highlighted by a fall in global demand and low commodity prices. In 2010, the economy is estimated to have grown by 0.6 percent, after a contraction of 3.0 percent in 2009. In line with subdued economic activity, overall labour conditions remained weak except for the tourism and tourism-related sectors. The trend for investment also continued to be weak.

The level of foreign reserves at the end of 2010 was \$1.3 billion, adequate to finance 4.1 months of imports of goods and non-factor services. The Bank implemented a new monetary policy framework during the year with the overnight policy rate (OPR) initially set at 3.0 percent. Due to the stability in the foreign reserves position, the Bank eased monetary policy and the OPR was reduced to 2.5 percent in November 2010.

To support domestic agricultural production and other potential import-reducing industries, a \$20 million Import Substitution Facility (ISF) was established. During the year, the Bank rationalised this facility and merged it with the existing Export Finance Facility (EFF). The new combined program was named the Import Substitution and Export Finance Facility (ISEFF) and a total amount of \$40 million has been made available to all eligible borrowers through the commercial banks, licensed credit institutions and the Fiji Development Bank (FDB), at concessional rates of interest. This new facility is now also available to borrowers from the renewable energy sector.

As a small open economy, there is no denying that we are part of the global economy where containing inflation is becoming a big challenge. Inflation peaked at 10.5 percent in April 2010, the highest in 22 years, due to the impact of the 20.0 percent devaluation in 2009 and tropical cyclones Mick and Tomas. Inflation, however, did ease over the remainder of the year, as tempo-rary effects fell out, to stand at 5.0 percent in December. The underlying inflation, measured by the trimmed mean method, was 0.6 percent.

Investment, as I noted earlier, remained subdued in 2010 and was estimated at about 14.0 percent of Fiji's Gross Domestic Product (GDP), the same level as 2009. While partial indicators for investment, such as

imports of investment goods, value of work put-in-place in the construction sector and lending for investment purposes, grew during 2010, overall investment remained low. The weighted average lending rate of commercial banks fell to 7.42 percent in 2010 from 7.52 percent in 2009.

The Bank resumed OMO in May following the implementation of the new monetary policy framework. Exchange control policies were also reviewed and several policy announcements were made to increase the delegation of authority to authorised dealers given the stability in the level of foreign reserves.

The Reserve Bank of Fiji continued to focus monetary policy on achieving financial and external stability. The Bank reviewed its existing prudential policies and formulated new ones to ensure that the financial system remained sound. This process always involves consultation with relevant stakeholders.

An Interagency Committee comprising senior staff from the RBF, Financial Intelligence Unit (FIU) and Fiji Revenue and Customs Authority (FRCA), was set up to assist and help strengthen the role of the Bank's Export Proceeds Monitoring Unit. This Unit is charged with the responsibility of ensuring that all export proceeds are remitted to Fiji in compliance with the law, as well as looking at cross border trade and compliance policies. A six month amnesty period from April to October was provided to exporters who had yet to fully reconcile their outstanding export receipts with the Bank. By the end of the year, \$1.1 billion of export proceeds had been successfully reconciled.

A National Financial Inclusion Taskforce (NFIT) was also established during the year to provide overall guidance and monitor the development of greater financial inclusion in Fiji. A target of the Taskforce was to take some form of banking or financial service to a further 150,000 citizens in our rural areas, who presently have no such access, by 2014.

The Bank continued to encourage development and work outside its normal scope of activity to assist the economy to move forward. In 2010, we hosted micro-finance expositions in Suva, Ba and Labasa together with other stakeholders from the private and public sectors. These expositions were extremely successful and attracted significant numbers of people who got

GOVERNOR'S FOREWORD

to learn more about available financial products and the most recent developments in these areas. Microfinance entrepreneurs also had the opportunity to showcase and even sell their products. The Bank also supported the 2010 Crest Agriculture Show and launched the Green Ribbon Campaign to promote financial literacy.

We were also extremely excited about the implementation of the e-MONEY Fiji Project, which was launched during the year. Further to this, the Bank worked closely with Fiji's two major mobile phone companies and other international donor agencies and it was pleasing to see the successful implementation of mobile money services across the nation. These services clearly open up Fiji to an exciting and whole new level of payments system and money transfers.

To ensure that consumers' concerns regarding the financial sector are addressed, the Bank further developed its complaints management policy environment in 2010. A Complaints Management Forum comprising representatives from the private and public sectors was also set up to complement the role played by the Bank in the management of complaints.

A policy to establish Local Advisory Boards (LABs) in all banks operating in Fiji was implemented in 2010. Each LAB assumes a consultative and advisory role to senior management, helping to guide commercial banks in aligning their strategies to Fiji's regulatory and supervisory environment as well as to national development objectives.

I am pleased to report that despite the macroeconomic challenges, Fiji's financial system remains strong and continues to grow. Total assets of the financial system (excluding RBF) increased by 1.9 percent to \$10.5 billion in 2010. The Reserve Bank took controllership of the NBF Asset Management Bank (AMB) in April 2007 and continues working towards winding down its operations. Commercial banks increased their investment in technology during 2010 by upgrading their systems and deploying more ATMs and EFTPOS machines across the country. There were also some pleasing developments in the interchange arrangements between the banks in regard to EFTPOS. The insurance industry's performance was satisfactory in 2010 as most insurance companies continued to be well capitalised and adequately met their solvency requirements. The overall performance of credit institutions also remained satisfactory in 2010. The regulatory and supervisory framework for the capital markets was strengthened. A Capital Markets Advisory and Development Taskforce was set up to look into the development of the capital markets industry. The electronic trading platform and the listing of the first hybrid security, in the form of convertible notes, were some of the highlights for the capital markets in 2010.

The size and long term financial stability of the FNPF continues to be an issue for the economy. The Bank

worked closely with the FNPF's Board and Management to ensure that corporate governance policies are in place and appropriate technical policies are developed and implemented to safeguard the assets of the Fund. The progress of the Fund's reform program was closely monitored.

The usage of FIJICLEAR, Fiji's RTGS System, which was formally launched in October 2007, reached a new high in 2010 in terms of number and value of transactions. The awareness for FIJICLEAR was promoted during the microfinance expositions and also through the dissemination of promotional materials.

The latest currency review commenced in 2010 with the specifications and designs for notes and coins being approved by Cabinet. A Currency Design Committee (CDC) of prominent Fiji citizens, all experts in their respective fields, was appointed by the Prime Minister and Minister for Finance to work on the project. Fiji's new family of notes and coins will be issued towards the latter part of 2012. The designs will feature Fiji's rare flora and fauna, things to make us proud of our heritage, and will use the latest banknote printing and coin minting technologies to keep ahead of counterfeiters.

Another milestone in the Bank's history was the opening of the Business Resumption Site (BRS). The site is the back-up for critical operations should our main building in downtown Suva become inaccessible. The site plays a vital role in the Bank's overall risk management strategies.

The Bank uses its website and publications to inform its stakeholders about our policies and activities of the Bank. It is pleasing to note that the Bank's 2009 Annual Report was awarded first prize in the Statutory Authorities, Government Bodies and Unlisted Trusts category of the 2010 SPSE Annual Report Competition.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with its members. In Fiji's case, discussions are held annually and a team from the IMF visited Fiji in late 2010. The IMF Executive Board discussed Fiji's Report in early 2011 and the Report is posted on the IMF website. There were two Staff Visits from the IMF during the year. The IMF also concluded a Safeguards Assessment of the Reserve Bank which looks at our operations in respect to what is required under the law as well as the independence of the institution. The recommendations of that Report are currently being implemented.

In 2010, the FIU collaborated with stakeholders and financial institutions to implement the FTR Act and Regulations. The FIU worked closely with financial institutions to ensure compliance. The Unit also provided training, advice and guidance to its stakeholders on their obligations under the Act. A

GOVERNOR'S FOREWORD

Memorandum of Agreement (MOA) was signed with the Malaysian FIU. The Fiji FIU Financial Information Management System Online (FFIMSO), which was rolled out in 2008 to receive information online and effectively manage the database of FIU had 66 registered users by the end of 2010.

The Bank recognises the potential of Medium, Small and Micro Enterprises in providing employment and improving the welfare of the citizens of Fiji. We continue to sponsor the FDB's Small Business Awards and the Fiji Trade and Investment Bureau's Exporter of the Year Award for Agriculture.

We also realise the importance of education and sponsor the chair of the Associate Professor/Senior Lecturer in Monetary Economics at the University of the South Pacific (USP). The Bank also awards a prize to the most outstanding Economics graduate at the USP.

I am grateful to the IMF, World Bank, Asian Development Bank (ADB), Pacific Financial Technical Assistance Centre (PFTAC), Australian Prudential Regulation Authority (APRA), Australian Transactions Reports and Analysis Centre and other central banks and international organisations, for technical assistance provided in 2010. In turn, the Reserve Bank is doing its part in assisting central banks in the Pacific by hosting attachments from staff of regional central banks.

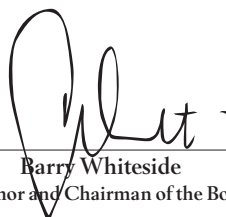
Capacity building of Team RBF is a priority for the Bank. In 2010, the Bank continued to train staff locally and abroad. The Bank also provided job rotations and on-the-job training to its staff as well as seconding staff to Government. A training needs analysis is done for each staff annually and the benefits of training are clearly reflected in the improved levels of performance across the Bank.

As part of its corporate social responsibilities, the Bank fully engages in activities in the community. Apart from official donations to charitable organisations, members of Team Reserve Bank participated and contributed to the community using their own time and resources. Throughout 2010, Team RBF took part in national campaigns, business house competitions and committees as well as providing donations in cash and in kind to charitable organisations.

In accordance with the RBF Act, the audited accounts and operational report for the year ended 2010 were submitted to the Minister for Finance on 31 March 2011. On 1 April 2011, the Bank transferred a total of \$38.9 million to Government. This consists of its entire profit of \$21.5 million for the 2010 financial year and \$17.4 million, which represents one fifth of the Revaluation Reserve Account (RRA). The profit for 2009 was \$16.6 million. The level of profit was a direct result of the higher level of monthly average foreign reserves. By the end of 2010, foreign reserves were \$1.3 billion, an increase of \$0.2 billion over 2009.

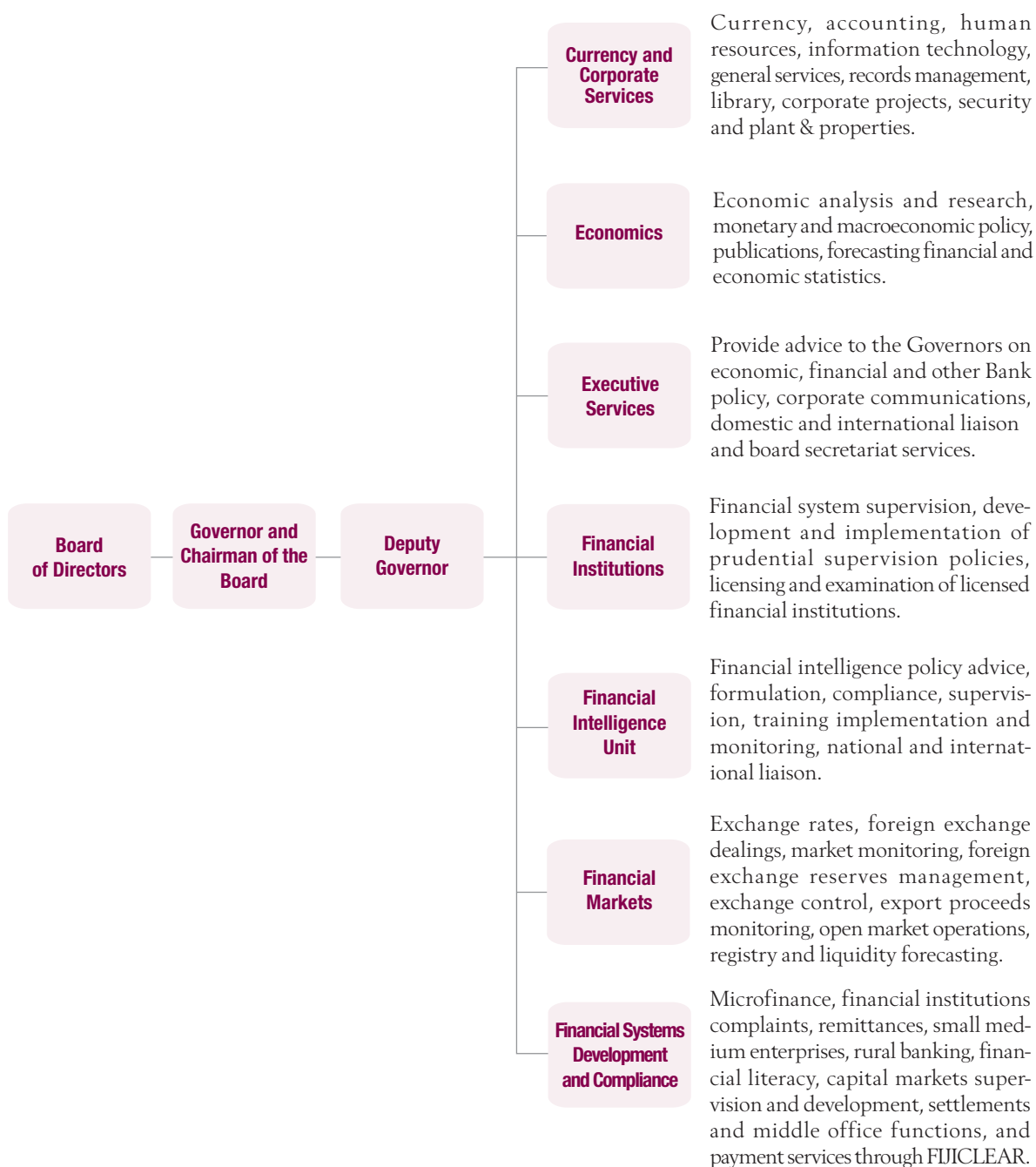
Early indications show that 2011 will be another challenging year. Much of Fiji's performance will depend on developments abroad as well as its own reform programs. Positive growth rates in Fiji's major trading partner countries, although revised downwards for 2011, are expected to impact Fiji's export and services sectors favourably. The impact of high oil and food prices on domestic inflation will be closely monitored. In 2011, the Fiji economy is expected to grow by 2.7 percent. The projected major drivers of this growth include the agriculture & forestry, manufacturing and fishing sectors. Moderate contributions are expected from the hotels & restaurants, real estate & business services as well as the financial intermediation sectors. The balance of payments (BOP) position is expected to improve. Our monetary policy will be continuously reviewed in light of the view to revive the economy as well as maintaining monetary and financial stability. Domestic reforms that are now being implemented need to continue their momentum. We need the cooperation and support of Government, financial institutions, relevant stakeholders and the citizens of Fiji to work together so that we can achieve better growth for Fiji and a higher standard of living.

I would like to thank the previous Governor, Mr. Sada Reddy, for his 35 years of dedicated service, commitment and contribution to the Bank and Fiji. I would also like to take this opportunity to thank the Board of Directors for their support and guidance during 2010. Finally, I also extend my deepest appreciation to Team Reserve Bank for their hard work, commitment and dedication in 2010.



Barry Whiteside
Governor and Chairman of the Board

ORGANISATION STRUCTURE



Financial Literacy

GREEN RIBBON CAMPAIGN

In 2009, regional central bank Governors and Government Ministers agreed to the Money Pacific 2020 goals and to take the lead in building financial competency in their countries. As part of this commitment, the Governor of the Reserve Bank of Fiji launched a week-long Green Ribbon Campaign in August 2010, to raise public awareness on the importance of financial literacy.



BOARD OF DIRECTORS



1: Barry Whiteside

Governor and Chairman of the Board

Governor from 5 May 2011. Previously Deputy Governor at the Reserve Bank of Fiji. Alternate Governor for Fiji in the International Monetary Fund and in the Asian Development Bank. Former Deputy Chairman of the Capital Markets Development Authority. Member of National Anti-Money Laundering Council. President of the Fiji Badminton Association

2: Filimone Waqabaca

Permanent Secretary Ministry of Finance (Ex-officio)

Appointed to the Board on 7 February 2011. Member of the Governance Committee of the Board. Previously Chief Manager Financial Systems Development and Compliance at the Reserve Bank of Fiji. Former Advisor to the Executive Director at the International Monetary Fund. Board Director of Fiji Revenue and Customs Authority. Alternate Governor for Fiji at the World Bank.

3: Iowane Naiveli

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

4: Robin Yarrow

Appointed to the Board on 5 August 2005. Term expires on 6 August 2011. Member of the Board Audit Committee and Governance Committee of the Board. Retired from the Fijian Government after 30 years of service which included senior positions with the Ministries of Agriculture, Tourism, Foreign Affairs and National Planning. Currently serves on a number of boards including Vodafone Fiji Ltd, the Fiji Red Cross Society and the National Trust of Fiji. Was appointed in 2009 as Regional Councillor for Oceania for the World Conservation Union.

5: Adish Narayan

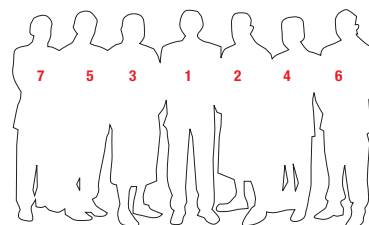
Appointed to the Board on 3 August 2007. Term expires on 3 August 2013. Member of the Governance Committee of the Board. Lawyer by profession and sole proprietor of A K Lawyers and is a member of the Legal Aid Commission.

6: Deo Saran

Appointed to the Board on 11 February 2009. Term expires on 11 February 2012. Chairman of the Governance Committee of the Board. He was the Chief Executive Officer of the Fiji Sugar Corporation Limited and a former President of the Fiji Institute of Accountants. He has also served on the Stakeholder Council of the Global Reporting Initiative.

7: Dr. Chandra Dulare

Appointed to the Board on 11 January 2008. Term expires on 11 January 2011. Member of the Board Audit Committee and Governance Committee of the Board. Dr. Dulare, a monetary economist, is an Assistant Professor at the Fiji National University and the Coordinator, Western Campuses. He is also the Director of the Fiji Institute of Applied Studies. His work experiences include lecturing at the University of Fiji, University of Queensland, Griffith University and University of the South Pacific.



* Sada Reddy Governor from 15 April 2009 to 9 December 2010

* David Kolutagane Acting Permanent Secretary from 31 August 2010 to 6 February 2011

* John Prasad Acting Permanent Secretary from 31 March 2009 to 31 August 2010

EXECUTIVE MANAGEMENT



1: Inia Naiyaga
Deputy Governor

2: Lorraine Seeto
Advisor to the
Governors

3: Esala Masitabua
Chief Manager
Financial Institutions

4: Ariff Ali
Chief Manager
Financial Markets

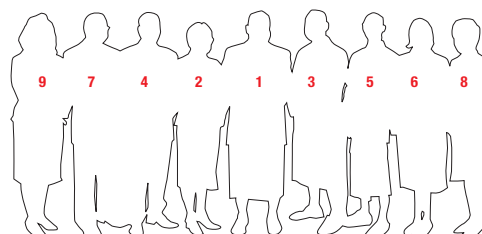
5: Razim Buksh
Director
Financial
Intelligence Unit

6: Susan Kumar
Chief Manager
Currency and
Corporate Services

7: Vereimi Levula
Acting Chief Manager
Financial Systems
Development and
Compliance

8: Caroline Waqabaca
Chief Manager
Economics

9: Subrina Hanif
Secretary to
the Board



* Filimone **Waqabaca** Chief Manager Financial Systems Development and Compliance from 27 April 2009 to 14 January 2011

* Jitendra **Singh** Chief Manager Economics from 15 April 2009 to 22 August 2010

CORPORATE GOVERNANCE

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

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

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

The Governor

The Governor, who is the Bank's Chief Executive Officer, is responsible to the Board for the management of the Bank and the execution of its policy. Mr. Barry Whiteside was appointed Acting Governor on 9 December 2010 and confirmed to the position on 5 May 2011. The former Governor, Mr. Sada Reddy, who was appointed on 15 April 2009, resigned on 9 December 2010.

Board of Directors

The Board comprises the Governor, who serves as Chairman, the Permanent Secretary of the Ministry of Finance, as an ex-officio member, and five other non-executive members. Under the RBF Act, the Minister for Finance appoints the directors. Directors may hold office for a period not exceeding three years but are eligible for reappointment. Board director, Mr. Adish Narayan's term expired on 3 August 2010 but was extended for another three years. Board director, Mr. Iowane Naiveli's term which ended on 31 December 2010, was renewed for a year on 1 January 2011. Other Board directors holding office in 2010 were Mr. Robin Yarrow, Dr. Chandra Dulare, Mr. Deo Saran and Mr. David Kolitagane.

Board Meetings

Under the RBF Act, the Board is required to meet at least 10 times in a calendar year. During 2010, the Board met on 11 occasions - there were 10 ordinary board meetings and one special board meeting. 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.

Board Meetings in 2010 - Attendance by Members

| Director | Attended | Eligible to Attend |
|--------------------|----------|--------------------|
| Sada Reddy | 9 | 9 |
| Barry Whiteside* | 1 | 1 |
| Iowane Naiveli | 9 | 11 |
| Robin Yarrow | 11 | 11 |
| Adish Narayan | 11 | 11 |
| Dr. Chandra Dulare | 11 | 11 |
| Deo Saran | 8 | 11 |
| John Prasad | 1 | 7 |
| David Kolitagane** | 0 | 4 |

* Acting Governor from 9 December 2010

** Acting Permanent Secretary for Finance since 31 August 2010

Board Committees

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

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

The Audit Committee met on nine occasions in 2010.

The Governance Committee of the Board was established to strengthen the governance of the Bank and to make the Office of the Governor more accountable to the Board. All Board directors are members of the Committee except the Governor. The main functions of the Committee are to review expenditure in relation to travel, entertainment, motor vehicle, telephone, leave and any other expenditure of the Governor's Office. The Committee also undertakes the annual performance appraisal of the Governor and Deputy Governor based on agreed key performance indicators (KPIs).

The Governance Committee also reviews and approves strategies on terms and conditions of employment for executive management and staff. The Committee also reviews and approves strategies on the remuneration policy for all staff.

The Governance Committee met seven times during 2010.

Bank Management

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

- Executive Management Committee, which meets weekly to consider the management and day-to-day operations of the Bank;
- Monetary Policy Committee, which meets monthly, or more often as necessary, to discuss economic and monetary developments;
- Market Operations Policy Committee, which meets monthly to discuss the Bank's foreign reserves and domestic investment management strategies;
- Financial System Policy Committee, which meets quarterly to review financial system development and compliance as well as consider policy issues on the soundness and efficiency of the financial system;
- Currency and Corporate Services Policy Committee, which meets quarterly to discuss issues relating to currency and internal services;
- Information Technology (IT) Steering Committee, which meets quarterly to discuss IT development and operations; and
- Business Continuity Management Committee, which meets quarterly to formulate and initiate strategies to address risks faced by the Bank.

The Governor chairs all the above Committees.

Delegation of Authority

The Delegation of Authority sets out the framework for the Governor's delegation in the operations of the Reserve Bank, together with the associated accountabilities. All activities and expenditure in the Bank must be authorised in accordance with the respective delegations, policies and procedures. The Internal Rules and Orders of the Bank and the Code of Ethics and Business Conduct policy provide guidance on compliance on ethical standards. The Declaration of Compliance, signed annually by staff, ensures that they have complied with the Code of Ethics, Delegation of Authority, Internal Rules and Orders and IT policies of the Bank.

Reserve Bank of Fiji Act

Work on the review of the RBF Act commenced in 2009. The draft law was submitted to the Solicitor General for review in 2010. There will be more work and discussion on this issue during 2011, before a presentation is made to Cabinet.

Strategic Plan

During the year, the Reserve Bank continued to implement its 5-year Strategic Plan for 2009-2013.

The Plan is continuously reviewed to ensure that it aligns with changing circumstances and the environment. The Plan is posted on the Bank's Intranet and is available to all staff.

Corporate Plan

Corporate planning is carried out annually in the Reserve Bank. The formulation of the Bank's workplan for the following year commences as early as May, with a review of its Vision and Mission statements. Group strategies are reviewed accordingly. All Groups review their progress for the first six months of the year and submit a report to the Board in July. Extensive discussions are held during the interactive planning workshops and feedback is obtained from internal and external stakeholders in August. The output and resources are matched, and the workplan and budget are presented to the Board for approval in November.

Annual Planning Cycle



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

In November 2010, the Board approved the annual workplan and budget for 2011.

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. Relevant committees are set up to ensure that risk is appropriately managed. The Bank needs to be vigilant in its monitoring of economic developments and pre-emptive in its formulation of monetary policy. This is to ensure that the financial system is sound and stable to minimise risks to the economy and the Bank's reputation and credibility is maintained. Other risks include:

CORPORATE GOVERNANCE

- The holding of foreign reserves, like credit, interest and exchange rate risks;
- Small organisations, such as loss of staff due to emigration;
- Currency, such as counterfeit, adequacy and safety issues; and
- The operations of Fiji's payments system, FIJICLEAR, due to technical issues.

The Business Continuity Plan, which was approved by the Board in 2007, continued to be rolled out during 2010. Training was conducted for fire evacuation for Bank staff and tenants. The Bank also embarked on other initiatives including planning for a possible avian influenza pandemic and documenting procedures for reference, as well as strengthening procedures in the case of natural disasters.

Work on the Reserve Bank's BRS, which commenced with the ground breaking ceremony in late 2008, was completed in 2010. The BRS was officially opened on 26 August 2010. The BRS will now be the backup site for critical operations if the Reserve Bank's main building is, for some reason, inaccessible, or if the systems in the building are inoperable. Critical operations include foreign reserves management, settlements and some domestic market processes

including FIJICLEAR operations. The site also houses the Bank's archives.

The Middle Office continued to monitor the performance and operational procedures of the Bank with regard to its external and domestic investments. An outsourced internal audit function by PricewaterhouseCoopers provided the Bank with information on risk areas that need to be addressed. In 2010, PricewaterhouseCoopers also conducted a special audit on the Bank's IT operations. The Board and the Board Audit Committee also contribute to the review and strengthening of the Bank's risk management process.

Organisational Change

In line with the Bank's policies on rationalisation as well as anticipating challenges in the coming years, changes were made to the organisational structure of the Bank. The Corporate Planning and Assurance Group was de-established with effect from 1 February 2010. In its place, a Settlements and Payments Systems unit was created in the Financial Systems Development and Compliance Group. There were also movements in staff positions to reflect efficiencies, job rotation and staff development.

ECONOMIC OVERVIEW

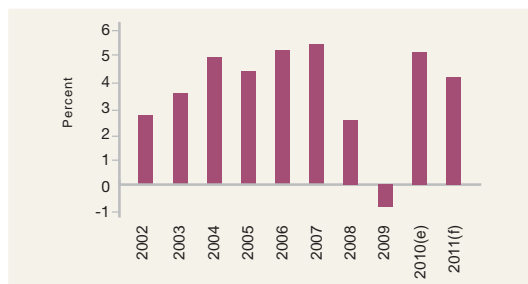
In 2010, the global economy continued its recovery from the worst recession in 60 years. The IMF estimated that the global economy grew by 5.1 percent in 2010, compared to a contraction of 0.5 percent in 2009. The upturn in global economic activity is attributed to a set of bold and aggressive policy actions including unconventional monetary policy measures, accommodative fiscal stimulus, and measures undertaken to support the financial system. Emerging economies played a pivotal role in this resurgence as their robust growth outpaced tepid growth rates of advanced economies. However, despite the recovery, the global outlook is subject to considerable uncertainty, particularly with fiscal vulnerabilities in some advanced economies. Consequently, the IMF is expecting global growth to slow to 4.3 percent in 2011.

International Economic Developments

All of Fiji's major trading partner economies are estimated to have grown in 2010, after the downturn in 2009. Despite the improved growth outcomes, unemployment remained a major policy challenge for most of these economies. Australia and New Zealand raised their key interest rates during the year, while the United States (US), Japan and the Euro zone maintained their record low interest rates.

The US economy is estimated to have grown by 2.9 percent in 2010. During the year, the Federal Reserve launched a massive quantitative easing program to stimulate the economy further. Despite this initiative, the unemployment rate lingered around 10.0 percent and remained a major challenge for the US economy. In Japan, the export-led recovery which began in the second quarter of 2009 strengthened further, resulting in an estimated 4.0 percent growth for the Japanese economy in 2010. Rising demand for capital goods from China and recovery in the advanced economies supported Japan's growth. However, the appreciating Yen and continued deflation pose downside risks for Japan's growth outlook. The Euro zone was affected by the sovereign debt crisis, largely caused by unsustainable policies in some member countries. Overall, the Euro zone is estimated to have grown moderately by 1.8 percent in 2010. Among the advanced economies, the Australian economy remained resilient in 2010, supported by rising demand from China. As such, the Reserve Bank of Australia raised its cash rate four times in 2010, amid higher inflation expectations, causing the Australian dollar to appreciate significantly.

World GDP Growth Rates



Source: IMF World Economic Outlook (June 2011)

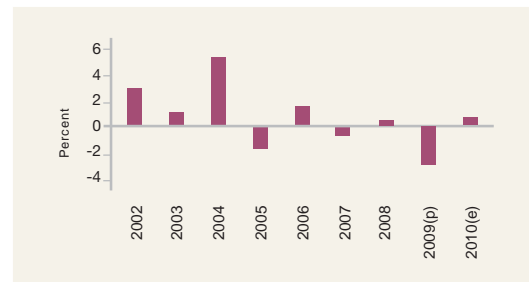
The Australian economy is estimated to have expanded by 2.7 percent in 2010. In contrast, the recovery in New Zealand was weak, further exacerbated by the

massive earthquake that struck the nation during the year. However, the Reserve Bank of New Zealand raised its key interest rate twice in 2010 to dampen the inflationary impact created by the extraordinary level of support implemented during the global financial crisis.

Economic Developments in Fiji

In 2010, the domestic economy is estimated to have grown marginally by 0.6¹ percent, following a 3.0 percent contraction in 2009.

Fiji's GDP Growth Rates



Sources: Fiji Bureau of Statistics and Macroeconomic Committee

The marginal growth in 2010 was underpinned by increased activity in the manufacturing; hotels & restaurants; mining & quarrying; financial intermediation; real estate & business services; construction; education; electricity & water; public administration & defence; other community, social & personal service activities and the wholesale & retail sectors. The improved performances in these sectors were partly offset by restrained activity in the transport, storage & communication; agriculture; fishing and the health & social work sectors.

In contrast, record visitor arrivals throughout the year underpinned the strong performance of the tourism industry, feeding through to improved outcomes in tourism-related activities. In the mining sector, the increased productive capacity at the Vatukoula gold mine and record high international gold prices, underlined the 77.2 percent annual growth in gold production of 62,114 ounces. However, the 2010 outcome is still below an all-time high of 150,400 ounces produced in 1997.

¹ Macroeconomic Committee's Forecast.

ECONOMIC OVERVIEW

Broadly, indicators of economic activity, including measures of consumer and business confidence coupled with industry liaison, suggest some growth in economic activity - although still below 2001-2004 trends. Consumer demand appeared to have improved modestly, consistent with the slight improvement in economic activity in 2010.

Partial indicators of consumption, such as net Value Added Tax (VAT) collections recorded an annual growth of 23.1 percent in 2010. Inflows of remittances totalled \$295.4 million in 2010, a rise of 0.5 percent during the year. However, an annual contraction by 12.5 percent in new consumption lending in the year to December and a marginal 1.9 percent increase in imports of consumption goods in the first 11 months of 2010, suggested some restraint in consumer spending. In addition, survey data showed expected retail sales growth for 2010 to be below pre-2006 levels.

Investment conditions remained broadly subdued in 2010 as revealed in the below-trend growth in imports of investment goods and value of work put-in-place by the construction sector. Imports of investment goods, cumulative to November, increased over the year by 0.5 percent work put-in-place. In addition, the total value of work put in place in the year to December increased annually by 3.2 percent. While new lending by commercial banks for investment purposes rose yearly by 11.1 percent in 2010, this followed a 64.1 percent contraction in 2009. Investment intentions revealed in the Bank's Business Survey, while positive, remained relatively weak on average - suggesting restrained investment in 2010. Notwithstanding some investment activity in the electricity, tourism and mining industries, private and public capital spending remained generally weak during the year.

Government's 2010 budget deficit was initially estimated at \$220.1 million, equivalent to 3.5 percent of GDP. Unanticipated expenditures in the first half of the year, particularly towards rehabilitation works on infrastructure damaged by Cyclones Mick and Tomas² and Government's financial support towards the Fiji Sugar Corporation (FSC) led to the revision of the 2010 Budget in July. Nonetheless, the revised 2010 deficit stood at \$211.8 million, equivalent to 3.6 percent of GDP, with funds from the operating budget

re-directed towards capital grants and transfers for much-needed post-cyclone capital works.

Employment conditions picked up during the latter part of 2010. The Reserve Bank's Job Advertisements Survey, a partial indicator of employment, registered an annual increase of 5.9 percent. However, the improvement was biased towards tourism-related sectors as performances in all other sectors remained subdued.

In the review period, new taxpayer registrations rose significantly to 47,368. However, this was largely the result of the compulsory Tax Identification Number registration policy implemented by the FRCA in August 2010.

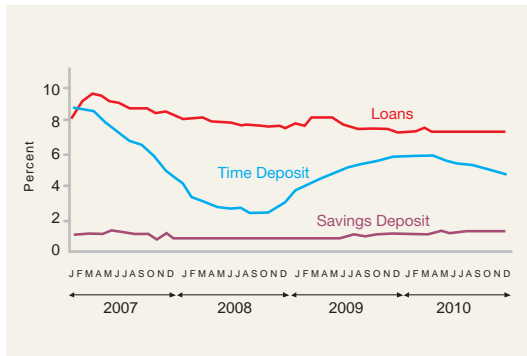
Inflation spiked in the early months of 2010, peaking at 10.5 percent in April, the highest in 22 years. This reflected both the impact of the 2009 devaluation and tropical cyclones Mick and Tomas, on market items. Nevertheless, from June 2010, inflation slowed, underpinned by the reduction in the electricity tariff rate to lifeline consumers in June. However, soaring global oil prices coupled with the incremental impact of the electricity tariff rate restructure towards the end of 2010 resulted in higher inflation over the last quarter. Consequently, the 2010 year-end inflation was 5.0 percent compared to 6.8 percent in 2009.

Developments in money and credit aggregates largely reflected the favourable outturn in foreign reserves in 2010. On an annual basis, broad money rose by 3.9 percent, underpinned by increases in demand deposits and currency in circulation by 14.5 percent and 7.9 percent respectively, in the year to December. However, domestic credit contracted by 1.7 percent in 2010, as a result of significant declines in net credit to the Government and official entities.

These declines more than offset the 3.2 percent increase in private sector credit, which in turn was attributed to the 3.5 percent growth in commercial banks' credit over the year to \$2,883.3 million. The growth in commercial bank credit in 2010 was on account of higher lending to the wholesale, retail, hotel, restaurant; real estate and private individuals sectors.

Reflecting the high liquidity in the banking system, interest rates generally trended downwards in 2010. The commercial banks' weighted average lending rate fell to 7.42 percent in December 2010, compared to 7.52 percent at the end of 2009. In the same period, the commercial banks' weighted average time deposit rate fell to 4.73 percent from 5.83 percent in December 2009 while the savings deposit rate increased by 10 basis points to 1.02 percent.

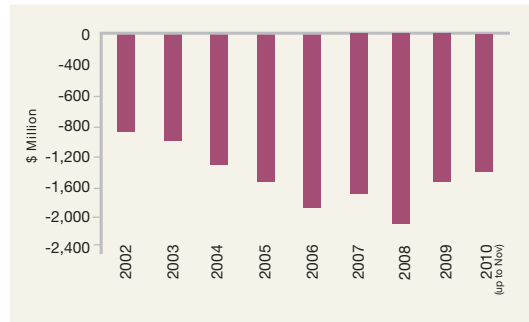
Commercial Banks' Lending and Deposit Rates



Source: Reserve Bank of Fiji

Fiji's overall trade performance improved in 2010, largely underpinned by a strong growth in exports relative to imports. Cumulative to November 2010, exports rose annually by 13.3 percent compared to a 14.4 percent contraction during the same period in 2009. Imports rose by only 4.1 percent in the same period, compared to a 20.0 percent decline in 2009. The trade deficit cumulative to November 2010, improved to \$1,415 million from \$1,460 million in the same period in 2009.

Trade Deficit



Source: Fiji Bureau of Statistics

CONDUCT MONETARY POLICY TO FOSTER ECONOMIC GROWTH



The Reserve Bank of Fiji, as the country's central bank, 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 was largely geared towards preserving its twin objectives, supporting economic recovery and facilitating growth in 2010.

MONETARY POLICY FORMULATION

Chronology of Monetary Policy Actions

The drastic effects of both external and internal shocks experienced over the past few years continue to impact on domestic economic outcomes. The Fiji economy, after initially being projected to grow by 1.8 percent in 2010, is now anticipated to expand marginally by 0.6 percent. The outturn in our twin objectives, however, was relatively more favourable compared to the previous year, owing largely to the policy measures implemented in 2009. Foreign reserves remained at comfortable levels throughout 2010, while inflation, after peaking at 10.5 percent in April, generally trended downwards in the remaining months of the year.

Against a backdrop of subdued domestic economic conditions and positive outturns in our twin objectives, monetary policy formulation focussed on supporting economic recovery and creating a conducive environment for growth.

To this end, the Reserve Bank relaxed borrowing requirements for non-resident controlled companies and individuals in March. This policy was mainly undertaken to encourage investment in the tourism industry and assist the recovery in the building and construction sector. In addition, a Concessional Loan Facility (CLF) for businesses affected by Cyclone Tomas was also introduced to help those financially affected and aid their rebuilding efforts.

Following the 20.0 percent devaluation of the Fiji dollar (FJD) in April 2009, there was a significant increase in domestic liquidity as a consequence of higher foreign

exchange inflows. Bank demand deposits (BDD) rose sharply from a critically low level of \$12.0 million towards the end of March 2009 to \$349.0 million in April 2010. To mitigate the risks that a high upswing in liquidity could impose on credit growth as well as to suppress any potential inflationary pressures, the Reserve Bank raised the SRD ratio to 8.5 percent from 7.0 percent on 7 June.

The negative impact of the global financial crisis on financial sectors across the globe coupled with uncertainties surrounding the domestic economic recovery prompted the Reserve Bank to implement policies aimed at strengthening the safety and soundness of LFIs and enhancing the overall resilience of the financial system. In April 2010, the capital adequacy ratio minimum requirement for licensed commercial banks was increased to 12.0 percent from 8.0 percent whilst that of licensed credit institutions was raised to 15.0 percent from 10.0 percent.

In May, the Bank implemented a new market-based monetary policy framework and initially set its OPR at 3.0 percent. Under the new framework, the remuneration on commercial banks' SRD was removed and replaced with interest paid on BDD. Moreover, commercial banks were required to publicly disclose reasons for any widening of their interest spreads above 4.0 percent. Upon the implementation of the new framework, OMO were resumed since they were suspended in June 2007.

A \$20.0 million ISF was also launched in May. The facility was aimed at assisting large scale agricultural businesses to obtain credit at concessional rates to support domestic agricultural production and advance the competitiveness of local agricultural produce in the short term, as well as reduce import payments and improve the sustainability of the BOP position over the long term.

To maintain excess liquidity in the banking system at adequate levels, the Reserve Bank further raised the SRD from 8.5 percent to 10.0 percent, with effect from 7 July 2010. The level of BDD, which was above \$300.0 million in May, consequently fell to \$222.9 million by the end of July.

In July, the Reserve Bank rationalised the EFF and ISF into one named the ISEFF. Under the ISEFF, \$40.0 million in funding was made available to all eligible exporters who can obtain credit at concessional rates of interest. In



addition, businesses in the agricultural sector that produced goods which results in a reduction in imports were also entitled to access this Facility.

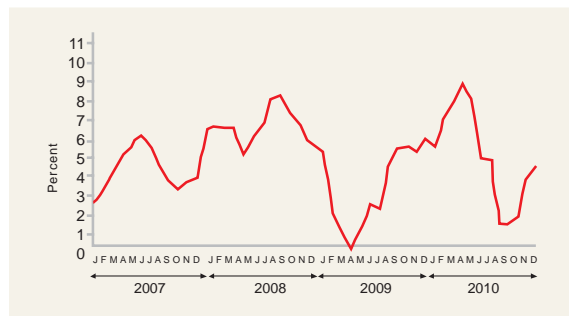
In November, reflecting stability in the foreign reserves position, the Reserve Bank eased monetary policy by reducing the OPR to 2.5 percent from 3.0 percent. Furthermore, selected exchange control policies were relaxed to boost investor confidence and the coverage of the ISEFF was extended to include the renewable energy sector. These measures were largely undertaken to support the recovery of the domestic economy.

Monetary Policy Outcomes for 2010

Monetary policy continued to focus on achieving its twin objectives of low inflation and an adequate level of foreign reserves during the year.

Year end inflation fell to 5.0 percent in 2010, from 6.8 percent in 2009. This was on account of relatively lower oil prices and weak domestic activity in the most part of 2010. In addition, the complete pass-through of the impact of the April 2009 devaluation of the FJD complemented by the reduction in some administered price controls helped ease inflationary pressures in 2010.

Inflation

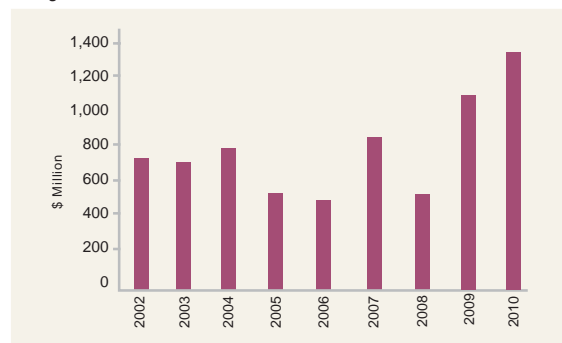


Source: Fiji Bureau of Statistics

Foreign reserves, continued to increase throughout the year, reaching a new historical high of \$1,307.4 million in November, before falling slightly to \$1,302.7 million

at the end of 2010. The end of year reserves were equivalent to 4.1 months imports of goods and non-factor services.

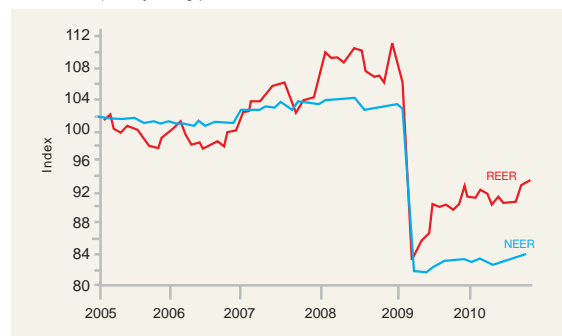
Foreign Reserves



Source: Reserve Bank of Fiji

While the bilateral movement of the FJD against major trading partner currencies was mixed in 2010, the increase in the Nominal Effective Exchange Rate (NEER) Index suggested that the FJD generally appreciated against the basket of currencies in the review period. The NEER, which indicates the aggregate movements in the FJD vis-à-vis the currencies of Fiji's major trading partners, rose by 2.7 percent, implying a slight appreciation of the domestic currency. The Real Effective Exchange Rate (REER) Index, a gauge of Fiji's international competitiveness, rose by 2.9 percent during the same period, indicating an erosion in Fiji's international competitiveness.

REER/NEER (Monthly Average)



Source: Reserve Bank of Fiji

MONETARY POLICY IMPLEMENTATION

Open Market Operations

The Reserve Bank implements monetary policy through the conduct of OMO by issuing or redeeming RBF Notes. OMO is conducted to change the level of liquidity in the banking system, thereby influencing short-term market rates in the economy in line with its policy rate. The RBF suspended OMO in 2007, resorting to more direct controls instead.

Following the implementation of the new market-based monetary policy framework in May 2010, OMO was resumed with the auctioning of 14-day RBF Notes on a weekly basis. The new framework required the Reserve Bank to set an OPR which will indicate its monetary policy stance. The OPR was initially set at 3.0 percent and later reduced by 50 basis points to 2.5 percent in November, reflecting an easing of monetary policy.

A total of \$888.5 million in RBF Notes was issued during the year. However by the end of November, all RBF Notes outstanding were redeemed.

In 2010, monetary policy cost amounted to \$5.5 million, compared to \$1.4 million in 2009. The substantial increase was largely due to higher costs relating to the implementation of the new monetary policy framework, in particular interest costs associated with the resumption of OMO and remuneration of BDD.

Management of Foreign Reserves

The management of foreign reserves is one of the Bank's core functions. Under the RBF Act (1983), the Reserve Bank is responsible for the custodianship and management of Fiji's foreign currency reserves. In carrying out these responsibilities, the Bank must ensure that the capital value of the reserves is preserved, while maintaining sufficient liquidity and an acceptable rate of return.

The major portion of Fiji's foreign reserves is held in the currencies of the FJD basket, namely the US, Australian and New Zealand dollars, Japanese yen and the euro. The remainder is held in gold, the British pound sterling and Special Drawing Rights (SDR) with the IMF.

The asset composition of reserves is dominated by liquid holdings of deposits and securities in highly

rated entities. During 2010, the Bank reviewed its credit risk policies and introduced a more dynamic approach to aligning credit exposure limits with the level of investible reserves.

After surpassing the \$1.0 billion mark in 2009, foreign reserves continued to rise, reaching record high levels in 2010. As at 31 December 2010, the level of foreign reserves was \$1.3 billion, a \$0.2 billion increase over the previous year. The growth in reserves resulted in an improvement in the Bank's foreign exchange income from \$24.3 million in 2009 to \$30.4 million in 2010. However, the Bank's investment portfolio of foreign reserves earned a lower return of 2.8 percent compared to the return of 3.3 percent earned on the benchmark portfolio.³ The underperformance was due to two main factors. Firstly, the RBF portfolio was underweight in bonds compared with the benchmark portfolio, in a period when the return on bonds was rising due to the fall in yields. Secondly, the RBF's portfolio was of a shorter duration than the benchmark.

Return on External Reserves (\$ Million)

| | 2008 | 2009 | 2010 |
|--|------|------|------|
| Foreign Exchange Income | 37.7 | 24.3 | 30.4 |
| Average Month-End Level of Investible Reserves | 577 | 813 | 920 |
| Annual Return on: | | | |
| RBF Benchmark (%) | 7.4 | 3.4 | 3.3 |
| RBF Portfolio (%) | 6.0 | 3.6 | 2.8 |

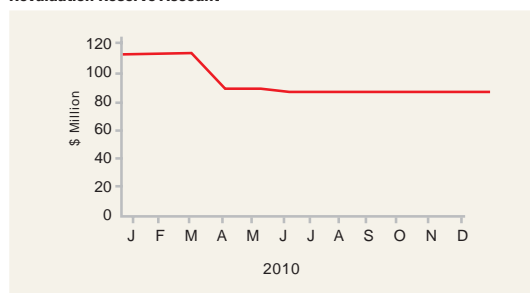
Source: Reserve Bank of Fiji

In accordance with the provisions of the RBF Act (1983), foreign exchange gains and losses arising from the revaluation of the Bank's foreign assets and liabilities are credited or charged to a RRA. To hedge against exchange rate risks and to minimise volatility in the RRA, the currency composition of the foreign reserves is held in a similar weighting to that of the FJD currency basket. The hedging strategy adjusts the currency composition to take into account the Bank's SDR assets and liabilities. During the year, a portion of the SDR assets was converted into US dollars to reduce the exchange rate risk on the SDR portfolio. In 2010, the RRA recorded a loss of \$3.6 million compared to a \$103.0 million gain in 2009. The latter gain had resulted from the devaluation of the FJD.

The RBF Act also requires the Bank to transfer 20 percent of the RRA balance to Government annually. At the end of 2010, the RRA balance was \$87.0 million, of which \$17.4 million will be transferred to Government in 2011. In 2010, \$22.6 million was transferred under this provision.



Revaluation Reserve Account



Source: Reserve Bank of Fiji

Exchange Rates

The Bank determines the rate at which the FJD is exchanged for foreign currencies on a daily basis. The prevailing rates of the FJD basket currencies are used to set the FJD-US dollar rate at 9.00am on each business day. This rate remains unchanged for the day and is used by commercial banks to establish the exchange rates for their customers. Retail spreads on all currencies in the FJD basket are regulated by the Reserve Bank. In 2010, the Bank completed a comprehensive review of the exchange rate regime and its operational procedures, with technical assistance from the IMF.

Forward Facility

The Forward Foreign Exchange Facility continued to be monitored for compliance with the RBF guidelines.⁴ In comparison to the previous year, the volume of new forward exchange contracts written rose by 16 percent.

Foreign Currency Payments

Foreign currency payments were administered by the Bank for the Fijian Government, other central banks

and a number of supranational international organisations.⁵

Exchange Control

In 2010, selected exchange control policies were relaxed in light of higher levels of foreign reserves. In this regard, the Reserve Bank increased the delegated limits to authorised foreign exchange dealers for certain transactions as well as reviewed and amended its policy on local borrowing, following discussions with stakeholders.

In order to improve compliance with the Exchange Control Act (Rev. 1985), a review of the fifth schedule relating to fines and penalties for any breaches was undertaken. Following the endorsement by the RBF Board, Cabinet approved the higher fines and penalties which came into effect in December 2010.

Throughout the year, the Bank continued to strengthen compliance with exchange control policy guidelines.

Export Proceeds Reconciliation and Monitoring

This initiative was introduced to ensure that export proceeds are repatriated back into the country as required under the Exchange Control Act (Rev. 1985).

Under the guidance of the export proceeds monitoring Interagency Committee⁶, a total of \$1.1 billion of outstanding unreconciled export proceeds were successfully reconciled during 2010.

The Reserve Bank will continue to closely monitor compliance with the Exchange Control Act (Rev. 1985).

⁴ Commercial banks are allowed to write forward sales contracts only to the extent of their forward purchases; exceptions for additional forward sales cover on investment-related projects are available upon application.

⁵ This includes the ADB, IMF and International Bank for Reconstruction and Development.

⁶ This Committee comprises senior officials from FRCA, the FIU and RBF.

MISSION:

DEVELOP AN INTERNATIONALLY REPUTABLE FINANCIAL SYSTEM



FINANCIAL SYSTEM REGULATION AND SUPERVISION

In order to promote a sound financial structure, the Reserve Bank regulates and supervises the financial system, which comprises the banking and insurance industries, the FNPF, foreign exchange dealers and money changers and the capital markets.

The enabling legislation for regulation and supervision are the Reserve Bank Act (Rev. 1985), Banking Act (1995), Insurance Act (1998), Insurance (Amendment) Act (2003), Exchange Control Act (1985), Reserve Bank of Fiji (Amendment) Decree (2009) and Capital Markets Decree (2009). These legislations confer on the Reserve Bank powers to issue licences, regulations, prudential guidelines and directives to financial institutions and to conduct offsite supervision and onsite examinations.

Fiji's financial system remained stable in 2010 with the banking industry maintaining a strong capital position and satisfactory earnings levels. The insurance industry's performance was also satisfactory. The FNPF recorded a stable growth amidst reforms aimed at addressing sustainability and strategic risks. Despite the macroeconomic challenges, the financial system remained sound.

Supervisory Developments

In 2010, the Reserve Bank finalised and implemented five prudential policies and developed two additional draft policies aimed at strengthening risk management of supervised institutions. Policies were also issued to strengthen complaints management across all supervised industries. Eight risk-based onsite examinations were conducted during 2010.

For the banking industry, the minimum capital adequacy ratio requirement for banks and credit institutions was increased in 2010. From May, banks were required to maintain capital at 12 percent of risk weighted assets, an increase from 8 percent, while credit institutions' new minimum capital ratio require-

ment increased to 15 percent from 12 percent. The Reserve Bank also implemented three banking supervision policies on Minimum Requirements for the Management of Operational Risk for LFIs, Interest Spread Disclosure Requirements for Banks and on Appointment of Heads of LFIs. Industry consultation was also initiated on a draft policy on Accountability and Disclosure Guidelines on Interest Rates, Fees and Charges for LFIs. The draft policy reviewed the 2002 Policy on Disclosure of Fees & Charges and aims to strengthen the effectiveness of the Reserve Bank's disclosure requirements for LFIs in this area. Following this, an Operations Committee of the Association of Banks in Fiji (ABIF) was formed specifically to discuss the proposed requirements in the draft policy with the Reserve Bank.

For the insurance industry, the Reserve Bank implemented a policy outlining the Minimum Requirements for Risk Management Frameworks of Licensed Insurers in Fiji. Draft policies on the Role of Actuaries of Licensed Insurers and Disclosure Requirements for Licensed Insurers were also developed in 2010 with the former issued to the industry for comments.

For Restricted Foreign Exchange Dealers (RFED) and Money Changers, the Reserve Bank increased the overnight foreign exchange cash limit from 25 percent to 75 percent of paid up capital. In addition, the 2002 policy on Operational Requirements was reviewed. Redundant requirements of the 2002 policy were revised to align the RBF's requirements with the current operating environment of the foreign exchange dealers and money changers.

Onsite examinations of supervised entities, which are an integral part of the Reserve Bank's supervision, were undertaken. Eight onsite examinations assessed compliance with the applicable legal requirements, RBF supervision policy requirements and adequacy of risk management frameworks. The recomm-



endations arising from these and prior visits were also monitored throughout the year. Spot checks of the 11 authorised foreign exchange dealers were undertaken in 2010 as part of the Reserve Bank's ongoing monitoring to assist the annual licence renewal process.

The prudential supervision of the FNPF was further strengthened in 2010 with closer monitoring of the Fund. In February 2010, the Reserve Bank and the FNPF jointly visited the Employees Provident Fund of Malaysia and the Central Provident Fund Board of Singapore. The aim of the joint staff visit was to increase awareness and gather information on the operations of the two institutions.

Arising from the joint staff mission, the Minister for Finance issued a directive for the commencement of a reform program for FNPF's operations. The Reserve Bank's offsite monitoring increased in intensity through monthly prudential consultations which closely monitored the implementation of the required reforms. The Fund's progress in the implementation of the Reserve Bank's onsite examination recommendations from 2006 to 2009 was also closely monitored. The supervisory matters arising from the prudential consultations were regularly reported to the Reserve Bank Board. This covered new developments taking place at the Fund and major decisions made concerning the supervision of the FNPF.

Further to these measures, the Reserve Bank also met with external consultants to the Fund for its reform program. Strategic recommendations arising from this engagement include the review of the FNPF Act and the investment rehabilitation program of the Fund.

Closer monitoring of the Fund will continue in 2011 through offsite and onsite supervision and a review of the prudential reporting framework for the supervision of the FNPF.

The Reserve Bank's controllership of the AMB continued in 2010. Significant steps towards the winding up of the AMB were achieved, enabling the final process to commence in 2011. The Reserve Bank

also progressed with the winding up of the Insurance Trust Fund operation. This is expected to continue as a number of insurance policies remain in force and recovery of outstanding loans cases continue.

In 2010, stress tests were conducted internally for the review of the minimum capital adequacy ratio requirement for banks and credit institutions. This generally focussed on credit and liquidity risk and was complemented by the quarterly compilation of Financial Soundness Indicators on an industry-wide basis.

A notable development in 2010 was the completion of the EFTPOS Interchange between Bank South Pacific (BSP) and Australia and New Zealand Banking Group (ANZ). This innovation allows BSP and ANZ customers to use their bank cards at each other's EFTPOS machines. It is expected that the full interchange between BSP, ANZ and Westpac Banking Corporation will be completed in early 2011. EFTPOS Interchange is aimed at improving convenience for bank customers and merchants, save costs for banks and improve the efficiency and outreach of banking services.

The Financial System

In 2010, the number of banks and credit institutions licensed under the Banking Act (1995) remained at five and three respectively, with no new licences issued.

The acquisition process by BSP of the Commonwealth Bank of Australia's shares in Colonial National Bank (CNB) and Colonial Fiji Life Limited was completed in 2010. The full integration of the operations of CNB with BSP and the full transfer will be completed in 2011. Further to this, although a number of licensing enquiries were received from notable interested parties during the year, no new applications were received.

In the insurance industry, two life insurance companies, eight general insurance companies, four insurance brokers and 329 agents were licensed under the Insurance Act.



Licensed Financial Entities including Branches/Agencies (Number)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|-------|-------|-------|-------|-------|
| Commercial Banks ¹ | 6 | 6 | 5 | 5 | 5 |
| Branches/Agencies | 108 | 110 | 120 | 120 | 114 |
| ATMs | 122 | 132 | 154 | 164 | 202 |
| EFTPOS | 1,202 | 1,320 | 1,589 | 1,785 | 1,896 |
| Credit Institutions | 3 | 3 | 3 | 3 | 3 |
| Branches/Agencies | 11 | 11 | 11 | 12 | 13 |
| Life Insurance Companies | 2 | 2 | 2 | 2 | 2 |
| General Insurance Companies ² | 8 | 8 | 8 | 8 | 8 |
| Insurance Brokers | 5 | 5 | 4 | 4 | 4 |
| Insurance Agents ³ | 336 | 385 | 378 | 320 | 329 |
| Foreign Exchange Dealers | 8 | 8 | 8 | 7 | 8 |
| Money Changers | 4 | 3 | 3 | 3 | 3 |
| Securities Exchange | 1 | 1 | 1 | 1 | 1 |
| Unit Trusts | 6 | 6 | 3 | 2 | 2 |
| Property Trusts | 1 | 1 | 1 | 1 | 1 |
| Investment Advisors | 11 | 13 | 10 | 11 | 10 |
| Brokers | 3 | 3 | 3 | 3 | 3 |
| Dealers | 2 | 2 | 2 | 2 | 3 |

¹ AMB is excluded from 2008 to 2010, when it went under the controllership of the RBF and is currently being wound up.
² Includes Fire and All Risk Insurance (Fiji) Limited, which is currently being wound up.
³ An agent may hold more than one licence to sell various classes of insurance in a calendar year.

Source: Reserve Bank of Fiji

During the same period, eight RFED and three money changers were licensed under the Exchange Control Act. This includes MH Money Express Limited, which was issued a new RFED licence during the year.

With regard to the capital markets, five categories of licences were issued during the year in accordance with the Capital Markets Decree. These included licences that are renewed annually for the SPSE, unit trusts, investment advisors, brokers, dealers and their representatives. In all, 48 renewals and 12 new applicants were issued. In 2010, an investment advisor did not seek the renewal of his licence, while a new broker was licensed.

During 2010, commercial banks increased their points of access to the public with more EFTPOS facilities and ATMs. This is expected to continue in 2011.

The total gross assets of the financial system grew by 1.9 percent to \$10.5 billion in 2010, sluggish growth from the increase of 7.8 percent in 2009. The banking industry and the FNPF both recorded lower growths in 2010 although they continued to account for the majority of the assets of the financial system at 43 percent and 37.5 percent, respectively. Insurance companies and other Non-Bank Financial Institutions (NBFIs) accounted for 8.8 percent and 6.4 percent, respectively.

Gross Assets of the Financial System (\$ Million)

| | 2006 | 2007 | 2008(r) | 2009 | 2010(p) |
|---|--------------|--------------|--------------|---------------|---------------|
| Regulated Financial Entities | | | | | |
| Commercial Banks | 3,547 | 3,962 | 4,008 | 4,452 | 4,504 |
| Credit Institutions | 401 | 370 | 348 | 372 | 418 |
| Insurance Companies | 705 | 825 | 804 | 921 | 936 |
| FNPF | 3,337 | 3,437 | 3,696 | 3,841 | 3,928 |
| Total | 7,990 | 8,594 | 8,856 | 9,586 | 9,786 |
| Non-Regulated Financial Entities | | | | | |
| Other NBFIs ¹ | 736 | 738 | 676 | 688 | 681 |
| Total | 736 | 738 | 676 | 688 | 681 |
| Total Financial System² | 8,726 | 9,332 | 9,532 | 10,274 | 10,467 |

¹ Includes FDB, Housing Authority and Unit Trust of Fiji but excludes FNPF and AMB.
² Excludes Reserve Bank of Fiji.

Source: Reserve Bank of Fiji

The value of the capital markets totalled \$4.1 billion, an increase of 2.1 percent over the previous year.

Composition of the Capital Markets (\$ Million)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Equities Market ¹ | 1,060 | 810 | 1,002 | 902 | 778 |
| Unit Trust Market ² | 165 | 148 | 138 | 116 | 115 |
| Bonds Market ³ | 2,733 | 2,750 | 2,827 | 3,003 | 3,212 |
| Total | 3,958 | 3,708 | 3,967 | 4,021 | 4,105 |

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

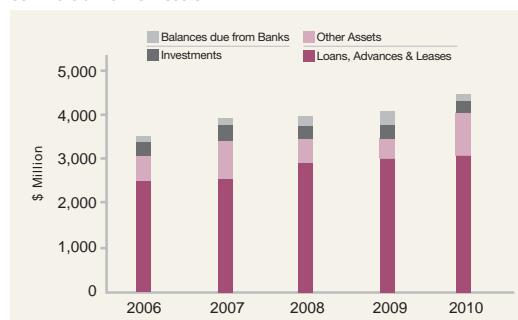
Source: Reserve Bank of Fiji

The Banking Industry

Despite a lower annual growth and deterioration in asset quality, the overall performance of the banking industry was satisfactory. Capital remained adequate while earnings were positive.

In 2010, the banking industry grew annually by a marginal 1.2 percent to \$4.5 billion, a sluggish growth compared to the increase of 11.1 percent in 2009. The outcome was underpinned by notable decreases in investments and foreign currency assets.

Commercial Banks' Assets



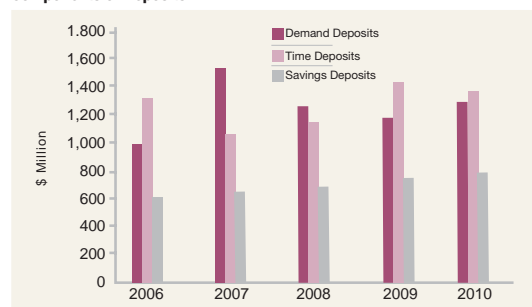
Source: Reserve Bank of Fiji



Loan growth remained subdued as advances (including leases, bills receivable and foreign currency loans) grew by 2.0 percent over the year to \$3.1 billion. This was attributed to higher lending to the wholesale, retail & hotels sector, real estate sector and loans to private individuals and the other sectors which more than offset declines recorded for the manufacturing, building & construction and professional and business services sectors.

Investment in Government and Government-guaranteed securities fell by 19.7 percent to \$251.0 million. This was due mainly to a change in strategy by a commercial bank to increase its loan book.

Components of Deposits

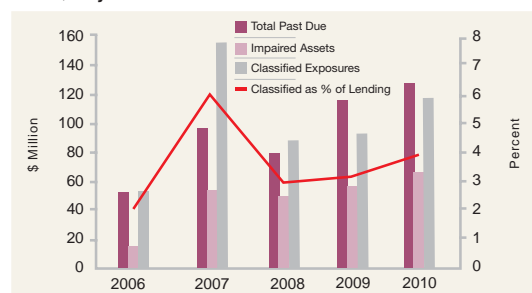


Source: Reserve Bank of Fiji

For liabilities, deposits grew by 2.8 percent to \$3.5 billion in 2010. This was attributed to the increase in demand and savings deposits, by 10.7 and 5.2 percent, respectively. In contrast, time deposits fell by 5.0 percent.

In terms of deposit holders, private individuals accounted for the majority of total deposits, amounting to \$1.3 billion (36.0 percent), followed by private sector business entities at \$1.2 billion (33.6 percent). Capital and reserves increased by 10.1 percent to \$568.6 million from \$516.4 million in 2009. In 2010, the consolidated capital adequacy ratio increased to 19.3 percent compared to 16.8 percent in 2009. All

Asset Quality



Source: Reserve Bank of Fiji

the commercial banks complied with the new minimum capital adequacy requirement of 12.0 percent. The total risk weighted assets of the banking industry decreased by 2.5 percent to \$2.8 billion

The asset quality of the banking industry deteriorated during the year. Classified exposures increased by 25.8 percent over the year to \$116.0 million. Impaired assets also increased by 15.1 percent: substandard (\$0.6 million), doubtful (\$37.1 million) and loss (\$27.1 million).

Summary of Commercial Banks' Profitability¹ (\$ Million)

| | 2006 | 2007 | 2008 | 2009(r) | 2010(p) |
|---|----------------|----------------|----------------|----------------|----------------|
| Net interest income | 142.3 | 153.3 | 187.4 | 190.4 | 159.8 |
| Add: Non-interest income | 89.2 | 90.8 | 96.5 | 113.5 | 130.5 |
| Income from overseas exchange transactions | 36.4 | 38.8 | 44.3 | 46.4 | 55.0 |
| Commission and Charges | 51.4 | 48.4 | 54.2 | 56.6 | 68.2 |
| Other income | 1.4 | 3.6 | (2.0) | 10.5 | 7.3 |
| Total operating income | 231.6 | 244.3 | 283.9 | 303.9 | 290.2 |
| Less: Operating expenses | 108.4 | 121.7 | 133.0 | 137.8 | 173.4 |
| Less: Bad debts and Provisions | (1.4) | 19.5 | 7.3 | 38.8 | (8.2) |
| Profit before tax and extraordinary items | 124.6 | 102.8 | 143.5 | 127.3 | 125.0 |
| Less: Tax | 36.8 | 30.1 | 41.8 | 38.1 | 32.5 |
| Net profit after tax | 87.7 | 72.7 | 101.7 | 89.2 | 92.5 |
| Add/Less: Extraordinary items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit after tax and extraordinary items | 87.7 | 72.7 | 101.7 | 89.2 | 92.5 |
| Average Assets | 2,941.0 | 3,403.0 | 3,766.7 | 4,033.5 | 4,322.5 |
| After Tax Return on Equity (%) | 39.7 | 28.4 | 32.2 | 21.1 | 17.6 |
| Efficiency (%) | 46.8 | 49.9 | 46.9 | 45.3 | 59.8 |
| Yield on Earning Assets (%) | 7.0 | 8.8 | 7.5 | 7.3 | 7.2 |
| Cost of Funding Liabilities (%) | 1.7 | 3.8 | 1.9 | 1.9 | 3.1 |

¹ Financial year-end profits for all commercial banks used.

Source: Reserve Bank of Fiji

In line with the increase in classified exposures, past due accounts increased by \$11.5 million to \$125.4 million. The majority of problem loans were concentrated in the private individuals sector, accounting for 28.7 percent, followed by the wholesale, retail, hotels & restaurants sector at 28.2 percent. Special mention accounts⁷ declined by 41.2 percent over the year to \$113.5 million.

Total provisions for the banking industry fell by 12.3 percent from \$90.8 million to \$79.6 million. This was

⁷ These accounts reflect a higher than normal degree of risk or where borrowers are experiencing difficulties.



due to banks upgrading their large accounts and write-back of provisions. This represented 34.9 percent of total classified loans.

The banking industry's profits (before tax) for the 2009-2010 financial year-end decreased to \$125.0 million from \$127.3 million in the previous comparable period. The decrease in profits was largely underpinned by a fall in net interest income and an increase in operating expenses which offset the increases noted in non-interest income and reduction in bad debt expense.

The commercial banks' combined efficiency ratio deteriorated to 59.8 percent in 2010 from 45.3 percent in 2009 due to larger increases in operating expenses compared to increases in operating income.

Commercial Banks' Interest Profitability (% of Average Assets)¹

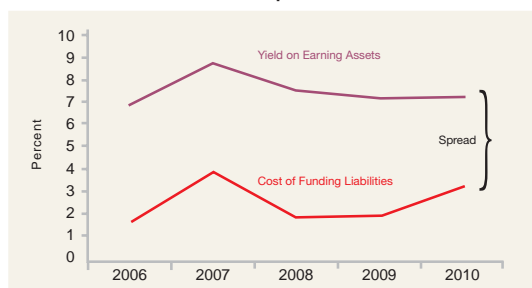
| | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------------|-------|------|------|------|-------|
| Net Interest Income | 4.8 | 4.5 | 5.0 | 4.7 | 3.7 |
| Charges for Bad & Doubtful Debts | (0.1) | 0.6 | 0.2 | 1.0 | (0.2) |
| Non-Interest Income | 3.0 | 2.7 | 2.6 | 2.8 | 3.0 |
| Operating Expenses | 3.7 | 3.6 | 3.5 | 3.4 | 4.0 |
| Net Profit Before Tax | 4.2 | 3.0 | 3.8 | 3.2 | 2.9 |
| Net Profit After Tax | 3.0 | 2.1 | 2.7 | 2.2 | 2.1 |

¹ Financial year-end profits for all commercial banks used.

Source: Reserve Bank of Fiji

The consolidated banking industry's interest spread, as at December 2010, declined to 4.1 percent from 5.3 percent in 2009. This decline was led by increased cost of funds transpiring from the higher level of interest rates on deposits offered during the year.

Commercial Banks' Annual Interest Spread



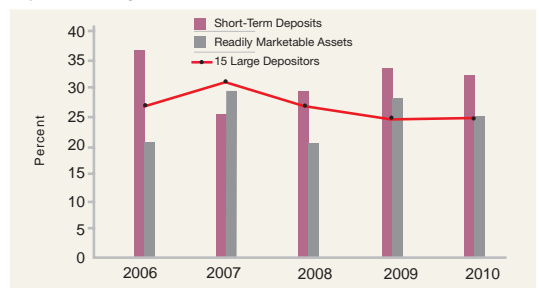
Source: Reserve Bank of Fiji

Total liquid assets of the banking industry declined significantly during the year by \$80.9 million to

\$874.8 million. The decline in liquid assets was largely due to falls in investments, deposits held in other banks and cash over the year.

In 2010, the ratio of marketable assets (liquid assets to total deposits) declined to 24.9 percent from 28.0 percent in 2009. Similarly, the ratio of the 15 largest depositors as a percentage of total deposits increased from 23.6 percent in 2009 to 24.4 percent in 2010. The banking industry's short-term deposits remained unchanged at \$1.1 billion.

Deposits Coverage



Source: Reserve Bank of Fiji

Credit Institutions

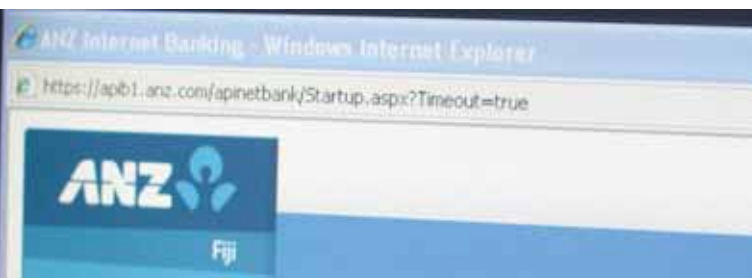
The overall performance of credit institutions was satisfactory in 2010.

Over the year, the total assets of credit institutions grew by 12.4 percent to \$417.9 million. This growth was largely underpinned by an increase in both loans and advances (\$45.3 million) and fixed assets (\$2.1 million). Demand deposits held with the commercial banks decreased by \$0.4 million to \$31.8 million.

Gross loans, advances & leases recorded a growth of 15.5 percent to \$338.2 million. Lending to private individuals increased by \$20.4 million to \$135.7 million, along with loans to private sector business entities which recorded an increase of \$24.6 million to \$201.7 million. The loan portfolio of the credit institutions was dominated by private sector business entities (59.7 percent) and followed by private individuals (40.2 percent) with the other sectors comprising of 0.1 percent.

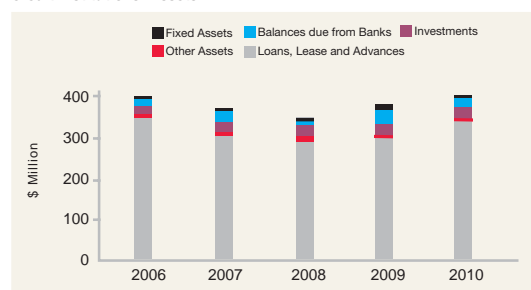
Investment in Government and Government-guaranteed securities rose by 6.4 percent over the year to \$27.9 million in 2010.

In regard to liabilities of credit institutions, deposits rose by 19.0 percent to \$229.7 million. These deposits



were mainly held by private individuals and private business entities which accounted for 51.4 percent and 24.6 percent of total deposits, respectively. Borrowing from shareholding companies remained relatively unchanged at \$63.8 million in 2010 from \$63.9 million in the previous year.

Credit Institutions' Assets



Source: Reserve Bank of Fiji

All credit institutions complied with the new minimum capital adequacy requirement of 15.0 percent. In 2010, the capital adequacy ratio for credit institutions was 25.1 percent compared to 26.0 percent in 2009. Total risk weighted assets increased by 17.7 percent compared to a 14.0 percent increase in total capital. A capital injection of \$2.0 million for compliance with the RBF capital adequacy requirement also complemented the strong capital position.

Credit institutions' asset quality deteriorated over 2010. Classified exposures rose by 3.4 percent to \$32.8 million, while impaired assets increased by 12.7 percent to \$35.4 million. Despite the rise in classified exposures, the ratio of classified exposures to loans, advances & leases decreased to 9.7 percent from 10.8 percent in 2009 due to a higher increase in total loans. Past due levels declined to \$51.0 million in 2010, from \$57.6 million in 2009.

Profits (before tax) of credit institutions for the 2009-2010 financial year increased slightly to \$19.7 million from \$18.0 million recorded for the 2008/2009 period largely caused by the substantial reduction in bad debts and provisions by \$2.9 million to \$0.7 million and the increase in non-interest income by \$0.4 million to \$4.1 million.

Similarly, credit institutions' return on equity increased to 19.4 percent from 18.5 percent in 2009.

Despite the improvement in profitability, the efficiency ratio of credit institutions deteriorated to 36.7 percent

in 2010 from 35.0 percent in 2009 due to an increase in operating expenses and a drop in operating income.

Summary of Credit Institutions' Profitability¹ (\$ Million)

| | 2006 | 2007 | 2008 | 2009 | 2010(p) |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income | 36.6 | 44.0 | 46.2 | 41.4 | 45.5 |
| Interest Expense | 10.4 | 19.4 | 15.2 | 11.9 | 17.3 |
| Net Interest Income | 26.2 | 24.6 | 31.0 | 29.5 | 28.2 |
| Add: Non-Interest Income | 3.4 | 2.7 | 4.2 | 3.7 | 4.1 |
| Total Operating Income | 29.6 | 27.3 | 35.2 | 33.2 | 32.3 |
| Less: Operating Expenses | 11.3 | 11.5 | 11.0 | 11.6 | 11.9 |
| Less: Bad debts and Provisions | 2.5 | 2.3 | 5.5 | 3.6 | 0.7 |
| Profit Before Tax | 15.8 | 13.5 | 18.7 | 18.0 | 19.7 |
| Less: Tax | 4.8 | 3.8 | 5.7 | 5.6 | 5.4 |
| Net Profit After Tax | 11.0 | 9.7 | 13.0 | 12.4 | 14.3 |
| Earning Assets | 292.8 | 325.4 | 324.0 | 309.6 | 325.9 |
| Cost of Funds | 251.2 | 285.2 | 279.5 | 250.3 | 262.9 |
| Average Assets | 312.7 | 353.5 | 354.5 | 334.3 | 356.0 |
| After Tax Return on Equity (%) | 21.7 | 17.7 | 21.4 | 18.5 | 19.4 |
| Efficiency (%) | 38.1 | 42.0 | 31.3 | 35.0 | 36.7 |
| Yield on Earning Assets (%) | 12.5 | 13.5 | 14.3 | 13.4 | 14.0 |
| Cost of Funding Liabilities (%) | 4.2 | 6.8 | 5.5 | 4.8 | 6.6 |

¹ Financial year-end profits for all credit institutions used.

Source: Reserve Bank of Fiji

In 2010, the interest spread of credit institutions fell to 7.4 percent from 8.6 percent in 2009, underpinned by a rise in cost of funds.

During the year, credit institutions' liquid assets to funding ratio improved to 24.3 percent in 2010 from 14.8 percent in 2009.

The Insurance Industry

The overall performance of the insurance industry continued to be satisfactory in 2010 as it remained solvent with adequate capital levels.⁸

Total assets of the combined life and general insurance industry grew by 1.6 percent to \$936.3 million underpinned higher levels of investments. The asset distribution pattern remained consistent throughout 2010, with total investments which includes Government securities and commercial bank deposits accounting for 73.6 percent of total assets, compared to 73.0 percent in 2009.

In addition, the general insurance sector recorded a decrease in amounts due from reinsurers on outstanding claims.

In 2010, the net premium income for the insurance industry grew slightly by 1.1 percent to \$176.2 million. Both the life and general insurance sectors reported higher premiums in 2010. Net claims paid declined

⁸ Section 31 of the Insurance Act (1998) requires all licensed insurers to maintain, at all times, a minimum surplus of assets over liabilities, known as the required solvency margin.



by 2.7 percent to \$108.6 million in 2010, compared to \$111.6 million in the previous year.

The Reserve Bank continued to assess and allow the offshore placements of insurance covers with overseas insurers for cover not available locally or where the local premium is 15.0 percent more expensive than the offshore premium. In 2010, the Reserve Bank approved 749 offshore placements, an increase of 128 applications compared to the previous year. As a result of the higher number of offshore placements, total premiums remitted in 2010 increased to \$28.3 million from \$23.1 million in 2009.

Fiji National Provident Fund

As at 31 December 2010, the total assets of the FNPF stood at \$3.9 billion, representing an annual growth of 2.3 percent. This increase was predominantly reflected in higher investments in Government securities and other fixed income securities.

The asset base of the Fund continued to be dominated by investments, which amounted to \$3.8 billion or 97.1 percent of total assets. The Fund's investment portfolio is heavily weighted towards fixed income securities which account for 88.7 percent of the portfolio.

On the liabilities side, members' balances grew by 5.6 percent to \$2.9 billion, compared to a growth of 3.7 percent in 2009. The growth in 2010 was due to the slowdown in members' withdrawals recorded over the year.

Overall, reserves decreased significantly by 28.4 percent to \$677.2 million compared to a decline of 2.3 percent in 2009. This was largely due to the write down of two major non-performing investments, Natadola Bay Resort Limited and Momi Bay Development.

Total contributions collected over the year amounted to \$289.3 million, a decrease of 4.2 percent from 2009. Total withdrawals by members, including housing withdrawals/assistance decreased by 18.4 percent to \$259.6 million, during the same period. The decrease in withdrawals was mainly due to the tightening of the partial withdrawal policies.

Supervision of the FNPF continued in 2010, but with a closer monitoring stance. Progress on reforms undertaken by the Fund was closely monitored and will continue in 2011.

Capital Markets

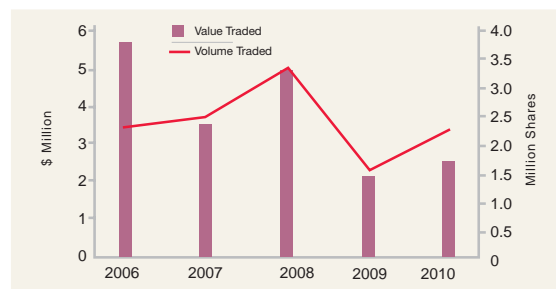
Fiji's capital market consists of three business segments: equities, debt and the managed funds industry. The

equities market comprises the stock exchange, over-the-counter registry, public capital raising and private placement activities by commercial companies. The debt segment incorporates the bond market, listed convertible notes and promissory notes. The managed funds industry includes the unit and property trusts.

The SPSE registered an improvement in stock market trading when compared with the previous year. The total volume of shares traded rose by 41.2 percent to 2.3 million. In 2010, the number of transactions fell to 711 trades, valued at \$2.7 million, compared to 777 trades, valued at \$2.2 million in 2009.

The volume and value of the 12 special crossings⁹ executed in 2009 was 4.5 million shares and \$41.3 million, respectively, bringing the total value for the year to \$43.5 million.

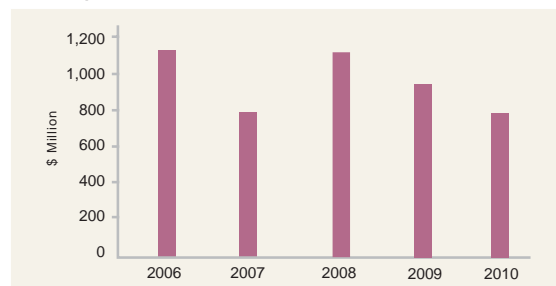
Value and Volume of Shares Traded



Source: Reserve Bank of Fiji

Market capitalisation declined by 13.7 percent in 2010, underpinned by a reduction in the prices of 11 out of 17 securities listed on the SPSE. The buy-to-sell ratio averaged 1:16 during the year, signifying a bear market with a huge dominance of sellers exerting downward pressure on share prices.

Market Capitalisation



Source: Reserve Bank of Fiji

Amalgamated Telecom Holdings Limited remained the market leader, contributing 49.4 percent to the total market capitalisation, followed by Foster's Group Pacific Limited and Flour Mills of Fiji Limited; adding 14.4 percent and 7.7 percent respectively, in 2010. The five largest companies comprised 82.6 percent of total market capitalisation.

⁹ A special crossing is a bilateral deal on the sale and purchase of a large quantity of shares in a security which is a one-off transaction that does not affect the market trading price.

There were several highlights in the SPSE in 2010. In May, the first hybrid security, known as the BSP Convertible Notes was listed on the SPSE Interest Rate Securities Board. This was followed by the replacement of the open outcry call market by the ETP in July as a result of a joint venture between the SPSE, the National Stock Exchange, National Association of Securities Dealers Automated Quotations and OfficeMax. In October, shares for FSC were suspended from trading on the SPSE.

The Kontiki Price Matching Service, which provides an over-the-counter trading registry for four unlisted public companies, recorded a total of 12 trades throughout the year, the total value being just below \$0.1 million.

The SPSE Total Return Index (STRI), introduced in 2009, is an aggregate market capitalisation index which reflects the aggregate market value of all its components relative to their aggregate value on the base day. In 2010, the STRI declined by 11.7 percent to 1,677.4 due to negative price returns. In the same year, the average capital growth of the market was -9.5 percent compared to -6.9 percent in 2009. The average dividend yield slightly improved to 3.9 percent, compared to 3.4 percent the year before. For the same period, however, the total average market return stood at -5.0 percent, compared to -3.0 percent in 2009.

There was no activity recorded in the secondary bond market in 2010, compared to 10 trades valued at \$2.6 million in the previous year. This was a result of ample liquidity in the banking system and limited reinvestment opportunities for investors.

Furthermore, there were no additions to the Reserve Bank's domestic bond portfolio. However, \$29.8 million worth of bonds were redeemed. Consequently, the nominal value of the portfolio fell to \$93.0 million from \$122.8 million in 2009. The net income earned from the portfolio fell by 8.9 percent to \$7.2 million in 2010.

In 2010, the unit trust market in Fiji, which consists of two unit trusts and one property trust, contracted by 2.8 percent as funds under management declined from \$115.5 million to \$112.3 million. This was mainly due to large redemptions, the decline in the value of listed securities and revaluations of unlisted securities by the unit trusts. Competitive interest rates on term deposits offered by commercial banks also contributed to the contraction of managed funds. The number of unit holders however, increased by 1.6 percent to 16,415 compared to a total of 16,162 in 2009.

Five capital markets supervision policies were issued by the Reserve Bank in 2010:

- i. Role of External Auditors in the Supervision of Licensed Persons;
- ii. Continuing Professional Education;
- iii. Minimum Guidelines on Complaints Management;
- iv. Minimum Requirements for Capital Raising through issue of Debt Securities; and
- v. Minimum Requirements for Capital Raising through issue of Equity Securities.

In 2010, a Capital Markets Advisory and Development Taskforce was established to look into the development of the capital markets industry. The Taskforce, which is chaired by the Governor of the Reserve Bank, comprises eight members and met twice in 2010.

Complaints Management

The RBF continued its work on developing the complaints management policy environment in 2010. The objective is to ensure that consumer complaints are addressed efficiently and effectively and that consumer issues are given priority status by regulated financial institutions.

As part of public awareness, the Reserve Bank published a Complaints Brochure and distributed copies to regulated financial institutions as well as the Consumer Council of Fiji. The intention was to inform the public about the complaints management framework in place. Complainants are to first raise their issues with financial institutions and in instances where complainants remained dissatisfied with the outcome, these can then be lodged with the Reserve Bank.

In 2010, the Reserve Bank received a total of 77 complaints against regulated financial institutions, of which 41 were against the banking industry compared to 19 in the previous year. Complaints relating to loan and mortgages were common. There were also increases in issues relating to interest rates, fees and charges, as well as fraud and forgery.

During the year, the Reserve Bank received 20 complaints against licensed insurers, an increase from 12 received in 2009. There was a rise in complaints relating to disagreements on insurance claims, in particular, under life and motor vehicle classes. There were marginal increases in complaints against capital market participants and the FNPF, while those against the NBFIs¹⁰ rose to eight and were related to interest rates, fees and charges. Information relating to complaints are compiled on a quarterly basis and posted on the Bank's website.

In 2010, the Reserve Bank held 40 meetings with consumers, compared to 14 in the previous year. In processing these complaints, the Reserve Bank consulted with relevant financial institutions and other organisations where necessary upon the approval of the complainant. Of the total complaints, 62 were resolved without further action, 14 remained under investigation and one is before the Courts.

In addition, Reserve Bank formed the Complaints Management Forum in 2010, comprising representatives from the private and public sectors. The Forum is to play a consultative and advisory role on consumerism issues. It is intended to complement the role played by the Reserve Bank in the management of complaints.

¹⁰ The NBFIs include the FDB and non-regulated finance companies.

COMBATING MONEY LAUNDERING

The FTR Act (2004) is one of Fiji's primary laws for combating money laundering. The FTR Act sets out certain measures that financial institutions must implement to combat money laundering and further provides for the protection of the financial system from abuse.

The FTR Regulations provide further guidance to financial institutions on requirements for customer due diligence, reporting suspicious and other financial transactions to the FIU, internal Anti-Money Laundering (AML) procedures and policies, and a risk-based approach to applying the FTR Act requirements. The FIU was established under the FTR Act in 2006 as a national agency that is responsible for the enforcement and administration of the FTR Act.

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

Financial Institutions' Compliance with the FTR Act

In 2010, the FIU worked closely with financial institutions to encourage and ensure the implementation of the various provisions under the FTR Act and Regulations.

The FIU also collaborated with two mobile phone banking service providers following the introduction of this service in 2010. Requirements stipulated in the FTR Act were addressed and they were also encouraged to adopt the requirements as part of their internal procedures.

The FIU issued four formal policy advisories in 2010 that provided further clarification on specific provisions of the FTR Act, such as customer due diligence requirements.

The FIU also provided policy advice, as and when requested by financial institutions. In 2010, the FIU issued 46 ad-hoc policy advisories explaining various requirements of the FTR Act and Regulations. 22 of these advisories were in relation to customer due diligence requirements of the legislation.

The FIU and the RBF are the designated supervisory authorities under the FTR Act mandated to supervise the compliance of financial institutions with the FTR Act and Regulations. To this end, the FIU assisted the RBF in an onsite visit to a financial institution to assess its compliance with the FTR Act and regulations.

The FIU liaised closely with foreign exchange dealers in early 2010 to address key non-compliance issues raised during the compliance examination of seven

licensed foreign exchange dealers in 2009. Non-compliance issues noted in the 2009 compliance examination were rectified in 2010 through targeted training and regular consultations with foreign exchange dealers.

In late 2010, the FIU commenced preliminary work on the offsite compliance assessment of selected financial institutions. This project will continue in 2011.

Receipt and Analysis of Information on Financial Transaction

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 and terrorist financing activities or other serious offences.

In 2010, the FIU received 629 suspicious transaction reports (STRs) from various financial institutions. This is a decrease of 16 percent compared to 750 STRs reported in 2009.

Suspicious Transactions Reported to the FIU

| Year | 2006 | 2007 | 2008 | 2009 | 2010 |
|------|------|------|------|------|------|
| STRs | 215 | 268 | 479 | 750 | 629 |

Source: Financial Intelligence Unit

Reporting Financial Institutions 2010

| Reporting Financial Entities or Persons | Number of STRs Received |
|---|-------------------------|
| Commercial Banks | 538 |
| Money Remittance Service Providers [†] | 75 |
| Finance Companies | 1 |
| Members of the Public | 6 |
| Regulatory Authorities | 4 |
| Law Firms | 1 |
| Accounting Firm | 1 |
| Insurance Companies and Superannuation | 3 |
| Real Estate Businesses | 0 |
| TOTAL | 629 |

[†] Includes foreign exchange dealers.

Source: Financial Intelligence Unit

The FIU referred 267 STR case reports to relevant law enforcement agencies (LEA) for further investigation of possible money laundering and other serious offences.

Pursuant to the FTR Act, financial institutions are also required to report to the FIU all cash transactions of \$10,000 and above and all international electronic fund transfers.

In 2010, the FIU received 133,487 cash transaction reports (CTRs) and 315,634 international electronic funds transfer reports (EFTRs). Although individual CTRs and EFTRs are not analysed manually, they are an important source of information in the FIU's analysis, investigation and profiling process. The CTRs and EFTRs also contribute to the FIU's electronic data mining and alert monitoring system.



Case Reports Disseminated to Law Enforcement Agencies

| Law Enforcement Agency | Number of STRs | | | | |
|--|----------------|------------|------------|------------|------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| FRCA- Inland Revenue Services Possible violations under the Income Tax Act and VAT Decree | 14 | 60 | 131 | 143 | 125 |
| Fiji Police Force Possible violations under the Proceeds of Crime Act and serious offences under the Crimes Decree | 12 | 12 | 25 | 37 | 44 |
| Immigration Department Possible violations under the Immigration Act and Passport Act | 15 | 20 | 7 | 3 | 1 |
| FRCA-Customs Division Possible violations under the Customs Act | 0 | 0 | 4 | 2 | 0 |
| Transnational Crime Unit Possible criminal involvement of foreign individuals and business entities; involvement of regional or international organised crimes | - | - | 26 | 7 | 83 |
| Others | | | | | |
| RBF Possible violations under the Exchange Control Act | | | | | |
| Foreign LEA | 20 | 21 | 9 | 4 | 14 |
| Total | 61 | 113 | 202 | 196 | 267 |

Source: Financial Intelligence Unit

Cash Transactions and Electronic Fund Transfers Reported:

| No. of Reports Received | 2008 | 2009 | 2010 |
|-------------------------|--------|---------|---------|
| CTRs | 37,551 | 132,547 | 133,487 |
| EFTRs | 95,859 | 303,380 | 315,634 |

Source: Financial Intelligence Unit

Border Currency Reporting

Persons travelling into or out of Fiji carrying currency or negotiable bearer instruments of F\$10,000 and above (or its equivalent in foreign currency) are required under the FTR Act to make a declaration to the Customs Department. In 2010, the FIU received 223 currency reports, compared to 244 received in 2009. These reports are then analysed for possible currency smuggling, money laundering and related criminal offences.

Assistance to Partner Agencies

Another key role of the FIU under the FTR Act is to provide assistance to various partner agencies. In 2010, the FIU handled 43 requests from Government agencies for due diligence checks on persons or entities of interest. These requests related to background checks on 36 business entities and 103 individuals.

The FIU also facilitated 147 requests from local and foreign LEA for assistance in money laundering and other related investigations.

FIU Financial Information Management System Online

The FIU continued to strengthen its online electronic reporting and data management system with the use of FFIMSO, which allows financial institutions to report their transactions (STR, CTR, EFTR) to the FIU online. As at the end of 2010, 66 financial institutions had registered on FFIMSO.

In 2010, the FIU adopted a new data mining process to analyse large volumes of financial transaction data collected on FFIMSO. The data is processed through statistical analysis and modelling to evaluate trends and hidden patterns of suspected money laundering and fraudulent activities.

Domestic Coordination and Information Sharing

The FIU held the 2nd National AML Conference in October 2010. The conference, which attracted distinguished speakers from the public and private sector deliberated on a wide range of issues, centred on the theme 'Investigating Money Laundering'. The Conference was attended by 118 participants from LEA, the judiciary, other relevant Government agencies and financial institutions.

In 2010, the FIU provided secretarial support to the National AML Council as well as its three Working Groups. The National AML Council held four meetings during 2010.

The Governor and Director FIU are members of the National AML Council and contributed to the Council's discussions and decisions in 2010.

International Coordination and Initiatives

The FIU participated at the 2010 Egmont Group's 18th Annual Plenary Meeting held in Columbia in June. The Egmont Group is an international association of 120 FIUs from various jurisdictions. The objective of the Group is to provide a forum for its member FIUs to improve support to their respective Governments in the fight against money laundering, terrorist financing and other financial crimes. The Fiji FIU presented a paper at the plenary meeting, sharing experiences on effective collaboration with the law enforcement sector as a small and developing country.

In 2010, the FIU signed a MOA for the exchange of information with the Malaysian FIU. This is the second



international MOA that the Fiji FIU has entered into - the first was with the Indonesian FIU.

A regional meeting was organised in 2010 by the United Nations Development Program and the United Nations Office on Drugs and Crime to raise awareness amongst Pacific Island countries on the ratification and implementation of the United Nations Convention Against Corruption (UNCAC). UNCAC provides the necessary guidance to develop and implement national anti-corruption efforts and framework. So far only three Pacific Island countries have ratified UNCAC (PNG - 2007; Fiji - 2008; and Palau - 2009). The Director FIU participated at this meeting and presented

a paper on Fiji's AML framework and its link to Fiji's anti-corruption initiatives. The presentation also discussed the contribution of Fiji's AML measures to the prevention, investigation and prosecution of corruption in Fiji.

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 13th Annual Plenary meeting which was held in Singapore and presented Fiji's country report, technical assistance report and mutual evaluation progress report at the meeting.

CURRENCY

Pursuant to Section 4(a) of the Reserve Bank Act (1983), the Bank is charged with regulating the issue of currency in Fiji. RBF is responsible for maintaining an adequate supply of quality banknotes and coins in circulation.

The Reserve Bank issues banknotes and coins that are commensurate with demand for payment purposes and redeems any banknotes 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 banknotes and coins which is subject to the approval of the Minister for Finance.

Currency Review

The Reserve Bank commenced work on the 2010 Currency Review as approved by Cabinet in its July 2010 meeting and focused on the technical specifications and designs for notes and coins. The review is undertaken on an average of 5 to 10 years to take advantage of the developments in banknote printing and coin minting technologies and to keep ahead of counterfeiting.

A CDC¹¹, approved by the Prime Minister and Minister for Finance comprising members from various sectors of the business community, was set up to select designs suitable for Fiji's currency. An in-house Reserve Bank Currency Technical Committee was also set up to provide technical assistance to the CDC and make recommendations on improving banknote quality and security features. Fiji's new family of notes and coins will be issued towards the latter half of 2012.

Currency in Circulation

In 2010, the value of total currency in circulation increased by 11.2 percent to \$480.0 million, with notes and coins totalling \$450.1 million and \$29.9 million, respectively.

Notes & Coins in Circulation (\$ Million)

| | 2008 | 2009 | 2010 |
|--------------------------------|--------------|--------------|--------------|
| Notes | 364.9 | 403.3 | 450.1 |
| Coins | 26.0 | 28.2 | 29.9 |
| Currency in Circulation | 390.9 | 431.5 | 480.0 |

Source: Reserve Bank of Fiji

The value of all banknote denominations in circulation also increased. The \$100 and \$10 denominations recorded the highest and the lowest increases of 22.5 percent to \$152.2 million and 1.1 percent to \$35.5 million, respectively. The \$2 note registered the highest number of notes in circulation.

The value of all coin denominations also increased in circulation boosted by the introduction of the new coin series and the withdrawal of the old series coins in circulation. The 5 and 50 cent coins recorded the

highest and the lowest increases of 8.8 percent to \$3.1 million and 4.0 percent to \$6.0 million, respectively.

Cost of Currency

In 2010, the cost of currency issued by the Bank decreased significantly by 39.2 percent to \$3.1 million, compared to \$5.1 million the previous year.

The decrease is mainly attributed to the normalising of demand for the new coins in 2010 when compared to the high issuance in 2009 to replace the old coins in the hands of the public.

The cost of notes issued however, increased by 22.2 percent to \$2.2 million, largely due to the demand for new crisp bank notes.

Cost of Currency Issued (\$ Million)

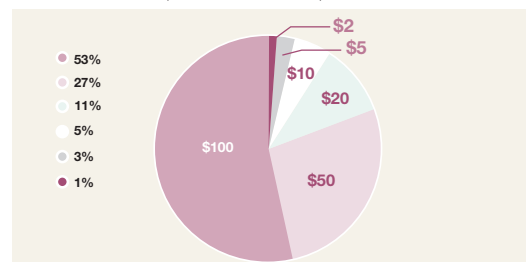
| | 2008 | 2009 | 2010 |
|--------------|------------|------------|------------|
| Notes | 1.6 | 1.8 | 2.2 |
| Coins | 0.4 | 3.3 | 0.9 |
| Total | 2.0 | 5.1 | 3.1 |

Source: Reserve Bank of Fiji

Banking Transactions

During the year, currency issued to commercial banks rose by 14.4 percent to \$603.8 million, of which \$599.9 million was issued in notes and \$3.9 million in coins.

Notes Issued in 2010 (Total Value: \$599.9 Million)



Source: Reserve Bank of Fiji

In 2010, with the exception of the \$100 note, the demand for all banknote denominations increased. The issue of the \$100 fell marginally by 0.7 percent to \$53.7 million.

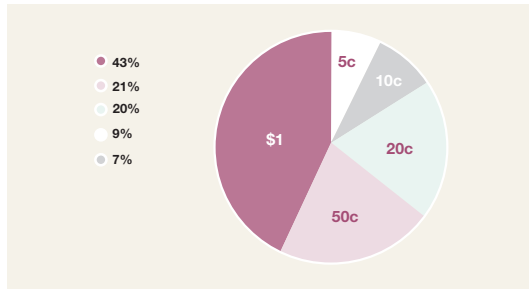
The demand by commercial banks for \$50, \$10 and \$20 notes recorded high increases of 23.5 percent to \$281.8 million, 14.6 percent to \$76.5 million and 11.3 percent to \$154.8 million, respectively. The increase is attributed to their predominant usage in ATMs for cash dispensing and distribution.

The \$5 and \$2 notes also recorded increases of 8.5 percent to \$18.0 million and 6.9 percent to \$15.1 million, respectively. The rise illustrates the growing reliance of the public on lower denominations for change in cash transactions.

¹¹ Members of the CDC are Mr. Robin Yarrow (Chairman), Dr. Dick Watling, Mr. Ikbai Jannif OF, Ratu Isoa Gavid, Mr. Radike Qereqeretabua OF, Mr. Manoa Rasigatale, Ms. Sagale Buadromo, Mr. Barry Whiteside and Mrs. Susan Kumar.



Coins Issued in 2010 (Total Value: \$3.9 Million)



Source: Reserve Bank of Fiji

There was a decline in the issue to commercial banks for all coin denominations after the hype in demand during the introduction of the new Fiji smaller coin series in 2009. Decreases were recorded in the volume of coins issued to commercial banks for the 10 cents and 50 cents coins by 70.7 percent to \$0.4 million and 70.6 percent to \$0.8 million, respectively. The demand for the \$1 coins also fell slightly by 7.1 percent to \$1.7 million.

Note Processing

In 2010, the volume of notes processed by the Note Processing Centre decreased by 13.6 percent to 26.6 million notes when compared to 2009. Of the total value of notes processed, 34.3 percent were suitable for re-issue, while 65.7 percent deemed unsuitable for further circulation were destroyed. Old design notes being phased out of circulation contributed to the high percentage of notes destroyed.

Notes Processed

| | 2009 | | 2010 | |
|-------------------------|--------------------|------------------|--------------------|------------------|
| | Value (\$ Million) | Pieces (Million) | Value (\$ Million) | Pieces (Million) |
| Notes Saved for Reissue | 200.1 | 8.2 | 154.4 | 7.0 |
| Notes Destroyed | 314.1 | 22.6 | 296.2 | 19.6 |
| Total Processed | 514.2 | 30.8 | 450.6 | 26.6 |

Source: Reserve Bank of Fiji

As part of the preventative maintenance agreement for the CPS1500 Currency Processing System to ensure optimal machine performance, De La Rue Cash Processing Solutions Pty (Aust) Limited technicians completed a scheduled onsite visit during the year. The Bank recruited a Technical Officer Currency as part of its succession planning to ensure continuing in-house support.

2010 Excellence in Currency Award

The Reserve Bank of Fiji and the Central Bank of the Republic of Turkey jointly won the runner-up category for the 'Best New Coin Series' at the 3rd International Association of Currency Affairs, 'Excellence in Currency' Awards at the 2010 Currency Conference in Buenos Aires. The award recognises the excellence of the new smaller size Fiji coins released on 16 February 2009, coinciding with 40 years of decimal currency in Fiji.

Old Coin Disposal Project

The Bank expects the receipt of approximately \$1.1 million in January 2011 for the sale of 429 tonnes of the demonetised Fiji 1, 2, 5, 10, 20 and 50 cents coins recalled in April 2009 in culmination of the project.

Mutilated and Old Design Currency Assessments

During the year, \$0.21 million was reimbursed to commercial banks, businesses and individuals for assessment of mutilated and old design currency compared to \$0.32 million in 2009.

Counterfeit Banknotes

In 2010, the volume of counterfeit notes discovered decreased by 2.0 percent to 147 notes, compared to 150 in 2009. The value of counterfeit notes also fell by 4.9 percent to \$3,755. As a percentage of currency in circulation, the value of counterfeits remained negligible, at less than 0.000008 percent. The \$10, \$20 and \$50 denominations were the most counterfeited as these are commonly used in cash transactions.

Counterfeit Note Summary

| | 2009 | | 2010 | |
|--------------|--------------|-----------------|--------------|-----------------|
| | Value (\$) | Number of Notes | Value (\$) | Number of Notes |
| \$2 | 14 | 7 | - | - |
| \$5 | 55 | 11 | 5 | 1 |
| \$10 | 190 | 19 | 580 | 58 |
| \$20 | 1,340 | 67 | 1,020 | 51 |
| \$50 | 2,250 | 45 | 1,550 | 31 |
| \$100 | 100 | 1 | 600 | 6 |
| Total | 3,949 | 150 | 3,755 | 147 |

Source: Reserve Bank of Fiji

The Reserve Bank continued to assist the Fiji Police Force with investigations relating to counterfeiting. Furthermore, the Bank distributed materials to various organisations, schools and the general public to increase



awareness on banknote security features against counterfeiting.

Stolen \$20 Notes Serial Numbers EB 450 001 - EB 500 000

The Reserve Bank worked closely with the Fiji Police Force on the \$1 million \$20 notes that went missing during consignment delivery to Fiji. Investigations moved offshore to Singapore resulting in arrests and charges. The Reserve Bank extends its appreciation to the Fiji Police Force, Singapore Police Force, commercial banks, the general public and other stakeholders for their cooperation and assistance throughout the investigations. At the end of 2010, investigations into the recovery of the stolen notes were ongoing.

Numismatics

In 2010, numismatic income was \$188,275, compared with \$212,571 in 2009 as a result of lower domestic sales.

During the year, the Reserve Bank signed the following programs with partner Mints:

Coin Program

| Mint | Program | Mintage |
|-----------------------|---|---------|
| New Zealand Mint | Submarine of the World (4 coins) | 60,000 |
| | Royal History Coin (6 coins) | 60,000 |
| | 2011 Lunar Series (3 coins) | 26,000 |
| | Greek Mythology (12 coins) | 48,000 |
| | Pacific 1 oz Swordfish (1 coin) | 5,000 |
| | 5 oz Taku Coins (1 coin) | Open |
| | Pacific Sovereign (1 coin) | Open |
| | Zoom (5 coins) | 25,000 |
| Royal Australian Mint | 2011 Year of the Rabbit (6 coins) | 12,900 |
| World Coin | 7 Series Coin Program (7 coins) | 50,000 |
| International | Aviation & 2012 Olympic Games (3 coins) | 11,000 |
| | Titanic (1 coin) | 500 |
| | The Lifetime of Lady Diana (5 coins) | 33,000 |
| Swiss Castel Mint | World Soccer Coin (10 coins) | 100,000 |
| | The Solar System (10 coins) | 20,000 |
| | Ancient Egypt (12 coins) | 20,000 |

Source: Reserve Bank of Fiji

FIJICLEAR

Fiji's RTGS, FIJICLEAR, completed its third year of operations in August 2010. FIJICLEAR is a state of the art payment system where settlement of interbank payment obligations occurs on a real time basis. It is a means by which Exchange Settlement Accounts (ESAs) are accessed by all commercial banks to monitor the inflow and outflow of funds from their accounts with the Reserve Bank. The settlement of transactions takes place irrevocably, in real time, out of credit funds in commercial banks' ESAs.

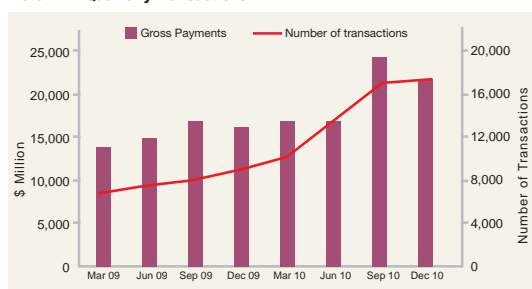
In 2010, FIJICLEAR recorded a new high in commercial bank and their customers' usage. During the year, 64,916 transactions valued at \$85.0 billion in gross payments were recorded.

All commercial banks are using the system to settle large value transactions, interbank payments, money market settlements, time critical customer payments, foreign currency deals and their currency lodgements and withdrawals.

FIJICLEAR enables settlement of transactions on a real time basis, substantially reducing systemic risk in the financial system. This system allows citizens to make payments anywhere in Fiji, wherever there is a commercial bank.

In 2010, the Reserve Bank opened its BRS. This site will allow Reserve Bank staff to operate the FIJICLEAR system in the event the Reserve Bank Building is inaccessible. This site will also be the data back-up site and has a secured communications line dedicated to the FIJICLEAR system.

FIJICLEAR Quarterly Transactions



Source: Reserve Bank of Fiji

The most significant change over the past year was the increase in both the gross value and volume of transactions through FIJICLEAR. The monthly average number of transactions in 2010 rose significantly by 18.9 percent to 4,668 and the monthly average value of transactions also had a notable increase of 13.9 percent to \$7,084.9 million. A monthly record of

6,107 transactions was made through FIJICLEAR in December.

FIJICLEAR Payments and Transactions

| | 2007 | 2008 | 2009 | 2010 |
|---|-------|-------|-------|-------|
| Monthly Average Gross Payments (\$ Million) | 3,706 | 5,218 | 6,218 | 7,085 |
| Monthly Average Transactions (Number) | 1,299 | 1,741 | 3,927 | 4,668 |

Source: Reserve Bank of Fiji

During the year, the FIJICLEAR team participated at the three Microfinance expositions in Ba, Labasa and Suva to create awareness amongst the general public on the benefits of FIJICLEAR. The RBF also printed posters for commercial banks to display in their customer service areas. A site visit of commercial bank branches in the North was conducted in March to audit staff knowledge and awareness of the system and to ensure that FIJICLEAR posters were adequately displayed. During the same visit, training and awareness sessions were conducted for commercial bank employees and relevant organisations.

A review of the RTGS Business Rules commenced in 2010, in close consultation with all commercial banks and is expected to be finalised and implemented in 2011. The objective of this review was to streamline FIJICLEAR operations in light of the changing business environment and customer needs. These Business Rules are the guidelines that govern the operations of the RTGS in Fiji.

Settlements and Middle Office

In 2010, the Settlements and Middle Office team continued to play a vital role in supporting the Bank's foreign reserves management function and ensuring appropriate risk management.

Pivotal to the Settlements role is ensuring that all foreign currency transactions are settled in a timely and efficient manner, transactions are properly recorded and reports prepared for the accounting unit. As an internal control check against front office dealings, it is essential that confirmations from counterparty dealers are received and the transactions verified.

Also relating to risk management is the middle office function. Diligent risk monitoring of compliance against approved investment guidelines, the measurement of performance and providing an analysis of this performance against the benchmark are key responsibilities.



Mobile Money

As the number of mobile phone subscribers in Fiji increases, so will the market for mobile money services. The provision of such mobile money services is important for both the economic and social empowerment of individuals and communities. The extension of this service to rural areas provides an opportunity for the unbanked to save and access capital necessary for productive investment, from operating a small business to meeting family and social obligations. This development has the potential to enhance economic activity in our rural and maritime areas.

Mobile money was launched in June 2010 and the uptake was beyond initial expectations. It has been quickly adopted by the people of Fiji. This initiative leverages the mobile channel to create a flexible, far-reaching financial service delivery network. Opportunities are created for both public and private sectors, to market and launch new services and products to those living in remote and rural areas.

While mobile money is new in Fiji, its practicality and cost effectiveness in the delivery of much needed financial and payment services to remote areas promises wider penetration in the near future. There is opportunity to provide the people in Fiji with easy-to-use and affordable financial payment services. The provision of such services is very important to the Reserve Bank who has taken a lead role in supporting the two Mobile Network Operators (MNOs) with the launch of their services as a means of promoting greater financial inclusion.

At the outset, the RBF has taken a flexible approach with regard to the regulatory framework. This allows the RBF to 'test the waters' in determining the most appropriate regulatory framework for this development. The RBF is currently formulating a Payments Systems legal framework and e-MONEY policy that will cover the activities of mobile phone money services, and other similar e-MONEY transaction instruments and systems.

The Reserve Bank believes that the introduction of relevant laws for e-MONEY in Fiji is crucial. It creates legal certainty for e-MONEY, safeguards the interests of consumers and businesses and helps build confidence and trust in its usage.

The initiatives on mobile money in Fiji has received positive feedback from the international community. The RBF has been invited to mobile money seminars and conferences to share Fiji's experience. The Reserve Bank will continue to have seminars and training activities to encourage the use and further development of mobile money in Fiji.

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 is involved in various projects, with the objective of developing the economy.

Import Substitution and Assistance to the Export Sector

In May 2010, as part of continued efforts to improve Fiji's BOP position, the Reserve Bank introduced an ISF to assist businesses involved in large scale commercial agricultural farming to obtain credit at concessional rates of interest. The scheme operated similarly to the EFF and provided back-to-back finance through commercial banks, licensed credit institutions and the FDB for the production of fruits, vegetables, rootcrops, dairy produce and aquaculture.

In July, the Bank rationalised both the ISF and the EFF into a single facility called the ISEFF. The new facility operates similar to its predecessors but introduces new features such as reduced administrative requirements and a streamlined approval process. The Reserve Bank set aside a total of \$40 million for the ISEFF with loans allocated on a first in basis and capped at \$1.0 million per business.

In November, the Bank extended the facility to include renewable energy projects.

Throughout the year, the Bank promoted awareness of the facility through publication and dissemination of brochures and facility guidelines, as well as participation in various seminars around the country. The total utilisation of ISEFF at year end was \$2.3 million.

IMF Visits and the Article IV Mission

Fiji is a member of the IMF. Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with officials from the Reserve Bank, Government, statutory bodies and the private sector from time to time. There were Staff Visits to Fiji from 7-21 April 2010 and 15-23 September 2010. The Article IV Consultation was from 28 October to 12 November 2010. The Reserve Bank coordinated these meetings.

The Bank also had a Safeguards Assessment conducted by the IMF from 23-30 July 2010. The recommendations of the Report are being evaluated by the Bank.

The close work with the IMF paved the way for discussions with other multilateral organisations on planning the way forward for Fiji's economic recovery process.

Cyclone Assistance

To assist businesses affected by tropical cyclone Tomas, the Reserve Bank introduced a CLF in March 2010. The loan facility had similar conditions to the Flood Rehabilitation Facility that was offered by the Bank after the January 2009 flash floods. The total amount available under the facility was \$20 million and was accessible to eligible businesses through commercial banks and the FDB at a maximum interest rate of 6.0 percent per annum. The CLF was available until 30 June 2010, however, there was no uptake for the facility.

Microfinance Development

In January 2010, commercial banks were mandated to establish microfinance units at their branches. The Banking Supervision policy on Minimum Requirements for Commercial Banks on Internal Microfinance Divisions and Units set forth these requirements.

During the year, commercial banks participated actively in microfinance programs and extended their outreach to rural communities. The RBF organised three expositions in Ba, Labasa and Suva in order to raise awareness on microfinance and to promote other developments undertaken by the RBF. Financial institutions, microentrepreneurs and microfinance institutions also participated in these expositions.

Cabinet approved a Microfinance Decree in October 2010 to strengthen the microfinance sector. This new law supports the orderly development of the microfinance sector, granting powers to the RBF to monitor and carry out examination and assessment of microfinance institutions.

Financial literacy is essential for your children's future well being and success. Children who understand personal finance will have an advantage during their adult lives.



National Financial Inclusion Taskforce

In February 2010, the RBF established the NFIT. The role of this apex body is to coordinate and drive the implementation of the medium term strategy for financial inclusion, including reaching 150,000 unbanked clients by 2014. This is intended to be achieved through coordinated efforts and support of a variety of financial service providers, offering a broad range of relevant, accessible, affordable and cost effective financial services.

The NFIT is supported by three Working Groups that are responsible for initiatives in the areas of Micro-finance, Financial Literacy and Statistics.

In 2010, the Financial Literacy Working Group worked closely with various institutions and coordinated a number of initiatives, including the integration of financial education into the school curriculum from Class One to Form Seven, to commence from 2012.

It is anticipated that 100,000 clients can be reached through financial literacy by 2014. During the year, progress on this front was continually monitored by the RBF.

The Microfinance Working Group worked closely with commercial banks, MNOs, and microfinance institutions in promoting and initiating opportunities for the delivery of more affordable and accessible financial services to the poor. This includes reviewing the law, regulation, policies and taxes to support financial inclusion.

In 2010, the Statistics Working Group commenced developing a baseline database to measure and monitor all activities and developments relating to financial inclusion in Fiji

Mobile Money Development

In August 2010, the RBF participated in a three day workshop organised by the Central Bank Financial Inclusion Working Group on developing a policy checklist for branchless banking. This workshop was co-hosted by the Pacific Financial Inclusion Program (PFIP) and Alliance for Financial Inclusion.

During the year, the RBF granted provisional approvals to two MNOs to provide financial services to their customers using mobile phones. MNOs provided basic domestic transfers through their mobile networks from June 2010. The public's utilisation of the newly introduced services was positive after the launch of the services.

The services provided by the MNOs are the first of its kind in the Pacific. This initiative supports national efforts for greater financial inclusion and has facilitated new services for payments. The RBF remains optimistic that the new services introduced will drive down transaction costs for customers.

In June 2010, the RBF also established the e-MONEY Taskforce to facilitate and improve the development of e-MONEY transactions in Fiji. The Taskforce, which met twice in 2010, is chaired by the Deputy Governor and comprises eight members who are experienced industry professionals.

Local Value Added

In 2010, the RBF funded a short-term attachment scholarship for a local chef from the Training and Productivity Authority of Fiji (TPAF) to undertake specialised training on innovative ways of incorporating local food in the preparation of hotel menus. The recipient of the scholarship, a chef trainer with TPAF, was attached to the Crowne Plaza Hotel in Malaysia for two months.

As part of the attachment, the chef submitted weekly updates and a final report with recommendations. The chef submitted 14 reports to the RBF covering activities and training that were undertaken and these were submitted to the RBF Board.

A series of commercial cooking workshops were organised around Fiji to share the knowledge gained from the training.

Remittances

Personal remittances continue to be an important source of foreign exchange for the economy, with official inflows totalling \$295.4 million in 2010.



During the year, the RBF approved a MNO to facilitate international inward remittances by partnering with a locally licensed RFED. This is expected to have a positive impact on costs, as well as promoting financial inclusion amongst the unbanked in Fiji.

Microinsurance

Microinsurance is the fastest growing component of microfinance globally. Starting with term life insurance in the early 1990s that covered credit, a wide range of insurance products are now available to millions of very low income households around the world for protection against death, sickness and even crop destruction. Many different models and distribution channels have emerged, ranging from small community-based associations to large insurers.

Until recently however, there has been little interest in microinsurance in the Pacific. In July 2010, the RBF, in conjunction with the PFIIP, hosted a half-day information sharing program on microinsurance with stakeholders. Insurance companies themselves are taking a proactive approach and giving microinsurance some attention.

Looking ahead, the RBF will take more interest in the development of this segment of the insurance market.

Local Advisory Board

In January 2010, commercial banks were each required to establish a LAB to assume a consultative and advisory role in ensuring that foreign banks better understand and align their strategies to Fiji's regulatory and supervisory environment and to national development objectives.

During the year, the RBF worked closely with commercial banks on the appointment of their LABs. The RBF assessed and approved a total of 10 LAB members, nominated by the four commercial banks. The fit and proper qualities of these nominees were assessed against the requirements under the LAB policy. In addition, the RBF reviewed and approved the LAB Charter of three commercial banks during the year.

The RBF carried out induction presentations to the non-executive LAB members of three commercial banks in 2010. These presentations focused mainly on the roles and responsibilities of the LAB, policies issued by the RBF to the banking industry, the monetary policy framework and Government's national development objectives.

As required under the LAB policy, the RBF reviewed and provided constructive feedback to three commercial banks who submitted minutes of their quarterly LAB meetings.



RBF in the Community

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

As part of the Bank's efforts to keep the public informed of its assessment of the economy, the Governor and senior staff of the Bank regularly give presentations on the latest economic developments to Government, businesses, community groups and education institutions. The Bank also posts information on its website so that users can easily access information.

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

In support of Small and Microenterprises (SMEs), the Reserve Bank sponsors the FDB's Small Business Awards (Open Category). The Bank also sponsors the Fiji Trade and Investment Bureau's (Agriculture) Exporter of the Year Award.

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

The Bank also makes donations to national charitable organisations as part of its corporate social responsibility. In partnership with the Financial Literacy Working Group, the Bank launched the Green Ribbon Campaign on 19 August 2010 to improve financial literacy in Fiji. To mark the occasion, a huge green ribbon was placed from the top of the Reserve Bank building. The Bank also supported the Financial Literacy/Heart Foundation Queen in the 2010 Vodafone Hibiscus Carnival with other partner organisations.

A Microfinance Village was set up by the Bank during the 2010 Hibiscus Carnival promoting the theme 'Financial Services For All'. Financial institutions and microfinance vendors displayed, promoted and sold their products and services to the public.

To promote local value adding and import substitution initiatives, the Bank sponsored the Prime Minister's Award for the 'Young Farmer of the Year' and the 'Farmer of the Year' during the 2010 Crest Chicken Agriculture Show.

Apart from formal donations, Team RBF also voluntarily contributes and participates in community projects. Some of the charitable projects undertaken by staff in 2010 included donations of school fees for students at Rampur College and Baulevu High School. Contributions of food, books, clothes and cash were also made to the Governor's Appeal for Cyclone Tomas and these were presented to Disaster Management Committee (DISMAC) for distribution.

The Bank's Sports and Social Club organises social events and cultural activities for staff. In 2010, the Club organised the collection of funds for the Red Cross. Bank staff also participated in business house sports events during 2010.

MISSION:

PROVIDE PROACTIVE AND SOUND ADVICE TO GOVERNMENT



The provision of policy advice to Government occurs in many forms. In 2010, the Governor met with the Minister for Finance on a number of occasions to discuss various issues pertaining to the economy. The Governor also accompanied the Minister on some visits and consultations abroad. Presentations on the economy were also made to Cabinet, Ministries and other Government agencies, as and when requested.

Policy Coordination

During the year, the Reserve 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 BOP. These projections were critical input to monetary policy formulation and other national policy decision making. The MPC is chaired by the Governor of the Reserve Bank. Members of these Committees comprises officials from the Ministry of Finance, Ministry of Strategic Planning, National Development & Statistics, the Ministry of Industry and Trade, Fiji Bureau of Statistics, the Prime Minister's Office, the Ministry of Foreign Affairs, International Cooperation and Civil Aviation, FRCA and the Reserve Bank. During the year, there were two forecasting rounds, two MPC meetings and six Macroeconomic Technical Committee meetings.

In addition to providing forecasts, the Committee also provides policy advice to Government through a submission to the National Budget.

As part of the macroeconomic forecasting process, the Reserve Bank conducted several meetings with key industry groups in 2010. At these meetings, the Bank provided updates on the economy and received feedback from representatives on the performance and prospects for their industry and the economy. Bank staff also met with representatives of employers and private businesses and conducted industry visits to various companies in the Western Division. Information gathered from these meetings are used as a basis for forecasting national indicators, as well as

providing advice to Government through the MPC reports and input to the National Budget submission.

In 2010, 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.

Registry and Banking Services

The Reserve Bank provides registry services for debt securities issued by Government and statutory corporations. Services provided include issue, redemption and transfer of securities and interest payments on long-term debt instruments. The Bank also acts as a fiscal agent for Government, providing banking services to the Government and overnight facilities to commercial banks.

For the year ended 2010, the Reserve Bank managed bonds with a nominal value of \$3,212.2 million compared to \$3,002.6 million in 2009. Outstanding Government bonds rose by 10.1 percent to \$2,759.3 million over the year as a result of net issues. In contrast, outstanding statutory corporation bonds fell by 9.0 percent to \$452.9 million as redemptions exceeded issues.

Outstanding Bonds in 2010 (\$ Million)

| | Issued | Redeemed | Outstanding |
|----------------------------|--------------|--------------|----------------|
| Government | 452.7 | 198.5 | 2,759.3 |
| Fiji Development Bank | 47.0 | 77.8 | 212.4 |
| Fiji Electricity Authority | - | 14.3 | 124.5 |
| Housing Authority | 21.3 | 20.9 | 83.5 |
| Fiji Sugar Corporation | - | - | 32.5 |
| Total | 521.0 | 311.5 | 3,212.2 |

Source: Reserve Bank of Fiji

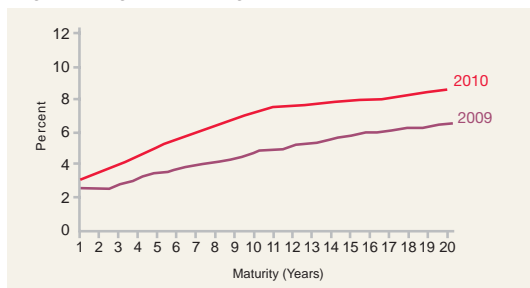
The Bank recorded a significant rise in registry payments throughout 2010. The outturn was primarily attributed to the resumption of OMO and an increase in Government's issue of Treasury bills. Total payments recorded during the year amounted to \$2,136.2 million, an increase of almost two-fold when compared to 2009.

Interest rates on Government bonds were fixed in the last quarter of 2009 and for the first four months of



2010. These controls were imposed with the aim to align interest rates as dominant market participants continued to push rates up in an environment where bank liquidity was increasing. However, controls were lifted with the implementation of the new monetary policy framework.

Weighted Average Yields on Long-Term Government Securities



Source: Reserve Bank of Fiji

High demand for short-term maturities resulted in a

significant increase in Treasury bill issuances as well as redemptions in 2010. During the year, gross Treasury bill issues rose by 167.0 percent while gross redemptions increased by 220.4 percent.

Treasury Bills (\$ Million)

| | 2008 | 2009 | 2010 |
|-------------|-------|-------|-------|
| Flotations | 430.0 | 335.0 | 680.0 |
| Allotments | 392.0 | 257.9 | 688.7 |
| Redemptions | 468.9 | 222.6 | 713.3 |
| Outstanding | 64.7 | 100.0 | 75.4 |

Source: Reserve Bank of Fiji

Total outstanding Treasury bills at the end of 2010 stood at \$75.4 million. Similar to Government bonds, interest rates on Treasury bills increased by around 100 basis points over the year.

MISSION:

DISSEMINATE TIMELY AND QUALITY INFORMATION



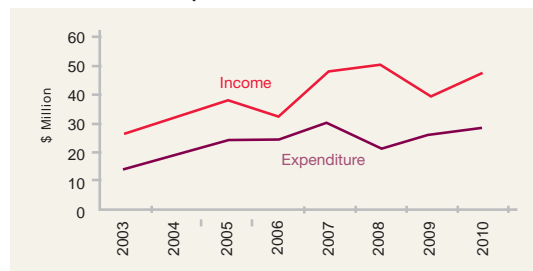
In line with the mission to disseminate timely and quality information to the public and relevant stakeholders, the Reserve Bank releases economic and financial information through major publications (Economic Reviews, Quarterly Reviews and Annual Reports), Press Releases and its website.

Financial Performance

Income

For the 2010 financial year, the total income over the year increased by 17.5 percent to \$48.8 million. Most of the Reserve Bank's total income constitutes interest income from foreign currency investments and domestic securities. The increase in total income is mainly attributed to the high level of foreign reserves held in 2010.

Total Income and Total Expenses



Source: Reserve Bank of Fiji

Expenditure

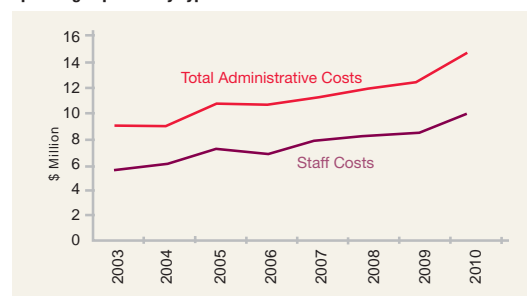
Total expenditure incurred in 2010 was \$27.3 million, an increase of \$2.3 million or 9.4 percent from \$25.0 million in 2009. This is mainly due to higher interest expenses incurred on commercial BDD placed with the Reserve Bank.

Administrative expenditure increased by 15.8 percent over the year in 2010, driven by costs for staffing, training and capacity building. Whilst the full absorption of the Capital Markets Development Authority (CMDA) staff costs was a key contributor, the movement in exchange rates also led to the increased costs for systems and software licences and maintenance.

Other expenses decreased by 39.7 percent in 2010, compared to an increase of 113.6 percent in 2009.

The significant decrease in other expenses was mainly attributed to the lower cost of coins issued into circulation. In 2010, there was a reduction in the volume of new coins issued as their demand normalised, compared to the large volumes issued in 2009 to replace the old coins. In addition, the Bank did not write off any of the older design series of banknotes that were to be no longer issued into circulation, as was the case in 2009.

Operating Expenses by Type



Source: Reserve Bank of Fiji

Operating Profit and Payment to Government

The operating profit for the year was \$21.5 million compared to \$16.6 million in 2009. There was no transfer to the General Reserve Account in 2010. Therefore, as required under the RBF Act (1983), the total operating profit will be transferred to the Government in 2011.

The Act also requires the Reserve Bank to transfer one-fifth of the RRA balance to Government. For 2010, this amounts to a total of \$17.4 million. The Bank will pay a total of \$38.9 million to Government for its 2010 operations, compared with \$39.2 million in the previous year. The reduction in the payment for 2010 is a result of the decrease in the transfer of the one-fifth from the RRA, despite the significant increase in operating profits.



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

| | 2007 | 2008 | 2009 | 2010 |
|---------------------------------|-------------|-------------|-------------|-------------|
| Operating Profit | 20.4 | 30.4 | 16.6 | 21.5 |
| Less | | | | |
| Transfer to General Reserves | 1.0 | 0.0 | 0.0 | 0.0 |
| Balance Paid to Government | 19.4 | 30.4 | 16.6 | 21.5 |
| One-fifth of RRA | 2.8 | 2.6 | 22.6 | 17.4 |
| Total Paid to Government | 22.2 | 33.0 | 39.2 | 38.9 |

Source: Reserve Bank of Fiji

Publications/Press Releases

The Reserve Bank continued to release economic and financial information during the year through its major publications: the Economic Reviews, Quarterly Reports and the Annual Reports. In 2010, the Reserve Bank also issued 45 press releases. The 2009 Bank, Insurance, Capital Markets and FIU Annual Reports were also published in 2010.

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

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

The Bank participated in the 2010 SPSE Annual Report Competition. The 2009 Annual Report was awarded first prize in the Statutory Authorities, Government Bodies and Unlisted Trusts category.

Information Technology

The Reserve Bank continues to focus on enhancing its IT services and functions. In 2010, the Bank launched the BRS, where IT played a key role in the replication of critical servers to the BRS as part of the Business Resumption Strategy.

The Reserve Bank's IT infrastructure was also significantly enhanced to adhere to Green Information and

Communication Technology (ICT) practices by the virtualisation of approximately 70 percent of its server infrastructure in its Blade and SAN environment. The FIJICLEAR messaging and asset and fund management systems were also upgraded and work continued on strengthening the security of all systems.

During the year, development work continued on the Central Database project with the aim to automate the Bank's critical processes. The Reserve Bank has allocated resources towards achieving completion of this project in 2011. When completed, the project will achieve a Management Information System and a Decision Support System which will act as a tool to drive the Bank towards its future strategic goals. This project will also ensure that management receives reliable, consistent and timely information for decision making.

Records Management and Library

The Bank continued with the principles of record keeping for good governance. Following the completion of Phase 1 of the Total Records Information Management (TRIM) project, the Bank continued onto Phase 2 in 2010. Phase 2 involves integrating TRIM to an efficient and structured intelligent document capture system, EZESCAN; for digitising, indexing, storing and retrieval of these documents to facilitate processing, monitoring, tracking and auditing of corporate records.

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

The Reserve Bank's Library was established for the purpose of collecting, organising and disseminating materials to facilitate and provide a reference service and information centre for books, periodicals, newspapers, journals, research papers, ADB and IMF reports, company reports etc. The Library utilises Alice for Windows as its automated library software. It has an electronic interface through the Intranet which allows quick access to electronic documents and

resources in the Library's collection. The Reserve Bank extends its appreciation to the USP library for continuing to allow access to their resources.

Domestic Relations

In 2010, the Reserve Bank continued to engage and conduct presentations to different stakeholders across Fiji. These presentations focused on the economic situation and rationale for monetary policy decisions.

The Bank continued its industry consultation with commercial banks, credit institutions, insurers, brokers and foreign exchange dealers. Industry meetings were held on a quarterly basis with the ABIF, Finance Companies Association, Insurance Taskforce and the Association of Foreign Exchange Dealers. The Reserve Bank also conducted several individual meetings with commercial banks, insurance companies and the FNPF.

During the year, various schools visited the Reserve Bank to learn about the role and responsibilities of the Bank as well as to view the numismatics display.

International Relations

The Reserve Bank continued to maintain and foster

international relations with multinational organisations and other central banks. The Governor was also visited by several foreign dignitaries. Reserve Bank officials also participated in a range of international conferences and workshops.

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

Senior Reserve Bank officials attended annual meetings of the IMF/World Bank, South East Asian Central Banks (SEACEN) Board of Governors, SEACEN Executive Committee, ADB, SEACEN Directors of Supervision Meeting and the PFTAC Tripartite Steering Committee Meeting.

The Bank continued its association with PFTAC, which continues to provide guidance and technical assistance in the areas of financial supervision, statistics and economic processes. The Bank also hosted attachments from the Reserve Bank of Vanuatu.



Financial Innovation

The Reserve Bank of Fiji, in collaboration with the banking sector, has been focusing on innovative ways of reducing commercial banks' costs of doing business. The introduction of innovative products can contribute to financial deepening which in turn will ensure that more people have access to affordable and appropriate financial services and products.

MISSION:

RECRUIT, DEVELOP AND RETAIN A PROFESSIONAL TEAM



Human resources play an important role 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 Mission and Values.

Staffing

At the end of 2010, the Reserve Bank staff complement increased to 203 from 200 in 2009.

RBF Staff Statistics (31 December)

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------------|-----------|-----------|------------------|------------------|------------------|
| Total Staff | 168 | 176 | 171 ¹ | 200 ¹ | 203 ¹ |
| Average Years of Service | 8.0 | 7.8 | 9.1 | 7.6 | 7.6 |
| Annual Staff Turnover (%) | 10.7 | 8.0 | 9.9 | 4.5 | 7.4 |
| Resignation | 14 | 10 | 15 | 8 | 11 |
| Emigration | 11 | 7 | 6 | 3 | 6 |
| Further Studies | 1 | 0 | 0 | 0 | 0 |
| • Overseas | 1 | 0 | 0 | 0 | 0 |
| • Local | 0 | 0 | 0 | 0 | 0 |
| New Employment | 2 | 3 | 9 | 5 | 5 |
| • Overseas | 0 | 2 | 1 | 1 | 0 |
| • Local | 2 | 1 | 8 | 4 | 5 |
| Retirement | 3 | 1 | 1 | 1 | 1 |
| • Age 55 years | 2 | 1 | 0 | 0 | 1 |
| • Age 45 years | 1 | 0 | 1 | 1 | 0 |
| Contract Expiry | 1 | 0 | 0 | 0 | 1 |
| Terminated | 0 | 3 | 0 | 0 | 2 |
| Deceased | 0 | 0 | 1 | 0 | 0 |
| Recruitment | 30 | 22 | 13 | 36 | 18 |
| Total Staff Turnover | 18 | 14 | 17 | 9 | 15 |

¹ Includes staff on study leave.

Source: Reserve Bank of Fiji

During the year, the Reserve Bank recruited 18 staff, for the positions of technical officer, currency officer, economists, systems officers, analysts and examiners. 11 staff resigned to take up alternative employment (5) and emigration (6).

Management Remuneration in 2010

The salaries of the Executive Management are approved by the Higher Salaries Commission (HSC). Other management staff are employed on individual contracts and remunerated in line with the market.

Management Total Remuneration in 2010

| Total Remuneration ¹ | Staff Numbers |
|---------------------------------|---------------|
| i. \$192,000 | 1 |
| ii. \$150,487 | 1 |
| iii. \$99,956 - \$105,931 | 6 |
| iv. \$66,536 - \$89,124 | 25 |

¹ Total Remuneration is exclusive of any performance bonus.

² (i)-(iii) Executive Management as approved by the HSC; (iv) Other Management Staff.

Source: Reserve Bank of Fiji

Staff Development

The Staff Development Policy and Staff Training Needs Analysis supports a continuous learning culture in the Bank through on-the-job training, job rotations, part-time studies, correspondence and short courses at both local and overseas institutions. Accordingly, the Bank organised induction, mentoring programs and on-the-job training for Bank staff.

Two Managers were placed on six months Executive Attachment in the Financial Markets and Financial Institutions Groups. Three staff underwent job rotations as part of central bank learning and development initiatives.

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. Two staff successfully completed Masters degree in Economics from the University Putra Malaysia and the Australia National University (ANU), respectively. Two staff commenced overseas study leave - one to pursue a Masters degree in Economics at the Southeast University in China through a Chinese Government Scholarship. The other staff who is currently pursuing a PhD in Economics at the ANU received the 2010 ANU Chris Higgins Prize for his paper titled 'What has changed in the US Monetary Policy? - Divergence from the Great Moderation, Inflation Measurement Bias and the Black Swan in the Money Market'.

In addition, two staff continued with correspondence courses for ANZIIF Certificate IV in General Insurance and Diploma in Financial Services (Risk Management), while 25 staff pursued part-time studies at the USP, Central Queensland University and Fiji National University towards Masters, Post Graduate and Diploma programs.



During the year, 53 staff attended various short courses locally, such as those organised by the USP, TPAF, Fiji Institute of Accountants (FIA) and the Rotaract Club. Moreover, 28 staff attended various courses abroad that were organised by the IMF-Singapore Technical Institute, SEACEN Training Centre, Bank Negara, ADB, Australia Asia-Pacific Economic Cooperation, APRA, Bank of Korea, Bank of England, World Bank and Pacific Regional Branch Council on Archives. Two staff also participated in an information gathering visit to the Central Provident Fund Board of Singapore, Monetary Authority of Singapore and Singapore Government Investment Corporation and the Employees Provident Fund of Malaysia.

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

23 staff attended the FIB's Inaugural Annual Convention. Four staff received the FIB Lifetime Achievement Award for over 25 years of service to the banking industry and one staff was awarded the Honorary Fellow of the FIB.

During the year, a staff at Chief Manager level was granted special secondment to the Government as Trade Commissioner for Fiji in Los Angeles for a three year term.

Employment Relations

The Reserve Bank continued negotiations with the Fiji Bank and Finance Sector Employees Union (FBFSEU) on a Salary Review Successor Agreement and Log of Claims. The employment dispute registered by the Union with the Ministry of Labour is expected to be

withdrawn upon an amicable settlement of the Log of Claims with the Union.

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.

In 2010, the Reserve Bank's Occupational Health & Safety (OHS) Committee met four times. Issues discussed included office space, noise disturbances, evacuation procedures and safety attire and equipment. The Bank's OHS Policy was also reviewed and training was organised for fire drills and safety in the workplace for OHS floor representatives and tenants.

Quality Performance Management

The Reserve Bank's quality performance management program continued in 2010, with the objective of achieving higher quality performance through building effective teamwork. Chief Managers drove this process.

There are 16 quality teams in the Bank and members met regularly during the year. The teams reviewed 59 processes and 37 new processes were approved. These self-driven teams focused on work process improvements and building effective work relations.

General Administration Services

The Reserve Bank tendered and renewed its insurance risks cover during its annual insurance renewal programme. Staff were issued with new corporate uniforms during the year. Tenders to replace the Bank's telecommunication system was finalised with the approval to purchase an Enterprise Call Server solution. The project will commence in 2011 with the replacement of telephones, switchboards, cabling and related infrastructure.

2010 Long Service Loyalty Award Recipients



Mr. Sada Reddy
Former Governor
(35 years)



Mr. Rafaele Kasibulu
Former Manager Corporate Projects
(30 years)

Service Recognition

The Governor's Service Recognition and Long Service Loyalty Award, recognises dedicated long and meritorious service to the Bank. In 2010, five staff reached 15 years, four staff reached 20 years and one staff reached 30 years of service.

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

Plant and Building

The BRS which officially opened in August 2010 is equipped with energy management technology and the latest in security surveillance systems.

During the year, repairs, maintenance, refurbishments and office fitouts were completed.

Major maintenance carried out during the year included the replacement of water pumps with energy efficient pumps, replacement of the cooling towers

for air conditioning and the maintenance of the water-proofing for the building.

An energy management database was installed to determine techniques to reduce energy consumption for the building.

Acknowledgement

The Reserve Bank Board wishes to thank the former Governor, Mr. Sada Reddy, for his 35 years of devoted service, dedication and contribution to the Reserve Bank of Fiji. The Board also sincerely acknowledges the efforts and contribution of staff in 2010.

The 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 Reserve Bank also wishes to express its sincere appreciation to the FBFSEU for its support and assistance in industrial matters.

The Year Ahead

The Reserve Bank will continue to focus on fulfilling its core responsibilities in 2011. Listed below are priority areas where special effort will be focused.

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.

Reserve Bank of Fiji Act

The review of the RBF Act (1983) will continue in 2011. Further evaluation will take place to ensure the proposed law is in line with international best practices.

Currency Review

In 2011, the Reserve Bank will continue to review its currency stock. Further work on the new design banknotes and coins, as approved by Cabinet in March 2011 for issue from the second half of 2012, will be carried out.

Enhanced Supervision

The Reserve Bank will further strengthen its supervisory capacities in 2011. Focus on the reform process of the FNPF will be maintained and work on the development of supervision policies is planned.

Compliance with new policies implemented in 2010 will be monitored along with the development of other policies for the banking and the insurance industries. In addition, work on stress testing will continue while reviews of laws and older supervision policies are earmarked for the year ahead.

Work on the framework for the payment system designation will continue in 2011.

Financial System Developments

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

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

Work will be carried out on the review of laws relating to insurance, payments systems, microfinance and capital markets.

A Capital Markets and Banking conference to explore new opportunities for growing Fiji's financial markets is scheduled for 2011.

Corporate Services Enhancements

The Reserve Bank will enhance its telecommunication systems and integrate other communication platforms to increase productivity.

In 2011, work will continue on record keeping for good governance. Furthermore, work will continue towards establishing a paperless office. The appropriate processes and systems will be employed to convert all forms of documentation to digital form.

Work processes will continue to be strengthened to reduce the Reserve Bank's carbon footprint. Work will continue in the enhancement of automation and process re-engineering of several key processes of the Reserve Bank, with a view to increase process efficiency and allow for a better information management and decision support system. The Central database project is expected to be completed in 2011.

The façade of the Reserve Bank building will be enhanced. Remedial work will be done to provide a new sustainable surface for the future.



USA



EURO



AUSTRALIA



NEW ZEALAND



JAPAN



CHINA

FINANCIAL STATEMENTS

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DIRECTORS' REPORT

For the year ended 31 December 2010

The directors present their report together with the financial statements of the Reserve Bank of Fiji ("the Bank") for the year ended 31 December 2010 and the auditors' report thereon.

Directors

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

Barry **Whiteside** (Chairman and Acting Governor - from 9 December 2010)
 Iowane **Naiveli**
 Robin **Yarrow**
 Adish **Narayan**
 Deo **Saran**
 Filimone **Waqabaca** (Ex-officio member - from 7 February 2011)

State of affairs

In the opinion of the directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the financial position of the Bank as at 31 December 2010 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results of the Bank, its changes in equity and its cash flows for the year then ended.

Principal activities

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

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

Trading results

The net profit of the Bank for the year ended 31 December 2010 was \$21.52m (2009: \$16.60m).

Reserves

There was no transfer to the General reserve from net profit at year end as agreed between the Minister and the Board, 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 2010, the value of the External reserves was 104% (2009: 105%) of total demand liabilities.

Payable to the Fijian Government

In accordance with the Reserve Bank of Fiji Act, 1983, the following amounts totalling \$38.91m (2009: \$39.25m) are payable to the Fijian Government:

Section 8(3): Net profit after transfer to General reserve - \$21.52m (2009: \$16.60m)
 Section 34: One-fifth balance of Revaluation reserve - \$17.39m (2009: \$22.65m)

DIRECTORS' REPORT - continued

For the year ended 31 December 2010

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 allowance for doubtful debts, inadequate to any substantial extent.

Provisions

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

Assets

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

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

Directors' benefit

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

Significant events

During the year, there was a theft of \$1 million worth of \$20 notes in the port of Singapore that were in transit to Fiji from suppliers of the currency notes in London. Following an investigation by law enforcement agencies, the police have traced the stolen notes and advised the organisation who have purchased the notes to refrain from circulating them to the public.

Events subsequent to balance date

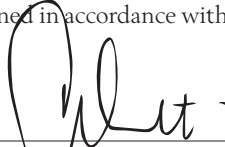
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Bank, to affect significantly the operations of the Bank, the results of those operations, 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 31st day of March 2011.

Signed in accordance with a resolution of the directors:


Barry Whiteside
Acting Governor


Iowane Naiveli
Director

STATEMENT BY DIRECTORS

For the year ended 31 December 2010

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 2010;
- (b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2010;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in equity for the year ended 31 December 2010;
- (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 2010.
- (e) the financial statements have been properly prepared in accordance with International Financial Reporting Standards except as noted in Note 1(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 Financial Reporting Standard 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.

For and on behalf of the Board of directors by authority of a resolution of the directors this *31st day* of March 2011.



Barry Whiteside
Acting Governor



Iowane Naiveli
Director

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

We have audited the accompanying financial statements of Reserve Bank of Fiji, which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 60 to 80.

Directors' and Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Qualification

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

Had the Bank adopted IAS 21, the Revaluation reserve account - foreign currency would be increased by \$2.90m in respect of the year ended 31 December 2010, being the net exchange losses debited to that account of \$3.63m offset by a decrease of \$0.73m in amount payable to the Fijian Government. The net profit for the year would have been decreased by \$3.63m to \$17.89m, being the exchange losses for the year.

Qualified audit opinion

In our opinion, except for the effects of non-compliance with IAS 21 as noted above, the financial statements give a true and fair view of the financial position of the Reserve Bank of Fiji as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the Reserve Bank of Fiji Act, 1983.

Suva, Fiji Islands

31 March 2011



KPMG

Chartered Accountants

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | Note | 2010 \$000 | 2009 \$000 |
|--|------|---------------|----------------|
| Income | | | |
| Interest income | 3(a) | 46,122 | 39,974 |
| Net gains on realisation of securities | | 470 | 513 |
| Net gains on currency trading | | 5 | 4 |
| Other revenue | 3(b) | 2,230 | 1,067 |
| Total income | | 48,827 | 41,558 |
| Expenses | | | |
| Interest expense | 3(c) | 6,155 | 1,515 |
| Amortisation of securities | | 953 | 1,402 |
| Administration expenses | 3(d) | 14,413 | 12,443 |
| Other expenses | 3(e) | 5,787 | 9,598 |
| Total expenses | | 27,308 | 24,958 |
| Net profit | 10 | 21,519 | 16,600 |
| Other comprehensive income | | | |
| Fair value (losses)/gains | | (15,155) | 19,709 |
| Net (losses)/gains arising from translation of currency balances to Fiji currency | | (3,633) | 102,952 |
| Total other comprehensive (loss)/income | | (18,788) | 122,661 |
| Total comprehensive income | | 2,731 | 139,261 |

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 60 to 80.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | Paid Up capital | General reserves | Revaluation reserve account-foreign currency | Available-for-sale reserve | Asset revaluation reserve | Retained earnings | Total |
|--|-----------------|------------------|--|----------------------------|---------------------------|-------------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 January 2009 | 2,000 | 39,050 | 10,284 | 14,701 | 7,990 | - | 74,025 |
| <i>Total comprehensive income for the year</i> | | | | | | | |
| Profit or loss | - | - | - | - | - | 16,600 | 16,600 |
| <i>Other comprehensive income</i> | | | | | | | |
| Fair value gains | - | - | - | 19,709 | - | - | 19,709 |
| Net gains arising from translation of foreign currency balances to Fiji currency | - | - | 102,952 | - | - | - | 102,952 |
| Total other comprehensive income | - | - | 102,952 | 19,709 | - | - | 122,661 |
| Total comprehensive income for the year | - | - | 102,952 | 19,709 | - | 16,600 | 139,261 |
| <i>Transactions with owners, recorded directly in equity.</i> | | | | | | | |
| Payable to the Fijian Government (Note 10) | - | - | (22,647) | - | - | (16,600) | (39,247) |
| Balance at 31 December 2009 | 2,000 | 39,050 | 90,589 | 34,410 | 7,990 | - | 174,039 |

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 60 to 80.

STATEMENT OF CHANGES IN EQUITY - continued

For the year ended 31 December 2010

| | Paid Up capital | General reserves | Revaluation reserve account-foreign currency | Available-for-sale reserve | Asset revaluation reserve | Retained earnings | Total |
|---|-----------------|------------------|--|----------------------------|---------------------------|-------------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 January 2010 | 2,000 | 39,050 | 90,589 | 34,410 | 7,990 | - | 174,039 |
| <i>Total comprehensive income for the year</i> | | | | | | | |
| Profit or loss | - | - | - | - | - | 21,519 | 21,519 |
| <i>Other comprehensive income</i> | | | | | | | |
| Fair value losses | - | - | - | (15,155) | - | - | (15,155) |
| Net losses arising from translation of foreign currency balances to Fiji currency | - | - | (3,633) | - | - | - | (3,633) |
| Total other comprehensive income | - | - | (3,633) | (15,155) | - | - | (18,788) |
| Total comprehensive income for the year | - | - | (3,633) | (15,155) | - | 21,519 | 2,731 |
| <i>Transactions with owners, recorded directly in equity.</i> | | | | | | | |
| Payable to the Fijian Government (Note 10) | - | - | (17,391) | - | - | (21,519) | (38,910) |
| Balance at 31 December 2010 | 2,000 | 39,050 | 69,565 | 19,255 | 7,990 | - | 137,860 |

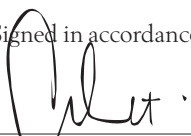
The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 80.

STATEMENT OF FINANCIAL POSITION

As At 31 December 2010

| | Note | 2010 \$000 | 2009 \$000 |
|--|------|------------------|------------------|
| Foreign currency assets | | | |
| Short-term commercial paper and current accounts | 4 | 663,182 | 397,998 |
| Marketable securities | 4 | 448,348 | 439,712 |
| Gold | 4 | 2,131 | 1,748 |
| Accrued interest | 4 | 5,164 | 6,635 |
| International Monetary Fund | | | |
| - Reserve tranche position | 4/16 | 45,610 | 48,399 |
| - Special drawing rights holdings | 4/16 | 143,437 | 202,765 |
| - PRGF - HIPC Trust | 4 | 545 | 587 |
| - Currency subscription | 16 | 151,736 | 164,154 |
| Total foreign currency assets | | 1,460,153 | 1,261,998 |
| Local currency assets | | | |
| Cash on hand | 13 | 1,327 | 1,620 |
| Domestic securities | 5 | 185,638 | 228,506 |
| Other assets | 6 | 27,486 | 24,232 |
| Intangible assets | 7 | 677 | 1,034 |
| Property, plant and equipment | 8 | 23,275 | 23,741 |
| Total local currency assets | | 238,403 | 279,133 |
| Total assets | | 1,698,556 | 1,541,131 |
| Foreign currency liabilities | | | |
| Demand deposits | 9 | 64 | 91 |
| PRGF - HIPC Trust | | 545 | 587 |
| IMF - Special drawing rights allocation | 16 | 188,347 | 202,861 |
| Total foreign currency liabilities | | 188,956 | 203,539 |
| Local currency liabilities | | | |
| Demand deposits | 9 | 360,356 | 300,218 |
| Payable to Fijian Government | 10 | 38,910 | 39,247 |
| Currency in circulation | 11 | 479,977 | 431,480 |
| Statutory reserve deposits | | 336,352 | 227,432 |
| IMF - notes currency subscription | | 151,090 | 162,733 |
| Other liabilities | 12 | 5,055 | 2,443 |
| Total local currency liabilities | | 1,371,740 | 1,163,553 |
| Total liabilities | | 1,560,696 | 1,367,092 |
| Net assets | | 137,860 | 174,039 |
| Capital and reserves | | | |
| Paid-up capital | 14 | 2,000 | 2,000 |
| General reserve | 15 | 39,050 | 39,050 |
| Revaluation reserve account - foreign currency | 15 | 69,565 | 90,589 |
| Available-for-sale reserve | 15 | 19,255 | 34,410 |
| Asset revaluation reserve | 15 | 7,990 | 7,990 |
| | | 137,860 | 174,039 |

Signed in accordance with the resolution of the Directors:



Barry Whiteside
Acting 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 60 to 80.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Note | 2010 \$000 | 2009 \$000 |
|---|------|------------------|------------------|
| Operating activities | | | |
| Rental lease income | | 292 | 279 |
| Numismatic sales | | 188 | 144 |
| Currency trading | | 5 | 4 |
| Interest received and securities trading income | | 48,014 | 41,342 |
| Other income | | 1,733 | 938 |
| Interest paid | | (6,155) | (1,448) |
| New currency payments | | (4,771) | (6,449) |
| Administration and other expenses | | (11,337) | (13,229) |
| | | 27,969 | 21,581 |
| Investing activities | | | |
| Net movement in domestic securities | | 29,833 | (46,414) |
| Purchase of property, plant and equipment and intangibles | | (1,503) | (3,511) |
| Net movement in bonds | | 161,421 | (57,014) |
| Net movement in gold | | (383) | (469) |
| Net movement in short-term commercial papers | | (268,188) | (18,415) |
| Net movement in fixed deposit accounts | | (173,130) | (140,369) |
| Net movement in International Monetary Fund accounts | | 48,205 | (4,950) |
| Net movement in other receivables | | (2,973) | (3,136) |
| | | (206,718) | (274,278) |
| Financing activities | | | |
| Net movement in currency in circulation | | 48,497 | 40,568 |
| Net movement in demand deposits | | 60,915 | 234,142 |
| Net movement in statutory reserve deposits | | 108,920 | 38,537 |
| Payment to the Fijian Government | | (39,247) | (33,031) |
| | | 179,085 | 280,216 |
| Net effect of exchange rate | | (3,633) | 102,952 |
| Net (decrease)/increase in cash | | (3,297) | 130,471 |
| Cash at the beginning of the financial year | | 296,347 | 165,876 |
| Cash at the end of the financial year | 13 | 293,050 | 296,347 |

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 60 to 80.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Statement of significant accounting policies

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

(a) Statement of compliance

The financial statements have been drawn up in accordance with the provisions of the Reserve Bank of Fiji Act, 1983, International Financial Reporting Standards ("IFRS") and other disclosure requirements of the Fiji Institute of Accountants except as detailed below.

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

This is at variance with International Financial Reporting Standard 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 \$17.89m, a decrease of \$3.63m, being the exchange loss for the year.

(b) Basis of preparation

The preparation of the financial statements in conformity with IFRS 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 2.

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.

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 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant impact on the financial statements, except for IFRS 9 "*Financial Instruments*" which becomes mandatory for the Bank's financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Statement of significant accounting policies - *continued*

(c) Foreign currency

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

(d) Financial assets and liabilities

Investment securities

The Bank defines 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 of the maturity on a constant yield to maturity basis.

Available-for-sale financial assets are carried at fair value (Note 19). Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in 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.

(e) Gold

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

(f) 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 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.

(g) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Statement of significant accounting policies - *continued*

(h) Currency inventory

Currency inventory relates to notes and coins purchased for circulation. The amount expensed in profit or loss is based on the cost of notes and coins that are issued for circulation.

(i) Loans and advances

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

A specific allowance for bad and doubtful debts is made based on the appraisal carried out at year end. Movement in the allowance is charged to the statement of comprehensive income.

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

(j) 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 Reserve Bank.

(k) Currency in circulation

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

(l) 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 IFRSs, 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:

| | |
|---|------------|
| Improvements - buildings | 5-15 years |
| Buildings | 50 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.

(m) 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%.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. Statement of significant accounting policies - *continued*

(n) Statutory reserve deposit

Under Section 40 of the Reserve Bank of Fiji Act, 1983, the Reserve Bank may specify the reserves required, by each financial institution, to be maintained against deposits and other similar liabilities. However, under Section 31 of the National Bank of Fiji Restructuring Act, 1996, this section does not apply to the Asset Management Bank ("AMB").

(o) Impairment

The carrying amounts of the Bank's assets are reviewed at balance 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.

(p) Employee entitlements

Short-term benefits

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

Other long-term employee benefits

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

(q) Income tax

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

(r) 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.

(s) Operating leases

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

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

(t) Comparative figures

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

(u) Rounding

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

2. Critical accounting estimates and judgements

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

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

Impairment of property, plant and equipment

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

3. Revenue and expenses

(a) Interest income

Overseas investments
International Monetary Fund
Domestic securities
Loans and advances

(b) Other revenue

Rent received
Numismatic sales
License and application fees
Other miscellaneous income

| | 2010 \$000 | 2009 \$000 |
|--|---------------|---------------|
| | 28,836 | 23,621 |
| | 630 | 250 |
| | 16,587 | 16,035 |
| | 69 | 68 |
| | 46,122 | 39,974 |
| | | |
| | 309 | 286 |
| | 188 | 213 |
| | 291 | 298 |
| | 1,442 | 270 |
| | 2,230 | 1,067 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. Revenue and expenses - *continued*

| | 2010 \$000 | 2009 \$000 |
|---------------------------------------|---------------|---------------|
| (c) Interest expense | | |
| Statutory reserve deposits | 429 | 1,433 |
| Bank demand deposits | 4,123 | - |
| International Monetary Fund | 533 | 67 |
| Other | 1,070 | 15 |
| | 6,155 | 1,515 |
| (d) Administration expenses | | |
| Staff costs | 9,871 | 8,622 |
| Other costs | 4,542 | 3,821 |
| | 14,413 | 12,443 |
| Total number of employees at year end | 203 | 200 |
| (e) Other expenses | | |
| Depreciation | 1,503 | 1,339 |
| Amortisation of intangible assets | 539 | 541 |
| Auditors' remuneration | 21 | 20 |
| Board remuneration | 52 | 44 |
| Write off cost of old coins | - | 2,541 |
| Currency issue | 3,633 | 5,081 |
| Numismatic | 39 | 32 |
| | 5,787 | 9,598 |
| 4. External reserves | | |
| Short-term commercial paper | 545,470 | 297,663 |
| Current accounts | 117,712 | 100,335 |
| | 663,182 | 397,998 |
| Marketable securities | | |
| - Fixed term deposits | 372,792 | 199,663 |
| - Bonds | 75,556 | 240,049 |
| | 448,348 | 439,712 |
| Gold | 2,131 | 1,748 |
| Accrued interest | 5,164 | 6,635 |
| International Monetary Fund | | |
| - Reserve tranche position | 45,610 | 48,399 |
| - Special drawing rights holdings | 143,437 | 202,765 |
| - PRGF - HIPC Trust | 545 | 587 |
| | 189,592 | 251,751 |
| Total External reserves | 1,308,417 | 1,097,844 |

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 2010, the value of the External reserves was 104% (2009: 105%) of total demand liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

| | | 2010 \$000 | 2009 \$000 |
|-------------------------------|-----|---------------|---------------|
| 5. Domestic securities | | | |
| Held to maturity | (a) | 99,166 | 130,571 |
| Available-for-sale | (b) | | |
| Fijian Government bonds | | 62,952 | 72,287 |
| Fiji Sugar Corporation bonds | | 23,520 | 25,648 |
| | | 86,472 | 97,935 |
| | | 185,638 | 228,506 |

(a) These securities have maturing dates up to 20 years. These securities are purchased in the secondary market and it is the Bank's intention to hold these investments to maturity. During the year \$0.953m (2009: \$1.402m) was amortised in respect of securities held in this category.

(b) Domestic securities underwritten by the Bank are classified as available-for-sale. These securities have maturities dates up to 2029.

Reconciliation of available-for-sale financial securities

| | | | |
|---|--|----------|----------|
| Opening balance | | 97,935 | 25,173 |
| Investments | | - | 74,083 |
| Redeemed at maturity | | - | (25,000) |
| Fair value gains/(losses) | | (11,463) | 23,679 |
| Total available-for-sale financial securities | | 86,472 | 97,935 |
| 6. Other assets | | | |
| Accrued interest | | 3,450 | 3,973 |
| Currency inventory | | 16,593 | 15,455 |
| Other assets and prepayments | | 6,165 | 3,468 |
| | | 26,208 | 22,896 |
| Staff loans and advances | | 1,280 | 1,338 |
| Allowance for doubtful debts on staff loans and advances | | (2) | (2) |
| | | 1,278 | 1,336 |
| | | 27,486 | 24,232 |
| 7. Intangible assets | | | |
| <i>Cost</i> | | | |
| Balance at 1 January 2010 | | 3,488 | 3,251 |
| Net transfers from Capital Markets Development Authority (CMDA) | | - | 5 |
| Transfers from work in progress | | 131 | - |
| Acquisitions | | 52 | 243 |
| Disposals | | (1) | (11) |
| Balance at 31 December 2010 | | 3,670 | 3,488 |
| <i>Accumulated amortisation</i> | | | |
| Balance at 1 January 2010 | | 2,454 | 1,920 |
| Amortisation charge for the year | | 539 | 541 |
| Disposals | | - | (7) |
| Balance at 31 December 2010 | | 2,993 | 2,454 |
| <i>Carrying amount</i> | | | |
| At 1 January 2010 | | 1,034 | 1,331 |
| At 31 December 2010 | | 677 | 1,034 |

Intangible assets include costs incurred in acquiring the Bank's computer software. Computer software are 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 2010

8. 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 2009 | 18,220 | 2,657 | 264 | 1,812 | 4,665 | 799 | 28,417 |
| Net transfers from CMDA | - | - | 32 | - | 52 | - | 84 |
| Transfers | - | 198 | - | - | - | (441) | (243) |
| Additions | - | 25 | 64 | 301 | 3 | 2,875 | 3,268 |
| Disposals/transfers | - | - | (88) | (30) | (20) | (392) | (530) |
| Balance at 31 December 2009 | 18,220 | 2,880 | 272 | 2,083 | 4,700 | 2,841 | 30,996 |
| Balance at 1 January 2010 | 18,220 | 2,880 | 272 | 2,083 | 4,700 | 2,841 | 30,996 |
| Transfers | 2,994 | 358 | - | 16 | - | (3,499) | (131) |
| Additions | - | 143 | - | 394 | - | 914 | 1,451 |
| Disposals | - | - | - | (458) | (67) | (196) | (721) |
| Balance at 31 December 2010 | 21,214 | 3,381 | 272 | 2,035 | 4,633 | 60 | 31,595 |
| Accumulated depreciation | | | | | | | |
| Balance at 1 January 2009 | - | 2,289 | 108 | 1,264 | 2,339 | - | 6,000 |
| Depreciation for the year | 643 | 76 | 45 | 243 | 332 | - | 1,339 |
| Depreciation on disposals | - | - | (45) | (27) | (12) | - | (84) |
| Balance at 31 December 2009 | 643 | 2,365 | 108 | 1,480 | 2,659 | - | 7,255 |
| Balance at 1 January 2010 | 643 | 2,365 | 108 | 1,480 | 2,659 | - | 7,255 |
| Depreciation for the year | 663 | 148 | 46 | 333 | 313 | - | 1,503 |
| Depreciation on disposals | - | - | - | (438) | - | - | (438) |
| Balance at 31 December 2010 | 1,306 | 2,513 | 154 | 1,375 | 2,972 | - | 8,320 |
| Carrying amount | | | | | | | |
| Balance at 1 January 2009 | 18,220 | 368 | 156 | 548 | 2,326 | 799 | 22,417 |
| Balance at 31 December 2009 | 17,577 | 515 | 164 | 603 | 2,041 | 2,841 | 23,741 |
| Balance at 31 December 2010 | 19,908 | 868 | 118 | 660 | 1,661 | 60 | 23,275 |

9. Demand deposits

Foreign

International Monetary Fund

Local

Banks' exchange settlement balances

Fijian Government

State NBF Trust Account

International Monetary Fund

Other depositors

| Note | 2010 \$000 | 2009 \$000 |
|------|---------------|---------------|
| | | |
| | 64 | 91 |
| | | |
| | 348,417 | 296,637 |
| | 9,651 | 482 |
| 9(a) | 1,180 | 1,310 |
| | 646 | 1,422 |
| | 462 | 367 |
| | 360,356 | 300,218 |

9. (a) State NBF Trust Account

In accordance with an agreement dated 12 September 1996 between the Republic of Fiji and 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 State at all times. The purpose of the State NBF Trust Account is to meet the obligations of the AMB.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

9. Demand deposits - continued

9. (a) State NBF Trust Account - continued

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.

| | 2010 \$000 | 2009 \$000 |
|---|---------------|---------------|
| 10. Payable to the Fijian Government | | |
| Net profit | 21,519 | 16,600 |
| One-fifth balance of 'Revaluation reserve - foreign currency' | 17,391 | 22,647 |
| | 38,910 | 39,247 |

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

11. Currency in circulation

| | | |
|-------|---------|---------|
| Notes | 450,104 | 403,314 |
| Coins | 29,873 | 28,166 |
| | 479,977 | 431,480 |

The exclusive rights of national currency issue are vested with the Reserve Bank. Currency in circulation comprises bank notes and coins issued by the Reserve Bank.

12. Other liabilities

Current

| | | |
|-----------------------|-------|-------|
| Employee entitlements | 854 | 1,042 |
| Other liabilities | 4,201 | 1,401 |
| | 5,055 | 2,443 |

13. Cash and cash equivalents

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

| | | |
|--|---------|---------|
| Cash on hand - local currency | 1,327 | 1,620 |
| Cash and cash equivalents - foreign currency | 291,723 | 294,727 |
| | 293,050 | 296,347 |

Cash and cash equivalents - foreign currency forms part of short-term commercial paper and current accounts in Note 4.

14. Share capital

| | | |
|----------------------------------|-------|-------|
| Authorised capital stock | 5,000 | 5,000 |
| Issued and paid-up capital stock | 2,000 | 2,000 |

15. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

15. Reserves - continued

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 1(c))

Asset revaluation reserve

This reserve records movements between cost and fair value of property of the Bank.

16. International Monetary Fund

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

As at 31 December 2010, the Republic of Fiji's membership subscription to the International Monetary Fund remained at \$197.35m (2009: \$212.55m). Of this amount \$45.61m (2009: \$48.40m) is shown as Reserve Tranche Position and is included as part of the External reserves of the Reserve Bank (refer Note 4) and the balance representing the local currency subscription portion of \$151.74m (2009: \$164.15m) is held mainly in the form of a non-interest bearing notes payable on demand.

Special drawing rights holdings ("SDR") is an interest bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the IMF. As at balance date the Special drawing rights holdings (asset) has a balance of \$143.44m (2009: \$202.76m) and is included as part of External reserves of the Bank (refer to Note 4) and IMF - Special drawing rights allocation (liability) with a balance of \$188.35m (2009: \$202.86m).

17. Principal activities

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

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

18. Financial risk management policies

a) Introduction and overview

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

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

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

Risk management framework

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. Financial risk management policies - *continued*

a) Introduction and overview - *continued*

Risk management framework - continued

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 comprising the Governors and senior management is 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 risks arise 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 that 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).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Maturity analysis as at 31 December 2010

| | 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 | 291,723 | 371,459 | - | - | - | 663,182 |
| Marketable securities | 166,656 | 265,354 | 16,338 | - | - | 448,348 |
| Gold | 2,131 | - | - | - | - | 2,131 |
| Accrued interest | 5,164 | - | - | - | - | 5,164 |
| IMF: - Reserve tranche position | 45,610 | - | - | - | - | 45,610 |
| - Special drawing rights holdings | 143,437 | - | - | - | - | 143,437 |
| - PRGF - HIPC Trust | - | - | - | 545 | - | 545 |
| - Currency subscription | 151,736 | - | - | - | - | 151,736 |
| | 806,457 | 636,813 | 16,338 | 545 | - | 1,460,153 |
| Local currency assets | | | | | | |
| Cash on hand | 1,327 | - | - | - | - | 1,327 |
| Domestic securities | 185,638 | - | - | - | - | 185,638 |
| Other assets | 27,486 | - | - | - | - | 27,486 |
| Intangibles | - | - | - | - | 677 | 677 |
| Property, plant and equipment | - | - | - | - | 23,275 | 23,275 |
| | 214,451 | - | - | - | 23,952 | 238,403 |
| Total assets | 1,020,908 | 636,813 | 16,338 | 545 | 23,952 | 1,698,556 |
| Foreign currency liabilities | | | | | | |
| Demand deposits | 64 | - | - | - | - | 64 |
| PRGF - HIPC Trust | - | - | - | 545 | - | 545 |
| IMF - Special drawing rights allocation | - | - | - | - | 188,347 | 188,347 |
| | 64 | - | - | 545 | 188,347 | 188,956 |
| Local currency liabilities | | | | | | |
| Demand deposits | 360,356 | - | - | - | - | 360,356 |
| Payable to Government | 38,910 | - | - | - | - | 38,910 |
| Currency in circulation | - | - | - | - | 479,977 | 479,977 |
| Statutory reserve deposit | - | - | - | - | 336,352 | 336,352 |
| IMF - Notes currency subscription | - | - | - | - | 151,090 | 151,090 |
| Other liabilities | 4,819 | 6 | 230 | - | - | 5,055 |
| | 404,085 | 6 | 230 | - | 967,419 | 1,371,740 |
| Total liabilities | 404,149 | 6 | 230 | 545 | 1,155,766 | 1,560,696 |
| Net assets | 616,759 | 636,807 | 16,108 | - | (1,131,814) | 137,860 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

Maturity analysis as at 31 December 2009

| | 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 | 294,727 | 103,271 | - | - | - | 397,998 |
| Marketable securities | 131,715 | 247,273 | 60,724 | - | - | 439,712 |
| Gold | 1,748 | - | - | - | - | 1,748 |
| Accrued interest | 6,635 | - | - | - | - | 6,635 |
| IMF: - Reserve tranche position | 48,399 | - | - | - | - | 48,399 |
| - Special drawing rights holdings | 202,765 | - | - | - | - | 202,765 |
| - PRGF - HIPC Trust | - | - | - | 587 | - | 587 |
| - Currency subscription | 164,154 | - | - | - | - | 164,154 |
| | 850,143 | 350,544 | 60,724 | 587 | - | 1,261,998 |
| Local currency assets | | | | | | |
| Cash on hand | 1,620 | - | - | - | - | 1,620 |
| Domestic securities | 2,012 | 28,156 | 86,694 | 111,644 | - | 228,506 |
| Other assets | 4,894 | 1,602 | 11,621 | 6,115 | - | 24,232 |
| Intangibles | - | - | - | - | 1,034 | 1,034 |
| Property, plant and equipment | - | - | - | - | 23,741 | 23,741 |
| | 8,526 | 29,758 | 98,315 | 117,759 | 24,775 | 279,133 |
| Total assets | 858,669 | 380,302 | 159,039 | 118,346 | 24,775 | 1,541,131 |
| Foreign currency liabilities | | | | | | |
| Demand deposits | 91 | - | - | - | - | 91 |
| IMF - Special drawing rights allocation | - | - | - | - | 202,861 | 202,861 |
| | 91 | - | - | - | 202,861 | 202,952 |
| Local currency liabilities | | | | | | |
| Demand deposits | 300,218 | - | - | - | - | 300,218 |
| Payable to Government | 39,247 | - | - | - | - | 39,247 |
| Currency in circulation | - | - | - | - | 431,480 | 431,480 |
| Statutory reserve deposit | - | - | - | - | 227,432 | 227,432 |
| IMF - Notes currency subscription | - | - | - | - | 162,733 | 162,733 |
| Other liabilities | 572 | 829 | 1,042 | 587 | - | 3,030 |
| | 340,037 | 829 | 1,042 | 587 | 821,645 | 1,164,140 |
| Total liabilities | 340,128 | 829 | 1,042 | 587 | 1,024,506 | 1,367,092 |
| Net assets | 518,541 | 379,473 | 157,997 | 117,759 | (999,731) | 174,039 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. 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 and P1/Aaa for long-term.

The Bank uses Standard & 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:

| | 2010 \$000 | 2009 \$000 |
|--|------------------|------------------|
| Foreign currency assets | | |
| Short-term commercial paper and current accounts | 663,182 | 397,998 |
| Marketable securities | 448,348 | 439,712 |
| International Monetary Fund | 341,328 | 415,905 |
| | 1,452,858 | 1,253,615 |
| Local currency assets | | |
| Domestic securities | 185,638 | 228,506 |
| Staff loans and advances | 1,280 | 1,338 |
| | 186,918 | 229,844 |
| | 1,639,776 | 1,483,459 |

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

| | 2010 \$000 | 2010 % | 2009 \$000 | 2009 % |
|---------------------------------|------------------|------------|------------------|------------|
| Concentration by country | | | | |
| United States | 332,074 | 20 | 279,235 | 19 |
| Japan | 42,209 | 3 | 32,379 | 2 |
| European countries | 91,224 | 6 | 46,489 | 3 |
| Australia | 400,876 | 24 | 285,744 | 20 |
| New Zealand | 245,147 | 15 | 193,863 | 13 |
| International Monetary Fund | 341,328 | 21 | 415,905 | 28 |
| Fiji | 186,918 | 11 | 229,844 | 15 |
| Total financial assets | 1,639,776 | 100 | 1,483,459 | 100 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. Financial risk management policies - *continued*(c) Credit risk - *continued*

| | 2010 \$000 | 2010 % | 2009 \$000 | 2009 % |
|---------------------------------|------------------|------------|------------------|------------|
| Concentration by sector | | | | |
| Foreign currency assets | | | | |
| Central banks | 69,715 | 5 | 54,592 | 4 |
| Commercial banks | 439,487 | 30 | 302,938 | 24 |
| Government | 205,235 | 14 | 105,459 | 8 |
| Municipal | - | - | 16,805 | 1 |
| Semi Government | 123,367 | 8 | 71,225 | 6 |
| Supranational | 239,049 | 17 | 227,790 | 18 |
| International Monetary Fund | 341,328 | 24 | 415,905 | 33 |
| Others | 34,677 | 2 | 58,901 | 6 |
| | 1,452,858 | 100 | 1,253,615 | 100 |
| Local currency assets | | | | |
| Government and statutory bodies | 185,638 | 99 | 228,506 | 99 |
| Staff loans and advances | 1,280 | 1 | 1,338 | 1 |
| | 186,918 | 100 | 229,844 | 100 |
| Total financial assets | 1,639,776 | | 1,483,459 | |

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 & Poor's, Moody's and Fitch credit ratings is as follows:

| | 2010 \$000 | 2010 % | 2009 \$000 | 2009 % |
|---|------------------|------------|------------------|------------|
| Summary by major credit category | | | | |
| <i>Foreign currency financial asset by major credit category:</i> | | | | |
| Aaa | 282,446 | 17 | 279,866 | 19 |
| Aa1 | 72,404 | 4 | 76,073 | 5 |
| Aa2 | 362,662 | 22 | 185,781 | 13 |
| Aa3 | 27,272 | 2 | 34,270 | 2 |
| A1 | 73 | - | 15,244 | 1 |
| A2 | - | - | 19,233 | 2 |
| International Monetary Fund | 341,328 | 21 | 415,905 | 28 |
| Others and Not rated | 366,673 | 23 | 227,243 | 15 |
| | 1,452,858 | 89 | 1,253,615 | 85 |
| <i>Local currency financial assets by major credit category:</i> | | | | |
| Others | 186,918 | 11 | 229,844 | 15 |
| Total financial assets | 1,639,776 | 100 | 1,483,459 | 100 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. Financial risk management policies - *continued*(c) Credit risk - *continued*

'Others' include financial instruments held with the Fijian Government. 'Not rated' includes financial instruments held with the Fiji Sugar Corporation, central banks and staff loans and advances.

(d) Market risks

Market risk is the risk that relates to the 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 benchmark modified duration for the total portfolio is twelve months. The duration of the portfolio is re-balanced regularly to maintain the targeted duration.

Foreign exchange risk management

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

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

Notional carrying amounts as at 31 December 2010

| | USD \$000 | YEN \$000 | STG \$000 | EURO \$000 | AUD \$000 | NZD \$000 | SDR \$000 |
|---|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Foreign currency assets | | | | | | | |
| Short-term commercial paper and current account | 71,463 | 1,892,613 | 47 | 30,094 | 148,783 | 101,942 | - |
| Marketable securities | 111,045 | - | - | 7,545 | 68,131 | 72,799 | - |
| Gold | 1,171 | - | - | - | - | - | - |
| Accrued interest | 450 | - | - | 15 | 1,617 | 943 | - |
| International Monetary Fund | - | - | - | - | - | - | - |
| - Reserve tranche position | - | - | - | - | - | - | 16,248 |
| - Special drawing rights holdings | - | - | - | - | - | - | 51,096 |
| - PRGF - HIPC Trust | - | - | - | - | - | - | 194 |
| - Currency subscription | - | - | - | - | - | - | 54,052 |
| Total foreign currency assets | 184,129 | 1,892,613 | 47 | 37,654 | 218,531 | 175,684 | 121,590 |
| Foreign currency liabilities | | | | | | | |
| Demand deposits | - | - | - | - | - | - | (23) |
| PRGF - HIPC Trust | - | - | - | - | - | - | (194) |
| IMF - Special drawing rights allocation | - | - | - | - | - | - | (67,094) |
| Total foreign currency liabilities | - | - | - | - | - | - | (67,311) |
| Carrying amount | 184,129 | 1,892,613 | 47 | 37,654 | 218,531 | 175,684 | 54,279 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. Financial risk management policies - *continued*(d) Market risks - *continued*

Notional carrying amounts as at 31 December 2009

| | USD \$000 | YEN \$000 | STG \$000 | EURO \$000 | AUD \$000 | NZD \$000 | SDR \$000 |
|--|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Foreign currency assets | | | | | | | |
| Short-term commercial paper, current account and marketable securities | 144,783 | 1,551,265 | 50 | 16,750 | 165,618 | 139,271 | - |
| Gold | 906 | - | - | - | - | - | - |
| Accrued interest | 783 | - | - | 32 | 1,474 | 1,791 | - |
| International Monetary Fund | | | | | | | |
| Reserve tranche position | - | - | - | - | - | - | 16,007 |
| Special drawing rights | - | - | - | - | - | - | 67,063 |
| PRGF - HIPC Trust | - | - | - | - | - | - | 194 |
| Currency subscription | - | - | - | - | - | - | 54,293 |
| Total foreign currency assets | 146,472 | 1,551,265 | 50 | 16,782 | 167,092 | 141,062 | 137,557 |
| Foreign currency liabilities | | | | | | | |
| Demand deposits | - | - | - | - | - | - | (30) |
| IMF - Special drawing rights allocation | - | - | - | - | - | - | (67,094) |
| Total foreign currency liabilities | - | - | - | - | - | - | (67,124) |
| Carrying amount | 146,472 | 1,551,265 | 50 | 16,782 | 167,092 | 141,062 | 70,433 |

The following significant exchange rates were used at year end:

Reporting date spot rate

| | 2010 | 2009 |
|------|--------|--------|
| USD | 0.5496 | 0.5185 |
| YEN | 44.84 | 47.91 |
| STG | 0.3564 | 0.3226 |
| EURO | 0.4132 | 0.3615 |
| AUD | 0.5411 | 0.5796 |
| NZD | 0.7128 | 0.7184 |
| SDR | 0.3562 | 0.3307 |

Sensitivity analysis

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

Effect on equity

| | 2010 | 2009 |
|-------------------------|---------|---------|
| 31 December 2009 | | |
| USD | 33,456 | 28,249 |
| YEN | 4,221 | 3,238 |
| STG | 13 | 15 |
| EUR | 9,113 | 4,642 |
| AUD | 40,433 | 28,829 |
| NZD | 24,647 | 19,636 |
| SDR | 19,719 | 21,296 |
| | 131,602 | 105,905 |

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

18. Financial risk management policies - *continued*

e) Operational Risk Management

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

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

To reduce operational risks in foreign reserves operations there is a clear separation of duties between the front office (dealing) and the back office (settlements function). The front office comprises an authorised team of officers (dealers) who are duly authorised to transact on behalf of the Bank. The back office comprises of officers who independently process and settle all the deals undertaken by the front office.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business group. This responsibility is supported by the development of overall and business group specific policies and procedures. The middle office and internal and external audit functions also ensure that operational risk is effectively minimised and managed.

19. Fair values of financial assets and liabilities

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

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

External reserves

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

Domestic securities

The fair value of the Bank's domestic securities is \$191.34m (2009: \$242.26m), 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 deposits are considered to approximate their fair value as they are payable on demand.

Reserve Bank of Fiji Notes

The carrying value of the Reserve Bank of Fiji Notes are considered to approximate their fair value as they are redeemable on demand in accordance with the Bank's policy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

19. Fair values of financial assets and liabilities - continued

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 its fair value.

Valuation of financial instruments

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

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|---------|
| 31 December 2010 | | | | |
| <i>Foreign currency assets</i> | | | | |
| Available for sale financial assets at quoted market price | 45,163 | - | - | 45,163 |
| Fijian Government bonds | - | 30,393 | - | 30,393 |
| | 45,163 | 30,393 | - | 75,556 |
| <i>Local currency assets</i> | | | | |
| Domestic securities - Underwritten Fijian Government bonds | - | 62,952 | - | 62,952 |
| - Fiji Sugar Corporation bonds | - | 23,520 | - | 23,520 |
| | - | 86,472 | - | 86,472 |
| | 45,163 | 116,865 | - | 162,028 |
| 31 December 2009 | | | | |
| <i>Foreign currency assets</i> | | | | |
| Available for sale financial assets at quoted market price | 207,833 | - | - | 207,833 |
| Fijian Government bonds | - | 32,216 | - | 32,216 |
| | 207,833 | 32,216 | - | 240,049 |
| <i>Local currency assets</i> | | | | |
| Domestic securities - Underwritten Fijian Government bonds | - | 72,287 | - | 72,287 |
| - Fiji Sugar Corporation bonds | - | 25,648 | - | 25,648 |
| | - | 97,935 | - | 97,935 |
| | 207,833 | 130,151 | - | 337,984 |

During the financial year ended 31 December 2010, there were no transfers in and out of the fair value hierarchy levels mentioned above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. Related parties

Identity of related parties

The Bank has related party relationships with the Board of directors, the executive management and the Fijian Government.

The Board of directors in office during the year were:

| | |
|------------------|--|
| Barry Whiteside | (Chairman and Acting Governor - from 9 December 2010) |
| Sada Reddy | (Governor until 9 December 2010) |
| Iowane Naiveli | |
| Robin Yarrow | |
| Adish Narayan | |
| Chandra Dulare | (until 11 January 2011) |
| Deo Saran | |
| David Kolutagane | (Ex-officio member - from 1 September 2010 to 4 February 2011) |
| John Prasad | (Ex-officio member - until 31 August 2010) |

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 | Deputy Governor (Acting Governor from 9 December 2010) |
| Sada Reddy | (Governor until 9 December 2010) |
| Inia Naiyaga | Senior Advisor to the Governors |
| Lorraine Seeto | Chief Manager Corporate Planning and Assurance until 31 January 2010; Advisor to the Governors from 1 February 2010 |
| Filimone Waqabaca | Chief Manager Financial Systems Development & Compliance |
| Ariff Ali | Chief Manager Financial Markets |
| Esala Masitabua | Chief Manager Currency and Corporate Services until 31 January 2010; Chief Manager Financial Institutions from 1 February 2010 |
| Jitendra Singh | Chief Manager Economics until 20 July 2010 |
| Razim Buksh | Director Financial Intelligence Unit |
| Susan Kumar | Deputy Chief Manager Currency and Corporate Services until 31 January 2010; Acting Chief Manager Currency and Corporate Services from 1 February 2010 |
| Caroline Waqabaca | Acting Chief Manager Economics from 21 July 2010 |
| Subrina Hanif | Acting Secretary to Board from 1 February 2010 (Appointed 30 April 2010) |

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 \$17.38m (2009: \$17.42m) of interest income relating to its investments in Government securities. The Bank also paid \$38.91m (2009: \$39.25m) 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 \$204.57m (2009: \$245.69m).

The Bank also provides an overnight standby facility to the Fijian Government. At year end, the approved facility of \$20m (2009: \$20m) was not utilised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

20. Related parties - *continued*

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:

| | 2010 \$000 | 2009 \$000 |
|------------------------------|---------------|---------------|
| Board remuneration expenses | 52 | 44 |
| Short-term employee benefits | 1,335 | 1,022 |
| Long-term employee benefits | 178 | 217 |
| | 1,565 | 1,283 |

21. Commitments

Commitments not otherwise provided for in the financial statements and which existed at 31 December 2010 comprise:

Foreign exchange transactions:

Commitments

- Sales

- Capital commitments

| | |
|--------|--------|
| 17,558 | 10,401 |
| 155 | 779 |

22. Lease receivable

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

| | | |
|--|-------|-----|
| Receivable not later than one year | 406 | 237 |
| Receivable later than one year but not later than five years | 1,394 | 12 |
| Receivable later than five years | - | - |
| | 1,800 | 249 |

23. Events subsequent to balance date

Since the end of the financial year, the directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that will significantly or may significantly affect the operations of the Bank, the results of those operations or state of affairs of the Bank in subsequent financial years.

SELECTED EVENTS IN 2010

| | | | |
|------------|--|----------------|--|
| 15 Jan. | Press Release - RBF announces the Establishment of an Inter-agency Committee to guide the work of the Export Proceeds Monitoring Unit | 23 Jun. | Press Release - Reserve Bank of Fiji Holds Microfinance Expo in Ba |
| 21 Jan. | Presentation of FDB Small Business Awards | 25 Jun. | Ordinary Board Meeting 05/2010, Nadi |
| 22 Jan. | Press Release - Reserve Bank announces changes in Executive Roles | 25 Jun. | 2nd National Financial Inclusion Taskforce meeting |
| 15 Feb. | Press Release - Reserve Bank announces the Establishment of the National Financial Inclusion Taskforce | 26 Jun. | RBF Microfinance Expo, Ba |
| 17 Feb. | Governor chaired the first meeting of the National Financial Inclusion Taskforce | 28 Jun-9Jul | ADB Technical Assistance on Value Adding, Mr. Robin Boumphrey |
| | Board Audit Committee Meeting | 29 Jun. | March 2010 Quarterly Review issued |
| 18 Feb. | Ordinary Board Meeting 01/2010 | 29 Jun. | Press Release - National Financial Inclusion Task Force Reviews Progress of Work in the Ba meeting |
| 22 Feb. | December 2009 Quarterly Review issued | 29 Jun. | Press Release - Monetary Policy Stance Remains Unchanged |
| 09 Mar. | Press Release - Reserve Bank of Fiji announces Requirements for Appointing Heads of Licensed Financial Institutions | 30 Jun. | Governor rang last bell at SPSE Trading Platform |
| 14 Mar. | Press Release - Reserve Bank of Fiji Instructs All Financial Institutions to close on 15 March 2010 | 02 Jul. | Governor was on the Panel for the Revised National Budget 2010 |
| 15 Mar. | Bank Holiday due to Cyclone Tomas | 05-16 Jul. | APRA assisted onsite examination (with attendance from Solomon Islands, Papua New Guinea, Vanuatu, Cook Islands and Federated State of Micronesia) |
| 16 Mar. | Press Release - Reserve Bank of Fiji declares 16 March 2010 Bank Holiday | 07 Jul. | SRD increased to 10.0 percent from 8.5 percent |
| 22 Mar. | Press Release - Reserve Bank of Fiji Introduces Concessional Loan Facility for Businesses Affected by Cyclone Tomas | 16 Jul. | Press Release - RBF Supports the 2010 Crest Agriculture Show |
| 23 Mar. | Governor's Appeal for Cyclone Tomas announced | 20 Jul. | Deputy Governor was speaker at the Fiji Economic Update |
| 24 Mar. | Board Audit Committee Meeting | 23-30 Jul. | IMF Safeguards Assessment Mission |
| 25 Mar. | Ordinary Board Meeting 02/2010 | 28 Jul. | Capital Markets Securities Licensing Exams |
| 26 Mar. | Press Release - Reserve Bank of Fiji Maintains Current Monetary Policy Stance | 28 Jul. | Board Audit Committee Meeting |
| 29 Mar. | 2009 RBF Accounts and Annual Report to Minister for Finance | 29 Jul. | Ordinary Board Meeting 06/2010 |
| 01 Apr. | Press Release - Reserve Bank of Fiji Transfers \$39.2 million to Government | 30 Jul. | Press Release - Reserve Bank of Fiji Rationalises Import Substitution and Export Finance Facility |
| 07-21 Apr. | IMF-Fiji Program Mission | 06 Aug. | Mobile Money Workshop hosted by PFIP at RBF |
| 08 Apr. | Presentation of Team RBF's contribution to DISMAC from Governor's Cyclone Tomas Appeal | 18 Aug. | Governor was speaker at the Capital Markets & Listing Seminar |
| 13 Apr. | Opening Remarks by Governor at the World Consumer Rights Day - Theme: "Our Money Our Rights" | 19 Aug. | Governor launched the Green Ribbon Campaign |
| 13 Apr. | Press Release - Reserve Bank of Fiji Secures Asian Development Bank Technical Assistance for Local Value Adding content requirement for the Tourism Industry | | Press Release - Green Ribbon Campaign Promotes Financial Literacy |
| 13-20 Apr. | ADB Technical Assistance on Value Adding provided by Mr. Robin Boumphrey | 20 Aug. | Governor presented on "Economic Contribution of Tourism: The Way Forward" at the Fiji Tourism Forum 2010 at Plantation Island. |
| 14 Apr. | Press Release - Reserve Bank of Fiji announces Amnesty Period for Exporters | 23 Aug. | Press Release - Financial Intelligence Unit Annual Report 2009 |
| 15 Apr. | Governor presented on "Overview of the Economy vis-à-vis Agriculture and Export Markets" at the Food Security & Export-led Growth Workshop | 24 Aug. | Capital Markets Securities Licensing Exams |
| 16 Apr. | Press Release - Reserve Bank of Fiji Relaxes Policy on Local Borrowing for Non-Resident Controlled Companies and Individuals | 25 Aug. | Press Release - Capital Markets Annual Report 2009 |
| 16 Apr. | Capital Markets 2009 Annual Report to Minister for Finance | 26 Aug. | Ordinary Board Meeting 07/2010 |
| 22 Apr. | Ordinary Board Meeting 03/2010 | 26 Aug. | Press Release - Reserve Bank of Fiji Officially Opens Business Resumption Site |
| 26-28 Apr. | Workshop on Financial Analysis and Valuation (Basic & Advanced), Suva, Fiji | 27 Aug. | Press Release - Current Monetary Policy Stance Remains Unchanged |
| 29 Apr. | Press Release - Reserve Bank of Fiji increases SRD requirement for Commercial Banks in Fiji | 27-28 Aug. | RBF Microfinance Village at Vodafone Hibiscus Festival |
| 03 May | Press Release - Reserve Bank of Fiji Revises Minimum Capital Adequacy Requirements for Licensed Financial Institutions | 30 Aug. | Press Release - Reserve Bank of Fiji Releases 2009 Annual Report |
| 03 May | Press Release - New Policy Guidelines for Licensed Insurers and the Fiji National Provident Fund | 01 Sep. | Press Release - Reserve Bank of Fiji Releases 2009 Insurance Annual Report |
| 03-14 May | PFTAC Technical Assistance - Exchange Rates, Mr. Barry Topf | 03 Sep. | Press Release - Export Proceeds Amnesty |
| 11 May | Press Release - Reserve Bank of Fiji Awards Scholarship to Local Chef for Training in Malaysia | 09-10 Sep. | Governor chaired the PFTAC Tripartite Steering Committee meeting in Vanuatu |
| 14 May | Press Release - Reserve Bank of Fiji to Implement New Monetary Policy Framework | 15 Sep. | Press Release - Statement from the Reserve Bank of Fiji on the \$1 million \$20 Banknotes under Police investigation |
| 17 May | New Monetary Policy Framework Implemented | 15-23 Sep. | IMF Program Mission |
| 18 May | Board Audit Committee Meeting | 23 Sep. | Press Release - Microfinance Expo in Labasa |
| 19 May | Ordinary Board Meeting 04/2010 | 24-25 Sep. | RBF Microfinance Expo, Labasa |
| 19 May | Economics Association of Fiji - Mr. Ronald Langston (Principal, Langstons Global Enterprises, USA) spoke on "Networking The Diaspora: The Power of Strategic Alliance" | 27 Sep. | June 2010 Quarterly Review issued |
| 24 May | Press Release - Revised Economic Projections | 01 Oct. | Press Release - 2nd National Anti-Money Laundering Conference |
| 25 May | Press Release - Reserve Bank of Fiji introduces Import Substitution Facility | 14 Oct. | Press Release - New Policy Guidelines for Licensed Insurance Companies |
| 28 May | Press Release - Excellence in Currency Award | 23 Oct. | Governor delivered keynote address on "Economic Indicators and Implications - Where to from Here?" at the Fiji Institute of Bankers Convention |
| 28 May | Press Release - Reserve Bank of Fiji increases Statutory Reserve Deposit Requirement for Commercial Banks in Fiji | 27 Oct. | Board Audit Committee Meeting |
| 07 Jun. | SRD increased to 8.5 percent from 7.0 percent | 28 Oct-12 Nov. | IMF Article IV Mission |
| 09 Jun. | Launching of the e-MONEY Fiji Project by Governor | 28 Oct. | Ordinary Board Meeting 08/2010 |
| 09 Jun. | Press Release - Mobile Money to Broaden Reach of Financial Services | 28 Oct. | RBF won 1st prize in the SPSE Annual Report Competition (Category: Statutory Authorities, Government Bodies and Unlisted Trusts) |
| 15 Jun. | Seminar on "Microfinance in Fiji: What Can Be Done?" by Mr. Vijay Mahajan, Chairman of BASIX | 03 Nov. | RBF Special Board Meeting |
| 23 Jun. | Governor was speaker at Fiji Indigenous Business Council/Fijian Holdings Annual Symposium 2010 at the Novotel, Lami | 03-04 Nov. | Workshop on Equity and Debt Securities |
| 23 Jun. | Board Audit Committee Meeting | 04 Nov. | Press Release - Update on Export Proceeds Reconciliation Amnesty |
| 23 Jun. | Governor was speaker at Asco Motors Lunch on the "Fiji Economy" | 22 Nov. | Press Release - Opening of the National Anti-Money Laundering Learning Centre and launch of computer-based training courses |
| | | 23 Nov. | Workshop on 'Fundamentals of Fund Management' |
| | | 24 Nov. | Board Audit Committee Meeting |
| | | 24 Nov. | FDB Small Business Awards, Suva |
| | | 25 Nov. | Ordinary Board Meeting 09/2010 |
| | | 26 Nov. | Press Release - Reserve Bank of Fiji announces increases in Delegated Limits for Selected Exchange Control Transactions |
| | | 26 Nov. | Press Release - Reserve Bank of Fiji announces Policy Changes |
| | | 27-29 Nov. | Deputy Governor presented "Economic Outlook" at the Fiji-Australia-New Zealand Business Forum |
| | | 09 Dec. | Press Release - Governor: Reserve Bank of Fiji |
| | | 13 Dec. | Board Audit Committee Meeting |
| | | 14 Dec. | Ordinary Board Meeting 10/2010 |
| | | 14 Dec. | Press Release - Cabinet Approves Changes to Fines and Penalties for Exchange Control Breaches |

FIJI: KEY ECONOMIC AND FINANCIAL INDICATORS

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------------|------------|------------|------------|------------|
| I. GROSS DOMESTIC PRODUCT | | | | | |
| GDP at Market Price (\$ Million) | 5,371.5 | 5,483.0(r) | 5,682.9(r) | 5,531.3(p) | 5,914.6(e) |
| Per Capita GDP at Current Factor Cost (\$) | 5,476.0(r) | 5,583.4(r) | 5,801.6(r) | 5,645.0(p) | 5,977.2(e) |
| Constant Price GDP Growth Rate (%) | 1.9 | -0.9(r) | 0.2(r) | -3.0(p) | 0.6(e) |
| II. LABOUR MARKET | | | | | |
| Labour Force | 324,607(r) | 326,988(r) | 329,755(e) | 332,582(e) | n.a. |
| Wage and Salary Earners (mid-year) | 126,000(r) | 128,700(r) | 130,800(e) | 128,000(e) | n.a. |
| III. INFLATION (year-on-year % change) | | | | | |
| All Items | 3.1 | 4.3 | 6.6 | 6.8 | 5.0 |
| IV. GOVERNMENT FINANCE (\$ Million) | | | | | |
| Total Revenue and Grants | 1,401.3 | 1,391.3 | 1,454.9 | 1,415.9(r) | 1,503.7 |
| Total Expenditure (excluding loan repayments) | 1,558.5 | 1,504.1 | 1,426.8 | 1,644.7(r) | 1,715.5 |
| V. EXTERNAL TRADE | | | | | |
| Current Account Balance (\$ Million) | -1,037.3 | -775.2 | -1,033.5 | -492.0 | -30.7(f) |
| Capital & Financial Account Balance (\$ Million) | 1,176.6 | 534.1 | 675.2 | 357.2 | -31.3(f) |
| Current Account Balance (% of GDP) | -19.3(r) | -14.1(r) | -18.2 | -8.9 | -0.5(f) |
| VI. FOREIGN EXCHANGE RESERVES (\$ Million) | | | | | |
| Foreign Reserves | 515.4 | 804.6 | 558.7 | 1,090.6 | 1,302.7 |
| VII. MONEY AND CREDIT (year-on-year % change) | | | | | |
| Narrow Money | -4.57 | 43.47 | -19.67 | -2.79 | 12.30 |
| Currency in Circulation | 5.04 | -1.32 | 8.40 | 12.93 | 7.89 |
| Quasi-Money | 42.01 | -9.79 | 5.58 | 14.96 | -1.40 |
| Domestic Credit ¹ | 23.59 | 3.16 | 4.85 | 4.08 | -1.70 |
| VIII. INTEREST RATES (% p.a.) | | | | | |
| Lending Rate | 7.90 | 8.46 | 7.72 | 7.52 | 7.42 |
| Savings Deposit Rate | 0.84 | 0.64 | 0.64 | 0.92 | 1.02 |
| Time Deposit Rate | 9.05 | 4.45 | 3.00 | 5.83 | 4.73 |
| 91-day RBF Note Rate ² | 4.25 | 4.25 | n.i. | n.i. | n.i. |
| Minimum Lending Rate | 5.25 | 9.25 | 6.32 | 3.50 | 3.00 |
| IX. EXCHANGE RATES (mid rates, F\$1 equals: end of period) | | | | | |
| United States dollar | 0.6009 | 0.6447 | 0.5669 | 0.5185 | 0.5496 |
| Real Effective Exchange Rate (January 1999 = 100) | 102.29 | 104.34 | 107.45 | 91.65 | 94.26 |

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

Notes:

¹ Credit to the private sector is adjusted for AMB's non-performing loans and advances.

² In 2006, the rate is for October. In 2007, the rate is for June. There were no issues of 91-day RBF Notes in December for both years.

Key:

(e): estimate

n.i.: no issue

(p): provisional

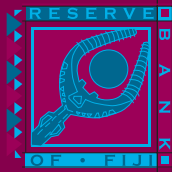
(r): revised

p.a.: per annum

(f): forecast

ABBREVIATIONS

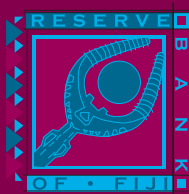
| | | | |
|--------|---|--------|---|
| ABIF | Association of Banks in Fiji | IMF | International Monetary Fund |
| ADB | Asian Development Bank | ISEFF | Import Substitution and Export Finance Facility |
| AMB | NBF Asset Management Bank | ISF | Import Substitution Facility |
| AML | Anti-Money Laundering | IT | Information Technology |
| ANU | Australia National University | KPI | Key Performance Indicator |
| ANZ | Australia and New Zealand Banking Group | LAB | Local Advisory Board |
| ANZIIF | Australian and New Zealand Institute of Insurance and Finance | LEA | Law Enforcement Agencies |
| APG | Asia Pacific Group on Money Laundering | LFI | Licensed Financial Institution |
| APRA | Australian Prudential Regulatory Authority | MNO | Mobile Network Operators |
| ATM | Automated Teller Machine | MOA | Memorandum of Agreement |
| BDD | Bank Demand Deposits | MPC | Macroeconomic Policy Committee |
| BOP | Balance of Payments | NBFI | Non-Bank Financial Institution |
| BRS | Business Resumption Site | NEER | Nominal Effective Exchange Rate |
| BSP | Bank South Pacific | NFIT | National Financial Inclusion Taskforce |
| CDC | Currency Design Committee | OHS | Occupational Health & Safety |
| CNB | Colonial National Bank | OMO | Open Market Operations |
| CLF | Concessional Loan Facility | OPR | Overnight Policy Rate |
| CMDA | Capital Markets Development Authority | PFIP | Pacific Financial Inclusion Programme |
| CTR | Cash Transaction Report | PFTAC | Pacific Financial Technical Assistance Centre |
| DISMAC | Disaster Management Committee | RBF | Reserve Bank of Fiji |
| EFF | Export Finance Facility | REER | Real Effective Exchange Rate |
| EFTPOS | Electronic Funds Transfer at Point of Sale | RFED | Restricted Foreign Exchange Dealers |
| EFTR | Electronic Funds Transfer Report | RRA | Revaluation Reserve Account |
| ESA | Exchange Settlement Account | RTGS | Real Time Gross Settlement |
| ETP | Electronic Trading Platform | SDR | Special Drawing Rights |
| FBFSEU | Fiji Bank and Finance Sector Employees Union | SEACEN | South East Asian Central Banks |
| FDB | Fiji Development Bank | SMS | Short Message Service |
| FFIMSO | FIU Financial Information Management System Online | SPSE | South Pacific Stock Exchange |
| FIA | Fiji Institute of Accountants | SRD | Statutory Reserve Deposit |
| FIB | Fiji Institute of Bankers | STR | Suspicious Transaction Report |
| FIU | Financial Intelligence Unit | STRI | SPSE Total Return Index |
| FJD | Fiji Dollar | TPAF | Training and Productivity Authority of Fiji |
| FNPF | Fiji National Provident Fund | TRIM | Total Records Information Management |
| FRCA | Fiji Revenue and Customs Authority | UNCAC | United Nations Convention Against Corruption |
| FSC | Fiji Sugar Corporation | US | United States |
| FTR | Financial Transactions Reporting | USP | University of the South Pacific |
| GDP | Gross Domestic Product | VAT | Value Added Tax |
| HSC | Higher Salaries Commission | | |
| IFRS | International Financial Reporting Standards | | |



Reserve Bank of Fiji

The great double-hulled, ocean-going canoes (drua) of the ancient Fijians were remarkable crafts, capable of long voyages. The tagaga (pronounced “tanganga”) 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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