



ANNUAL REPORT 2012







OUR VISION

OUR VISION

To be:

- Competitive
- Profitable
- Focused on the needs of the people of Vanuatu
- Capable of continuous improvement to products & customer services



THE BOARD

THE BOARD

Lindsay Barrett CA (NZ) TEP
ACTING CHAIRMAN
Appointed to Board in 2010

MANAGING PARTNER
BARRETT & PARTNERS
PORT VILA, VANUATU



Bob Hughes MBA FFin
MANAGING DIRECTOR
Appointed to Board in 2001

NATIONAL BANK OF VANUATU



Tony Amos Sewen BA
DIRECTOR
Appointed to Board in 2013

ACTING DIRECTOR OF FINANCE
MINISTRY OF FINANCE



Lindley Edwards
B.Bus Acct., B.Bus Banking and Finance
Grad Dip Corp. Gov't. - Listed Companies
F.FIN, MAICD
DIRECTOR
Appointed to Board in 2013

GROUP MANAGING DIRECTOR
AFG VENTURE GROUP
SYDNEY, AUSTRALIA





THE MANAGEMENT

THE MANAGEMENT



Andy Cottam BAcctg FFin
HEAD OF FINANCE & RISK MANAGEMENT
Joined the National Bank in 2008



Juliann Williams BA MBA
HEAD OF HUMAN RESOURCES
Joined the National Bank in 1999



Serge Taga
HEAD OF RELATIONSHIP BANKING
Joined the National Bank in 1995



Jerry Ishmael
HEAD OF RETAIL BANKING
Joined the National Bank in 2004



John Aruhuri BCom
HEAD OF RURAL BANKING SERVICES
Joined the National Bank in 2009



Stuart Mathison BE (Hon) Grad.Dip. Applied Computing M Int'l Dev
HEAD OF OPERATIONS
Joined the National Bank in 2008



OUR MISSION

OUR MISSION

- To provide commercially viable banking services that contribute to the economic growth of Vanuatu,
- To lead the country in development of accessible rural banking services whilst capitalising on opportunities within the business market.



TABLE OF CONTENTS

Table of Contents

Vision	3
The Board and Executive Management	4
Chairman's Review	8
Managing Director's Review	12
Branch Representation	36
Products and Services	55
Correspondent Banks	56
Financial Statements	57



CHAIRMAN'S REVIEW

CHAIRMAN'S REVIEW

16th November 2012 marked a milestone in the National Bank's history at which time the long awaited corporate restructure was completed through the transfer of business operations and undertakings from the state owned corporate enterprise, National Bank of Vanuatu to the newly corporatised National Bank of Vanuatu Limited. International Finance Corporation and Vanuatu National Provident Fund became part owners of the new entity to the extent of a new 30% holding of issued share capital while the Government of Vanuatu retained its original share quota to maintain 70% ownership of the bank.

2012 also witnessed the first full year of operations in the new head office building as well as the bedding down of many technology developments supporting our banking services. Unfortunately the continuing downturn in market conditions did not abate during the year and lack of quality new business and competitive pressure damaged the bank's forecast profitability for 2012. In essence increased pressure on interest rates and a number of distressed larger loans reduced revenues, whilst concurrently expenses increased, due mainly to higher depreciation expenses from completion of major projects, new head office outgoings, increasing branch network expenditure and the ever increasing business license tax on operations.

Profit performance for the 2012 year reached a disappointing Vt100.6 million, down on 2011 by Vt22.7 million. This result was recorded after a one-off expense relating to the bank's restructuring program impacting profit by Vt11 million as well as specific provision for loan losses increasing by Vt25 million from Vt44 million (2011) to Vt69 million (2012).

Whilst 2012 was arguably the most difficult year financially for the bank in the past decade, some very positive achievements were made through rural banking developments and the delivery of the Financial Literacy Education program across the Bank's network of rural branches. The primary objective of the program is to reach out to the most remote communities and provide information and training on financial services thus creating a solid base upon which to grow wealth and empowerment of individuals, with opportunities to

participate in more meaningful developments of their choice.

Donor partners continued to display a supportive interest in the Rural Banking Services area throughout the year. The Financial Literacy training, education and awareness program has become a regional show-piece with AusAID and NZAID expressing great interest and monetary support for the continuation of its roll out across rural Vanuatu. The Board sincerely appreciates the extent of support granted by both agencies.

To conclude I sincerely acknowledge the support of our valued customers during the year. I also acknowledge the contribution of the management team and all bank staff members for their ongoing dedicated contributions throughout the year. I would also like to thank previous Board members Mr Silas Hakwa and Mr Ben Leeshi for their valuable contribution leading up to the corporate restructure during the past three years of their Board tenure.



Lindsay Barrett CA (NZ) TEP

Acting Chairman



CHAIRMAN'S REVIEW



RAPPORT DU PRÉSIDENT DU CONSEIL D'ADMINISTRATION

RAPPORT DU PRÉSIDENT DU CONSEIL D'ADMINISTRATION

Le 16 novembre 2012 marque une étape importante dans l'histoire de la Banque Nationale, car c'est ce jour-là que la restructuration sociale de la banque, si longtemps attendue, s'est enfin concrétisée, avec le transfert des activités et des engagements de l'entreprise étatique, la Banque nationale de Vanuatu, à la société nouvellement créée, à savoir la National Bank of Vanuatu Limited. La société de financement international appelée International Finance Corporation et la Caisse nationale de Prévoyance de Vanuatu sont devenues actionnaires dans la nouvelle entité à hauteur de 30% du capital social par l'émission de nouvelles actions, tandis que le gouvernement de Vanuatu conserve sa part des actions émises à l'origine pour rester propriétaire à 70% de la banque.

L'année 2012 est par ailleurs la première année complète d'exploitation dans le nouvel immeuble du siège de la banque, et a vu la mise en place de nombreuses initiatives technologiques à l'appui de nos services bancaires. Malheureusement, les conditions du marché n'ont pas cessé de se détériorer tout au long de l'année, l'absence de nouvelles affaires intéressantes et la pression de la concurrence ont compromis les prévisions de bénéfices de la banque pour 2012. Pour l'essentiel, des pressions croissantes sur les taux d'intérêts et plusieurs gros emprunts défaillants ont conduit à une diminution des revenus, alors qu'en parallèle, les dépenses ont augmenté, essentiellement en raison de dépenses d'amortissement plus élevées résultant de l'achèvement de gros projets, de sorties d'argent pour le nouveau siège et de droits de patente d'exploitation en hausse constante.

Les bénéfices pour l'exercice 2012 enregistrent un résultat décevant à Vt100,6 millions, soit Vt22,7 millions de moins qu'en 2011. Ce résultat a été atteint après déduction d'une dépense extraordinaire unique en rapport avec le programme de restructuration de la banque qui a réduit les bénéfices de Vt11 millions, ainsi qu'une dotation aux provisions pour pertes sur les emprunts qui a augmenté de Vt25 million par rapport aux Vt44 millions de l'exercice 2011 pour atteindre Vt69 millions en 2012.



**RAPPORT DU
PRÉSIDENT DU CONSEIL
D'ADMINISTRATION**

Bien que 2012 ait été sans conteste l'année la plus dure financièrement pour la banque depuis une décennie, il y a tout de même eu des résultats très positifs au plan du développement de la banque en zone rurale, avec un programme d'éducation et d'instruction financière dispensé sur l'ensemble du réseau des agences rurales de la banque. Le programme a pour objectif premier d'atteindre les communautés les plus isolées et d'apporter des enseignements et une formation sur les services financiers, constituant ainsi une base solide sur laquelle s'appuyer pour favoriser une augmentation des revenus et doter les particuliers des moyens et des possibilités de participer à des projets de développement de leur choix plus constructifs.

Les partenaires donateurs ont continué de manifester leur intérêt et leur soutien pour le secteur des services bancaires en milieu rural tout au long de l'année. Le programme de formation, d'éducation et de sensibilisation sur les services financiers est devenu un modèle d'intérêt régional et AusAID et NZAID ont exprimé beaucoup d'enthousiasme et de soutien financier pour la poursuite de son expansion dans tout le milieu rural de Vanuatu. Le Conseil d'administration tient à exprimer sa sincère appréciation pour l'ampleur du soutien consenti par ces deux agences d'aide.

Pour conclure, je tiens à remercier très sincèrement nos fidèles clients pour leur soutien au cours de l'exercice. Je tiens aussi à remercier l'équipe de direction et tout le personnel de la banque pour leur dévouement et leur participation tout au long de l'année. Enfin, j'aimerais aussi remercier les membres sortants du Conseil d'administration, à savoir Me Silas Hakwa et Monsieur Ben Leeshi, pour leur précieuse collaboration jusqu'à la restructuration de la banque, au cours des trois dernières années de leur mandat.

Lindsay Barrett CA (NZ) TEP
Président par intérim



**MANAGING DIRECTOR'S
REVIEW**

MANAGING DIRECTOR'S REVIEW

ECONOMIC OVERVIEW

The International Economy

The momentum of World Economic recovery weakened in the second half of 2012 after a better than expected first half performance. The surprise posed by first quarter growth was due temporarily to factors now exhibiting increasing strong downside risks. Amongst them are the easing financial conditions in the European Central Bank's (ECB) long term refinancing operations, the momentary rebound in industrial production in Thailand and increase in Japanese demand in the first quarter. On the other hand, developments in the second quarter were hampered by escalations of stresses in financial markets, banking sector problems in Greece, Spain and Italy, with lingering doubts concerning governments' ability to deliver on fiscal adjustments.

Towards the end of the year, financial market volatility and sovereign debt stress escalated; heightened by the euro zone financial stress combined with political uncertainty, leading to recession in many euro area economies. Growth was also weak in many other advanced countries. Economic growth in the United States continued on an uneven recovery path which is due in part to spill over weaknesses affecting the euro area together with weak domestic private consumption and weak domestic investment. Economic growth in emerging market economies which had been strong previously now appears to have weakened. External weakness created by the euro area and US economies along with deceleration in domestic demand due to capacity constraints and macroeconomic tightening dampened growth in emerging market economies.

Many emerging economies have also been faced with increasing investor risk aversion and uncertainty leading to a decline in equity prices, capital outflows and currency depreciation.

China's real GDP growth slowed in the first half of 2012 due mainly to decline in net exports.



Conversely, China advanced capital expenditure on public infrastructure after successive rate cuts mid-year, and with other measures to come should see real growth in the economy which was expected to bring back a degree of market sentiment and confidence by the end of the year.

In the local region, the Australian and New Zealand economies both registered positive annualised growth with unemployment in Australia increasing at the end of the year to 5.4% up from 5.2% in June, while New Zealand unemployment notched up 0.1% to 7.8%. The Australian economy continued to expand but at a slow pace due to continued uncertainty in the global economy. In New Zealand, economic growth was also slow.

Most advanced and emerging economies maintained or eased monetary policy further, in response to continued weaknesses in the global economic environment. The US Federal Reserve has maintained its target for the Federal Funds Rate at between 0 and 0.25%, since 2008, while it also indicated that it will implement further stimulus as the pace of the US economic recovery slows down. The Reserve Bank of Australia cut the cash rate four times during the year, most recently in December to 3.00%. New Zealand has maintained its official cash rate at 2.50% since March 2011.

The Domestic Economy

Vanuatu's economy continued to expand at a moderate pace in the first half but contracted in the second half. Recent economic indicators showed a mixed performance. Agriculture output was inundated by weakening commodity prices in the second quarter and the remainder of the year. On the other hand, growth was supported by the services sector and a few private sector construction projects. Private sector credit growth expanded slowly over the year and partial indicators of consumption such as VAT have shown slight improvement from 2011. The number of tourists arriving by air and sea was mixed with a slow-down in air arrivals by 13% and an increase in cruise ship visitors by 23% year on year.



The consumer price index (CPI) has remained within the Reserve Bank's internal target band of zero to 4.0%. After having dropped significantly to 1.2% at the end of 2011 from 3.4% a year earlier, the CPI rose to 2.1% in the first quarter of 2012 then eased back to 1.5% in the second quarter before dropping further to 1.1% and 0.8% in the third and fourth quarters respectively. The moderation in inflation was broad based across all goods in the "basket" reflecting a combination of factors, including the partial pass-through effect of weaknesses in global commodity prices, low inflation in trading partner countries and the strength of the domestic currency in relation to its trading partners' currencies.

Vanuatu's current account remained in deficit in the first half and increased further during the remainder of the year. The changes were driven largely by increased spending on imports as well as payments abroad. Despite the increase in the current account deficit, the foreign exchange reserves held by the Reserve Bank remained above 6 months import cover at the end of the year.

Monetary conditions remained largely accommodative throughout the year and going forward, the Reserve Bank expects annual private sector credit growth will remain relatively flat in line with weak economic growth.

BUSINESS OVERVIEW

General banking conditions in the urban areas remained subdued in 2012 for business and consumer lending across many industry sectors. This was attributed largely to the ongoing effects of GFC impacting Vanuatu. Initial forecasts were that there may gradually be improvements in opportunities for property developments and investments in the local market emanating from the strong Australian dollar, however this has been slower than expected.

Although economic conditions may have improved in the neighbouring markets of Australia and New Zealand, investment opportunities anticipated for the expansion of the non-rural lending portfolio experienced a slowdown. Under these circumstances competition within



the banking sector has been very challenging putting pressure on retaining existing business, as well as generating new customer relationships. The high cost of funds also remains a challenge to the bank's ability to attract competitive business. In spite of the difficult environment positive lending growth was achieved during the year.

In the rural regions fluctuating commodity prices were evident throughout the year with copra in particular declining sharply in the later period when compared to record highs in 2011. Uncertainty also remained with the question of European kava export markets reopening. As major sources of rural income today, such factors impact heavily on the ability of individuals to trade and do business in the rural sector.

Notwithstanding this situation, demand for rural banking services in general continues to increase across the country resulting directly from Financial Literacy Education workshops and seminars delivered through the bank's branches and agencies. A record number of workshops were delivered in 2012 resulting in an increase in savings mobilised into bank accounts by over 40% from 2011.

From its origins in 2003 microfinance lending has demonstrated a clear financial pathway forward which has been well acknowledged by many people who have accessed the product and are continuing to grow with it. Scope for further growth continues and will be facilitated by the ongoing delivery of the Financial Literacy Education program into 2013/14 after a successful result of 2012.

The foreign currency market remained very competitive and demand driven.

As a net importing country foreign currency is generally in high demand and short supply. On the foreign currency deposit front, limited growth capacity existed during the year as this market has been diminishing since 2008 across the sector.



Banking system liquidity was unpredictable in 2012 with some banks highly liquid and others including NBV experiencing bursts of high demand thus temporarily driving up interest costs. The overall Vatu deposit base remained relatively flat for the second consecutive year and the bank expects the cost of funds to the banking system to remain high.

2013 will be another very challenging year for the bank, the finance industry generally and other businesses that rely on investment such as tourism and construction.

BUSINESS UNIT OVERVIEW

Relationship Banking

Relationship Banking is responsible for the mainstream lending portfolio and includes commercial and consumer loan products. Segmentation is based on client, value and purpose, and this assists the bank focus on budget and performance management.

As highlighted earlier the ongoing effects of the worldwide economic down-turn continued to impact the overall bank lending portfolio across many industry sectors. Demand in lending for property development and investments in the local market has been slower than expected with competition fierce amongst the banks. The net overall performing loan portfolio registered growth of 11.4% despite the depressed market conditions during the year.

Foreign currency loans remained stable with only minimal new business in this category. The primary reason being the ongoing weakening in the foreign currency deposit base, causing volatility in available lending liquidity. The banks portion of this sector in the banking system is relatively small compared to other banks.

Unfortunately there are very few positive signs on the near term horizon for upside growth and demand for development lending within the local economy. The Reserve Bank

is predicting a flat 2013 within the banking system and more of the 2012 environment is expected to persist in the new year as demand will remain relatively flat.



Retail and Rural Banking

The bank's Retail and Rural Banking Services divisions started the year covering a network of 28 branches and agencies throughout the country. The two biggest branches are located in the capital Port Vila and in Luganville. Attention during the year focused on improvements to branch operational and administrative functions to ensure the bank's compliance requirements are fully adhered to. These requirements were achieved with satisfactory performances across all levels. At the end of June 2012 a new agency was opened on Maskelyn Island in the south of Malekula increasing the network to 29 banking centres.

Retail deposit mobilisation continued to be a challenge during the year to meet lending demand and high demand has often increased average cost of funds. Of particular significance during the year was the dedicated financial literacy education program implemented widely across the country delivering very positive outcomes for the rural population. Equally important for the bank was the excellent source for mobilising deposits into the formal banking system. It is expected this will continue to grow positively in the coming years.

Upgrading skills and development training were a significant focus for ensuring availability of a talented pool of resources in the rural communities. Various programs have been designed and provided to all rural staff in financial literacy education, rural micro-credit access, concepts of business start-ups and book keeping; purposely to equip staff with the skills necessary to expand the bank's financial services to a wider rural population. Staff who undertook training included Microfinance Lending officers, Officers-In-Charge, Branch Managers and Tellers. To date satisfactory results have been achieved by the designated staff through a large number of new accounts opened, increased deposits mobilized and a growing awareness of micro-credit.



Whilst extensive focus was devoted to financial literacy education and savings mobilisation, access to micro-credit experienced slower up-take during the year. However, with a comprehensive new customer data base now available it is expected the growth trend will increase in the coming year.

The bank continued and maintained its strategic alliances with Vanuatu Post Ltd, Chamber of Commerce and TVET throughout 2012. The strategic alliance with Peace Corps Vanuatu however was discontinued in September 2012 after the US decision to scale down its Pacific based Operations.

Finance and Risk Management

During the year a professional risk assessment of the bank was conducted by a highly experienced IFC risk resource. The assessment was jointly funded by NBV and IFC and identified areas where change is required and corporate governance could be enhanced. A project will commence mid-2013 and will, among other things establish the internal audit function within the bank, segregate the risk unit from finance and credit through creation of a Head of Risk position, and create a Treasury business unit incorporating both finance and international business units.

The bank hosted a Reserve Bank of Vanuatu corporate governance onsite visit in the latter part of 2012. Representatives from other Pacific Island central banks also participated. The results of the review confirmed the findings of the risk assessment conducted some months earlier. The need for new software to track both operational and IT risks was identified and this will be purchased in 2013.

The development project for new Anti-Money Laundering software has been finalised and work is to start in the first quarter of 2013.

The bank's Compliance unit conducted onsite reviews at all but two business units (weather problems) during the year. In the new year the Compliance team will transfer to the new



Internal Audit unit, and with the assistance of IFC, the audit function will be established and comprehensive training of personnel undertaken.

The Finance business unit undertook a software transformation during the year with the implementation of *Technology One* software. This has provided a state-of-the-art financial management system platform with the bank's general ledger, accounts payable, budget and fixed asset functionality inter-connected. Enhanced management reporting is the starting point for benefits to flow from this software.

The bank's Recoveries team was moved from Lending Support to Credit earlier in the year allowing the Lending Support team to concentrate on its core activity – liaison with local law firms and security documentation/storage.

At the same time an experienced senior lender was recruited to fill the new position of Senior Manager Credit & Recoveries. Credit comprehensively assesses all loan applications and performs hindsight reviews to ensure that bank policies and procedures contribute to a quality asset portfolio.

The delayed effects of the GFC are still impacting Vanuatu and are not expected to ease in the near term. This has resulted in a higher level of non-performing loans which are closely managed by the Recoveries team. Certain initiatives are in place with customised work-outs for some clients until the economy picks up.

Human Resources

The bank is committed to the development and well-being of its employees. The goal is to recruit and retain personnel that possess the competencies and skills required for the Bank to implement its corporate strategies. In 2012, the Bank made several changes to its organization structure to further maximise the efficiency and professional interaction of staff including the aforementioned restructure in the Credit business unit.



Employment conditions are governed by the Employment Act [Cap 160] and all working conditions including benefits and entitlements comply with the Act. This includes superannuation and severance allowances. At the end of 2012, the bank retained 199 employees of which 43 were part timers. Exit staff turnover during the year was 7%. Seven staff resigned from service, nine were terminated and one officer passed away during the course of employment.

The bank's focus on internal and external staff training was enhanced by in-house training of junior officers and school leavers to more specific, job targeted and practical on-the-job training in 2012. This was focused on technical and senior positions while soft skills training in-house and externally continued throughout the year. Total training days committed by the bank for the year was 127, equivalent to 902 training hours for seventy bank officers specifically within retail banking. Twenty two customer service officers also attended an Anti-Money Laundering and Terrorist Financing training program facilitated in-house by the Vanuatu Financial Intelligence Unit.

Staff succession planning at the junior level occurred throughout the year for potential high performers. A number of junior bank officers were promoted to take on positions within other business units including Consumer Lending, Recoveries and Lending Support.

As part of the *Technology One* software upgrade a new Payroll module was implemented thus improving the business unit's efficiency in financial reporting, productivity and HRI Data. One of the benefits is electronic payslips (as an alternative to traditional paper payslips) which are now available to employees at the main centres and online branches.

Operations – Information and Communication Technology (ICT) and Support Services

The ICT and Support Services team provides a wide range of functional activities that support the operations of the Bank. Its primary objectives are to ensure alignment of ICT activities with the Corporate Business Plan, to provide value from ICT activities and investments,

to manage ICT risks and to manage ICT resources. The team also provides project and logistics management to various parts of the Bank's development platform including the Head Office building.



In 2012, the ICT team with participation of relevant stakeholders implemented a number of systems including a new Financial Management system and Internet Banking. ATMs were installed in Lenakel (Tanna) and Lakatoro (Malekula) and are the country's first ATMs outside of Port Vila and Luganville.

Through 2012, the team also completed a major project to help ensure that the Bank's ICT systems remain reliable and resilient. This included a four-part strategy of network monitoring, implementing redundancies, purchasing critical spares, and staff training. This project was completed successfully, bringing many long-term benefits to the Bank's ICT operations and customer services.

Conclusion

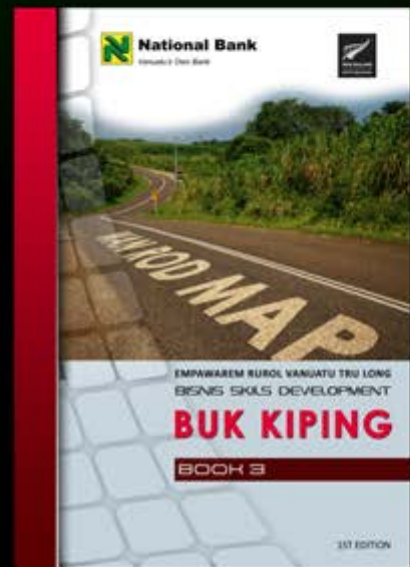
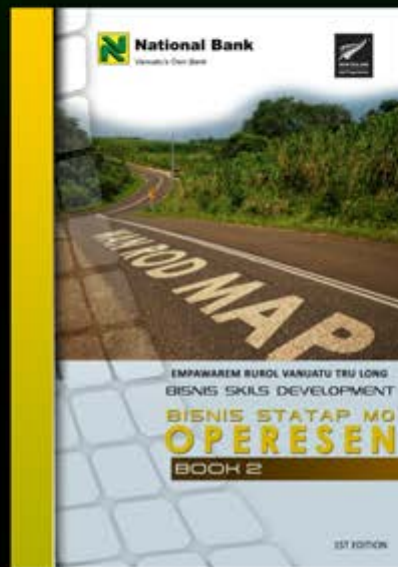
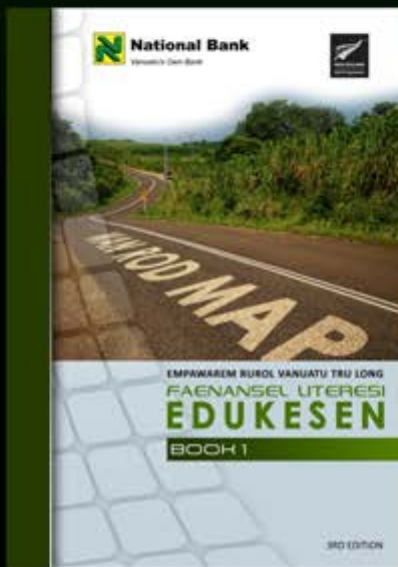
To conclude this review I would like to thank our valued customers for their support during the year. I would also like to thank the Board members, particularly those that served the bank during its restructure program, the Management team and a great team of dedicated staff who have all supported the bank's core strategies to keep the local bank moving forward and progressing the successful formula for developing our banking services in both the urban and very importantly the rural communities of Vanuatu.

Bob Hughes MBA FFin

Managing Director

WAN ROD MAP

EMPAWAREM RUROL VANUATU TRU LONG...



**BLONG MOA INFOMESEN KOLLEM
NATIONAL BANK LONG 22201 OR JOINEM
NBV FAENANSEL LITERESI PROGAM LONG
RADIO VANUATU EVRI WEEK**

Enjoy the convenience
of online banking.

www.nbv.vu



IsiNet
Wherever, Whenever



**RAPPORT DE
L'ADMINISTRATEUR
DÉLÉGUÉ**

RAPPORT DE L'ADMINISTRATEUR DÉLÉGUÉ

TOUR D'HORIZON DE L'ÉCONOMIE

L'économie internationale

Le rythme de la reprise économique dans le monde s'est ralenti au cours de la deuxième moitié de 2012, après une performance durant la première moitié meilleure que ce que l'on attendait. La surprise qu'a apportée la croissance du premier trimestre est venue de facteurs de nature transitoire qui ont depuis lors donné des signes de risques fortement négatifs. Parmi ces facteurs, il y a eu l'allègement des conditions financières dans le cadre des opérations de refinancement à long terme menées par la Banque Centrale Européenne (BCE), un rebondissement temporaire de la production industrielle en Thaïlande et une hausse de la demande au Japon au cours du premier trimestre. En revanche, l'évolution de la situation au deuxième trimestre a été perturbée par des escalades de tensions sur les marchés financiers, des problèmes dans le secteur bancaire en Grèce, en Espagne et en Italie, accompagnés de doutes persistants quant à la capacité des gouvernements de produire les résultats attendus des redressements fiscaux.

Vers la fin de l'année, la volatilité des marchés financiers et les tensions causées par les dettes souveraines se sont intensifiées, aggravées par des tensions financières dans la zone euro, assorties d'incertitudes politiques, entraînant une récession dans de nombreuses économies de la zone euro. La croissance a été très faible aussi dans beaucoup d'autres pays avancés. La croissance économique aux Etats-Unis a poursuivi un chemin tortueux vers la reprise qui s'explique en partie par des retombées des faiblesses touchant la zone euro, ainsi qu'une consommation privée intérieure en baisse et de faibles investissements intérieurs. La croissance économique dans les économies de marché émergentes, jusqu'alors solide, semble s'essouffler. Les faiblesses extérieures provoquées par les économies de la zone euro et des Etats-Unis, accompagnées d'une décélération de la demande intérieure résultant de contraintes en termes de capacité et de mesures de resserrement macroéconomique ont freiné la croissance dans les économies de marché émergentes.



De nombreuses économies émergentes ont également été confrontées à une aversion pour les risques et une incertitude croissantes de la part d'investisseurs, conduisant à un recul des cours des actions, à des fuites de capitaux et une dépréciation des monnaies. La croissance réelle du PIB en Chine s'est ralentie au cours de la première moitié de 2012, surtout en raison d'une chute des exportations nettes. Par contre, la Chine a avancé des dépenses d'investissement en capital pour des infrastructures publiques après des réductions de taux successives en milieu d'année, et avec d'autres mesures en perspective, son économie devrait connaître une croissance réelle, ce qui devait raviver quelque peu le marché et entraîner un regain de confiance sur la fin de l'année.

Dans notre région, les économies australienne et néo-zélandaise ont toutes deux enregistré des taux de croissance annuels positifs, bien que le chômage en Australie ait augmenté à la fin de l'année, passant à 5,4% contre 5,2% en juin, tandis que le chômage en Nouvelle-Zélande a progressé de 0,1% pour atteindre 7,8%. L'économie australienne a poursuivi son expansion, mais au ralenti, en raison de l'incertitude qui continue de peser sur l'économie mondiale. En Nouvelle-Zélande aussi la croissance économique s'est ralentie.

La majorité des économies avancées et émergentes ont maintenu, voire assoupli encore davantage, leur politique monétaire, en réponse aux faiblesses persistantes de la conjoncture mondiale. La Réserve fédérale américaine [US Federal Reserve] a maintenu sa cible pour le taux des fonds fédéraux dans la fourchette de 0 à 0,25%, et ce depuis 2008, et a signalé qu'elle mettra en oeuvre d'autres mesures stimulatrices au fur et à mesure que le rythme de la reprise économique américaine se ralentit. La Banque de Réserve australienne a réduit le cours du comptant à quatre reprises au cours de l'année, la dernière en date étant en décembre, l'amenant à 3%. La Nouvelle-Zélande a maintenu son cours officiel à 2,50% depuis mars 2011.



L'économie intérieure

L'économie du Vanuatu a continué son expansion à une cadence modérée pendant la première moitié de l'année, mais s'est contractée au cours de la deuxième moitié. D'après des indicateurs économiques récents, la performance aurait été mitigée. La production agricole a été submergée par des cours de produits de base en chute libre pendant le deuxième trimestre et pour tout le reste de l'année. En revanche, la croissance a été favorisée par le secteur des services et quelques projets de construction dans le secteur privé. Le crédit au secteur privé s'est amplifié progressivement tout au long de l'année et des indicateurs partiels de la consommation, tels que la TVA, affichent un léger progrès par rapport à 2011. Le nombre de touristes par avion et par bateau a été mitigé, avec un ralentissement des passagers par avion de 13% et une hausse du nombre de visiteurs en croisière de 23% sur l'année.

L'indice des prix à la consommation (IPC) s'est maintenu dans la fourchette interne ciblée par la Banque de Réserve de zéro à 4,0%. Après avoir chuté sensiblement à 1,2% à la fin de 2011, par rapport à 3,4% un an auparavant, l'IPC est remonté à 2,1% au cours du premier trimestre de 2012 pour redescendre à 1,5% au deuxième trimestre, avant de reculer encore à 1,1% et 0,8% aux troisième et quatrième trimestres respectivement. Le taux d'inflation modéré a touché l'ensemble des marchandises comprises dans le "panier", reflétant divers facteurs conjugués, notamment une répercussion partielle des faibles prix mondiaux des matières premières, un taux d'inflation bas dans les pays partenaires commerciaux et une monnaie intérieure forte par rapport à celles des partenaires commerciaux.

Le compte courant du Vanuatu a continué d'afficher un déficit pendant la première moitié de l'année et il s'est encore creusé par la suite. Cette situation résulte surtout d'une augmentation des dépenses d'importation, ainsi que des versements à l'étranger. Malgré cette aggravation du déficit en compte courant, les réserves de devises étrangères détenues par la Banque de Réserve se sont maintenues au dessus de la couverture de 6 mois d'importation à la clôture de l'exercice.



Les conditions monétaires ont continué d'être accommodantes dans l'ensemble tout au long de l'année et pour ce qui est du futur, la Banque de Réserve s'attend à ce que la croissance annuelle du crédit au secteur privé reste assez stagnante compte tenu de la faible croissance économique.

LA SITUATION AU PLAN DES AFFAIRES

Dans l'ensemble, les conditions bancaires dans les zones urbaines sont restées déprimées en 2012 en termes de prêts aux entreprises et de crédits à la consommation pour de nombreux secteurs de l'économie. Elles s'expliquent pour l'essentiel par les effets persistants de la crise financière mondiale touchant le Vanuatu. Selon les prévisions initiales, il devait y avoir une amélioration progressive des projets de mise en valeur et d'investissements immobiliers sur le marché local à l'appui d'une monnaie australienne forte, mais celle-ci n'a pas répondu aux attentes.

Bien que la conjoncture se soit améliorée dans les marchés voisins de l'Australie et de la Nouvelle-Zélande, les occasions d'investissement anticipés pour l'expansion du portefeuille de prêts non-ruraux ont connu des revers. Dans ces circonstances, la concurrence au sein du secteur bancaire a été rude, mettant la pression sur la préservation d'affaires en cours, de même que sur la création de liens avec de nouveaux clients. Le coût élevé de l'argent continue aussi de présenter un défi pour la banque et sa capacité d'attirer des affaires compétitives. Malgré toutes ces difficultés, la banque a tout de même réussi à enregistrer une croissance positive au plan des emprunts au cours de l'année.

En milieu rural, la fluctuation des cours des denrées de base s'est fait ressentir tout au long de l'année, surtout au niveau du coprah qui a chuté brutalement sur la fin de l'année comparé aux prix records atteints en 2011. L'incertitude continue de peser sur les perspectives de réouverture des marchés du kava en Europe. Comme ces produits représentent la source principale de revenus en milieu rural, de tels facteurs pèsent lourd et entravent les affaires et le commerce pour les habitants des zones rurales.



Quoiqu'il en soit, la demande de services bancaires ruraux continue de progresser dans l'ensemble du pays, conséquence directe des ateliers et colloques d'éducation sur les services financiers qui ont été organisés par le biais des agences et bureaux de la banque. Un nombre record d'ateliers a été mené en 2012, entraînant une hausse de l'épargne mobilisée dans des comptes bancaires de plus de 40% par rapport à 2011.

Depuis son introduction en 2003, le microfinancement a dessiné clairement une voie vers l'avant, ce qui est parfaitement reconnu par les nombreuses personnes qui ont tiré parti de cette opportunité et voient leurs affaires prospérer grâce à ce système. Les possibilités de croissance ne cessent de se multiplier et seront favorisées par la poursuite du programme d'éducation financière en 2013/14 compte tenu du succès qu'il a connu en 2012.

Le marché des devises étrangères est resté très compétitif et stimulé par la demande. Etant un pays nettement importateur, il y a généralement une forte demande de devises dont l'offre est limitée. En termes de dépôts en monnaies étrangères, la capacité d'expansion est restreinte, car ce marché se contracte depuis 2008 sur l'ensemble du secteur.

La liquidité dans le système bancaire a été volatile en 2012, certaines banques disposant de beaucoup de liquidités, d'autres, dont la BNV, connaissant des poussées occasionnelles de forte demande, ce qui a induit une hausse temporaire des coûts des intérêts. L'ensemble de la base de dépôts en vatu continue de stagner et ce pour la deuxième année de suite, et la banque s'attend à ce que le coût de la monnaie pour le système bancaire reste élevé.

L'année 2013 sera de nouveau une année riche en défis pour la banque, le secteur des finances en général et d'autres secteurs qui dépendent d'investissements comme le tourisme et la construction.



Gestion bancaire personnalisée

La division de la gestion bancaire personnalisée est responsable du portefeuille principal des emprunts et regroupe les emprunts commerciaux et les crédits à la consommation. La segmentation est basée sur le client, la valeur et la destination de l'emprunt, ce qui aide la banque à se focaliser sur la gestion budgétaire et de la performance.

Comme signalé plus haut, les effets persistants de la récession économique dans le monde ont continué de porter atteinte à l'ensemble du portefeuille des emprunts de la banque dans de nombreux secteurs de l'économie. La demande de prêts pour des mises en valeur et des investissements immobiliers dans le marché intérieur a été plus molle qu'attendu, et la concurrence a été rude entre les banques. La performance nette du portefeuille général des emprunts marque une progression de 11,4% malgré la dépression conjoncturelle au cours de l'année.

Les prêts en monnaie étrangère sont restés stables, avec quelques rares nouvelles activités dans cette catégorie. La raison première de cet état de fait vient de la diminution persistante des dépôts en devises étrangères, causant une certaine volatilité dans les liquidités disponibles pour les emprunts. La part que détient la banque dans ce secteur particulier du système bancaire est relativement modeste comparé aux autres banques.

Malheureusement, il y a très peu de signes positifs d'une reprise de la croissance et de la demande d'emprunts pour le développement au sein de l'économie intérieure, tout au moins dans l'immédiat. La Banque de Réserve prédit une année 2013 atone pour le secteur bancaire et la conjoncture qui a régné en 2012 va certainement se poursuivre dans l'année à venir, car la demande restera relativement terne.



Secteur des banques de réseau et rurales

Les sections des banques de réseau et des services bancaires ruraux de la banque ont commencé l'année avec 28 agences et antennes dans tout l'archipel. Les deux agences principales se trouvent dans la capitale Port-Vila et l'autre à Luganville. Durant l'année, l'attention s'est portée sur l'amélioration des fonctions opérationnelles et administratives des agences pour veiller à ce que la banque respecte bien les conditions requises de conformité. Celles-ci ont été remplies, avec une performance satisfaisante à tous les échelons. A la fin du mois de juin 2012, une nouvelle antenne s'est ouverte dans l'île Maskelyne, au sud de Malekula, amenant ainsi le réseau à 29 centres de services bancaires.

La mobilisation des dépôts de réseau a continué de présenter un défi durant l'année pour pouvoir répondre à la demande de crédits, et une forte demande a souvent induit une hausse du coût moyen des fonds. Ce qui a particulièrement marqué l'année, c'est le programme d'éducation financière qui a été systématiquement déployé dans tout le pays, apportant des résultats très positifs pour la population rurale. Tout aussi important pour la banque, ce fut une source précieuse de mobilisation de dépôts pour les intégrer au système bancaire conventionnel. Il faut s'attendre à ce que ce phénomène continue de croître de manière satisfaisante dans les années à venir.

Le perfectionnement des compétences et la formation ont été un aspect très important pour garantir la disponibilité de gens talentueux dans les communautés rurales. Divers programmes ont été conçus et remis à tous les membres du personnel en milieu rural concernant l'éducation financière, l'accès au micro-crédit rural, des notions de création d'entreprise et de comptabilité élémentaire, ceci à l'effet de doter le personnel des compétences nécessaires pour étendre les services financiers de la banque à une plus grande fraction de la population rurale. Les membres du personnel qui ont suivi une formation comprenaient des agents de prêts par micro-financement, des chefs de services, des gérants d'agence et des guichetiers/caissiers. Jusqu'à présent, des résultats satisfaisants ont été obtenus par les membres du personnel indiqués, vu le grand nombre de nouveaux comptes qui ont été ouverts, la mobilisation croissante de dépôts et une sensibilisation accrue concernant le micro-crédit.



Bien que beaucoup d'attention ait été consacrée à l'éducation financière et la mobilisation de l'épargne, l'accès au micro-crédit a connu un certain ralentissement durant l'année. Toutefois, maintenant que la banque dispose d'une base de données complète sur les nouveaux clients, elle peut s'attendre à ce que le micro-crédit reprenne de plus belle dans l'année qui vient.

La banque a continué à maintenir des alliances stratégiques avec la société Vanuatu Post Ltd, la Chambre de Commerce et l'EFTP tout au long de 2012. Par contre, son alliance avec Peace Corps Vanuatu a cessé en septembre 2012, suite à la décision des Américains de réduire les activités de cette organisme dans la région du Pacifique.

Gestion des finances et des risques

Durant l'année, une évaluation des risques de la banque a été menée par un professionnel des risques de l'IFC (International Finance Corporation), de grande expérience. Cette évaluation a été financée conjointement par la BNV et l'IFC et a identifié des domaines où il est nécessaire d'apporter des changements et où la gouvernance de la société pourrait être rehaussée. Un projet sera lancé vers le milieu de l'année 2013, qui, entre autres, servira à mettre en place la fonction d'audit interne au sein de la banque, à opérer une séparation entre la section des risques et celle des finances et du crédit par la création d'un poste de chef des risques et d'une section des affaires du trésor qui regroupera les sections des finances et des affaires internationales.

Vers la fin de l'année 2012, la banque a reçu la visite d'une équipe de contrôle de la gouvernance de société envoyée par la Banque de Réserve de Vanuatu. Ont également participé des représentants d'autres banques centrales des îles du Pacifique. Les résultats du bilan ont confirmé les constatations de l'évaluation des risques menée quelques mois auparavant. Il a été identifié la nécessité d'avoir un nouveau logiciel pour détecter les risques tant opérationnels que télématiques et celui-ci sera acheté en 2013.



Le projet d'élaboration d'un nouveau logiciel de lutte contre le blanchiment d'argent s'est achevé et ce logiciel devrait être lancé au cours du premier trimestre de 2013.

Au cours de l'année, la section de conformité de la banque a mené des inspections sur place de toutes les sections d'activités sauf deux (pour cause d'intempéries). L'année prochaine, l'équipe de conformité sera transférée à la nouvelle section d'audit interne et, avec le concours de l'IFC, la fonction d'audit sera mise en place et une formation complète du personnel sera entreprise.

La section des activités financières a entrepris une transformation des logiciels durant l'année, avec la mise en oeuvre du logiciel Technology One. Celui-ci constitue une plate-forme de systèmes de gestion financière qui est à la pointe de la technologie, et relie toutes les fonctionnalités de grand livre, de comptes fournisseurs, de prévisions budgétaires et d'immobilisations. Un des premiers avantages devant découler de ce logiciel est une procédure de rapport gestionnaire plus performante.

L'équipe de recouvrement de la banque a été transférée de la section d'encadrement des emprunts à la section du crédit au début de l'année, pour permettre à l'équipe d'encadrement des emprunts de se concentrer sur ses activités fondamentales, à savoir la liaison avec des cabinets juridiques de la place et l'administration des documents de sûreté et leur entreposage.

Par la même occasion, un haut responsable des prêts de grande expérience a été recruté pour pourvoir le nouveau poste de gérant en chef de la section du crédit et du recouvrement. La section du crédit examine dans le détail toutes les demandes de prêts et entreprend des bilans rétrospectifs pour s'assurer que les politiques et procédures de la banque contribuent à un portefeuille d'actifs de qualité.

Les effets à retardement de la crise financière mondiale continuent de toucher le Vanuatu et il ne faut pas s'attendre à ce qu'ils s'atténuent rapidement. De ce fait, il y a eu davantage de prêts défaillants, qui sont suivis de près par l'équipe de recouvrement. Quelques initiatives

ont été mises en place pour trouver des solutions-relais adaptées pour certains clients en attendant que l'économie se redresse.



Ressources humaines

La banque est vouée à assurer le développement et le bien-être de ses employés. Le but est de recruter et retenir du personnel qui possède les compétences et les aptitudes nécessaires pour permettre à la Banque de mener à bien ses stratégies en tant que société. En 2012, la banque a procédé à plusieurs changements au plan de sa structure organisationnelle de façon à optimiser l'efficacité et l'interaction professionnelle des effectifs, notamment avec la restructuration susdite de la section des activités de crédit.

Les conditions d'emploi sont régies par la Loi relative au Travail [Chap. 160] et toutes les conditions de travail, y compris les avantages et les prestations, sont conformes à la Loi. Elles comprennent des indemnités de retraite et de fin d'emploi. A la fin de 2012, la banque comptait 199 employés, dont 43 à mi-temps. Le taux des départs durant l'année correspond à 7%. Sept employés ont démissionné, neuf ont été licenciés et un cadre est décédé en cours d'emploi.

La focalisation de la banque sur la formation interne et externe du personnel a été rehaussée en 2012 par une formation sur place de subalternes et de jeunes sortant de l'école qui est plus spécifique, ciblée et pratique. Cette formation a été axée sur des postes techniques et de cadres supérieurs, tandis que la formation en compétences moins poussées s'est poursuivie tout au long de l'année, sur place et à l'extérieur. Le nombre total de jours que la banque a consacrés à la formation sur l'année s'élève à 127, et correspond à 902 heures de formation pour soixante-dix agents bancaires travaillant tout particulièrement dans le domaine des banques de réseau. Vingt-deux agents du service clientèle ont également suivi un programme de formation sur la lutte contre le blanchiment d'argent et le financement du terrorisme mené sur place avec le concours de la section des renseignements financiers de Vanuatu.



La planification de la succession des effectifs au niveau subalterne s'est déroulée tout au long de l'année pour des effectifs ayant un bon potentiel de performance. Un certain nombre de cadres subalternes ont été promus pour occuper des postes au sein d'autres sections d'activités, dont celles du crédit à la consommation, du recouvrement et de l'encadrement des prêts.

Dans le cadre de la mise à niveau avec le logiciel Technology One, un nouveau module pour le registre des salaires a été introduit qui a contribué à relever l'efficacité de la section des affaires en termes de rapport financier, de productivité et de données d'IRH. Un des avantages consiste en des fiches de paye électroniques (à la place des fiches de paye traditionnelles sur papier), lesquelles sont désormais mises à la disposition d'employés dans les grands centres et aux agences en-ligne.

Opérations – Télématique [Technologie de l'Information et de la Communication (TIC)] et Services d'encadrement

L'équipe de TIC et des services d'encadrement s'occupe d'un vaste éventail de tâches fonctionnelles à l'appui des opérations de la banque. Elle a pour objectifs premiers de veiller à l'harmonisation des activités de TIC avec le plan d'entreprise de la société, d'apporter de la valeur provenant des activités et des investissements de TIC, de gérer les risques de TIC et de gérer les ressources de TIC. L'équipe fournit également une gestion des projets et de la logistique pour divers aspects de la plate-forme de développement de la banque, y compris l'immeuble de la direction.

En 2012, avec la participation de parties prenantes pertinentes, l'équipe de TIC a mis en oeuvre plusieurs systèmes, dont un nouveau système de gestion financière et de transactions bancaires par internet. Des DAB (distributeurs automatiques de billets) ont été installés à Lenakel (Tanna) et Lakatoro (Malekula), et ce sont les premiers DAB à exister en dehors de Port-Vila et Luganville.



**RAPPORT DE
L'ADMINISTRATEUR
DÉLÉGUÉ**

Au cours de 2012, l'équipe a achevé un gros projet pour aider à s'assurer que les systèmes de TIC de la banque restent fiables et endurants. Il consistait en une stratégie à quatre volets, comprenant le suivi et la surveillance du réseau, l'exécution du licenciement de personnel en surnombre, l'achat de pièces de rechange cruciales et la formation du personnel. Le projet a été achevé avec succès, apportant de nombreux avantages à long terme aux opérations de TIC et aux services clientèle de la banque.

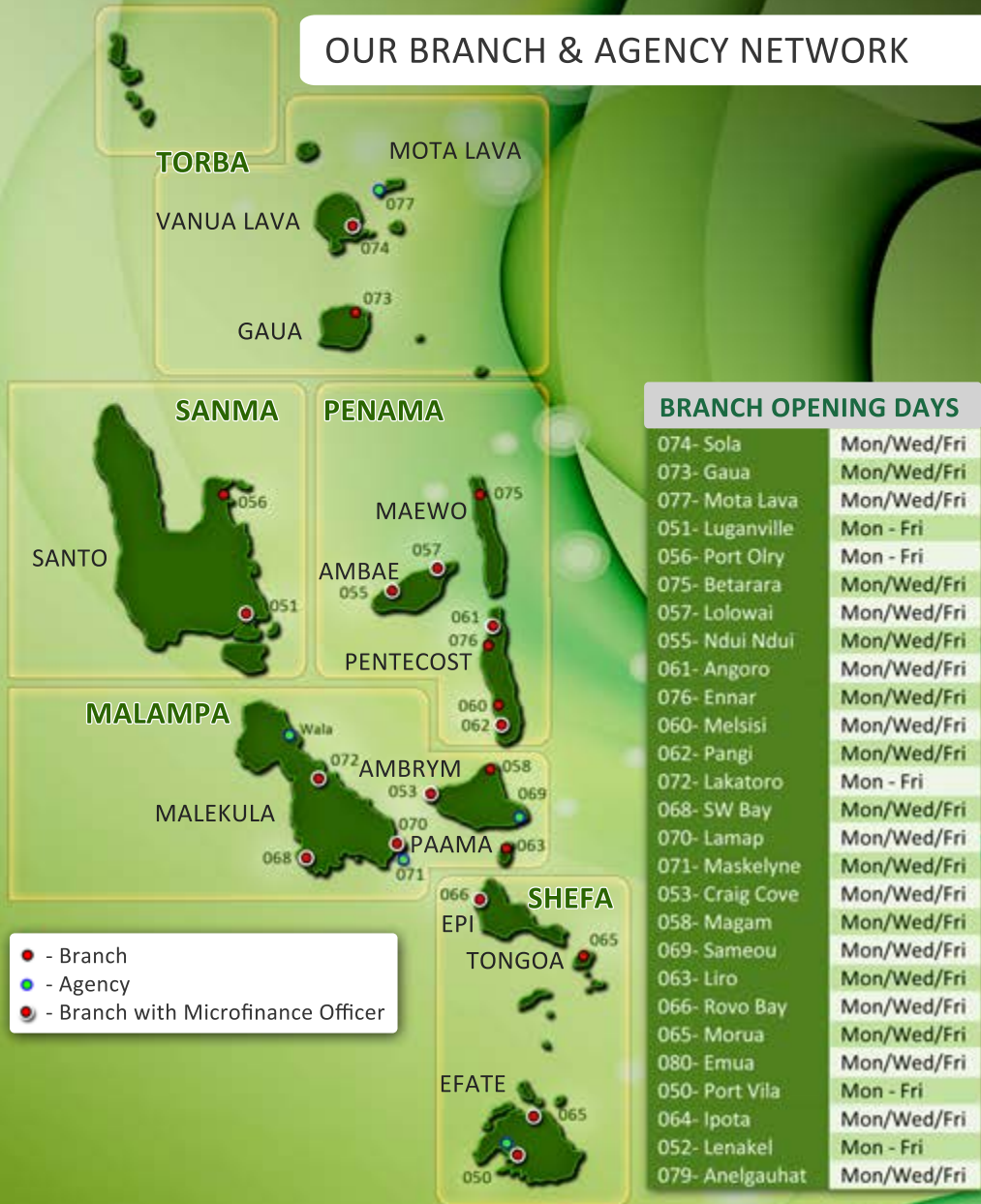
Conclusion

Pour clore ce rapport, j'aimerais remercier nos fidèles clients pour leur soutien durant l'année. Je tiens aussi à remercier les membres du Conseil d'administration, notamment ceux qui étaient en exercice lors de la restructuration de la banque, l'équipe de direction et une superbe équipe d'effectifs dévoués qui ont tous apporté leur soutien aux stratégies fondamentales de la banque visant à faire avancer la banque du pays et mettre en oeuvre la formule clef pour la réussite de l'expansion des services bancaires, non seulement dans les centres urbains, mais plus important encore, dans les communautés rurales du Vanuatu.

Bob Hughes MBA FFin

Administrateur délégué

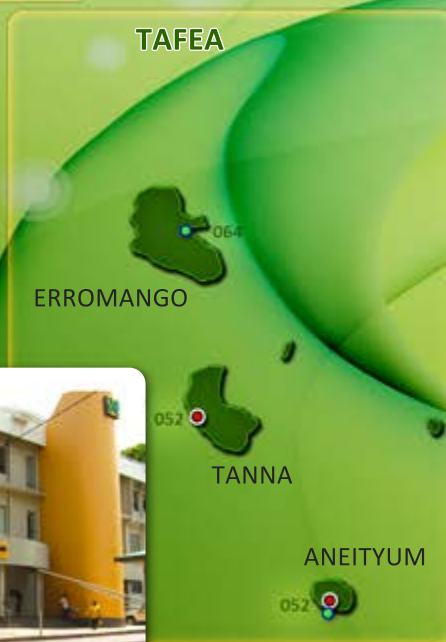
OUR BRANCH & AGENCY NETWORK



National Bank

Vanuatu's Own Bank

**No other Bank goes where we go.
The largest branch and agency network in Vanuatu.**





National Bank

Vanuatu's Own Bank

REGISTER LONG PLES IA NAOIA

IsiMS

Easy. Effective. Efficient



Akaon infomesen
blong yu i kam
tru long mobael
fon blo yu

IsiMani

EASY, EFFECTIVE, EFFICIENT



transferem mani
long akaon blong
yu wetem mobael
fon blong yu



CORPORATE GOVERNANCE

The National Bank of Vanuatu Limited (NBV Ltd) was registered by the Vanuatu Financial Services Commission under The Companies Act (Cap 191) on 19th July 2012. The new company was created to accommodate the transfer of business operations and undertakings from the National Bank of Vanuatu, a State Owned Enterprise established under the National Bank of Vanuatu Act No.46 of 1989. This Act was repealed and then gazetted on 19th October 2012 by the National Bank of Vanuatu (Restructuring) Act No. 3 of 2012.

On the 16th November 2012 the company commenced operations under its new corporate structure with the subscription for new share capital from International Finance Corporation (a member of the World Bank Group) and the Vanuatu National Provident Fund. Upon completion of the restructure the Government of Vanuatu holds 70% of the issued shares, International Finance Corporation 15% and Vanuatu National Provident Fund 15%.

Upon commencement of operations of NBV Ltd, the Board resolved to adopt a comprehensive set of Corporate Governance principles and policies to best reflect its Core Values of Honesty, Integrity, Responsiveness, Productivity and Economic Development.

The bank has the largest branch network in Vanuatu servicing the financial needs of the wider communities through 29 branches; from Sola in the north to Aneityum in the south. The Bank's Corporate Governance framework is designed to ensure all stakeholders are dealt with fairly and in the best interests of development of the bank, its customers, staff and the general economy of Vanuatu.

THE BOARD OF DIRECTORS

The Board's primary role is to protect and enhance long-term Shareholder value whilst maintaining a strong focus on the economic development of Vanuatu. To fulfil this

role, the Board is responsible for providing strategic guidance to NBV Ltd; monitoring and providing effective oversight of NBV Ltd management; overseeing NBV Ltd's risk management systems; and acting as an interface between NBV Ltd and its shareholders.



The roles and responsibilities of the NBV Ltd Board as set out in detail in NBV Ltd's Corporate Governance Principles include:

- overall strategy of the company, including operating, financing, dividend, and risk management,
- appointing the Managing Director and setting an appropriate remuneration package,
- appointing the Company Secretary and setting an appropriate remuneration package,
- endorsing appropriate policy settings for management,
- reviewing Board composition and performance,
- reviewing the performance of management,
- approving a strategic plan, and an annual budget for the bank and monitoring results on a regular basis,
- ensuring that appropriate risk management systems are in place, and are operating to protect the company's financial position and assets,
- ensuring that the bank complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour,
- establishing authority levels,
- Directors' remuneration via the Remuneration & Nomination Committee,
- selecting, with the assistance of the Board Audit, Risk and Compliance Committee, the appointment of external auditors,
- approving financial statements,
- self-assessing its performance.

The Board has delegated responsibility for the operation and administration of NBV Ltd to the Managing Director and executive management team, who will provide comprehensive regular reports to the full Board and Board Committees as required.



Membership and Composition of the Board

The Shareholders Agreement established between the three key shareholders determined the composition of the Board, which has been adopted in the NBV Ltd Constitution. For the term of the agreement the number of directors as prescribed by the Constitution shall be no less than four and no more than seven.

Six of the board members shall comprise:

- (i) two to be nominated by the Government of Vanuatu (GoV):
 - a. the first shall be nominated on the recommendation of the Prime Ministerial Office and shall be a person having extensive financial or banking knowledge at a managerial level,
 - b. the second shall be nominated on the recommendation of the Ministry of Finance and Economic Management of GoV,
 - c. both shall be senior public servants of at least director status;
- (ii) one may be nominated by Vanuatu National Provident Fund (VNPF);
- (iii) one may be nominated by International Finance Corporation (IFC);
- (iv) one shall be the Company's Managing Director; and
- (v) one shall be nominated by the Finance Centre Association (FCA)

The board may also nominate at least one Independent Director.

Each of the GoV, IFC and VNPF may require the removal of the director/s it has nominated at any time and shall be entitled to nominate another person as its nominated director in place of any prior nominated director who will be removed as a director in conjunction with the nomination of a replacement. In the event of the resignation, retirement or vacation of office of a nominated director, the relevant member who nominated the director shall be entitled to nominate another person to serve as its nominated director and the board shall promptly appoint such nominee as a director.

Independent Board members are required to review their independence annually; materiality will be assessed on a case-by-case basis.



The Board accepts that it has a responsibility to shareholders to ensure that it maintains an appropriate mix of skills and experience within its membership and consequently gives careful consideration to setting criteria for new appointments in accordance with the Company's Constitution. It has delegated the initial screening process to its Remuneration and Nominations Committee, which in accordance with its Charter may seek independent advice on possible new candidates for Directorships. A majority of Directors must be satisfied that the best candidate has been selected.

The Chairman of the Board

The Chairman is elected by the Directors and his / her role includes: -

- ensuring all new Board members participate in an appropriate induction program and are fully aware of their duties and responsibilities,
- providing effective leadership on the Company's strategy,
- presenting the views of the Board to the public as required,
- ensuring the Board meets regularly throughout the year, and that minutes are taken and recorded accurately,
- setting the Agenda of meetings and maintaining proper conduct during meetings,
- reviewing the performance of non-executive directors.

The Chairman is not permitted to occupy the role of Managing Director.

Directors' Fees

The maximum aggregate amount of fees that can be paid to non-executive Directors is determined by shareholders at annual general meetings of the Company in accordance with the Constitution. Fees are intended to remunerate non-executive Directors for time spent on Board and Board Committee matters, including review and preparation time, meeting attendance and travel. The Chairman and Deputy Chairman spend additional time attending to their special responsibilities.



Annual fees are paid to the following:

- Chairman
- Deputy Chairman
- Non-Executive Directors

Board Performance Review

The Remuneration and Nomination Committee reviews the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director.

The Board is cognisant of the need to continually identify areas for improvement to ensure that it meets the highest standards of corporate governance and for the Board and each Director to make an appropriate contribution to the Company's objective of providing value to its stakeholders. The performance review is conducted annually and may involve external assistance.

Board and Board Committee Meetings

Scheduled meetings of the Board are held at least every three months and the Board meets on other occasions to deal with matters requiring attention. Meetings of Board Committees are scheduled regularly during the year.

The Chairman, in consultation with the Managing Director, determines meeting agendas. Meetings provide regular opportunities for the Board to assess NBV Ltd's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board Members in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Relationship with Management

The management of the business of the bank is conducted by and under the supervision of the Managing Director, and by those other officers and employees to whom the management function is properly delegated by the Managing Director.

The Board is responsible for defining the limits to management's responsibilities, and approving the corporate objectives for which the Managing Director is responsible.

All Directors may access bank records and information and are entitled to receive regular detailed financial and operational reports to enable them to carry out their duties. The Executive Business Unit Heads make regular presentations to the Board on their areas of responsibility. The Chairman and the other Non-Executive Directors have the opportunity to meet with the Managing Director and the Business Unit Heads for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

BOARD COMMITTEES

To assist in the execution of its responsibilities, the Board has established two Board Committees, comprised of non-executive Directors only. Each committee has a formal Charter approved by the Board.

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. At the subsequent Board meeting following each Committee meeting, the Board is given a report by the Chairman of the respective Committee and Minutes of the meeting are tabled.



CORPORATE GOVERNANCE



Board Audit Risk and Compliance Committee

The Board Audit Risk and Compliance Committee (BARCC) is comprised of three Non-Executive Directors who are duly appointed by the Board. The Chairman of the BARCC must be one of the Directors, other than the Chairman of the Board. The Chairman of the Board cannot sit on the BARCC. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Bank's Board.

The key responsibilities of this Committee include:

- integrity of the Financial Statements and the financial reporting and audit process,
- external auditor's qualifications, performance and independence,
- the system of internal control and management of all risks ,
- the systems for ensuring operational efficiency and cost control,
- the systems for approval and monitoring expenditure including capital expenditure,
- the processes for monitoring compliance with relevant laws and regulations,
- implementation of Board decisions by management and making recommendations to the Board for the appointment of the external auditor,
- annual internal audit plan and its ongoing review.

To fulfil its mandate, the Committee meets with both the internal and external auditors without management present.

External Auditor

The BARCC is responsible for making recommendations to the Board on appointment and terms of engagement of NBV Ltd's external auditor. The selection is made from appropriately

qualified companies in accordance with Board policy.



The Committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Reserve Bank of Vanuatu Prudential Guideline No 5 – Audit Arrangements, while ensuring their independence is in line with Board policy.

There is a review of the external auditor's proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the Committee or the external auditor believe, should be discussed privately. The external auditor attends meetings of the BARCC at which the external audit is an agenda item.

The Committee ensures that significant findings and recommendations made by the external auditor are received and discussed promptly, and that management responds to recommendations by the external auditor in a timely manner.

The duly appointed external audit firm may not be engaged by the company to provide specialist consultancy services relating to financial or strategic matters.

Internal Audit

The BARCC approves, on the recommendation of management, the appointment of the Manager Audit. The Committee meets regularly with the Manager Audit.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the Audit Business Unit. The BARCC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.



The Committee meets separately with the internal auditor to discuss any matters that it or the internal auditor believe should be discussed privately. The Internal Auditor has direct access to the BARCC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Internal Audit meets with the external auditor half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regard to internal audit's findings.

Compliance

The BARCC reviews the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations, and the Constitution of the Bank. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts, or non-compliance.

The Committee obtains regular updates from management, and the Bank's legal officers, regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the Board Audit Risk and Compliance Committee has the right to approach a Regulator directly in the event of a prudential issue arising.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (RNC) comprises three Non-Executive Directors duly appointed by the Board. The Chairman of the RNC must be one of the Directors, other than the Chairman of the Board. The Chairman of the Board cannot sit on the RNC. Each member should be capable of making a valuable contribution to the Committee, and

membership is reviewed annually by the NBV Ltd Board.



The RNC has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and Senior Executive Management selection, appointment, review and remuneration.

The key responsibilities of this Committee include:

- to oversee the selection and appointment of a Managing Director and recommend an appropriate remuneration and benefits package to the full Board,
- identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and are reviewed regularly,
- determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders,
- ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to shareholders,
- receive and endorse positions/titles recommended by the Managing Director from time to time as applying to designated Senior Executive Management positions,
- review the procedures in place to ensure that all new Senior Executive appointees are adequately qualified and experienced, and that proper recruitment procedures are followed,
- review and make recommendations to the Board on the appointment to and terms and conditions of employment, for all Senior Executive Management positions,
- review and approve all termination arrangements for such Senior Executives,
- review transactions between the Company and any of the Directors or relevant Senior Executives,
- review and make recommendations to the Board on employee remuneration and benefits policies and practices generally,
- engage external consultants as and when deemed appropriate to benchmark



remuneration packages for Executives and Senior Management,

- review Board performance, tenure, and succession planning.

The Bank's Risk Management activities are aligned to the achievement of the Bank's Strategic Plans. The Board in consultation with the Executive Committee, determines the Bank's appetite and tolerance of risk. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

NBV Ltd identifies the following major risk areas:

- Governance Risk – The risk of failure of overall management through Board oversight and senior executives in directing and controlling the organization, using a combination of management information and hierarchical management control structures.
- Credit Risk - The potential for financial loss where a customer or counterparty fails to meet their financial obligation to the Bank.
- Market Risk - The potential financial loss arising from the Bank's activities in financial, including foreign exchange, markets. More detailed commentary on financial risk management is provided in the Notes to the published financial accounts.
- Liquidity Risk – The risk of failure to adequately meet cash demand in the short term without incurring financial losses.
- Interest Rate Risk - Risk to earnings from movement in interest rates.
- Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal and compliance risk, and reputation risk.

The Bank's Asset & Liability Committee monitors market risk, interest rate risk, and liquidity risk, and the Credit Committee monitors credit risk. Operational risk is managed at Business Unit level and a risk register system is in place across the bank. The Executive Committee



and the Board overview the highest tier of risks within these risk registers.

The Bank's risk management policy ensures that the bank has in place acceptable limits for the risks identified by the bank's employees. The risk management approach encompasses the following:

- defining the types of risks that are to be addressed by each functional or policy area (i.e., credit risk, interest rate risk, liquidity risk, operational risk, etc.),
- ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organisation wide risk management,
- developing information systems to provide early warning or immediate alert of events or situations that may occur or already exist, that could create one or more types of risk for the Bank,
- creating and maintaining risk management tools including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, personnel management and training and planning,
- instituting and reviewing risk measurement techniques that Directors and management may use to establish the bank's risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes,
- developing processes for those areas that present potential risks,
- establishing appropriate management reporting systems regarding these risks so individual managers are provided with a sufficient level of detail to adequately manage and control the Bank's risk exposures.

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the bank's activities. Therefore, responsibility for overall risk management in NBV Ltd is vested with the Board. However, every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.

There is a formal system of financial and operational delegations from the Board to the Managing Director, and from the Managing Director to the Executive Business Unit Heads. These delegations reflect the Bank's risk appetite, and are cascaded down to managers



who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval, control and authorities limits) and reporting and monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the Business Unit Risk Registers, is used to determine the approval, control and authority limits. The Board reviews these risk limits annually along with an annual review of the bank's significant risks.

The Board has also delegated to the BARCC responsibility for overview of loss control and for overseeing the risk management function.

The BARCC is responsible for providing regular reports and recommendations to the Board on the risk management activities of the Bank, especially relating to risk issues that are outside of the authority of the Bank's Executive Management to approve.

ETHICAL BEHAVIOUR

The Bank acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking company business. To this end, the Board has adopted a Corporate Mission, Objectives and Core Values Statement, which establish principles to guide all employees in the day-to-day performance of their individual functions within the Company.

NBV Ltd is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct.



The Bank has adopted a whistle blowing policy that is designed to support and encourage staff to report in good faith matters such as:

- unacceptable practices,
- irregularities or conduct which is an offence or a breach of laws of Vanuatu,
- corruption and fraud,
- misrepresentation of facts,
- decisions made & actions taken outside established NBV Ltd policies & procedures,
- sexual harassment,
- abuse of Delegated Authorities,
- misuse of company assets,
- disclosures related to miscarriages of justice,
- health and safety risks, including risks to the public as well as other employees,
- damage to the environment,
- other unethical conduct,
- failure to comply with appropriate professional standards,
- abuse of power, or use of the Bank's powers and authority for any unauthorised purpose or personal gain,
- breach of statutory codes of practice.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board further stipulates that senior management periodically undertakes an appropriate communication program to reinforce both the Code and Core Value Statements.



SOCIAL & ENVIRONMENT MANAGEMENT SYSTEM POLICY

The Bank maintains a Social & Environment Management System (SEMS) that meets the requirements stipulated in the International Finance Corporation Exclusion List and Environmental & Social Sustainability Performance Standards, and relevant legislation relating to social and environmental matters in Vanuatu:

- Employment Act (Cap 160)
- Environmental Protection & Conservation Act (Cap 283)
- Land Leases Act (Cap 163)
- Foreshore Development Act (Cap 90)
- Forestry Act (Cap 276)
- Framework Convention on Climate Change (Ratification) Act (Cap 218)
- Health and Safety at Work Act (Cap 195)
- Land Acquisition (Cap 215)
- Pesticides (Control) Act (Cap 226)
- Preservation of Sites and Artefacts Act (Cap 39)
- Water Resources Management Act (Cap 281)

The SEMS policy provides the framework within which the Bank works to ensure that deposit accounts are not opened and finance is not approved for entities that are in breach of national laws/legislation and entities whose primary activities are on the IFC Exclusion List. Where applicable, environmental assessments are performed, reports are provided to the Bank, and the necessary authorisations are obtained by clients.

FIVE YEAR FINANCIAL SUMMARY 2008 to 2012



FIVE YEAR FINANCIAL SUMMARY

(Expressed in ' 000 Vatu)	2008	2009	2010	2011	2012
Profit & Loss					
Interest income	715,871	797,821	882,237	1,003,973	1,011,636
Interest expense	(239,350)	(309,067)	(344,361)	(379,050)	(364,379)
Net Interest income	476,521	488,754	537,876	624,923	647,257
Other operating income	288,172	243,835	269,205	299,582	332,528
Provision for loan losses	(57,530)	(23,313)	(36,719)	(44,255)	(69,060)
Other operating expenses	(558,968)	(643,976)	(626,578)	(756,959)	(810,166)
Operating profit / (loss) before government grant	148,195	65,300	143,784	123,291	100,559
Profit / (loss) for the year	148,195	65,300	143,784	123,291	100,559
Balance sheet					
Net loans and advances	5,736,925	6,295,431	7,339,886	8,490,384	9,581,790
Total assets	8,874,572	9,714,901	10,951,997	12,226,685	12,946,765
Customer deposits	7,793,589	8,617,839	9,294,524	10,648,834	10,596,432
Shareholders' funds(Equity)	664,462	709,762	853,546	976,837	1,506,897
Performance ratios					
Return on shareholders' Funds (Equity) %	22.30	9.20	16.85	12.62	6.67
Return on assets %	1.67	0.67	1.31	1.01	0.78
Income growth %	22.52	3.75	10.54	13.21	3.12
Prudential ratios					
Capital adequacy %	19	18	18	*11.75	15.31
Liquid asset ratio %	5.75	12.90	13.00	9.90	8.43

*Reserve Bank of Vanuatu implemented new CAR requirements during 2011



National Bank

Vanuatu's Own Bank

NBV ATM EMI ALAWEM YU BLONG YUSUM SEVES BLONG BANK 24 HAOA MO SEVEN DEI LONG WAN WIK



Oi ples we NBV ATM i stap
long hem:

- LEADER PRICE, PORT VILA
- POST OFFICE, PORT VILA
- NBV HEAD OFFICE, PORT VILA
- DOMESTIC AIRPORT, PORT VILA
- FRESH WOTA 1, PORT VILA
- NBV BRANCH, LUGANVILLE
- NBV BRANCH, LAKATORO
- NBV BRANCH, LENAKEL

YU SAVE WITDRO ENI TAEM
LONG DEI OR LONG NAET



IsiBank

PRODUCTS & SERVICES



PRODUCTS & SERVICES

Savings Accounts	Competes d'épargne
Current Accounts	Competes courants
Mekem Gro Accounts	Competes 'Mekem Gro'
Seivem Vatu Accounts	Competes 'Seivem Vatu'
Isi Accounts	Competes 'Isi'
Salaries – Inward & Outward payments	Salaires – encaissement et décaissement
Audit Certificates	Certificats de revision
Reconciliations	Réconciliations
Domestic Term Deposits	Dépôts à terme – Vatu
Foreign Currency Term Deposits	Dépôts à terme en devises étrangères
Foreign Currency Call Accounts	Comptes à vue en devises étrangères
Letters of Credit – Import / Export	Lettres de Crédit – Import / Export
International Drafts	Chèques internationaux
SWIFT transfers	Transferts SWIFT
Foreign Exchange	Change
Bills for Collection	Effets à l'encaissement
Land Loans	Prêts fanceis
Home Loans	Prêts au logement
Personal Loans	Prêts personnels
School Fee Loans	Prêts des scolarité
Term Loans	Prêts à terme
Vehicle Loans	Bail
Micro Business Loans	Micro- Prêts commerciaux
Micro Rural Loans	Micro- Prêts ruraux
Micro Land Loans	Micro-Prêts Fonciers
Bank Guarantees	Garanties bancaires
Immigration Bonds	Cautions d'immigration
Premium Funding Loans	Premium Funding Loans

CORRESPONDENT BANKS

Australia
Commonwealth Bank of Australia,
Sydney

National Australia Bank Ltd,
Melbourne

Fiji
Westpac Banking Corporation, Suva

Bank South Pacific, Suva

Hongkong
Bank of China, Hong Kong

Japan
Bank of Tokyo Mitsubishi, Tokyo

New Caledonia
BNP Paribas, Noumea

New Zealand
ASB Bank Limited, Auckland

Westpac Banking Corporation,
Wellington

Bank of New Zealand, Wellington

Papua New Guinea
Bank South Pacific,
Port Moresby

Singapore
Overseas Chinese Banking Corporation,
Singapore

Solomon Islands
Bank South Pacific,
Honiara

United Kingdom
Royal Bank of Scotland
Commerze Bank AG Frankfurt

Germany
Commerze Bank AG Frankfurt

Australie
Commonwealth Bank of Australia,
Sydney

National Australia Bank Ltd,
Melbourne

Fidji
Westpac Banking Corporation, Suva

Bank South Pacific, Suva

Hongkong
Bank of China, Hong Kong

Japan
Bank of Tokyo Mitsubishi, Tokyo

Nouvelle-Calédonie
BNP Paribas, Noumea

Nouvelle-Zélande
ASB Bank Limited, Auckland

Westpac Banking Corporation,
Wellington

Bank of New Zealand, Wellington

Papouasie Nouvelle-Guinée
Bank South Pacific,
Port Moresby

Singapour
Overseas Chinese Banking Corporation,
Singapour

Iles Salomon
Bank South Pacific,
Honiara

Royaume-Uni
Royal Bank of Scotland
Commerze Bank AG Frankfurt

Germany
Commerze Bank AG Frankfurt

- Directors' report**
- Auditors' report**
- Statement of comprehensive income**
- Statement of changes in equity**
- Statement of financial position**
- Statement of cashflows**
- Notes to the financial statements**

National Bank of Vanuatu Limited

Report of the directors For the year ended 31 December 2012

The directors present their report together with the audited financial statements for the year ended 31 December 2012 and the auditors' report thereon.

Restructure of the National Bank of Vanuatu:

The Bank has undergone a formal restructuring and as a result the following occurred during the 2012 year:

1. The National Bank of Vanuatu Limited was incorporated on 19 July 2012 under the Vanuatu Companies Act [CAP 191] (the Company);
2. The National Bank of Vanuatu (Restructuring) Act No. 3 of 2012 (the "Act") was gazetted on 19 October 2012;
3. As a consequence of 1 and 2 above, an order was made by the Minister of Finance & Economic Management pursuant to Section 3(2) of the Act (the "Order") culminating in the transfer to the Company of the business and undertakings of the National Bank of Vanuatu being the statutory corporation established under the National Bank of Vanuatu Act [CAP 209]. The order was gazetted on the 29 October 2012 thereby triggering the activation date under the Act.

Directors:

The directors of the Bank at the date of this report, who served throughout the year except where otherwise indicated, are:

Under the National Bank of Vanuatu Act [CAP 209] ;

<u>Director</u>	<u>Date Appointed</u>	<u>Date Ceased</u>
Silas Hakwa (Chairman)	15/07/2009	19/07/2012
Bob Hughes (Managing director)	22/10/2001	19/07/2012
Ben Leeshi (Director)	10/02/2010	19/07/2012
Lindsay Barrett (Director)	10/02/2010	19/07/2012

Under the Vanuatu Companies Act [CAP 191] ;

<u>Director</u>	
Bob Hughes (Managing Director and Chairman)	19/07/2012
Lindsay Barrett (Director)	01/08/2012
Lindley Edwads (Director)	06/03/2013
Tony Sewen (Director)	06/03/2013

Principal activities:

The principal business activity during the course of the year, and continuing, was the provision of general banking services in Vanuatu.

There were no significant changes in the nature of the activities of the Bank during the year.

State of affairs:

In the opinion of the directors, there were no significant changes in the state of affairs of the Bank that occurred during the financial year not otherwise disclosed in this report or the financial statements. Further, it is the opinion of the directors that there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they become due and payable and that the going concern presumption is therefore appropriate.

National Bank of Vanuatu Limited

**Report of the directors (continued)
For the year ended 31 December 2012**

Result:

The operating profit for the year was Vt 100,559,000 (2011: Vt123,291,000).

Reserves:

The directors propose that no transfer be made to reserves.

Dividends:

A dividend has not yet been proposed for the 2012 year (2011 : Nil).

Directors' benefits:

During the financial year, the directors of the Bank did not receive or become entitled to receive any benefits other than:

- (a) a benefit included in the aggregate amount of directors' benefit as shown in the financial statements;
- (b) the fixed salary of a full time employee of the National Bank of Vanuatu, by reason of a contract made by the National Bank of Vanuatu with the director.

Directors' interests in contracts and related party transactions:

Directors serving during the year had no interests in the activities of the Bank.

Directors' declaration:

It is the responsibility of the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its statement of comprehensive income, statement of cashflows and statement of changes in equity for that year. In the directors' opinion, the financial statements for the year ended 31 December 2012 have been drawn up so as to give a true and fair view.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2012. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records and for safeguarding the assets of the Bank by taking reasonable steps to prevent and detect fraud.

For and on behalf of the Board and in accordance with a resolution of the directors.

Dated at Port Vila, the 23 April 2013.

Director

Director

Independent Auditors' Report to the members of National Bank of Vanuatu Limited

We have audited the accompanying financial statements of National Bank of Vanuatu Limited which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 62 to 78.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 and fair presentation of the financial statements 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly prepared in accordance with the provisions of the Vanuatu Companies Act [CAP 191] of the Republic of Vanuatu and give a true and fair view of the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Law Partners

LAW PARTNERS
Chartered Accountants

(Qualified auditors under Section 166 of
the Companies Act [CAP 191] of the
Republic of Vanuatu)

Port Vila
23 April 2013

National Bank of Vanuatu Limited

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

	Note	2012	2011
Interest income	4	1,011,636	1,003,973
Interest expense		<u>(364,379)</u>	<u>(379,050)</u>
Net interest income		647,257	624,923
Other operating income	4	<u>332,528</u>	<u>299,582</u>
Net banking income		979,785	924,505
Severance pay expense		(24,249)	(28,303)
Other operating expenses	5	<u>(854,977)</u>	<u>(772,911)</u>
Operating profit for the year		100,559	123,291
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>100,559</u>	<u>123,291</u>

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 66 to 78.

National Bank of Vanuatu Limited

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

(Expressed in '000 Vatu)

	Issued & paid up capital	Share premium	Retained earnings	Total
<u>2012</u>				
Balance at the beginning of the financial year	600,000	-	376,837	976,837
Total comprehensive income for the year	-	-	100,559	100,559
	600,000	-	477,396	1,077,396
Shares issued	257,140	172,361	-	429,501
Dividends paid	-	-	-	-
Balance at the end of the financial year	<u>857,140</u>	<u>172,361</u>	<u>477,396</u>	<u>1,506,897</u>
<u>2011</u>				
Balance at the beginning of the financial year	600,000	-	253,546	853,546
Total comprehensive income for the year	-	-	123,291	123,291
	600,000	-	376,837	976,837
Dividends paid	-	-	-	-
Balance at the end of the financial year	<u>600,000</u>	<u>-</u>	<u>376,837</u>	<u>976,837</u>

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 66 to 78.

National Bank of Vanuatu Limited

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 (Expressed in '000 Vatu)

	Note	2012	2011
Assets			
Liquid assets	8	2,291,039	2,719,252
Net loans and advances to customers	9a	9,581,790	8,490,384
Investment securities	11	387,500	387,500
Other assets	12	277,030	159,872
Property, plant and equipment	13	409,406	469,677
Total assets		<u>12,946,765</u>	<u>12,226,685</u>
Liabilities			
Customers' accounts	14	10,596,432	10,648,834
Other liabilities	15	636,462	423,154
Provisions	16	206,974	177,860
Total liabilities		<u>11,439,868</u>	<u>11,249,848</u>
Equity			
Share capital	17	857,140	600,000
Share premium		172,361	-
Retained earnings		477,396	376,837
Total equity		<u>1,506,897</u>	<u>976,837</u>
Total liabilities and equity		<u>12,946,765</u>	<u>12,226,685</u>

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 66 to 78.

Director

Director

Port Vila, 23 April 2013

National Bank of Vanuatu Limited

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

	Note	2012	2011
Cash flows from operating activities			
Interest received		1,017,438	956,221
Interest paid		(420,019)	(447,77)
Other cash receipts in the course of operations		332,528	299,582
Other cash payments in the course of operations		<u>(400,893)</u>	<u>(683,210)</u>
		529,054	124,818
<i>Changes in operating assets and liabilities</i>			
- Gross loans and advances to customers		(1,156,011)	(1,111,759)
- Customers' accounts		(52,402)	1,354,310
- Other assets		(91,701)	247,939
- Transit accounts		<u>(71,953)</u>	<u>(224,924)</u>
Net cash provided by operating activities	21	<u>(843,013)</u>	<u>390,384</u>
Cash flows from investing activities			
Issued shares		257,140	-
Net increase in share premium reserve		172,361	-
Payments for leasehold improvements, plant and equipment		<u>(14,701)</u>	<u>(415,436)</u>
Net cash (used in) / provided by investing activities		<u>414,800</u>	<u>(415,436)</u>
Cash flows from financing activities			
Net (decrease) / increase in cash and cash equivalents held		(428,213)	(25,052)
Cash and cash equivalents at beginning of the financial year		<u>2,719,252</u>	<u>2,744,304</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>2,291,039</u></u>	<u><u>2,719,252</u></u>

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 66 to 78.

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

1. Reporting entity

National Bank of Vanuatu Limited is a Bank domiciled in Vanuatu. The address of the Bank's registered office is situated at the National Bank of Vanuatu premises, Rue de Paris, Port Vila, Vanuatu.

We refer to the Directors report which outlines the restructuring that occurred during the 2012 year.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank are drawn up in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the National Bank of Vanuatu Act No.46 of 1989 and the Companies Act [CAP 191].

The financial statements were authorised for issue by the directors on 23 April 2013.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

(c) Functional and presentation currency

The financial statements are presented in Vanuatu currency (Vatu) rounded to the nearest thousand.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except as explained in note 3 (a).

(a) Revenue recognition

Revenue includes interest income, fees, commissions, foreign exchange earnings and other sundry income.

Revenue is recognised to the extent that it is probable that the economic benefit flow to the Bank can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income as they accrue, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

3. Significant accounting policies (continued)

Fee and commission income

Fee and commission income is generally recognised on an accruals basis when the corresponding service is provided.

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and recognised as an adjustment to the effective interest rate on the relevant loan.

(b) Foreign currency

Foreign currency transactions are translated to Vatu at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to monetary assets and liabilities denominated in foreign currencies are brought to account in the statement of comprehensive income in the financial year in which the exchange rates change.

(c) Non current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows are not discounted to their present value.

(d) Property, plant and equipment - Note 13

Acquisitions

All property plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount, except for assets under construction, which are carried at cost.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the result in the year of disposal.

Depreciation

Items of property, plant and equipment, including leasehold improvements are depreciated using the straight line method over their estimated useful lives. The rates of depreciation used are based on the following estimated useful lives:

Leasehold improvements	6 - 20%
Plant and equipment	20%
Computer system	20%

Assets are depreciated from the date of acquisition or from the date on which significant use commenced. Expenditure on repairs or maintenance of property, plant and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

For operating leases, the lease payments are expensed on a straight line basis over the lease term.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

(Expressed in '000 Vatu)

3. Significant accounting policies (continued)

(e) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Employee entitlements - Note 16

Wages, salaries and annual leave

The provision for employees' entitlements to wages, salaries and annual leave represents the amount that the Bank has a present obligation to pay resulting from employees services provided up to balance date. The provision has been calculated at amounts based on current wage and salary rates and includes related on-costs.

Severance allowance

The provision for employees' entitlements to severance allowance represents the value of the estimated future cash outflows to be made by the employer resulting from employees services to balance date. In determining the liability for employee entitlements, consideration is given to the Bank's experience with staff departures.

Vanuatu National Provident Fund (VNPF)

Employers contributions to the above fund are expensed as incurred.

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes coins, notes, cash at bank including bank overdrafts, money at call, remittances in transit and amounts due from other banks with original maturity of 90 days or less, and on demand borrowings which are integral to the cash management function.

(g) Financial instruments

The Bank classifies its financial instruments into the following categories: loans and receivables, held to maturity assets and non-trading financial liabilities. The Bank currently has no financial assets at fair value through profit or loss.

Management determines the classification of its financial assets and liabilities at initial recognition.

Loans and receivables comprise loans and advances to customers and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for impairment. The carrying value of loans and receivables is included on the face of the statement of financial position and in note 9 to the financial statements as net loans and advances to customers.

Held to maturity assets comprise investment securities and term deposits placed with other banks (included in liquid assets) and are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank has the intention and ability to hold to maturity. Held to maturity assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for impairment.

Non-trading financial liabilities comprise customer accounts and deposits from credit institutions. Non-trading financial liabilities are measured at amortised cost.

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

3. Significant accounting policies (continued)

A provision for impairment of financial assets is established when there is objective evidence that the Bank will not be able to collect all amounts due according to their original terms (refer note 3(h)).

Financial assets are derecognised when the rights to receive cash flows from them have expired.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

(h) Impairment of financial assets - Note 10

The Bank assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired and impairment losses incurred. Impairment only occurs if there is objective evidence of impairment. The criteria the Bank uses to determine whether there is an objective evidence of an impairment loss include :

- delinquency on contracted payments of principal or interest;
- cashflow difficulties experienced by the borrower, and
- deterioration in the value of collateral.

Impaired assets typically comprise the following :

- non-accrual assets where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal or interest, and
- restructured assets where the original contract terms have been formally modified to provide concessions of interest or principal for reasons related to the financial difficulties of the customer.

Assets that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment. Groups of financial assets with similar credit risk characteristics are then collectively assessed for impairment.

If in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

If there is objective evidence that an impairment loss has been incurred on financial assets the carrying amount is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income.

Collective allowances are maintained for losses which, although not specifically identified, are known from experience to be inherent in any asset portfolio. The level of the collective allowance is determined having regard to economic conditions, the level of assets and other general risk factors.

The annual charge to the statement of comprehensive income in respect of credit impairment includes new specific provisions, reversals of specific allowances no longer required and movements in the collective allowance.

Bad debts identified in the year are written off against the allowance for loan losses. The interest income on these loans is also written off against the allowance. Where not previously included in the allowance, bad debts are written off directly against the statement of comprehensive income.

(i) Comparatives

Where necessary, comparative information is reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

	Note	2012	2011
4. Income			
Interest income			
Loans and advances		958,230	929,757
Interbank foreign currency placing		25,713	46,385
Investment securities		27,693	27,831
		<u>1,011,636</u>	<u>1,003,973</u>
Other operating income			
Fees, charges and commissions (*)		183,498	166,532
Net foreign exchange earnings		114,131	126,641
Other income		8,899	6,409
		<u>306,528</u>	<u>299,582</u>
Grant receipts			
NZAid grant		26,000	-
		<u>332,528</u>	<u>-</u>
* Fees and charges relating to loan origination, financing or restructuring and to loan commitments are deferred and recognised as an adjustment to the effective interest rate on the relevant loan.			
5. Expenses			
Interest expense			
On deposits		363,927	378,221
Other accounts		452	829
		<u>364,379</u>	<u>379,050</u>
Other operating expenses			
<i>Personnel expenses</i>			
Salaries and wages		336,706	283,610
VNPF contributions		11,895	9,514
Other		41,685	51,987
		<u>390,286</u>	<u>345,111</u>
<i>Other operating expenses</i>			
Auditor's remuneration	6	2,369	4,475
Business license fees		61,347	56,783
Depreciation	13	74,972	45,755
Allowance for loan losses	10	69,060	44,255
Allowance for impairment of other assets and assets written off		3,690	1,366
Other expenses		227,253	275,166
		<u>438,691</u>	<u>772,911</u>
<i>Grant expenses</i>			
Rural banking		26,000	-
		<u>854,977</u>	<u>-</u>
6. Auditor's remuneration		2012	2011
Amounts received or due and receivable by the Auditors of the Bank for :			
- Auditing the financial statements		2,369	2,300
- Other services		-	2,175
		<u>2,369</u>	<u>4,475</u>

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

7. Segment analysis

The major products/services from which the Bank derives revenue are:

Industry segments

General banking services

Products/service

Loans, overdrafts, current, savings and term deposits and foreign currency transactions

Geographical segments

The Bank operates predominantly in Vanuatu

	Note	2012	2011
8. Liquid assets			
Currency notes and coins		382,931	200,896
Balance with Reserve Bank (including regulatory deposits)		815,921	1,014,622
Due from other banks		1,092,187	1,503,734
		<u>2,291,039</u>	<u>2,719,252</u>

The Bank is required to hold specific liquid assets to cover the Liquid Assets Requirement (LAR) set by the Reserve Bank of Vanuatu. Pursuant to an agreement with the Reserve Bank of Vanuatu, coins and notes and amounts due from the Reserve Bank of Vanuatu are included in the calculation of the liquid assets requirement.

9. Loans and advances

9a. Net loans and advances to customers

Overdrafts		922,175	768,753
Loans		8,932,947	7,930,358
Total gross loans and advances		9,855,122	8,699,111
Allowance for impairment	10	(273,332)	(208,727)
Net loans and advances		<u>9,581,790</u>	<u>8,490,384</u>

Maturities of gross loans and advances are summarised as follows:

Not later than 1 year		1,265,708	1,029,486
Between 1 and 2 years		598,098	362,202
Between 2 and 5 years		661,973	724,843
Later than 5 years		7,329,343	6,582,580
		<u>9,855,122</u>	<u>8,699,111</u>

Collateral held in respect of loans and advances that are impaired amounts is Vt1,842,987
(2011 : Vt1,301,987)

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

9. Loans and advances (continued)

	Note	2012	2011
9b. Gross loans and advances to customers past due but not impaired		<u>2,736,568</u>	<u>2,069,431</u>

Maturities of gross loans and advances to customers are summarised as follows:

Not later than 1 year		542,969	188,395
Between 1 and 2 years		86,604	77,421
Between 2 and 5 years		226,164	142,247
Later than 5 years		<u>1,880,831</u>	<u>1,661,368</u>
		<u>2,736,568</u>	<u>2,069,431</u>

9c. Restructured gross loans and advances to customers		<u>536,763</u>	<u>395,987</u>
---	--	----------------	----------------

10. Allowances for impairment of loans and advances to customers

Collective allowances

Balance at beginning of the year		59,259	50,000
Charge to statement of comprehensive income	5	<u>8,241</u>	<u>9,259</u>
Total collective allowance		<u>67,500</u>	<u>59,259</u>

Individual allowances

Balance at beginning of the year		149,468	197,466
Charge to statement of comprehensive income	5	<u>60,819</u>	<u>34,996</u>
Loans written off / back		<u>(4,455)</u>	<u>(82,994)</u>
Total individual allowance		<u>205,832</u>	<u>149,468</u>
Total allowances for impairment of loans and advances to customers		<u>273,332</u>	<u>208,727</u>

11. Investment securities

Maturities of investment securities are summarised as follows :

Not later than 1 year		-	-
Between 1 and 2 years		-	-
Between 2 and 5 years		-	-
Later than 5 years		<u>387,500</u>	<u>387,500</u>
		<u>387,500</u>	<u>387,500</u>

Pursuant to an agreement with the Reserve Bank of Vanuatu, holdings of Government bonds are included in the calculation of the Liquid Assets Requirement (LAR).

12. Other assets

Accrued interest receivable		100,275	106,078
Other assets		<u>176,755</u>	<u>53,794</u>
		<u>277,030</u>	<u>159,872</u>

All other assets are due within one year.

National Bank of Vanuatu Limited

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

(Expressed in '000 Vatu)

13. Property, plant and equipment

	Cost	2012 Accumulated depreciation	Net book value	Cost	2011 Accumulated depreciation	Net book value
<i>Leasehold premises and improvements</i>	110,804	(32,474)	78,330	108,631	(23,415)	85,216
<i>Plant and equipment</i>	409,359	(211,273)	198,086	393,646	(170,651)	222,995
<i>Computer system</i>	123,068	(42,829)	80,239	123,068	(18,091)	104,977
<i>Leasehold land, building and improvements</i>	73,649	(20,897)	52,752	73,648	(17,159)	56,489
Total	716,880	(307,473)	409,406	698,993	(229,316)	469,677

Movement in total property, plant and equipment

	Opening carrying amount	Additions	2012 Transfers	Depreciation charge	Closing carrying amount
<i>Leasehold premises and improvements</i>	85,216	2,025	-	(9,059)	78,182
<i>Plant and equipment</i>	222,995	12,676	-	(45,665)	190,006
<i>Computer system</i>	104,977	-	-	(16,511)	88,466
<i>Leasehold land, building and improvements</i>	56,489	-	-	(3,737)	52,752
Total	469,677	14,701	-	(74,972)	409,406

National Bank of Vanuatu Limited

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

(Expressed in '000 Vatu)

	2012	2011
14. Customers' accounts		
Current accounts	1,442,818	1,556,339
Savings accounts	2,293,707	1,987,871
Fixed term deposits	6,859,907	7,104,624
	<u>10,596,432</u>	<u>10,648,834</u>

Current and savings accounts are generally considered to be liabilities repayable at call and maturity is therefore considered to be less than one month. Maturities of fixed deposits are summarised as follows:

Fixed term deposits

Not later than 1 month	2,637,670	2,996,572
Between 1 and 3 months	1,635,463	1,719,946
Between 3 and 12 months	2,583,804	2,282,117
Later than 1 year	2,970	105,989
	<u>6,859,907</u>	<u>7,104,624</u>

15. Other liabilities

Trade creditors	1,791	2,778
Accrued interest payable	74,384	130,024
Transit accounts	67,270	139,223
Unearned income – lending fees	61,279	56,266
Unearned income – rural services grant	58,319	68,541
Accrued expenses	-	13,532
Due to other banks	350,000	-
Other	23,419	12,790
	<u>636,462</u>	<u>423,154</u>

16. Provisions

<i>Current</i>		
Annual leave provision	21,115	19,918
Other	42,042	31,065
Severance allowance	121,227	109,682
<i>Non-current</i>		
Severance allowance	22,590	17,195
	<u>206,974</u>	<u>177,860</u>
<i>Movement in severance allowance</i>		
Balance at beginning of the year	126,877	110,850
Net charge to the income statement	24,249	28,303
Provision utilised	(7,309)	(12,276)
Balance at end of the year	<u>143,817</u>	<u>126,877</u>

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

2012 2011

17. Share capital

Authorised capital

85,714 (2011: 60,000) ordinary shares of Vt10,000 each	<u>857,140</u>	<u>600,000</u>
--	----------------	----------------

Issued and paid-up capital

85,714 (2011: 60,000) ordinary shares of Vt10,000 each, fully paid	<u>857,140</u>	<u>600,000</u>
--	----------------	----------------

We refer to the Directors report which outlines the restructuring that occurred during the 2012 year.

The Government of Vanuatu retains 60,000 ordinary shares. Vanuatu National Provident fund was issued 12,857 ordinary shares and International Finance Corporation was issued 12,857 ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividend

The directors have not yet proposed a dividend for the 2012 year and accordingly no provision has been booked in the financial statements. (2011: Nil)

18. Commitments

Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

Not later than 1 year	53,901	46,945
Between 1 and 2 years	53,853	46,800
Between 2 and 5 years	142,967	138,720
Later than 5 years	<u>369,294</u>	<u>420,200</u>
	<u>620,015</u>	<u>652,665</u>

19. Financial instruments

The bank enters into contracts involving financial instruments during the normal course of its business. Exposure to foreign exchange, credit and interest rate risk arises in the normal course of the Bank's operations.

The material financial instruments to which the Bank has exposure includes:

- i) Gross loans and advances to customers; and
- ii) Customers' accounts and deposits from credit institutions.

Risk exposure arising from financial instruments is monitored regularly by the Bank's Asset and Liability Committee ("ALCO"), which comprises the senior management of the Bank.

19. Financial instruments (continued)

The Bank deals in mainly spot exchange contracts relating to customers' business products. These products are entered into both on behalf of customers and where necessary for the Bank's own account to ensure management of (non-trading) interest rate and foreign exchange risks, that is, balance sheet risk management.

The Bank incurs foreign currency risk on holdings of financial assets and liabilities (principally liquid assets and customers' accounts) that are denominated in a currency other than Vatu. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars and United States dollars.

Credit risk

Credit risk represents the accounting loss that would be recognised if counterparties failed to perform as contracted. Where applicable approval for any large individual exposures has been formally sought from the Reserve Bank of Vanuatu in accordance with the requirements of the Financial Institutions Act No. 2 of 1999. To reduce exposure to credit risk, the Bank performs ongoing credit evaluations of the financial condition of its counterparties.

Credit risk on financial assets is minimised by dealing with recognised monetary institutions with accepted credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position.

Interest rate risk

The Bank's exposure to interest rate fluctuations on its borrowings and deposits is managed with reference to limits for exposure to interest rate set by ALCO.

The Bank's exposure to interest rates and the effective interest rates of financial assets and liabilities at balance date are as follows:

Financial assets:

- Liquid assets: floating interest rates.
- Gross loans and advances to customers: variable maturing as detailed in note 9 (with fixed interest rates of up to 18 months on housing loan products only).
- Investment securities: fixed interest rates maturing as detailed in note 11.

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

19. Financial instruments (continued)

Financial liabilities:

- Customers' accounts: variable/fixed interest rates maturing as detailed in note 14.
- Deposits from credit institutions: floating interest rates at call.

All other financial assets or financial liabilities are non-interest bearing.

Liquidity risk

Liquidity risk is primarily managed with reference to limits set by ALCO and by external regulators.

Details of income and expenses for financial instruments follows :

		2012	
	Carrying value	Interest income and expenses	Fees, charges and commissions
<i>Loans and receivables</i>			
Net loans and advances to customers	9,581,790	647,257	216,200
<i>Held to maturity assets</i>			
Investment securities	387,500	27,693	-

The aggregate net fair values of financial assets and financial liabilities at the balance date approximate the carrying values shown in the statement of financial position.

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of net debt and equity balances.

The capital structure of the Bank is monitored using the gearing ratio. The ratio is calculated as net debt divided by equity. Net debt is calculated as total interest bearing liabilities less cash and cash equivalents. Total capital employed is calculated as net debt plus total equity.

In order to maintain or adjust capital structure, the Bank may adjust the amount of dividends paid to shareholders, return equity to shareholders, issue new shares or sell assets to reduce debt. The Bank continuously reviews the capital structure to ensure

- sufficient finance for the business is maintained at a reasonable cost;
- sufficient funds are available for the business to implement its capital expenditure and business acquisition strategies;
- distributions to shareholders are maintained within stated dividend policy requirements; and
- where excess funds arise with respect to the funds required to enact the Bank's business strategies, consideration is given to possible returns of equity to shareholders.

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

20. Contingent liabilities and commitments

Contingent liabilities

Traditional off balance sheet risk instruments

The Bank guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio maintenance and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

The credit risk of these facilities may be less than the notional amount, but as it cannot be accurately determined, the credit risk has been taken to be the contract or notional amount.

	2012	2011
Bonds	<u>21,427</u>	<u>17,544</u>
Financial guarantees	<u>52,821</u>	<u>26,367</u>
Commitments		
Capital expenditure	42,000	104,400
Undrawn facilities	<u>50,419</u>	<u>127,458</u>
	<u>92,419</u>	<u>231,858</u>

The amounts reflected above for commitments assume that amounts are fully advanced.

21. Notes to the statement of cash flows

Reconciliation of operating profit to net cash flows from operating activities

Profit for the year	100,559	123,291
<i>Non-cash items</i>		
- Allowance for impairment and loans written off	64,605	(38,739)
- Depreciation	<u>74,972</u>	<u>45,755</u>
Net cash provided by operating activities before change in assets and liabilities	240,136	130,307

National Bank of Vanuatu Limited

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

(Expressed in '000 Vatu)

	2012	2011
21. Notes to the statement of cash flows (continued)		
<i>Change in assets and liabilities during the financial year</i>		
-(Increase) / decrease in accrued interest receivable	5,802	(47,752)
- Increase in loans and advances	(1,156,011)	(1,111,759)
- Decrease / (increase) in other assets	(122,959)	268,189
- (Decrease) / increase in accrued interest payable	-	(68,725)
- Increase in deposits from customers and credit institutions	(52,402)	1,354,310
- (Decrease) / increase in other liabilities & provisions	242,421	(134,186)
Net cash provided by operating activities	<u>(843,013)</u>	<u>390,384</u>

22. Employees

The number of employees as at 31 December 2012 was 190 (2011: 190).

23. Related parties

Transactions with directors and executive officers

In addition to their salaries, the Bank also provides non-cash benefits to a director and executive officers.

Total salary remuneration is included in 'personnel expenses' (refer note 5) as follows:

Director fees	94	165
Executive officers	<u>92,867</u>	<u>91,910</u>
	<u>92,961</u>	<u>92,075</u>

Loans to directors

Loans to directors and a director related entity outstanding as at 31 December 2012 was nil (2011: Vt 8 million)

Loans to other officers and employees

Loans to other officers and employees outstanding as at 31 December 2012 totalled Vt332,092 million (2011: Vt415 million).

Shareholders

The Bank's shareholders are:

1. The Government of the Republic of Vanuatu;
2. Vanuatu National Provident Fund, and
3. International Finance Corporation.

24. Post balance sheet events

No material events have occurred since the balance date which would require any adjustments to or disclosure in the financial statements (2011: Nil).



National Bank

Vanuatu's Own Bank

RUE DE PARIS
P O BOX 249
PORT VILA, VANUATU

TELEPHONE : (678) 22201
FAX : (678) 22761
SWIFT : NBOVVUVU

EMAIL : info@nbv.vu
WEBSITE : www.nbv.vu