



# National Bank

Vanuatu's Own Bank

# ANNUAL REPORT

2021





WELCOME TO  
**ANNUAL  
REPORT**  
2021





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# OUR VISION & MISSION

## OUR VISION

To be;

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

## 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 the opportunities within the business market.



# OUR BANK VALUES

## RESPONSIVENESS

RESPONDING TO CUSTOMER IN  
A TIMELY MANNER

01

## TRUSTWORTHINESS

BEING HONEST AND RELIABLE.  
TAKING RESPONSIBILITY

02

## HONESTY

BEING OPEN & TRANSPARENT IN ALL  
COMMUNICATIONS TO CUSTOMERS  
AND FELLOW EMPLOYEES

03

## LEARNING

TAKING INITIATIVE TO DEVELOP  
& GROW

04

## WORKING TOGETHER

WORKING TOGETHER TO  
ACHIEVE A COMMON GOAL

05

# OUR BOARD MEMBERS



**LINDSAY BARRETT**  
CA (ANZ), TEP  
**CHAIRMAN**

Appointed to Board in 2010  
Resigned in 2021  
*Managing Partner  
Barrett & Partners,  
Port Vila, Vanuatu*



**GEOFF TOONE**  
MBA (Fin), BBus (Bkg & Fin),  
GIA (Cert), Cert (microfinance),  
GreenFinCert, FFIN, FIIDM,  
GAICD, CCEO, AMAMI, AMCEOI,  
GIA (Affiliated)  
**MANAGING DIRECTOR &  
CHIEF EXECUTIVE OFFICER**

Appointed to Board in 2017  
Resigned in 2022  
*National Bank of Vanuatu*



**LINDLEY EDWARDS**  
BBus (Acc), BBus (Bkg & Fin),  
GradDip  
(CorporateGovListedEntities),  
SF FIN, FRSA, MAICD  
**DIRECTOR**

Appointed to Board in 2013  
Resigned in 2021  
*Group Managing Director,  
AFG Venture Group, Sydney,  
Australia*



**ALAIN LEW**  
**DIRECTOR**

Appointed to Board in 2016  
Resigned in 2021  
*Managing Director,  
Port Vila Hardware*



**HENRICKSON MALSOKLE**  
BA (Econ)

Appointed to Board in 2018  
Resigned in 2021  
*Executive Officer, Ministry of  
Finance & Economic  
Management*



# OUR EXECUTIVE MANAGEMENT



**TONY MOTULIKI**

MBA, PGDGM(BA),  
PGCHRM(BA), AIMM,  
SA FIN, MIML, MAICD

EXECUTIVE  
GENERAL MANAGER  
RETAIL & BRAND  
Joined the National Bank  
in 2016



**JOHN ARUHURI**

BCom

EXECUTIVE  
GENERAL MANAGER  
RURAL BANKING & FINANCIAL  
INCLUSION  
Joined the National Bank  
in 2009



**SERGE TAGA**

EXECUTIVE  
GENERAL MANAGER  
RELATIONSHIP BANKING  
Joined the National Bank  
in 1995



**JULIANN WILLIAMS**

BA, MBA, SA FIN

CHIEF PEOPLE OFFICER  
Joined the National Bank  
in 1999



**MAISSA ALATOA**

CAMS, GIA (Cert),  
GIA (Affiliated)

CHIEF RISK OFFICER  
Joined the National Bank  
in 2017



**STUART MATHISON**

BE(Hons), GradDip AppComp,  
M Int Dev

CHIEF OPERATING OFFICER  
Joined the National Bank  
in 2008



**STEVE BUCHANAN**

CHIEF CREDIT OFFICER  
Joined the National Bank  
in 2012



**ANTONIO BAKEO**

ACT(CertTF)

GROUP TREASURER  
Joined the National Bank  
in 2001



**KEVIN TARINAVANUE**

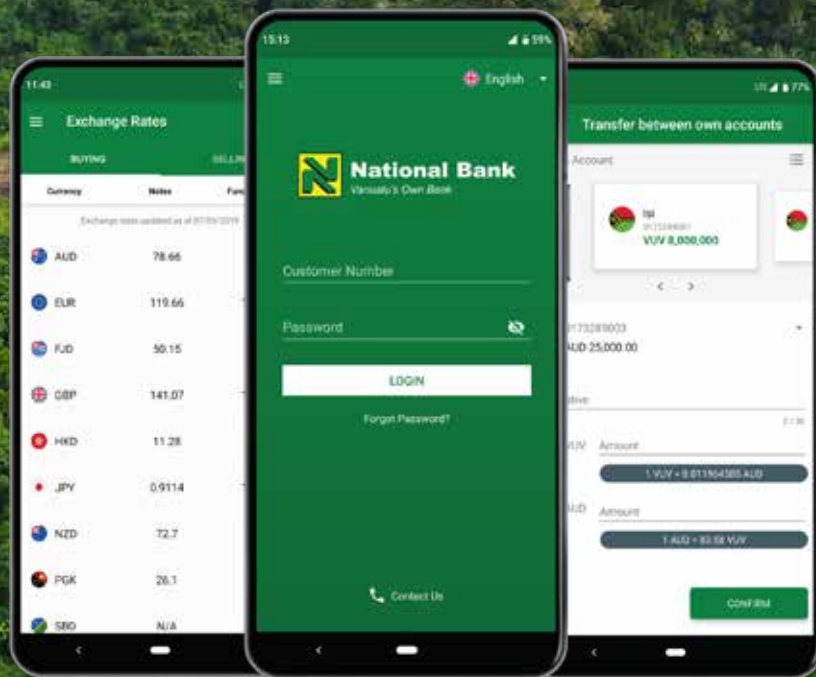
BBus(Acct)

CHIEF FINANCIAL OFFICER  
Joined the National Bank  
in 2017





## IsiMobile



*Mekem Laef emi isi long manples*



# National Bank

*Vanuatu's Own Bank*







**GEOFF TOONE**  
MANAGING DIRECTOR &  
CHIEF EXECUTIVE OFFICER



# REPORT FROM THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

It was an honour to lead the bank through another highly complex year. A year that has seen the continuation of challenging COVID-19 trading conditions coupled with Vanuatu's sustained international boarder closure. We had initially planned for the limited resumption of tourism during 2021. This resumption did not materialise and NBV adjusted our activities reflecting the changing needs of the domestic economy.

I would like to thank the staff, customers, shareholders and stakeholders for the ongoing support shown during 2021. The energy and enthusiasm of NBV staff working with the wider community was amazing. This commitment shown by the team in supporting local communities was on display every day of the year. NBV remained the nation's leading bank with our extensive product offerings, a branch network reaching every province along with our growing stable of digital banking solutions.

COVID-19 events did reduce the pace of transformation against our original plan. Notwithstanding these headwinds the bank continued to refine and enhance our governance operating model along with branch network upgrades in preparation for a post COVID-19 environment. The 2021 year also saw NBV continue to invest heavily in the development of our people across an array of internal and external education programs.

Our IsiHaos innovative affordable housing

finance offering remains the leading solution of its type across Vanuatu. This was reflected in fact that the program moved into full production.

The bank now prepares itself for the 2022 year. A year we hold a sense of optimism as Vanuatu's international borders are expected to open and our economic connection to the Pacific region is actively rebuilt. NBV is ready, willing and able to play a key part in the post COVID-19 economic recovery of this beautiful nation. This will be achieved via the energy and enthusiasm of our staff guided by our highly experienced executive team.

As this will be my last report as Managing Director & Chief Executive Officer of NBV I want to say that the opportunity to lead this great bank has been a privilege and an honour of a lifetime. My favourite memory was getting to know the people of Vanuatu and seeing first hand just how passionate the staff of NBV are in making a difference for the society we live in.



## GEOFF TOONE

MBA (FIN), BBus (Bkg & Fin), GIA (Cert), Cert (Microfinance), GreenFinCert, FFIN, FIIDM, GAICD, CCEO, AMAMI, AMCEOI, GIA (Affiliated)

Managing Director & Chief Executive Officer



# RIPOT BLONG MANEJING DAEREKTA & JIF EXEKUTIF OFISA

Hem i hona blong mi blong lidim bank truaot long wan narafala kompliketed mo spesel yia. Long yia ya, yumi gohed blong witnesem kontinuesen blong ol jalenses blong COVID-19 treding kondisen we i joen tu wetem klosa blong Vanuatu intenasonal boda. Long bigining blong yia 2021, yumi bin introdusum sam limited plan blong risamsen blong turisim be risamsen ya i no bin wokaot. Hemia i mekem se NBV i mas mekem ol adjasmen blong ol aktivi blong hem blong riflektem ol jensing nid blong domestik ikonomi.

Mi wantem talem bigfala tangkiu i go long ol staf, ol kastoma, ol sheaholda mo ol stekholda from ol ongoing sapot blong olgeta we oli bin soemaot truaot long yia 2021. Ol eneji mo entusiasim blong ol woking staf blong NBV wetem waeta komuniti hem i gud tumas. Ol komitmen blong ol tim ya, oli kontinu blong displeiem olsem ol sapot i go long ol lokal komuniti truaot long evri woking dei blong yia ya. NBV i kontinu blong stap olsem nambawan liding bank long kantri wetem ol extensive prodakt blong hem, wan brans netwok we i rijim evri provins inkludim dijitel banking solusen we i kontinu blong gro long wan stebol reit. Hem i tru we ol ivent blong COVID-19 i sloem daon reit blong transfomesen agensem orijinal plan blong yumi. Be nating long ol jalensing foses ya, bank hem i kontinu blong mekem ol jenses mo enhansem gavening operating model blong yumi, hemia i inkludim ol brans netwok apgreiting blong pripea from post COVID-19 envaeromen. Long yia 2021 tu, yumi bin luk se NBV hem i kontinu blong invest long ol hiuman risos blong yumi we i kavremap ol level blong ol intenal mo external edukesen program.

IsiHaos mo afodabol haos faenans ofaring program blong yumi hem i kontinu blong stap olsem spesel liding solusen prodakt

blong yumi truaot long Vanuatu. Program ya hem i riflektem hem wan taem hem i soemaot we hem i bin muv i go insaed long stej blong ful prodaksen.

Naoia bank hem i priperem hem wan i redi from yia 2022. Wan yia we yumi stap lukfowod mo bilif se bambae hem bringim braet fuja i kamtru, olsem we yumi stap expektem se Vanuatu bambae i openem intenasonal boda blong hem mo bambae i save aktifli konektem mo ribildim bakegen ol ikonomik koneksen blong yumi mo Pasifik rijen. NBV hem i stap redi mo wiling blong pleiem wan ki pat insaed long spesel taem ya blong COVID-19 ikonomik rikavari blong biutiful kantri ya Vanuatu. Bambae yumi save adjivim tru long ol eneji mo entusiasim blong ol gudfala staf blong yumi we oli gaeded anda long ol haeli experians exeketif tim blong yumi.

From we ripot ya bambae hem i las ripot blong mi olsem Manejing Daereka & Jif Exeketif Ofesa blong NBV, mi wantem talem olsem se opotuniti blong mi we mi lidim bank long yia ya, hem i wan bigfala privelej mo wan hona blong laef-taem blong mi. Wan long ol feivaret samting we bambae mi no save fogetem long taem ya, hem i memori we mi gat blong save mitim mo savegud ol pipol blong Vanuatu mo tu blong luk mo witnesem how ol staf blong yumi oli mekem ol difrens long ol sosaeti we yumi stap liv long hem.



GEOFF TOONE

MBA (FIN), BBus (Bkg & Fin), GIA (Cert), Cert (Microfinance), GreenFinCert, FFIN, FIIDM, GAICD, CCEO, AMAMI, AMCEO, GIA (Affiliated)

Manejing Daereka mo Jif Exeketif Ofisa

# RAPPORT DU DIRECTEUR GENERAL ET ADMINISTRATEUR DELEGUE

Ce fut un honneur que de diriger la banque au cours d'une nouvelle année particulièrement complexe. Une année durant laquelle les conditions commerciales ont continué de présenter des défis en raison du COVID-19, ajouté au maintien de la fermeture des frontières internationales du Vanuatu. A l'origine, nous avions escompté une légère reprise du tourisme en 2021, qui ne s'est pas matérialisée et la BNV a adapté ses activités pour répondre à l'évolution des besoins dans l'économie intérieure.

Je tiens à remercier le personnel, les clients, les actionnaires et les parties prenantes pour le soutien qu'ils ont continué à montrer durant 2021. L'énergie et l'enthousiasme du personnel de la BNV travaillant avec la collectivité au sens large ont été remarquables. Cet engagement dont l'équipe a fait preuve pour épauler les communautés locales s'est manifesté au quotidien tout au long de l'année. Le BNV demeure la première banque du pays avec sa vaste gamme de produits, son réseau d'agences couvrant toutes les provinces et notre offre croissante de solutions numériques pour les transactions bancaires.

Il est vrai que la pandémie du COVID-19 a entravé la cadence de notre transformation par rapport à ce qui avait prévu initialement. Malgré ces vents contraires, la banque a continué de peaufiner et de rehausser notre modèle d'exploitation, avec une mise à niveau du réseau d'agences en prévision d'un nouvel environnement post COVID-19. L'année 2021 a aussi vu la BNV continuer d'investir massivement dans le développement de nos employés par le biais d'un éventail de programmes d'éducation internes et externes.

Notre offre innovante de financement au logement à des conditions abordables, Isi-Haos, demeure la principale solution de son genre dans l'ensemble de l'archipel. Pour

preuve, le fait que le programme est entré en pleine phase de mise en œuvre. La banque se prépare désormais à faire face à 2022, année qui nous donne un sentiment d'optimisme dans la perspective de la réouverture des frontières internationales du pays et d'une relance solide de nos relations économiques avec la région du Pacifique. La BNV est prête, disposée et apte à jouer un rôle essentiel dans la relance économique post COVID-19 de ce beau pays. Elle y parviendra grâce à l'énergie et l'enthousiasme de notre personnel guidé par notre équipe de direction hautement chevronnée.

Comme c'est mon dernier rapport en tant que directeur général et administrateur délégué de la BNV, j'aimerais dire que ce fut un privilège et un honneur de toute une vie que d'avoir eu l'opportunité de diriger cette grande banque. Mon meilleur souvenir sera d'avoir appris à connaître la population du Vanuatu et d'avoir vu de mes propres yeux combien le personnel de la BNV se passionne pour faire une différence à la société dans laquelle nous vivons.



**GEOFF TOONE**

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Directeur General et Administrateur Delegue



# FIVE YEAR SUMMARY

National Bank of Vanuatu  
Five Year Summary

2017 - 2021

(Expressed in ' 000 Vatu)	2017	2018	2019	2020	2021	(Exprimé en '000 Vatu)
<b>Profit &amp; Loss</b>						<b>Compte de résultat</b>
Interest income	1,262,171	1,630,236	1,773,170	1,533,158	1,322,639	Produits d'intérêts
Interest expense	(413,669)	(367,365)	(442,886)	(310,065)	(204,811)	Charges d'intérêts
Net Interest income	848,502	1,262,871	1,330,284	1,223,093	1,117,828	Intérêts nets
Other operating income	547,619	585,943	689,227	650,232	723,864	Autres produits d'exploitation
Provision for loan losses	(792,019)	(302,916)	(312,544)	(390,652)	(285,596)	Dotation aux provisions pour prêts douteux
Other operating expenses	(1,097,020)	(1,223,421)	(1,379,587)	(1,404,975)	(1,429,813)	Autres charges d'exploitation
Operating profit / (loss) before government grant	(492,918)	322,477	327,380	77,698	126,283	Bénéfice / (perte) d'exploitation avant subvention du gouvernement
Government grant	0	0	0	0	0	Subvention du gouvernement
<b>Profit / (loss) for the year</b>	<b>(492,918)</b>	<b>322,477</b>	<b>327,380</b>	<b>77,698</b>	<b>126,283</b>	<b>Bénéfice / (perte) de l'exercice</b>
<b>Balance sheet</b>						<b>Bilan</b>
Net loans and advances	12,922,982	13,886,610	13,788,899	13,165,044	12,461,120	Prêts et créances nettes sur la clientèle
Total assets	28,039,677	35,393,433	34,816,056	33,947,270	32,816,625	Total de l'actif
Customer deposits	26,439,131	33,427,641	32,156,410	30,612,557	29,230,400	Dépôts clients
Shareholders' funds(Equity)	990,011	1,312,488	1,546,941	2,424,639	2,612,062	Capitaux propres
<b>Performance ratios</b>						<b>Ratios mesurant la performance</b>
Return on shareholders' Funds (Equity) %	(49.79)	24.57	21.16	3.20	4.83	Retour sur fonds propres
Return on assets %	(1.76)	0.91	0.94	0.23	0.38	Rentabilité des actifs
Income growth %	16.08	22.46	11.11	(11.33)	(6.27)	Croissance des revenus
<b>Prudential ratios</b>						<b>Ratios de prudence</b>
Capital adequacy %	6.55	8.11	9.28	13.62	15.94	Suffisance du capital
Liquid asset ratio %	33.97	35.31	40.48	44.08	51.97	Ratio des liquidités



# CORRESPONDENT BANKS

## **AUSTRALIA**

Commonwealth Bank of Australia,  
Sydney

## **FIJI**

Bank South Pacific  
Suva

## **JAPAN**

Bank of Tokyo Mitsubishi,  
Tokyo

## **NEW ZEALAND**

ASB Bank Limited,  
Auckland

Bank of New Zealand  
Wellington

## **PAPUA NEW GUINEA**

Bank of South Pacific,  
Port Moresby

## **TAHITI**

Bank of Tahiti,  
Papeete

## **SOLOMON ISLANDS**

Bank South Pacific,  
Honiara

## **AUSTRALIE**

Commonwealth Bank of Australia,  
Sydney

## **FIDJI**

Bank South Pacific  
Suva

## **JAPAN**

Bank of Tokyo Mitsubishi,  
Tokyo

## **NOUVELLE-ZELANDE**

ASB Bank Limited,  
Auckland

Bank of New Zealand  
Wellington

## **PAPOUASIE NOUVELLE-GUINEE**

Bank of South Pacific,  
Port Moresby

## **TAHITI**

Banque de Tahiti,  
Papeete

## **ILSE SALOMON**

Bank South Pacific,  
Honiara

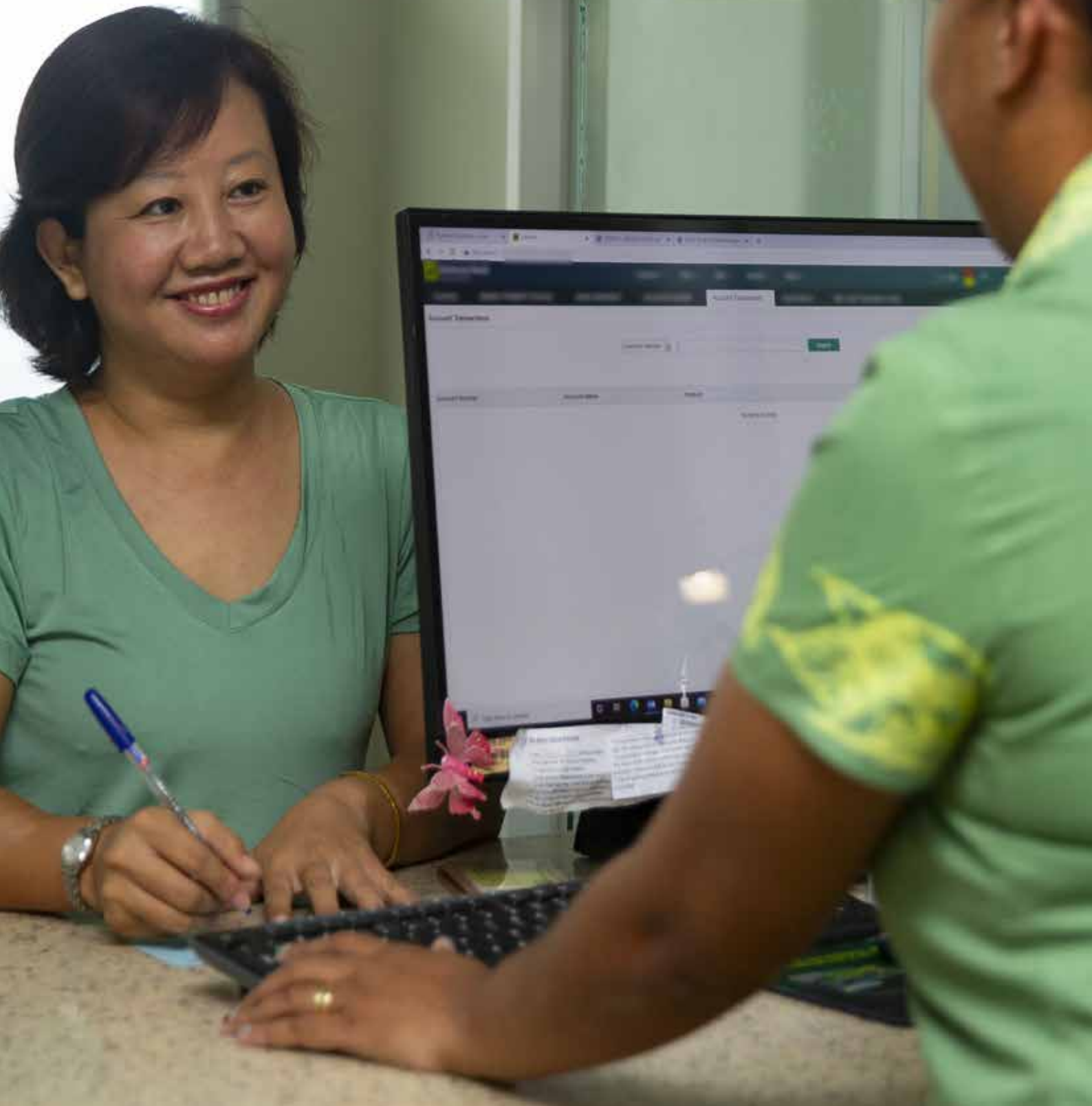


# PREMIUM BANKING SERVICES

Discover all the premium banking services that the National Bank of Vanuatu offers.

Visit our website for more information!

[www.nbv.vu](http://www.nbv.vu)



# PRODUCTS & SERVICES

Savings Accounts

Cheque Accounts

Mekem Gro Accounts

Sevem Vatu Accounts

Isi Accounts

Salaries – Inward & Outward payments

Audit Certificates

Vatu Term Deposits

Foreign Currency Term Deposits

Foreign Currency Call Accounts

Letters of Credit – Import / Export

International Drafts

SWIFT Transfers

Foreign Exchange

Bills for Collection

Land Loans

Home Loans

Personal Loans

Term Loans

Vehicle Loans

Micro Business Loans

Micro Rural Loans

Micro Land Loans

Micro Seasonal Worker Loans

Bank Guarantees

Immigration Bonds

Premium Funding Loans

IsiMs

IsiNet

IsiMobile

IsiHaos

Telegraphic Transfers

Foreign Currency Loans

Comptes d'épargne

Vérifier les comptes

Comptes Mekem Gro

Comptes Sevem Vatu

Comptes Isi

Salaires - Paiements entrants et sortants

Certificats d'audit

Dépôts à terme vatu

Dépôts à terme en devises étrangères

Comptes d'appels en devises étrangères

Lettres de crédit - Import / Export

Projets internationaux

Transferts SWIFT

Change

Factures de recouvrement

Prêts fonciers

Prêts immobiliers

Prêts personnels

Prêts à terme

Prêts de véhicule

Prêts aux microentreprises

Prêts Micro Rural

Prêts de micro-terres

Prêts micro-saisonniers aux travailleurs

Garanties bancaires

Obligations d'immigration

Prêts de financement de primes

IsiMs

IsiNet

IsiMobile

IsiHaos

Transferts télégraphiques

Prêts en devises étrangères





# MICROFINANCE & HOUSING



Microfinance



IsiHaos







DIGITAL  
PRODUCTS



IsiMs



IsiNet



IsiLoan



IsiMobile



IsiBank



IsiKad



NBV Debit  
MasterCard





# FINANCIAL STATEMENTS

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## National Bank of Vanuatu Limited

### Report of the directors For the year ended 31 December 2021

The directors present their report together with the audited financial statements for the year ended 31 December 2021 and the auditors' report thereon.

#### Directors:

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

<u>Director</u>	<u>Appointed</u>	<u>Resigned</u>	<u>Meetings</u>	<u>Attended</u>
Geoffrey Toone (Managing Director)	23/02/2017	13/04/2022	5	5
Lindsay Barrett (Director and Chairman)	19/07/2012	03/09/2021	5	5
Lindley Edwards (Director)	06/03/2013	03/09/2021	5	5
Alain Lew (Director)	22/12/2016	29/10/2021	5	-
Henrickson Malsokle (Director)	06/11/2018	11/10/2021	5	5
Paul Kaun (Director)	03/02/2022	-	-	-
Benjamin Shing (Director)	25/03/2022	-	-	-

#### 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.

#### Result:

The operating profit for the year was Vt 126,283,000 (2020: Vt 77,698,000).

#### Reserves:

The directors propose that no transfer be made to reserves (2020: Nil).

#### Dividends:

There were no dividends proposed for the financial year (2020: Nil).



**National Bank of Vanuatu Limited**

**Report of the directors (continued)  
For the year ended 31 December 2021**

**Directors' benefits:**

During the financial year, the directors of the National Bank of Vanuatu Limited 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 Limited, by reason of a contract made by the National Bank of Vanuatu Limited with the director.

**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 2021 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 2021. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

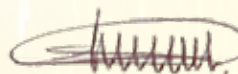
The directors are responsible for keeping proper accounting records and for safeguarding the assets of the Bank by taking reasonable steps to prevent and detect fraud.

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

Dated at Port Vila, the 1<sup>st</sup> of July 2022



Director



Duly Authorised Acting MD & CEO



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

### **Audit Opinion**

We have audited the accompanying financial statements of National Bank of Vanuatu Limited which comprise the statement of financial position as at 31 December 2021, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements which includes a summary of significant accounting policies and other explanatory notes set out on pages 8 to 36.

In our opinion the financial statements have been properly prepared in accordance with the provisions of the Vanuatu Companies Act No. 25 of 2012 of the Republic of Vanuatu and give a true and fair view of the financial position of the company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in compliance with International Financial Reporting Standards.

### **Basis for Opinion**

We have conducted our audit in accordance with International Standards on Auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial statements in Vanuatu. We have fulfilled our other ethical responsibilities in accordance with the Code.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Other Information**

Other Information is both financial and non-financial information in National Bank of Vanuatu Limited's annual reporting which is provided in addition to the financial statements and the auditor's report. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report, we have nothing to report.



## **Independent Auditors' Report to the members of National Bank of Vanuatu Limited (continued)**

### **Responsibilities of directors for the financial statements**

The directors of the company are responsible for:

- the preparation and fair presentation of these financial statements and the information they contain, in accordance with International Financial Reporting Standards and the Vanuatu Companies Act No. 25 of 2012;
- implementing necessary internal controls to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. A further description of our responsibilities for the audit of the financial statements is located at the website [https://www.ifac.org/system/files/publications/files/ISA-700-Revised\\_3.pdf](https://www.ifac.org/system/files/publications/files/ISA-700-Revised_3.pdf). This description forms part of our auditor's report.

### **Report on Other Legal and Regulatory Requirements**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion:

1. proper books of account have been kept by the Company, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and
2. to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Vanuatu Companies Act No. 25 of 2012, in the manner so required.

**Independent Auditors' Report to the members of National Bank of Vanuatu Limited (continued)**

**Who We Report To**

This report is made solely to the Company's shareholders, as a body, in accordance with the Vanuatu Companies Act No. 25 of 2012. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

*Law Partners*

**LAW PARTNERS**

**Chartered Accountants**

(Qualified auditors under Section 130 of the Companies Act No. 25 of 2012 of the Republic of Vanuatu)



**Alipate La'au**

**Partner**

Port Vila

1 July 2022



## National Bank of Vanuatu Limited

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

	Note	2021	2020
Interest income	5	1,322,639	1,533,158
Interest expense	6	<u>(204,811)</u>	<u>(310,065)</u>
Net interest income		1,117,828	1,223,093
Other operating income	5	<u>723,864</u>	<u>650,232</u>
Net banking income		1,841,692	1,873,325
Severance pay expense		(53,528)	(56,610)
Other operating expenses	6	<u>(1,583,876)</u>	<u>(1,656,064)</u>
<b>Operating profit for the year</b>		204,288	160,651
Tax expense		(78,005)	(82,953)
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><u>126,283</u></u>	<u><u>77,698</u></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 30 - 54*

## National Bank of Vanuatu Limited

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

	Note	Issued & paid up capital	Share premium	Retained earnings	Total
<b><u>2021</u></b>					
Balance at the beginning of the financial year		1,657,140	172,361	595,138	2,424,639
IFRS 9 transition adjustment		-	-	(231,872)	(231,872)
Prior period adjustment in relation to interest accrual on non-performing overdraft accounts	27	-	-	293,012	293,012
Total comprehensive income for the year		-	-	126,283	126,283
		<u>1,657,140</u>	<u>172,361</u>	<u>782,561</u>	<u>2,612,062</u>
Dividends paid		-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the financial year		<u><u>1,657,140</u></u>	<u><u>172,361</u></u>	<u><u>782,561</u></u>	<u><u>2,612,062</u></u>
<b><u>2020</u></b>					
Balance at the beginning of the financial year		857,140	172,361	517,440	1,546,941
Capital issued during the year		800,000	-	-	800,000
Total comprehensive income for the year		-	-	77,698	77,698
		<u>1,657,140</u>	<u>172,361</u>	<u>595,138</u>	<u>2,424,639</u>
Dividends paid		-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the financial year		<u><u>1,657,140</u></u>	<u><u>172,361</u></u>	<u><u>595,138</u></u>	<u><u>2,424,639</u></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 30 - 54*




**National Bank of Vanuatu Limited**

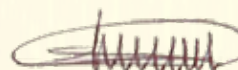
**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2021**  
*(Expressed in '000 Vatu)*

	Note	2021	2020
<b>Assets</b>			
Liquid assets	9	18,499,377	18,132,852
Net loans and advances to customers	10(a)	12,461,120	13,165,044
Investment securities	12	912,474	1,629,074
Other assets	13	195,465	237,074
Property, plant and equipment	15	<u>748,189</u>	<u>783,226</u>
<b>Total assets</b>		<u>32,816,625</u>	<u>33,947,270</u>
<b>Liabilities</b>			
Customers' accounts	16	29,230,400	30,612,557
Other liabilities	17	353,128	314,463
Provisions	18	358,255	292,195
Lease liability	15(c)	<u>262,780</u>	<u>303,416</u>
<b>Total liabilities</b>		<u>30,204,563</u>	<u>31,522,631</u>
<b>Equity</b>			
Share capital	19	1,657,140	1,657,140
Share premium		172,361	172,361
Retained earnings		<u>782,561</u>	<u>595,138</u>
<b>Total equity</b>		<u>2,612,062</u>	<u>2,424,639</u>
<b>Total liabilities and equity</b>		<u>32,816,625</u>	<u>33,947,270</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 30 - 54*



Director



Duly Authorised Acting MD & CEO

Port Vila, 1st of July 2022

## National Bank of Vanuatu Limited

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

	Note	2021	2020
<b>Cash flows from operating activities</b>			
Interest received		1,749,321	1,143,558
Interest paid		(199,578)	(370,283)
Other cash receipts in the course of operations		728,699	653,993
Other cash payments in the course of operations		<u>(1,232,922)</u>	<u>(1,335,735)</u>
		1,045,520	91,533
<i>Changes in operating assets and liabilities</i>			
- Gross loans and advances to customers		479,468	232,469
- Customers' accounts		(1,382,157)	(1,543,853)
- Other assets		(385,073)	464,820
- Transit accounts		<u>12,578</u>	<u>(60,549)</u>
Net cash used in operating activities	23	<u>(229,664)</u>	<u>(815,580)</u>
<b>Cash flows from investing activities</b>			
Net movement in investment deposits		716,600	(990,660)
Net payments for leasehold improvements, plant and equipment		<u>(120,411)</u>	<u>(84,968)</u>
Net cash provided by / (used in) investing activities		<u>596,189</u>	<u>(1,075,628)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital		<u>-</u>	<u>800,000</u>
Net cash provided by investing activities		<u>-</u>	<u>800,000</u>
Net increase / (decrease) in cash and cash equivalents held		366,525	(1,091,208)
Cash and cash equivalents at beginning of the financial year		18,132,852	19,224,060
Cash and cash equivalents at the end of the financial year	9	<u>18,499,377</u>	<u>18,132,852</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 30 - 54*



## **National Bank of Vanuatu Limited**

### **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

*(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.

#### **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 Vanuatu Companies Act No. 25 of 2012.

##### **(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.

##### **(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.

###### *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.

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 3. Significant accounting policies (continued)

##### (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 14

###### *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	1 - 50%
Plant and equipment	6 - 100%
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.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(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 18

###### *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, considering the Bank's experience with staff departures, the liability is calculated after three years of service to balance date.

###### *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 – IAS 39 Accounting Policy

Prior to 1 January 2021 the Bank classified 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 10 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 2021

(Expressed in '000 Vatu)

#### 3. Significant accounting policies (continued)

##### (g) Financial instruments – IAS 39 Accounting Policy (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 - IAS 39 Accounting Policy

Prior to 1 January 2021 the Bank assessed 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.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 3. Significant accounting policies (continued)

##### (i) Leases

Effective January 1, 2019, the Bank adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases.

##### *As a lessee*

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any leases payments made at or before the commencement date, less any lease incentives received.

For contracts entered before 1 January 2018, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - The purchaser had the right or ability to operate the asset while obtaining or controlling more than an insignificant amount of output;
  - The purchaser had the ability or right to control physical access to the asset whilst obtaining or controlling an insignificant amount of output.

The right-of-use asset is subsequently depreciated using straight-line method from commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful life of the right-to use asset are determined on the same basis as those of property and equipment. In addition, the right-to use- asset is periodically checked for impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-to-use asset has been reduced to zero.

##### *As a lessor*

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 3. Significant accounting policies (continued)

##### (i) Leases (continued)

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'. The accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16.

Note 15 provides more detail of how the lease asset and liability is measured.

##### (j) Comparatives

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

#### 4. Standards and interpretations adopted in 2021

##### (a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018)

IFRS 9 as issued by the IASB in July 2014 is effective for the Bank from 1 January 2018. During the year the Bank has adopted IFRS 9 with a date of transition of 1 January 2021, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes to accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section below.

##### *Classification and measurement of financial instruments*

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2021 for the Bank are compared as follows:

There were no significant changes to the classification and measurement of financial assets and financial liabilities apart from the Loans and advances impairment allowance balance discussed below.

##### *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9*

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

There were no significant changes to the classification and measurement of financial assets and financial liabilities from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2021, apart from the Loans and advances impairment allowance balance discussed below.

##### *Reconciliation of impairment allowance balance from IAS 39 to IFRS 9*

The following table reconciles the Bank's prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2021:



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 4. Standards and interpretations adopted in 2021 (continued)

##### (a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018) (continued)

*Reconciliation of impairment allowance balance from IAS 39 to IFRS 9 (continued)*

Measurement Category	Loss allowance IAS39 31-Dec-20	Re classification	Re measurement	Loss allowance IFRS-9 01-Jan-21
Loans and advances to customers	(1,838,794)	-	(231,872)	(2,070,666)
	(1,838,794)	-	(231,872)	(2,070,666)
Provisions - drawn loans	(1,838,794)	-	(231,872)	(2,070,666)
Provisions - undrawn loans	-	-	-	-
Provisions - letters of credit	-	-	-	-
Provisions - guarantees	-	-	-	-
Provisions - approved loans	-	-	-	-
Provision - due from financial institutions	-	-	-	-
Provision - investment securities (Government bonds)	-	-	-	-
Provision - investment securities (Treasury notes)	-	-	-	-
<b>Total loss allowance</b>	<b>(1,838,794)</b>	<b>-</b>	<b>(231,872)</b>	<b>(2,070,666)</b>

#### IFRS 9 Accounting Policy

##### (i) Classification and subsequent measurement

From 1 January 2021, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

##### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note (v) Measurement methods. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 4. Standards and interpretations adopted in 2021 (continued)

##### (a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018) (continued)

###### IFRS 9 Accounting Policy (continued)

###### (i) Classification and subsequent measurement (continued)

###### Debt instruments (continued)

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

*Business model:* the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a Bank of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purposes of collateralising notes issued, with no resulting de-recognition by the Bank. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

###### Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 4. Standards and interpretations adopted in 2021 (continued)

##### (a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018) (continued)

###### IFRS 9 Accounting Policy (continued)

###### (i) Classification and subsequent measurement (continued)

###### Equity instruments (continued)

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

###### (ii) Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

###### (iii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on de-recognition.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 4. Standards and interpretations adopted in 2021 (continued)

##### (a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018) (continued)

###### IFRS 9 Accounting Policy (continued)

###### *(iii) Modification of loans (continued)*

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

###### *(iv) De-recognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either the Bank transfers substantially all the risks and rewards of ownership, or the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

###### *(v) Measurement methods*

###### *Amortised cost and effective interest rate:*

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

###### *Interest income*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 4. Standards and interpretations adopted in 2021 (continued)

##### (a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018) (continued)

###### IFRS 9 Accounting Policy (continued)

###### (v) Measurement methods (continued)

###### *Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

5. Income	Note	2021	2020
<b>Interest income</b>			
Loans and advances		1,291,484	1,459,679
Interbank foreign currency placing		11,472	34,262
Investment securities		19,683	39,217
		<u>1,322,639</u>	<u>1,533,158</u>
<b>Other operating income</b>			
Fees, charges and commissions (*)		406,134	383,783
Net foreign exchange earnings		313,337	254,038
Other income		4,393	12,411
		<u>723,864</u>	<u>650,232</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.

### 6. Expenses

<b>Interest expense</b>			
On deposits		188,979	293,115
On leases		15,832	16,950
		<u>204,811</u>	<u>310,065</u>
<b>Other operating expenses</b>			
<i>Personnel expenses</i>			
Salaries and wages		550,468	558,364
VNPF contributions		24,490	22,552
Other		95,848	71,906
		<u>670,806</u>	<u>652,822</u>
<i>Other operating expenses</i>			
Auditor's remuneration	7	4,492	3,307
Depreciation	14	110,689	110,656
Allowance for loan losses	11	285,596	390,652
Other expenses		512,293	498,627
		<u>913,070</u>	<u>1,003,242</u>
		<u>1,583,876</u>	<u>1,656,064</u>

### 7. Auditor's remuneration

Amounts received or due and receivable by the Auditors of the Bank for:

- Auditing the financial statements		3,848	3,048
- Other services		644	259
		<u>4,492</u>	<u>3,307</u>

### 8. Segment analysis

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

#### *Industry segments*

General banking services



**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(Expressed in '000 Vatu)

**8. Segment analysis (continued)**

*Products/service*

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

*Geographical segments*

The Bank operates predominantly in Vanuatu

<b>9. Liquid assets</b>	<b>Note</b>	<b>2021</b>	<b>2020</b>
Currency notes and coins		1,072,903	939,715
Balance with Reserve Bank (including regulatory deposits)		10,348,764	8,747,800
Due from other banks		7,077,710	8,445,337
		<u>18,499,377</u>	<u>18,132,852</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.

**10. Loans and advances**

**10(a) Net loans and advances to customers**

Overdrafts		958,234	878,187
Loans		13,454,710	14,125,651
Total gross loans and advances		14,412,944	15,003,838
Allowance for impairment	11	(1,951,824)	(1,838,794)
Net loans and advances		<u>12,461,120</u>	<u>13,165,044</u>

Maturities of gross loans and advances are summarised as follows:

Not later than 1 year		1,718,882	1,667,183
Between 1 and 2 years		782,216	941,506
Between 2 and 5 years		2,522,126	2,074,390
Later than 5 years		9,389,720	10,320,759
		<u>14,412,944</u>	<u>15,003,838</u>

Collateral held in respect of loans and advances that are impaired amounts is Vt4,220,462 (2020: Vt4,745,985).

**10(b) Gross loans and advances to customers past due but not impaired**

	<u>10,096,431</u>	<u>3,007,770</u>
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Maturities of gross loans and advances to customers are summarised as follows:

Not later than 1 year		535,298	141,412
Between 1 and 2 years		617,283	121,995
Between 2 and 5 years		1,935,046	314,124
Later than 5 years		7,008,804	2,430,239
		<u>10,096,431</u>	<u>3,007,770</u>

**10(c) Restructured gross loans and advances to customers**

	<u>421,191</u>	<u>356,634</u>
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## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

11. Allowances for impairment of loans and advances to customers	Note	2021	2020
<i>Collective allowances</i>			
Balance at beginning of the year		106,623	123,659
Charge to statement of comprehensive income	6	51,036	(16,781)
Loans written off / back		<u>232,009</u>	<u>(255)</u>
Total collective allowance		<u>389,668</u>	<u>106,623</u>
<i>Individual allowances</i>			
Balance at beginning of the year		1,732,171	1,597,043
Charge to statement of comprehensive income	6	234,560	407,433
Loans written off / back		<u>(404,575)</u>	<u>(272,305)</u>
Total individual allowance		<u>1,562,156</u>	<u>1,732,171</u>
Total allowances for impairment of loans and advances to customers		<u>1,951,824</u>	<u>1,838,794</u>

### 12. Investment securities

Maturities of investment securities are summarised as follows:

Not later than 1 year	736,590	1,458,484
Between 1 and 2 years	175,884	70,590
Between 2 and 5 years	-	100,000
Later than 5 years	<u>-</u>	<u>-</u>
	<u>912,474</u>	<u>1,629,074</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).

### 13. Other assets

Accrued interest receivable	47,717	485,307
Projects – in progress	21,755	70,292
Other assets	<u>125,993</u>	<u>(318,525)</u>
	<u>195,465</u>	<u>237,074</u>

### 14. Property, plant and equipment

	2021			2020		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
<i>Leasehold premises and improvements</i>	175,747	(136,356)	39,391	168,025	(122,999)	45,026
<i>Plant and equipment</i>	1,113,913	(686,386)	427,527	1,016,000	(596,902)	419,098
<i>Computer system</i>	123,793	(123,680)	113	123,793	(123,680)	113
<i>Leasehold land, building and improvements</i>	172,088	(70,089)	101,999	172,088	(65,427)	106,661
<i>Total</i>	<u>1,585,541</u>	<u>(1,016,511)</u>	<u>569,030</u>	<u>1,479,906</u>	<u>(909,008)</u>	<u>570,898</u>



**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(Expressed in '000 Vatu)

**14. Property, plant and equipment (continued)**

	2021				
	Opening carrying amount	Additions	Disposals/ writeoffs	Depreciation charge	Closing carrying amount
<i>Leasehold premises and improvements</i>	45,026	7,721	-	(13,356)	39,391
<i>Plant and equipment</i>	419,098	102,611	(1,511)	(92,671)	427,527
<i>Computer system</i>	113	-	-	-	113
<i>Leasehold land, building and improvements</i>	106,661	-	-	(4,662)	101,999
<b>Total</b>	<b>570,898</b>	<b>110,332</b>	<b>(1,511)</b>	<b>(110,689)</b>	<b>569,030</b>

**15. Leases and right of use assets**

(a) Leases

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property

	Note	2021	2020
Property, plant and equipment owned	14	569,030	570,898
Right-of use assets	15(b)	179,159	212,328
Balance as at 31 December		<u>748,189</u>	<u>783,226</u>
(b) Right-of -use assets			
Balance as at 1 January		212,328	257,404
Recognition of right of use		11,590	(867)
Depreciation charge for the year		(44,759)	(44,209)
Balance as at 31 December		<u>179,159</u>	<u>212,328</u>
(c) Lease liabilities			
Maturity analysis -			
Less than one year		-	46,592
One to five years		262,780	235,675
More than five years		-	21,149
Total lease liabilities as at 31 December		<u>262,780</u>	<u>303,416</u>
Lease liabilities included in the statement of financial position at 31 December		<u>262,780</u>	<u>303,416</u>

**16. Customers' accounts**

Current accounts	9,011,017	6,898,578
Savings accounts	9,357,202	11,403,680
Fixed term deposits	10,862,181	12,310,299
	<u>29,230,400</u>	<u>30,612,557</u>

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 16. Customers' accounts (continued)

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:

	Note	2021	2020
<i>Fixed term deposits</i>			
Not later than 1 month		3,929,925	5,256,918
Between 1 and 3 months		1,265,724	1,456,595
Between 3 and 12 months		5,656,799	4,942,226
Later than 1 year		9,733	654,560
		<u>10,862,181</u>	<u>12,310,299</u>

#### 17. Other liabilities

Accrued interest payable		41,021	35,788
Transit accounts		126,435	113,857
Unearned income – lending fees		124,218	116,022
Unearned income – rural services grant		15,490	18,851
Due to other banks		15,244	5,880
Other		30,720	24,065
		<u>353,128</u>	<u>314,463</u>

#### 18. Provisions

<i>Current</i>			
Annual leave provision		50,761	43,215
Other		23,900	9,622
Severance allowance		243,085	207,980
		<u>317,746</u>	<u>260,817</u>
<i>Non-current</i>			
Severance allowance		40,509	31,378
		<u>358,255</u>	<u>292,195</u>
<i>Movement in severance allowance</i>			
Balance at beginning of the year		239,358	211,158
Net charge to the income statement		53,528	56,610
Provision utilised		(9,292)	(28,410)
		<u>283,594</u>	<u>239,358</u>

#### 19. Share capital

##### Authorised capital

165,714 (2020: 165,714) ordinary shares of Vt10,000 each	<u>1,657,140</u>	<u>1,657,140</u>
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##### Issued and paid-up capital

165,714 (2020: 165,714) ordinary shares of Vt10,000 each, fully paid	<u>1,657,140</u>	<u>1,657,140</u>
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During the year all ordinary shares held by the International Finance Corporation were sold and transferred to the Vanuatu Government.

The Government of Vanuatu holds 72,857 ordinary shares and Vanuatu National Provident Fund 92,857 ordinary shares (2020: The Government of Vanuatu holds 60,000 ordinary shares. Vanuatu National Provident Fund 92,857 ordinary shares and International Finance Corporation 12,857 ordinary shares).



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 19. Share capital (continued)

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 proposed that no dividend be paid for 2021 (2020: Nil).

#### 20. Commitments 2021 2020

##### *Operating lease commitments*

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

Not later than 1 year	6,149	4,765
Between 1 and 2 years	4,001	24,575
Between 2 and 5 years	19,026	715
Later than 5 years	3,360	1,525
	<u>32,536</u>	<u>31,580</u>

#### 21. 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.

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.

##### *a) 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.

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 21. Financial instruments (continued)

##### a) Credit risk (continued)

###### i) Credit risk - IFRS 9 definitions and implementation

###### Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

###### Default

A customer is deemed to have defaulted on the loan when they fail to make principal and or interest payments as stipulated in the loan agreement for 90 consecutive days or more.

###### Credit risk

The risk that a customer may not meet their credit obligation as stipulated in the loan agreement.

A customer is assigned a weighted Credit Risk Score (CCRS) at the beginning of the loan application process. The weighted CCRS ranges from 1 to 6, the higher the score the riskier the customer.

The CCRS is maintained for all customers in the core banking system (CBS). The CBS calculates daily a Loan Risk Score (LRS) for every loan approved and drawn under a customer. The LRS calculation considers the assigned CCRS, performing status of the loan, collateral held and if loan was restructured. The LRS ranges from 1 to 8, the higher the score the higher the risk of default. The highest LRS for a customer each day is designated as the default LRS for that customer.

For the purpose of IFRS 9, the LRS is used to assess credit risk and determine which loan stage a customer will be assessed under.

Loan Risk Score	IFRS 9 Stage
1 to 3	Stage 1
4	Stage 2
5	Stage 3
6 to 8	Specific Provision





## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 21. Financial instruments (continued)

##### a) Credit risk (continued)

###### i) Credit risk - IFRS 9 definitions and implementation (continued)

###### Significant increase in credit risk

Several indicators may signal an increase in credit.

1. Customer fails to make principal and interest repayments for 60 consecutive days.
2. An adverse event has occurred directly impacting the customers' ability to remain profitable to meet repayments e.g., loss of employment with no clear indication of reemployment, industry in which the customer is operating a business has been severely affected by disasters or becomes obsolete.
3. Adverse changes in collateral amounts e.g., destruction of property used as collateral, by natural disasters or other events.

###### Probability of default

The likelihood that the customer will default on their loans. This is expressed as a percentage.

For the Bank, the probability of default (PD) is determined using a simplified version of the point in time (PIT) approach.

PD is assessed collectively for each loan product. Individual loans are assigned to each stage based on the Loan Risk Score. The LRS is explained under credit risk. The loans are aggregated under respective loan products to determine the associated PD.

The loan product PD is derived from historical data from 2018 to 2021 as a basis. The average default rate is calculated from movements of loans from stages 1 and 2 at the beginning of the year and ended the year in stage 3 respectively over the 4 year period.

###### Stage 1

The PD for loan products at this stage follows the average default rate regardless of the number years to maturity. For vatu loans the PD ranges from 3% to 5%. For foreign currency the range is 3% to 10%.

###### Stage 2

The PD for both vatu and foreign currency loans at this stage, where average term to maturity for the product is greater than 3 years ranges from 5% to 15%. The PD for loan products where average term to maturity is less than 3 years is 25% (2 years) and 50% (1 year).

###### Stage 3

The PD for both vatu and foreign currency loans at this stage, where average term to maturity for the product is greater than 3 years ranges from 10% to 20%. The PD for loan products where average term to maturity is less than 3 years is 50% (2 years) and 100% (1 year).



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 21. Financial instruments (continued)

##### *a) Credit risk (continued)*

##### *i) Credit risk - IFRS 9 definitions and implementation (continued)*

##### *Effective interest rate*

The effective interest rate for each loan product is calculated as the weighted average interest rate of loans within the product.

##### *Exposure at default*

The Exposure at default (EAD) is the amortized balance of the loan at reporting date.

The EAD is the closing amortized balance from the schedule for each year to maturity. The amortization schedule is created for loan products under each stage, using the average years to maturity of the loans within each product and the effective interest rate.

##### *Loss given default percentage*

The percentage of loss expected if customer defaults on their loan.

The Loss Given Default (LGD) for each loan product is a function of the total EAD divided by the total collateral held for loans within the product.

##### *Expected credit loss*

The collective Expected Credit Loss for each product for each stage is calculated as **ECL = EAD X PD X LGD**.

##### *b) 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 10 (with fixed interest rates of up to 18 months on housing loan products only).
- Investment securities: fixed interest rates maturing as detailed in note 12.

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 21. Financial instruments (continued)

##### *b) Interest rate risk (continued)*

Financial liabilities:

- Customers' accounts: variable/fixed interest rates maturing as detailed in note 16.
- Deposits from credit institutions: floating interest rates at call.

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

##### *c) 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:

	Carrying value	2021 Interest income and expenses	Fees, charges and commissions
<i>Loans and receivables</i>			
Net loans and advances to customers	12,461,120	1,098,145	406,134
<i>Held to maturity assets</i>			
Investment securities	912,474	19,683	-

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.

##### *d) 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.

##### *e) 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.



**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

(Expressed in '000 Vatu)

**22. Contingent liabilities and commitments**

**Contingent liabilities**

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.

	2021	2020
Bonds	<u>42,079</u>	<u>1,763</u>
Financial guarantees	<u>-</u>	<u>-</u>
Letters of credit	<u>-</u>	<u>-</u>
<b>Commitments</b>		
Capital expenditure	44,856	121,650
Undrawn facilities	<u>87,790</u>	<u>40,344</u>
	<u>132,646</u>	<u>161,994</u>

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

**23. Notes to the statement of cash flows**

**Reconciliation of operating profit to net cash flows from operating activities**

Profit for the year	126,283	77,698
<i>Non-cash items</i>		
- Allowance for impairment and loans written off	113,030	118,092
- Depreciation	155,448	154,865
- Net adjustments to retained earnings	<u>61,140</u>	<u>-</u>
Net cash provided by operating activities before change in assets and liabilities	455,901	350,655
Change in assets and liabilities during the financial year		
- Decrease / (increase) in accrued interest receivable	426,682	(390,334)
- Decrease in loans and advances	590,894	505,763
- (Increase) / decrease in other assets	(385,073)	464,820
- Increase / (decrease) in accrued interest payable	5,233	(60,218)
- Decrease in deposits from customers and credit institutions	(1,382,157)	(1,543,853)
- Increase / (decrease) in other liabilities & provisions	<u>58,856</u>	<u>(142,413)</u>
Net cash used in operating activities	<u>(229,664)</u>	<u>(815,580)</u>

**24. Employees**

The number of employees as at 31 December 2021 was 324 (2020: 302).

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 25. 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 6) as follows:

	2021	2020
Director fees	1,256	2,198
Executive officers	100,364	107,346
	<u>101,620</u>	<u>109,544</u>

##### *Loans to directors*

Loans to directors and director-related entities outstanding as at 31 December 2021 was Vt106,259 (2020: Vt107,216).

##### *Transactions with related parties*

No services were provided by a director-related entity to the Bank during the financial year (2020: Vt Nil).

##### *Loans to other officers and employees*

Loans to other officers and employees outstanding as at 31 December 2021 totalled Vt1,418,493 (2020: Vt1,298,093).

##### *Shareholders*

The Bank's shareholders are:

1. The Government of the Republic of Vanuatu; and
2. Vanuatu National Provident Fund.

#### 26. COVID-19

The COVID-19 pandemic has had, and continues to have, an impact on businesses around the world and the economic environments in which they operate. There also exists significant uncertainty regarding the duration and severity of COVID-19 impacts and the associated disruption to the economy and our customers.

The repayment holiday and interest only arrangements is normally treated as an indication of a significant increase in credit risk (SICR) but the repayment holidays under the current COVID-19 relief packages has not been treated as an indication of SICR.

These relief packages are available to customers who require assistance because of COVID-19 and who otherwise had up to date payment status prior to the onset of COVID-19. Depending on financial standing customers have options to request interest only payments or defer both interest and principal. Deferred interest will be capitalized and the deferred principal along with the capitalized interest, will be repaid over the remaining term of the loan. These packages have been designed to provide short-term cash flow support while the most significant COVID-19 restrictions are in place. Further extensions were based on Reserve Bank approvals. The extension will not be automatic and will require up-to-date financial information on each borrower to confirm that there is a reasonable prospect to repay the loan and is approved by Credit.

The Bank is assessing and closely monitoring emerging risks.



## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in '000 Vatu)

#### 27. Prior period adjustment and post balance sheet events

##### *Change in accounting treatment of interest accrual on Non-Performing Overdraft accounts in Core Banking System (CBS)*

During the year 2021, a prior period adjustment was raised to recognize a reduction in the provision liability of non-performing overdraft accounts relating to prior years due to the Core Banking System (CBS) incorrectly capitalizing the interest accrued in the respective overdraft account, from the balance of which the provision calculation was derived from.

The adjustment required retrospective reversal of capitalized interest by transferring the accrued interest receivable debit amount capitalized on impacted Overdraft accounts to Accrued Interest Receivable asset account. The reversal reduces the principal balance of the Overdraft account and as a result reduces the required provision liability held for the account. The resulting excess provision relating to 2020 and prior is Vt293m which is accounted for in 2021 as a prior period adjustment against opening retained earnings.

Furthermore, the treatment of accrued interest for non-performing overdraft accounts was also corrected in the CBS during the financial year 2021.

Other than the above, no events have occurred since the balance date which would require any adjustments to or disclosure in the financial statements.

(2020: Post balance sheet events: The Bank is finalising changes to the accounting treatment of interest accrued on Non-Performing Overdraft accounts, initially adopted as part of its core banking system upgrade in 2017. This event will not warrant a restatement of the statement of comprehensive income for 2020 given change is yet to be finalized and implemented.)



# CORPORATE GOVERNANCE



# CORPORATE GOVERNANCE

The National Bank of Vanuatu Limited's ("NBV Ltd" or "the Bank" or "the Company") corporate governance framework plays a key role in supporting our business operations. It provides clear guidance on how authority is exercised within the Bank.

As a fundamental element of our culture and business practices, our corporate governance framework provides guidance for effective decision making in all areas of the Bank through:

- strategic and operational planning
- risk management and compliance
- financial management and external reporting
- succession planning and culture
- managing customer experiences and outcomes.

As at 30 September 2021, the Bank's shareholders are the Vanuatu National Provident Fund 56.03% and the Government of the Republic of Vanuatu 43.97%.

The NBV Ltd Board resolved to adopt a comprehensive set of Corporate Governance principles and policies to best reflect the Bank's 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 & Chief Executive Officer 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 behavior,
- 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 & Chief Executive Officer 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 & Chief Executive Officer; 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 & Chief Executive Officer.

## **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 & Chief Executive Officer, 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 & Chief Executive Officer, and by those other officers and employees to whom the management function is properly delegated by the Managing Director & Chief Executive Officer.

The Board is responsible for defining the limits to management's responsibilities, and approving the corporate objectives for which the Managing Director & Chief Executive Officer 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 & Chief Executive Officer 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 standing Board Committees that cover each of Audit, Remuneration, Risk, and Nomination and Governance matters. Other Board committees are created, with specific remits, as and when required.

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.

Board committees and their respective charters which include information on the composition, responsibilities and administration of each committee are set out below:

### **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 approve, 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 they 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 & Chief Executive Officer 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 & Chief Executive Officer 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.

## **RISK MANAGEMENT**

Risk is an inherent part of NBV Ltd's business and effective management of risk is a fundamental enabler of the Bank's strategic plan.

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 or material 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 will 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 & Chief Executive Officer, and from the Managing Director & Chief Executive Officer 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 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 Vision and 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 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
- 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.



Bank blong yumi ol  
**MANPLES**  
*Yumi Vanuatu*



**National Bank**

*Vanuatu's Own Bank*

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