



**National Bank**

*Vanuatu's Own Bank*

# ANNUAL REPORT



**2022**



NATIONAL BANK OF VANUATU  
2022




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## VISION & MISSION

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### VISION

To be;

- Competitive
- Profitable
- Focus on the needs of the people of Vanuatu
- Capable of continuous improvement to products and customers service

### MISSION

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

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## CORE VALUES

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### RESPONSIVENESS

*Premium Services*

Responding to customers in a timely manner

### TRUSTWORTHINESS

*Team of Experts*

Being honest and reliable.  
Taking responsibility

### HONESTY

*Protect the Future*

Being open & transparent in all communications to customers and fellow employees.

### LEARNING

*Knowledge*

Taking initiative to develop and grow.

### WORKING TOGETHER

*Solidarity*

Working together to achieve a common goal

## BOARD OF DIRECTORS



**Paul KAUN**  
MPhil  
(Monetary Economics and Finance)  
**CHAIRMAN**  
Appointed to Board in 2022



**Sereana Moira MARUM**  
BCM (Accounting)  
MCom(Advanced)(Applied Finance and  
Professional Accounting)  
ASA (CPA Aust.)  
**DIRECTOR**  
Appointed to Board in 2023



**Collins GESA**  
MBA, BMgt  
**DIRECTOR**  
Appointed to Board in 2023



**Tony Amos SEWEN**  
Bcom  
**DIRECTOR**  
Appointed to Board in 2022



**John ARUHURI**  
Bcom  
**ACTING MANAGING DIRECTOR &  
CHIEF EXECUTIVE OFFICER**  
**EXECUTIVE GENERAL MANAGER  
RURAL BANKING  
& FINANCIAL INCLUSION**  
Appointed to Board in 2023



**Benjamin SHING**  
**DIRECTOR**  
Appointed to Board in 2022  
Resigned in 2022

## THE MANAGEMENT



**Tony MOTULIKI**  
MBA, PGDGM(BA), PGCHRM  
(BA), AIMM, SA FIN, MIML, MAICD  
**EXECUTIVE GENERAL MANAGER  
RETAIL & BRAND**



**Stuart MATHISON**  
BE(Hons), GradDip AppComp,  
M Int Dev  
**CHIEF OPERATING OFFICER**



**Serge TAGA**  
**EXECUTIVE GENERAL MANAGER  
RELATIONSHIP BANKING**



**Juliann WILLIAMS**  
BA, MBA, SA FIN  
**CHIEF PEOPLE OFFICER**



**Maissa ALATO**  
CAMS, GIA(Cert),  
GIA(Affiliated)  
**CHIEF RISK OFFICER**



**Kevin TARINAVANUE**  
BBus(Acct)  
**CHIEF FINANCIAL OFFICER**



**Steve BUCHANAN**  
**CHIEF CREDIT OFFICER**



**Antonio BAKEO**  
ACT(CertTF)  
**GROUP TREASURER**

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## REPORTS

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Paul Kaun  
NBV Chairman

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## REPORT FROM THE CHAIRMAN

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It gives me great pleasure on behalf of the Board of Directors to present the 2022 Annual Report. The year under review marks 3 years of challenging times post covid since 2020 never experienced in Vanuatu's history. This will be recorded in many years to come. I am however pleased to report that the Bank has traded satisfactorily throughout 2022 though with reduced volume of business yet able to achieve a sound financial outcome at year end.

Border re-opening in July provided a pathway, creating a greater level of confidence within the business environment particularly in our tourism industry expecting an increased number of visitor arrivals in the years ahead. External air and shipping services resumed and steadily improved to normalcy including domestic services to our rural and remote communities. Construction industry picked up momentum, including road infrastructure in the outer islands. Greater emphasis placed on Agriculture developments appears a timely policy drive to engage the full population in greater economic activities to benefit all societies. Labour mobility has seen a greater number of Ni-Vanuatu citizens leaving the country for employment opportunities in Australia and New Zealand ultimately to see a greater flow of remittances back to the country to help stimulate further economic growth in the domestic market.

These general trends have started to pick up, looking positive and are expected to continue going forward.

Flow-on effects impacted very heavily on overall Bank operations in particular our rural Banking covering a network of 30 branches from north to south of the country. It is acknowledged that these services are very much needed by the population during such challenging times, ensuring that basic financial services are extended and provided to all islands and communities.

Notwithstanding these circumstances I wish to thank the Bank's Executive Management, Shareholders and Staff of the NBV for their continued support and commitment in ensuring that the Bank remains the major player and provider of financial services throughout the nation. This team has again delivered successfully during a difficult year and recorded another financial profit for the year 2022 and I look forward to continuing successes going forward into the future.

A handwritten signature in black ink, appearing to read 'Paul Kaun'.

Paul KAUN  
MPhil  
(Monetary Economics and Finance)

NBV Chairman

## RAPPORT DU PRESIDENT

C'est un grand plaisir pour moi que de présenter le rapport annuel de 2022 au nom du Conseil d'administration. L'année objet de rapport marque 3 ans de défis liés au COVID depuis 2020 ce qui est sans précédent dans l'histoire du Vanuatu. On s'en souviendra dans de nombreuses années à venir. Néanmoins, j'ai le plaisir de rapporter que la Banque a fonctionné de façon satisfaisante tout au long de 2022, bien qu'avec un volume d'affaires réduit, ce qui ne l'a pas empêchée de réaliser un bon résultat financier à la clôture de l'année.

La réouverture des frontières en juillet a ouvert la voie vers un regain de confiance au sein de la communauté des affaires, en particulier dans notre secteur touristique qui escompte un nombre croissant de visiteurs à l'arrivée dans les années à venir. Les services de transport aérien et maritime extérieurs ont repris et se sont progressivement améliorés pour redevenir normaux, y compris les services intérieurs destinés à nos communautés rurales et isolées. Le secteur de la construction a repris son élan, notamment avec l'infrastructure routière dans les îles éloignées. Davantage d'attention portée au développement de l'agriculture apparaît être un engagement politique opportun pour inciter toute la population à participer à davantage d'activités économiques pour le bien de toute la société. La mobilité de la main-d'œuvre a amené un plus grand nombre de citoyens Ni-Vanuatu à quitter le pays pour des opportunités d'emploi en Australie et en Nouvelle-Zélande ce qui, à terme, va mener à une hausse des envois d'argent dans le pays qui contribueront à stimuler la croissance économique du pays.

Ces tendances générales ont commencé à s'intensifier, semblent prometteuses et devraient se poursuivre à l'avenir.

Les effets dominos ont frappé très durement les opérations de la Banque en général, et en particulier notre réseau rural composé de 30 agences allant du nord au sud du pays. Il est évident que ces services sont indispensables pour la population en de tels moments difficiles, garantissant que des services financiers essentiels parviennent et sont fournis à toutes les îles et communautés.

Nonobstant ces circonstances, je tiens à remercier la haute direction de la Banque, ses actionnaires et les membres du personnel de la BNV pour leur soutien et leur engagement sans faille permettant de veiller à ce que la Banque continue d'être le principal acteur et prestataire de services financiers dans toute la nation. Une fois de plus, l'équipe a produit de bons résultats au cours d'une année difficile et des bénéfices financiers ont de nouveau été réalisés durant l'exercice 2022. Je me réjouis de voir ces succès se poursuivre à l'avenir.



Paul KAUN  
MPhil  
(Monetary Economics and Finance)

Le président du conseil d'administration

## RIPOT BLONG JEAMAN

Long bihaf blong Bod blong ol Daarekta, mi glad tumas blong presentem Anuel Ripot blong yia 2022. Yia ya i makem namba 3 yia we yumi stap anda long rivi long ol taem blong ol bigfala jalenses blong post covid stat long yia 2020 we neva Vanuatu i bin experiansem long histri blong hem. Experians blong bigfala jalens ya bambae i stap oltaem olsem wan spesel histri we bambae i stap blong ol yia we oli stap kam long fuja. Be mi mi glad blong ripotem se Bank i bin karemaot wan saksessful trading bisnes truaot long yia 2022 nating we volum blong ol bisnes i bin go daon be Bank hem i save mekem i posibol blong adjivim wan solid faenansol aotkam long end blong yia ya.

Long manis Julae taem blong riopening blong boda, disisen ya i openem wan klia rod mo grietem hae level blong konfidens insaed long bisnes envaeromen speseli long turisim indastri we i mekem se yumi save expektem hae inkris blong namba blong ol visita we oli save kam visitim kantri long ol yia we oli stap long fuja. Ol extenal ea mo shiping seves oli stap stat blong operet bakegen mo oli stap impruvum ol seves blong olgeta i kam long ol normal operesen blong olgeta mo hemia i inkludum ol domestic seveses blong go long ol rural mo ol rimot komuniti long kantri. Ol konstraksen indastri tu oli stat blong kam antap bakegen inkludum ol rod infrastrakja developmen blong ol narafala aelan long kantri. Bigfala emfesas mo efot i stap fokus moa long Agrikalja Developmen we i kamaot long wan taemli polisi blong draevem mo engejem ful papulesen i go insaed long ol hae level ekonomik aktiviti blong save benefitim evri sosaeti. Leba Mobiliti program i ripotem bigfala namba blong ol Ni-Vanuatu sitisen oli stap lego kantri blong go patisipet long ol emploemen opotuniti long Ostrelia mo Niusilan speseli blong oli save pruvum mo openem flo blong mani i save kambak long kantri blong help leftemap ekonomik grot i kam antap moa tru long domestic maket.

Ol jeneral trend ya, oli soemaot se ekonomik grot i stat blong pikap bakegen, mo i gat posetif fokus we oli expected blong stap kontinu blong gro i go long fored.

Olgeta flow-on efekt ya oli impaktem bigwan ovarol operesen blong bank mo menli nao long ol rural banking netwok blong yumi we i kavremap 30 brans we i stat long not i go kasem long saoten pat blong ol aelen long kantri. Hem i impoten tumas se ol seves ya oli kam ol praeoriti nid blong papulesen blong kantri speseli long ol jalensing taem olsem mo yumi mas mekem sua se ol beisik faenansel seveses oli mas avelebol mo extended i go long evri aelan mo komuniti blong kantri.

Be nating long ol sekomstanses ya, mi wantem talem bigfala tangkiu blong mi i go long Eksekutif Manejmen Tim blong bank, olgeta Sheaholda mo ol staf blong NBV from ol kontinued sapot mo komitmen blong olgeta blong mekem sua se bank hem i kontinu blong stap olsem mein meja plea mo provaeda blong ol faenansel seveses truaot long kantri. Tim ya i dilivarem wan best saksess bakegen nating long ol difikelti blong yia ya, mo oli rikodem wan narafala faenansel profit blong yia 2022. Mi luk fowod blong ol kontinu saksess i go long fored mo fuja.



Paul KAUN  
MPhil  
(Monetary Economics and Finance)

Jeaman

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**REPORT FROM  
THE ACTING MANAGING DIRECTOR &  
CHIEF EXECUTIVE OFFICER**

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*John Aruhuri  
Acting Managing Director / Chief Executive Officer*

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I have the honor and privilege to lead the Bank in an Acting capacity during a complex post covid period. I want to acknowledge the commitments of the Bank's Executive team standing firmly together and upholding the strategic directions, priorities and objectives of the company in delivering another solid profit for year 2022. This achievement could not have been delivered without the solid commitment of staff, customers, shareholders and other stakeholders working together to ensure services continue to be provided across the nation.

The Covid community outbreak in March 2022 brought with it many challenges and hardships ever experienced. Most business activities were at a standstill and limited essential services were provided. Internal Strategic directions and objectives have had to be re-visited swiftly. I am pleased to report that Management Executives took leadership control over these situations, ensuring that staff safety and business continuity prevailed at all times. It was also necessary to enforce strict health protocols to avoid casualties and further spread of this pandemic across our network. Four months of lock-down meant four months slowdown across all levels of general business. Those severely affected have been accorded relief to carry them through the pandemic.

As seen from the border re-opening, some degree of comfort within the industry is starting to pick up. Flow on effects benefited general business across the country including both urban, rural and remote communities. International business has been limited to a selected customer base, however increased focus has been devoted to growing the domestic market.

The Bank's Isi Haus product has shown continuing growth throughout the country during the year and is designed for Ni-Vanuatu households. It provides a safe and secure shelter during times of natural disasters. It is recognized as a much-needed social service offered to the nation with great growth potential into the future.

The year 2022 under review has been exceptional, having encountered challenges early in Quarter 2 but yet able to deliver another positive profit by end of year. Credit is again accorded to the committed Executive Management team, Managers, Supervisors and general staff of the Bank.

I would like to take this opportunity to thank everyone for their continuing support, commitment and dedication to Vanuatu's own Bank as we move forward with our Strategic directions.

A handwritten signature in black ink, appearing to read 'John Aruhuri'.

*JOHN ARUHURI  
Bcom*

*Acting Managing Director & Chief Executive Officer*





## RAPPORT DU DIRECTEUR GENERAL ET ADMINISTRATEUR DELEGUE

C'est un honneur et un privilège d'avoir pu diriger la Banque Nationale du Vanuatu, en qualité de Directeur General et Administrateur Delege par interim, et ce durant une période post-covid complexe. Je tiens personnellement à saluer l'engagement total, des membres de l'Executif de la Banque, unis et respectueux des priorités stratégiques et objectives fixes. Cet engagement se traduisant une nouvelle fois à un resultat positif pour l'exercice 2022. Je tiens à souligner que ce resultat n'aurait pas pu être obtenu sans l'engagement de l'ensemble du personnel, des clients, des actionnaires et partenaires sociaux et commerciaux. Ce soutien nous a permis d'assurer un service continue dans toute l'archipel du Vanuatu.

La Pandemie du COVID 19 en Mars 2022 avait entraine un nombre incalculable de defis et de difficultes au travers divers secteurs de Finances. La majeure partie des services commerciaux devait parfois être geles et ou limites ou ferme. Nos objectifs stratégiques internes ont donc dû être reajuster en consequence et je suis heureux de confirmer que l'Executif a su maîtriser la situation, tout en veillant à la sécurité du personnel et assurer la continuité des nos services. Il était important d'imposer des protocoles sanitaires très stricts dans le soucis de préserver la sante de nos employes et d'éviter toute propagation de la pandémie au travers de notre reseaux et au sein meme de l'entreprise. Quatre mois de confinement decretés par le Gouvernement, ont evidemment conduit au ralentissement de nos activites commerciales en général. Notre personnel, les plus affectes, ont pu bénéficier de mesures indispensable mise en place pour survenir à leur besoins de soins tout au long de cette pandémie.

La réouverture des frontières, a porte un nouvel elan à l'economie locale et instaure un certain degré de confiance dans l'industrie commercial. Les affaires, de manière générale, ont repris, tout aussi bien dans les communautés urbaines que rurales. Les transactions internationales, parfois limitées, nous laisse une certaine marge de progression envers une demande pousse locale.

Le produit "Isi Haus" destiné aux ménages Ni-Vanuatu en zone rurale, continue sa progression dans tout le pays. Le besoin de logement securise en temps de periode cyclonique, reconforte ce sentiment, d'abri et securite, en periode de desastre naturel pour la population locale.

L'exercice 2022 fut exceptionnel du fait d'un début de 2e trimestre difficile, mais en finalite, à tout de même abouti à des resultats positif pour l'annee 2022.

Le merite revient entierement à toute l'equipe de la Banque, l'Executif, les Superviseurs et à tout le personnel.

Je remercie solennellement, à cette occasion, tous et toutes pour leur soutiens, engagements et dévouements continus envers notre Banque propre du Vanuatu, nous permettant d'exécuter à biens, nos directions stratégiques.

JOHN ARUHURI  
Bcom

Directeur Général par intérim et Président-Directeur Général



## RIPOT BLONG AKTING MANEJING DIREKTA & JIF EXEKUTIF OFISA

Mi gat bigfala hona mo rispekt blong lidim bank long kapasiti blong Akting espeseli tru long wan spesel period blong post covid. Mi wantem aknolesjem ol komitmen blong ol Eksekutif Manejmen Tim blong bank we oli bin stanap strong tugeta mo holemtaet ol stratejik daereksen blong bank, mo ol praeoriti mo ol objektif blong kampani blong save dilivarem bakegen wan narafala solid profit blong yia 2022. Yumi dilivarem saksesful adjivmen ya tru long strong mo solid komitmen blong ol staf, mo ol kastoma, mo ol Stekholda from we yumi bin wok tugeta blong mekem sua se ol seves ya bambae oli kontinu blong provaeded truaot long kantri.

Covid komuniti outbreak long Majs 2022 i kam wetem plenti jalens mo difikalti we yumi neva expiriansem bifo. Moa business aktiviti oli stap long stop mo oli provaedem ol samting we oli important nomo. Ol situesen ya i fosem bank blong hem i mas rivisitim kwiktaem ol Intenal Stratejik Daereksen mo ol Objektif blong hem. Mi glad tumas blong ripotem se ol Eksekutif Manejmen Tim oli bin tekem mo holemtaet ol lidasip rol mo kontrolem ol had situesen ya blong mekem sua se sefti blong ol staf mo kontinuiti blong bisnes hem i praeoriti blong mas stap privel oltaem. Hem i impoten tumas tu blong enfosem ol strikt helth protocol blong avoidem moa problem we oli bin save happen mo tu blong stopem spred blong pandemik truaot long evri netwok blong yumi. Fo manis blong lok-daon hem i minim fo manis blong slow-daon blong evri level blong jeneral bisnes. Olgeta bisnes we oli bin afekted bigwan, oli bin kasem ol rilif blong helpem olgeta blong oli save safaef mo gotru long pandemik ya.

Yumi save konfemem se long taem blong ri-opening blong boda, disisen ya i bin soemaot sam digri blong kamfot insaed long indastri se i stat blong gat sam pikap bakekgen. Flow blong ol efekt mo ol benefit ya i stat blong spred truaot long ol jeneral bisnes truaot long kantri, hemia i inkludum ol erben, mo ol rural mo ol rimot komuniti blong kantri. Ol Intenasonal bisnes oli bin limited i go long wan selected kastoma beis be inkris fokas i bin devoted i go tuwods growing blong domestik maket.

Isi Haos program blong Bank i soemaot kontinuiti blong grot truaot long kantri mo hemia hem i disaen espeseli blong ol Ni-Vanuatu haoshold. Hemi givim wan seiv mo sekiu selta long taim blong ol natural disasta. Oli rekognaesem olsem wan samting we ol man i nidim plante long sosol sevis we yumi ofarem long kantri wetem potensol blong gro long fiuja.

Anda long riviui, yia 2022 hem i bin wan spesel mo exepsonal yia we yumi bin enkaontarem mo safaefem ol hadsip mo ol jalens long stat blong seken kwota, be yet, long end blong yia yumi bin ebol blong dilivarem wan posetif profit. Bakegen, evri kredit i stap go long olgeta komited Eksekutif Manejmen Tim, mo ol Maneja, mo ol Supavaesa mo ol jeneral staf blong bank.

Mi wantem tekem opotuniti ya blong talem bigfala tangkiu long evriwan from kontinuing sapot mo komitmen mo dedikesen i go long stret bank blong Vanuatu espeseli long taem ya we yumi stap muv i go long fored wetem ol Stratetik Daereksen blong yumi.

JOHN ARUHURI  
Bcom

Acting Managing Director & Chief Executive Officer

## FIVE YEAR SUMMARY

### NATIONAL BANK OF VANUATU 2018 - 2022

(Expressed in '000 Vatu)	2018	2019	2020	2021	2022	(Exprimé en '000 Vatu)
<b>Profit &amp; Loss</b>						<b>Compte de résultat</b>
Interest income	1,630,236	1,773,170	1,533,158	1,322,639	1,345,629	Produits d'intérêts
Interest expense	(367,365)	(442,886)	(310,065)	(204,811)	(151,238)	Charges d'intérêts
Net Interest income	1,262,871	1,330,284	1,223,093	1,117,828	1,194,391	Intérêts nets
Other operating income	585,943	689,227	650,232	723,864	685,596	Autres produits d'exploitation
Provision for loan losses	(302,916)	(312,544)	(390,652)	(285,596)	(124,127)	Dotation aux provisions pour prêts douteux
Other operating expenses	(1,223,421)	(1,379,587)	(1,404,975)	(1,429,813)	(1,518,989)	Autres charges d'exploitation
Operating profit / (loss) before government grant	322,477	327,380	77,698	126,283	236,871	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>322,477</b>	<b>327,380</b>	<b>77,698</b>	<b>126,283</b>	<b>236,871</b>	<b>Bénéfice / (perte) de l'exercice</b>
<b>Balance sheet</b>						<b>Bilan</b>
Net loans and advances	13,886,610	13,788,899	13,165,044	12,461,120	13,080,835	Prêts et créances nettes sur la clientèle
Total assets	35,393,433	34,816,056	33,947,270	32,816,625	30,283,030	Total de l'actif
Customer deposits	33,427,641	32,156,410	30,612,557	29,230,400	26,291,176	Dépôts clients
Shareholders' funds(Equity)	1,312,488	1,546,941	2,424,639	2,612,062	2,848,933	Capitaux propres
<b>Performance ratios</b>						<b>Ratios mesurant la performance</b>
Return on shareholders' Funds (Equity) %	24.57	21.16	3.20	4.83	8.31	Retour sur fonds propres
Return on assets %	0.91	0.94	0.23	0.38	0.78	Rentabilité des actifs
Income growth %	22.46	11.11	(11.33)	(6.27)	(0.75)	Croissance des revenus
<b>Prudential ratios</b>						<b>Ratios de prudence</b>
Capital adequacy %	8.11	9.28	13.62	15.94	17.12	Suffisance du capital
Liquid asset ratio %	35.31	40.48	44.08	51.97	48.16	Ratio des liquidités

Strong Financial Network  
throughout Vanuatu

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## CORRESPONDENT BANKS

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### **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 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-Zélande**

ASB Bank Limited,  
Auckland

Bank of New Zealand,  
Wellington

### **Papouasie Nouvelle-Guinée**

Bank South Pacific  
Port Moresby

### **Tahiti**

Banque de Tahiti  
Papeete

### **Ilse Salomon**

Bank South Pacific  
Honiara

*We connect you to the World*

*We've got you covered*

30 Network Branches in  
6 Provinces



## NBV BRANCH NETWORK



### TORBA PROVINCE

- Vanua Lava  
Sola Branch
- Gaua  
Gaua Branch
- Mota Lava  
Mota Lava Branch

+30 RCBS  
Centres

### SANMA PROVINCE

- Santo  
Luganville Branch  
Luganville Market Branch  
Port Olry Branch  
Tasmalum Branch

+39 RCBS  
Centres

### MALAMPA PROVINCE

- Malekula  
Lakatoro Branch  
Lamap Branch  
South West Bay Branch
- Ambrym  
Craig Cove Branch  
Nepul Branch  
Ulei Branch
- Paama  
Liro Branch

+86 RCBS  
Centres

### PENAMA PROVINCE

- Maewo  
Betarara Branch
- Ambae  
Saratamata Branch  
Mata Branch
- Pentecost  
Angoro Branch  
Ennar Branch  
Melsisi Branch  
Pangi Branch

+105 RCBS  
Centres

### SHEFA PROVINCE

- Epi  
Rovo Bay Branch
- Tongoa  
Morua Branch
- Efate  
Emua Branch  
Port Vila Branch  
Rural Banking Centre

+70 RCBS  
Centres

### TAFEA PROVINCE

- Erromango  
Ipota Branch
- Tanna  
Lenakel Branch  
Whitesands Branch
- Aneityum  
Anelcaufat Branch

+40 RCBS  
Centres



## PRODUCTS & SERVICES

Savings Accounts	Comptes d'épargne
Current Accounts	Compte courant
Mekem Gro Accounts	Comptes Mekem Gro
Sevem Vatu Accounts	Comptes Sevem Vatu
Isi Accounts	Comptes Isi
Salaries – Inward & Outward payments	Salaires - Paiements entrants et sortants
Audit Certificates	Certificats d'audit
Domestic Term Deposits	Dépôts à terme domestiques
Foreign Currency Term Deposits	Dépôts à terme en devises étrangères
Foreign Currency Call Accounts	Comptes d'appels en devises étrangères
Letters of Credit – Import / Export	Lettres de crédit - Import / Export
International Drafts	Projets internationaux
SWIFT Transfers	Transferts SWIFT
Foreign Exchange	Change
Bills for Collection	Factures de recouvrement
Land Loans	Prêts fonciers
Home Loans	Prêts immobiliers
Personal Loans	Prêts personnels
Term Loans	Prêts à terme
Vehicle Loans	Prêts de véhicule
Micro Business Loans	Prêts aux microentreprises
Micro Rural Loans	Prêts Micro Rural
Micro Land Loans	Prêts de micro-terres
IsiHaos Loans	Prêts de IsiHaos
Micro Seasonal Worker Loans	Prêts micro-saisonniers aux travailleurs
Bank Guarantees	Garanties bancaires
Immigration Bonds	Obligations d'immigration
Premium Funding Loans	Prêts de financement de primes
IsiMs	IsiMs
IsiNet	IsiNet
IsiMobile	IsiMobile
IsiHaos	IsiHaos
Telegraphic Transfers	Transferts télégraphiques
Foreign Currency Loans	Prêts en devises étrangères

## FINANCIAL STATEMENTS

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### National Bank of Vanuatu Limited

#### Report of the directors For the year ended 31 December 2022

The directors present their report together with the audited financial statements for the year ended 31 December 2022 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>
Paul Kaun (Director)	03/02/2022	-	1	1
Benjamin Shing (Director)	25/03/2022	16/11/2022	-	-
Tony Amos Sewen	23/09/2022	-	1	1
Collins Gesa	13/01/2023	-	1	1
Sereana Moira Marum	14/02/2023	-	1	1

#### 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 Vt236,870,592 (2021: Vt126,283,000).

#### Reserves:

The directors propose that no transfer be made to reserves (2021: Nil).

#### Dividends:

There were no dividends proposed for the financial year (2021: Nil).



**National Bank of Vanuatu Limited**

**Report of the directors (continued)  
For the year ended 31 December 2022**

**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 2022 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 2022. 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 <sup>9<sup>th</sup></sup> of May 2023



\_\_\_\_\_  
Director



\_\_\_\_\_  
Director



**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 2022, 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 32.

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 2022, 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  
.....May 2023



**National Bank of Vanuatu Limited**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2022**  
(Expressed in '000 Vatu)

	Note	2022	2021
Interest income	4	1,345,629	1,322,639
Interest expense	5	(151,238)	(204,811)
Net interest income		1,194,391	1,117,828
Other operating income	4	685,596	723,864
Net banking income		1,879,987	1,841,692
Severance pay expense		(59,138)	(53,528)
Other operating expenses	5	(1,501,324)	(1,583,876)
<b>Operating profit for the year</b>		319,525	204,288
Tax expense		(82,654)	(78,005)
<b>Total comprehensive income for the year</b>		<u>236,871</u>	<u>126,283</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 36 to 56.

**National Bank of Vanuatu Limited**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2022**  
(Expressed in '000 Vatu)

	Note	Issued & paid up capital	Share premium	Retained earnings	Total
<b>2022</b>					
Balance at the beginning of the financial year		1,657,140	172,361	782,561	2,612,062
Total comprehensive income for the year		-	-	236,871	236,871
		1,657,140	172,361	1,019,432	2,848,933
Dividends paid		-	-	-	-
		1,657,140	172,361	1,019,432	2,848,933
<b>2021</b>					
Balance at the beginning of the financial year		857,140	172,361	517,440	1,546,941
IFRS 9 transition adjustment		-	-	(231,872)	(231,872)
Prior period adjustment in relation to interest accrual on non-performing overdraft accounts	26	-	-	293,012	293,012
Total comprehensive income for the year		-	-	126,283	126,283
		1,657,140	172,361	782,561	2,612,062
Dividends paid		-	-	-	-
		1,657,140	172,361	782,561	2,612,062

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 36 to 56.



**National Bank of Vanuatu Limited**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2022**

(Expressed in '000 Vatu)

	Note	2022	2021
<b>Assets</b>			
Liquid assets	8	14,282,650	18,499,377
Net loans and advances to customers	9(a)	13,080,835	12,461,120
Investment securities	11	2,108,620	912,474
Other assets	12	152,509	195,465
Property, plant and equipment	14	658,416	748,189
<b>Total assets</b>		<b>30,283,030</b>	<b>32,816,625</b>
<b>Liabilities</b>			
Customers' accounts	15	26,291,176	29,230,400
Other liabilities	16	497,637	353,128
Provisions	17	438,937	358,255
Lease liability	14(c)	206,347	262,780
<b>Total liabilities</b>		<b>27,434,097</b>	<b>30,204,563</b>
<b>Equity</b>			
Share capital	18	1,657,140	1,657,140
Share premium		172,361	172,361
Retained earnings		1,019,432	782,561
<b>Total equity</b>		<b>2,848,933</b>	<b>2,612,062</b>
<b>Total liabilities and equity</b>		<b>30,283,030</b>	<b>32,816,625</b>

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 36 to 56.

Director

Director

qm  
Port Vila, ...May 2023



**National Bank of Vanuatu Limited**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

(Expressed in '000 Vatu)

	Note	2022	2021
<b>Cash flows from operating activities</b>			
Interest received		1,343,442	1,749,321
Interest paid		(169,779)	(199,578)
Other cash receipts in the course of operations		685,782	728,699
Other cash payments in the course of operations		(1,383,627)	(1,232,922)
		478,005	1,045,520
<i>Changes in operating assets and liabilities</i>			
- Gross loans and advances to customers		(743,842)	479,468
- Customers' accounts		(2,921,502)	(1,382,157)
- Other assets		45,143	(385,073)
- Transit accounts		150,122	12,578
Net cash used in operating activities	22	(2,994,261)	(229,664)
<b>Cash flows from investing activities</b>			
Net movement in investment deposits		(1,196,146)	716,600
Net payments for leasehold improvements, plant and equipment		(26,320)	(120,411)
Net cash (used in) / provided by investing activities		(1,222,466)	596,189
Net (decrease) / increase in cash and cash equivalents held		(4,216,727)	366,525
Cash and cash equivalents at beginning of the financial year		18,499,377	18,132,852
Cash and cash equivalents at the end of the financial year	8	14,282,650	18,499,377

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 36 to 56.



**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

(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 2022**

(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 13**

*Acquisitions*

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

*Disposal of assets*

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

*Depreciation*

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

Leasehold improvements	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 2022

(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 17

###### *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*

Severance allowance and long service leave provision is calculated in accordance with the Employment Act [CAP 160] and employment contracts using the present value of the estimated future cash outflows to be made by the employer resulting from employees' services to balance date.

Severance allowance is calculated at the rate of one month's salary for each year of service. It is assumed that employees will remain in the Bank's employment for the years necessary to qualify for the respective entitlements.

###### *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

###### Classification and 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:

## National Bank of Vanuatu Limited

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

(Expressed in '000 Vatu)

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

##### (g) Financial instruments (continued) Classification and measurement (continued)

###### *Debt instruments (continued)*

- **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 3(h) Measurement methods. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **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 2022**  
(Expressed in '000 Vatu)

**3. Significant accounting policies (continued)**  
**(g) Financial instruments (continued)**  
**Classification and 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.

**(h) Impairment of financial assets**

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.

**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.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, 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).



**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**  
(Expressed in '000 Vatu)

**3. Significant accounting policies (continued)**  
**(h) Impairment of financial assets (continued)**

**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.

**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.

*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.

**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**Measurement methods (continued)**

*Initial recognition and measurement (continued)*

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.

**(i) 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.

**National Bank of Vanuatu Limited**

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

**(i) Leases (continued)**

*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.

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 14 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. Income	Note	2022	2021
<b>Interest income</b>			
Loans and advances		1,292,199	1,291,484
Interbank foreign currency placing		29,146	11,472
Investment securities		24,284	19,683
		<u>1,345,629</u>	<u>1,322,639</u>
<b>Other operating income</b>			
Fees, charges and commissions (*)		433,575	406,134
Net foreign exchange earnings		247,388	313,337
Other income		4,633	4,393
		<u>685,596</u>	<u>723,864</u>

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

**5. Expenses**

<b>Interest expense</b>		
On deposits	138,514	188,979
On leases	12,724	15,832
	<u>151,238</u>	<u>204,811</u>

**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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(Expressed in '000 Vatu)

5. Expenses (continued)	2022	2021
<b>Other operating expenses</b>		
<i>Personnel expenses</i>		
Salaries and wages	570,791	550,468
VNPF contributions	22,884	24,490
Other	123,016	95,848
	<u>716,691</u>	<u>670,806</u>
<i>Other operating expenses</i>		
Auditor's remuneration	8 4,080	4,492
Depreciation	13 116,093	110,689
Allowance for loan losses	10 124,127	285,596
Other expenses	540,333	512,293
	<u>784,633</u>	<u>913,070</u>
	<u>1,501,324</u>	<u>1,583,876</u>
<b>6. Auditor's remuneration</b>		
Amounts received or due and receivable by the Auditors of the Bank for:		
- Auditing the financial statements	4,080	3,848
- Other services	-	644
	<u>4,080</u>	<u>4,492</u>

**7. Segment analysis**

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

*Industry segments*

General banking services

*Products/service*

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

*Geographical segments*

The Bank operates predominantly in Vanuatu

8. Liquid assets	Note	2022	2021
Currency notes and coins		1,233,985	1,072,903
Balance with Reserve Bank (including regulatory deposits)		7,875,842	10,348,764
Due from other banks		5,172,823	7,077,710
		<u>14,282,650</u>	<u>18,499,377</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.

**National Bank of Vanuatu Limited**

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(Expressed in '000 Vatu)

9. Loans and advances	2022	2021
<b>9(a) Net loans and advances to customers</b>		
Overdrafts	1,109,113	958,234
Loans	13,963,641	13,454,710
Total gross loans and advances	15,072,754	14,412,944
Allowance for impairment	10 (1,991,919)	(1,951,824)
Net loans and advances	<u>13,080,835</u>	<u>12,461,120</u>
Maturities of gross loans and advances are summarised as follows:		
Not later than 1 year	1,956,615	1,718,882
Between 1 and 2 years	708,628	782,216
Between 2 and 5 years	2,767,607	2,522,126
Later than 5 years	9,639,904	9,389,720
	<u>15,072,754</u>	<u>14,412,944</u>

Collateral held in respect of loans and advances that are impaired amounts is Vt3,928,689 (2021: Vt4,220,462 ).

9(b) Gross loans and advances to customers past due but not impaired	2022	2021
	<u>11,126,213</u>	<u>10,096,431</u>
Maturities of gross loans and advances to customers are summarised as follows:		
Not later than 1 year	574,804	535,298
Between 1 and 2 years	635,103	617,283
Between 2 and 5 years	2,097,843	1,935,046
Later than 5 years	7,818,463	7,008,804
	<u>11,126,213</u>	<u>10,096,431</u>
<b>9(c) Restructured gross loans and advances to customers</b>	<u>587,938</u>	<u>421,191</u>

10. Allowances for impairment of loans and advances to customers	2022	2021
<i>Collective allowances</i>		
Balance at beginning of the year	389,668	106,623
Charge to statement of comprehensive income	5 27,121	51,036
Loans written off / back	(62,903)	232,009
Total collective allowance	<u>353,886</u>	<u>389,668</u>
<i>Individual allowances</i>		
Balance at beginning of the year	1,562,156	1,732,171
Charge to statement of comprehensive income	5 97,006	234,560
Loans written off / back	(21,129)	(404,575)
Total individual allowance	<u>1,638,033</u>	<u>1,562,156</u>
Total allowances for impairment of loans and advances to customers	<u>1,991,919</u>	<u>1,951,824</u>

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**11. Investment securities** **2022** **2021**

Maturities of investment securities are summarised as follows:

Not later than 1 year	635,884	736,590
Between 1 and 2 years	72,736	175,884
Between 2 and 5 years	-	-
Later than 5 years	<u>1,400,000</u>	<u>-</u>
	<u>2,108,620</u>	<u>912,474</u>

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

**12. Other assets**

Accrued interest receivable	49,904	47,717
Projects – in progress	17,742	21,755
Other assets	<u>84,863</u>	<u>125,993</u>
	<u>152,509</u>	<u>195,465</u>

**13. Property, plant and equipment**

	2022			2021		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
<i>Leasehold premises and improvements</i>	181,776	(143,589)	38,187	175,747	(136,356)	39,391
<i>Plant and equipment</i>	1,113,913	(725,373)	388,540	1,113,913	(686,386)	427,527
<i>Computer system</i>	123,793	(123,680)	113	123,793	(123,680)	113
<i>Leasehold land, building and improvements</i>	172,088	(74,595)	97,493	172,088	(70,089)	101,999
<i>Total</i>	<u>1,591,570</u>	<u>(1,067,237)</u>	<u>524,333</u>	<u>1,585,541</u>	<u>(1,016,511)</u>	<u>569,030</u>

	2022				
	Opening carrying amount	Additions	Disposals/ writeoffs	Depreciation charge	Closing carrying amount
<i>Leasehold premises and improvements</i>	39,391	6,903	(874)	(7,233)	38,187
<i>Plant and equipment</i>	427,527	67,581	(2,214)	(104,354)	388,540
<i>Computer system</i>	113	-	-	-	113
<i>Leasehold land, building and improvements</i>	101,999	-	-	(4,506)	97,493
<i>Total</i>	<u>569,030</u>	<u>74,484</u>	<u>(3,088)</u>	<u>116,093</u>	<u>524,333</u>

**National Bank of Vanuatu Limited**

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**14. 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	2022	2021
Property, plant and equipment owned	13	524,333	569,030
Right-of use assets	14(b)	<u>134,083</u>	<u>179,159</u>
Balance as at 31 December		<u>658,416</u>	<u>748,189</u>

(b) Right-of -use assets

Balance as at 1 January	179,159	212,328
Recognition of right of use	-	11,590
Depreciation charge for the year	<u>(45,076)</u>	<u>(44,759)</u>
Balance as at 31 December	<u>134,083</u>	<u>179,159</u>

(c) Lease liabilities

Maturity analysis -

Less than one year	-	-
One to five years	206,347	262,780
More than five years	-	-
Total lease liabilities as at 31 December	<u>206,347</u>	<u>262,780</u>
Lease liabilities included in the statement of financial position at 31 December	<u>206,347</u>	<u>262,780</u>

**15. Customers' accounts**

Current accounts	9,660,178	9,011,017
Savings accounts	9,417,711	9,357,202
Fixed term deposits	<u>7,213,287</u>	<u>10,862,181</u>
	<u>26,291,176</u>	<u>29,230,400</u>

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

	Note	2022	2021
<i>Fixed term deposits</i>			
Not later than 1 month		3,031,164	3,929,925
Between 1 and 3 months		1,144,199	1,265,724
Between 3 and 12 months		2,983,562	5,656,799
Later than 1 year		<u>54,362</u>	<u>9,733</u>
		<u>7,213,287</u>	<u>10,862,181</u>

**16. Other liabilities**

Accrued interest payable	22,480	41,021
Transit accounts	276,557	126,435
Unearned income – lending fees	127,692	124,218
Unearned income – rural services grant	12,202	15,490
Due to other banks	32,966	15,244
Other	<u>25,740</u>	<u>30,720</u>
	<u>497,637</u>	<u>353,128</u>



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17. Provisions	2022	2021
<i>Current</i>		
Annual leave provision	44,730	50,761
Other	98,950	23,900
Severance allowance	295,006	243,085
	<u>438,686</u>	<u>317,746</u>
<i>Non-current</i>		
Severance allowance	251	40,509
	<u>438,937</u>	<u>358,255</u>
<i>Movement in severance allowance</i>		
Balance at beginning of the year	283,594	239,358
Net charge to the income statement	59,138	53,528
Provision utilised	(47,475)	(9,292)
Balance at end of the year	<u>295,257</u>	<u>283,594</u>

**18. Share capital**

**Authorised capital**

165,714 ordinary shares of Vt10,000 each	1,657,140	1,657,140
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**Issued and paid-up capital**

165,714 ordinary shares of Vt10,000 each, fully paid	1,657,140	1,657,140
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The Government of Vanuatu holds 72,857 ordinary shares and Vanuatu National Provident Fund 92,857 ordinary shares.

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

*Dividend*

The directors have proposed that no dividend be paid for 2022 (2021: Nil).

19. Commitments	2022	2021
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*Operating lease commitments*

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

Not later than 1 year	4,116	6,149
Between 1 and 2 years	12,998	4,001
Between 2 and 5 years	9,741	19,026
Later than 5 years	-	3,360
	<u>26,855</u>	<u>32,536</u>

**National Bank of Vanuatu Limited**

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**20. 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.

*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.



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**20. Financial instruments (continued)**

**a) Credit risk (continued)**

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

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.

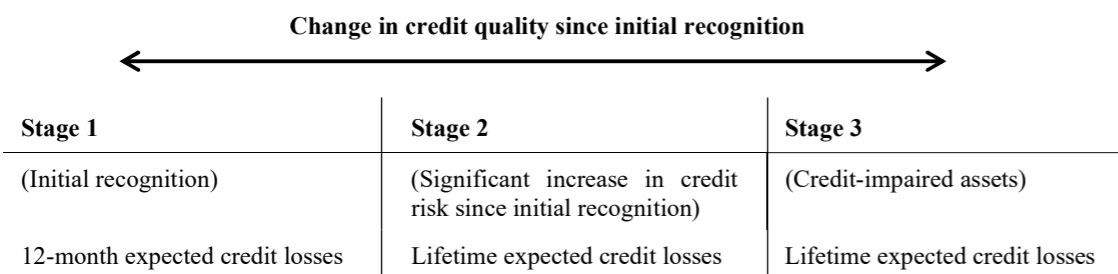
Loan Risk Score	IFRS 9 Stage
1 to 3	Stage 1
4	Stage 2
5	Stage 3
6 to 8	Specific Provision

*Expected Credit Loss Management*

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk (‘SICR’) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. Please refer to notes for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’. Please refer to notes for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to notes for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. The notes include an explanation of how the Bank has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9.



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**20. Financial instruments (continued)**

**a) Credit risk (continued)**

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

*Loss allowance*

The loss allowance at each stage is determined by the Bank on a collective basis based on the loan product, while loans are individually assessed to determine the stages they should be at.

Loans are also assessed individually if there are grounds for it especially where there’s significant shortfall of collateral to exposure and circumstances arising that casts doubt on collectability.

General Provisions will continue to be calculated according to prudential requirements, but the amount will be included as additional provision under the IFRS 9 model.

Loss allowance for loans with LRS 6 to 8, considered as Non-Performing, are accounted for separately under existing Reserve Bank of Vanuatu Specific Provision framework and excluded from the IFRS 9 model. When a loan falls into this category, any provision held for that loan under IFRS 9 model is transferred to Specific Provision ledger account.

The key judgements and assumptions adopted by the Bank in addressing the requirements of the IFRS 9 standard are discussed below:

*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).

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**20. Financial instruments (continued)**

**a) Credit risk (continued)**

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

*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).

*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 9 (with fixed interest rates of up to 18 months on housing loan products only).
- Investment securities: fixed interest rates maturing as detailed in note 11.

**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

(Expressed in '000 Vatu)

**20. 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:

		<b>2022</b>	
	Carrying value	Interest income and expenses	Fees, charges and commissions
<i>Loans and receivables</i>			
Net loans and advances to customers	13,080,835	1,170,107	433,575
<i>Held to maturity assets</i>			
Investment securities	2,108,620	24,284	-

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 2022**

(Expressed in '000 Vatu)

**21. 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.

	2022	2021
Bonds	37,397	42,079
Financial guarantees	-	-
Letters of credit	-	-
<b>Commitments</b>		
Capital expenditure	25,448	44,856
Undrawn facilities	166,403	87,790
	<u>192,066</u>	<u>132,646</u>

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

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

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

Profit for the year	236,871	126,283
<i>Non-cash items</i>		
- Allowance for impairment and loans written off	40,095	113,030
- Depreciation	116,093	155,448
- Net adjustments to retained earnings	-	61,140
Net cash provided by operating activities before change in assets and liabilities	393,059	455,901
<b>Change in assets and liabilities during the financial year</b>		
- (Increase) / decrease in accrued interest receivable	(2,187)	426,682
- (Increase) / decrease in loans and advances	(659,810)	590,894
- Decrease / (increase) in other assets	45,143	(385,073)
- (Decrease) / increase in accrued interest payable	(18,541)	5,233
- Decrease in deposits from customers and credit institutions	(2,921,502)	(1,382,157)
- Increase in other liabilities & provisions	169,577	58,856
Net cash used in operating activities	<u>(2,994,261)</u>	<u>(229,664)</u>

**23. Employees**

The number of employees as at 31 December 2022 was 326 (2021: 324).

**National Bank of Vanuatu Limited**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

(Expressed in '000 Vatu)

**24. Related parties**

*Transactions with directors and executive officers*

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

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

	2022	2021
Director fees	47	1,256
Executive officers	91,269	100,364
	<u>91,316</u>	<u>101,620</u>

*Loans to directors*

Loans to directors and director-related entities outstanding as at 31 December 2022 was Vt10,634 (2021: Vt106,259).

*Transactions with related parties*

No services were provided by a director-related entity to the Bank during the financial year (2021: Vt Nil).

*Loans to other officers and employees*

Loans to other officers and employees outstanding as at 31 December 2022 totalled Vt1,402,729 (2021: Vt1,418,493).

*Shareholders*

The Bank's shareholders are:

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

**25. Subsequent events**

In March 2023 Vanuatu experienced two tropical cyclones, Judy and Kevin which caused damage and impacted almost half of the population. The impact of these events is uncertain and a reliable estimate is not available at this time.

Other than these cyclones and ongoing impacts of Covid-19 pandemic, there has not arisen in the interval between the end of the financial year and the date of this report any further item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years (2021: 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).

**National Bank of Vanuatu Limited****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022***(Expressed in '000 Vatu)***26. Prior period adjustment and post balance sheet events**

There were no prior period adjustments raised during the current year (2021: *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).



We are Vanuatu



## 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 two 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 shall be no less than four and no more than six.

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;
- (i) three may be nominated by Vanuatu National Provident Fund (VNPF) who shall nominate the Chairman and Deputy Chairman.
- (ii) one shall be the Company's Managing Director & Chief Executive Officer.

Each of the GoV 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.

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 four Non-Executive Directors including the Managing Director & Chief Executive Officer 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. 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 four Non-Executive Directors including the Managing Director & Chief Executive Officer duly appointed by the Board. The Chairman of the RNC must be one of the Directors, other than the Chairman of the Board. 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.



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