2017 ANNUAL REPORT

National Bank

Vanuatu's Own Bank

OUR VISION & OUR MISSION

VISION

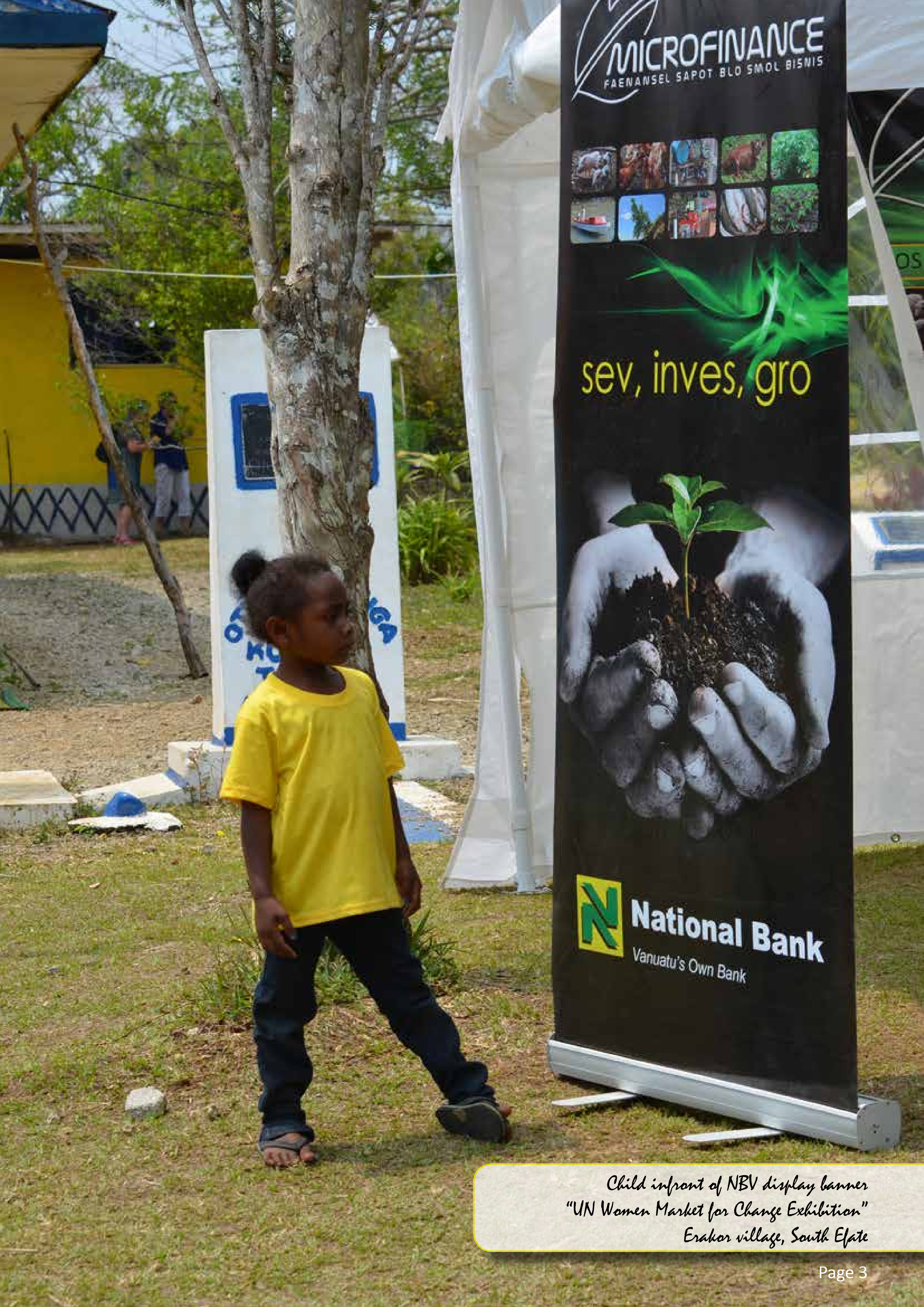
To be:

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

MISSION

To provide commerically viable banking services that contribute to the economic growth of Vanuatu.

To lead the country in development of accessible rural banking services whilst capitalising on opportunities within the business market



Child infront of NBV display banner
"UN Women Market for Change Exhibition"
Erakor village, South Efate

BANK VALUES

RESPONSIVENESS

RESPOND TO CUSTOMER NEED IN A TIMELY MANNER

LEARNING

TAKING INITIATIVE TO DEVELOP AND GROW

TRUSTWORTHINESS

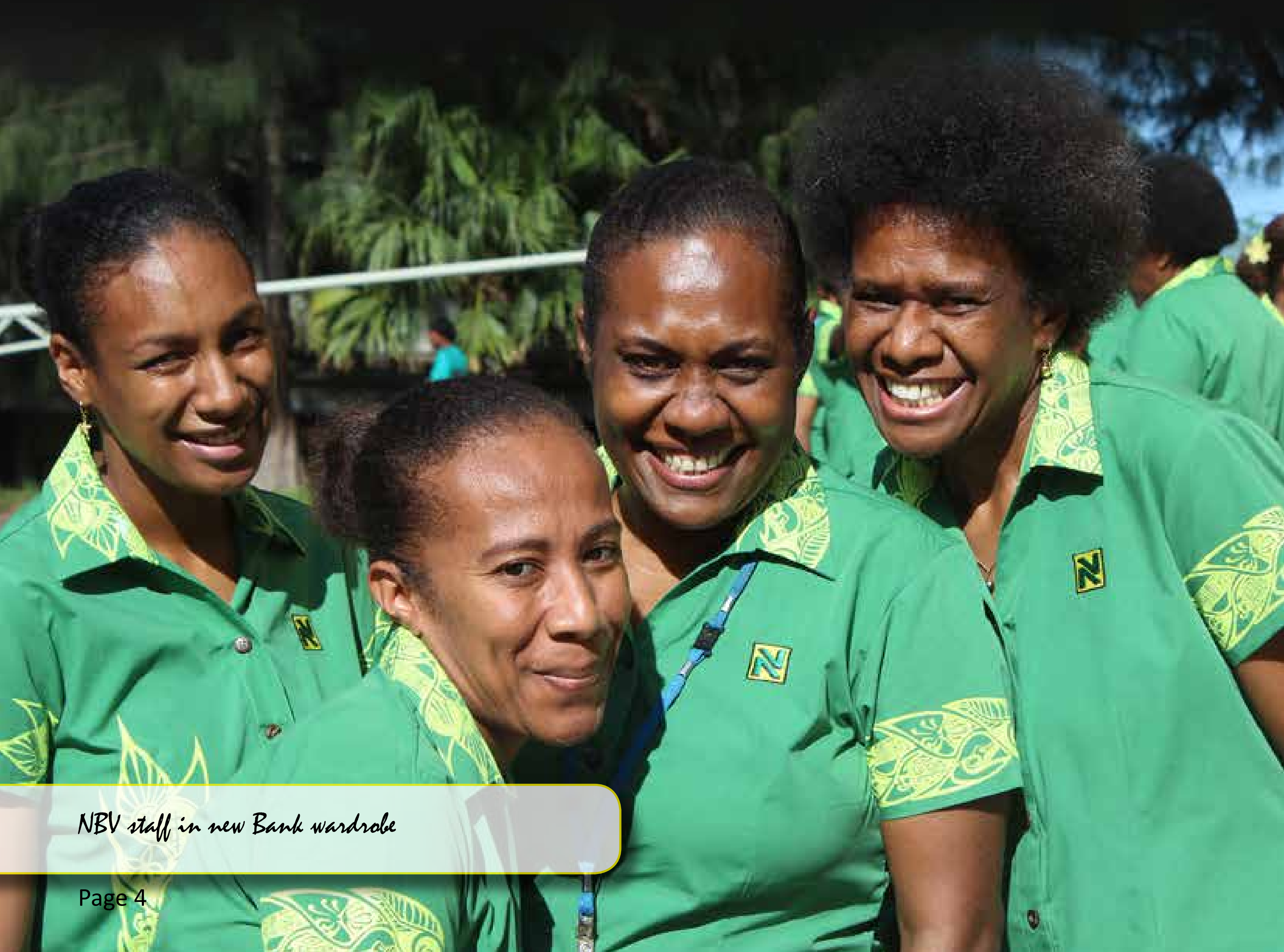
BEING HONEST AND RELIABLE. TAKING RESPONSIBILITY

WORKING TOGETHER

WORKING TOGETHER TO ACHIEVE A COMMON GOAL

HONESTY

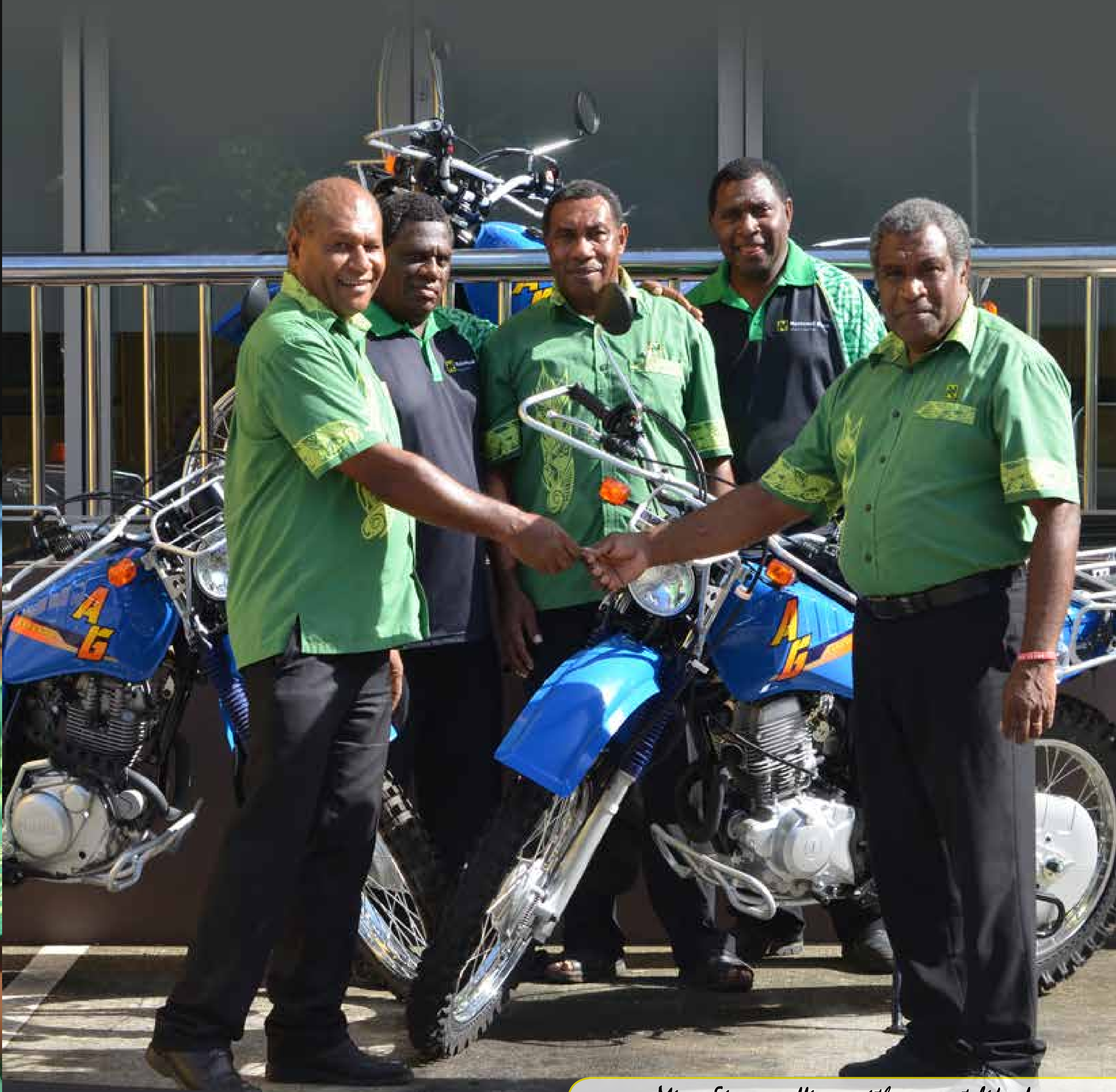
BEING OPEN & TRANSPARENT IN ALL COMMUNICATIONS TO CUSTOMERS AND FELLOW EMPLOYEES



NBV staff in new Bank wardrobe

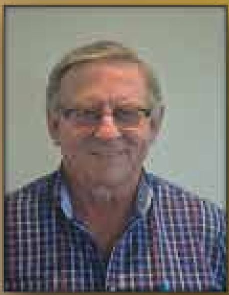
MOTORBIKES FOR BANKING

WE DO OUR BEST TO BANK OUR COMMUNITES



Micro Finance officers with new motobikes for rural banking

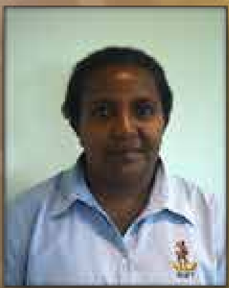
BOARD OF DIRECTORS



LINSAY BARRET CA (NZ) TEP
CHAIRMAN
Appointed to Board in 2010

Managing Partner Barret & Partners, Port Vila, Vanuatu

GEOFF TOONE BBUS (BKG & FIN)
CEO & MANAGING DIRECTOR
Appointed to Board in 2017



DOROTHY ERICKSON BBUS (ACC), BCOMP
DIRECTOR
Appointed to Board in 2014

Deputy Director Finance & Admin, Vanuatu Government

LINDLEY EDWARDS BBUS ACCT, BBUS BANKING & FINANCE, GRAD. DIP. GOVT - LISTED COMPANIES F.FIN, MAICD
DIRECTOR
Appointed to Board in 2013

Group Managing Director, AFG Venture Group, Sydney, Australia

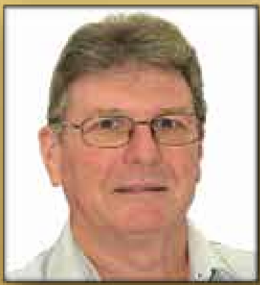
JEAN FRANCOIS METMETSAN
DIRECTOR
Appointed to board in 2016

Executive Officer, Prime Minister's Office

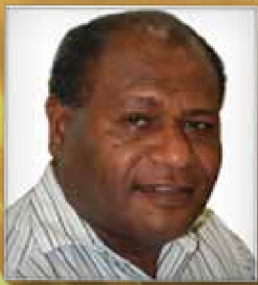
LESTER ROAN SUNGHK BCOM
DIRECTOR
Appointed to Board in 2017

Senior Analyst, Economic Sector, Prime Minister's Office

EXECUTIVE MANAGEMENT



ANDY COTTAM BACCTG FFIN
CHIEF FINANCIAL OFFICER
Joined the National Bank in 2008



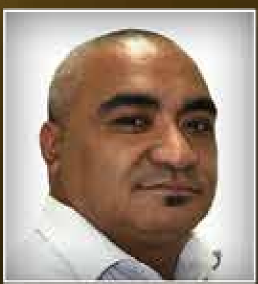
JOHN ARUHURI BCOM
EXECUTIVE GENERAL MANAGER MICRO FINANCE, RURAL BANKING & FINANCIAL INCLUSION
Joined the National Bank in 2009

MICHAEL FIMERI MAFIN, BEC
GROUP TREASURER AND EXECUTIVE GENERAL MANAGER PACIFIC BANKING
Joined the National Bank in 2013

SERGE TAGA
EXECUTIVE GENERAL MANAGER RELATIONSHIP BANKING
Joined the National Bank in 1995

JULIANN WILLIAMS BA, MBA
CHIEF PEOPLE OFFICER
Joined the National Bank in 1999

MAISSA ALATOA CAMS
ACTING CHIEF RISK OFFICER
Joined the National Bank in 2017



TONY MOTULIOKI AIMM, SA FIN
EXECUTIVE GENERAL MANAGER RETAIL
Joined the National Bank in 2016

STUART MATHISON BE(HON)
GRAD. DIP. APPLIED COMPUTING M INT'L DEV
CHIEF OPERATING OFFICER
Joined the National Bank in 2008

STEVE BUCHNAN
CHIEF CREDIT OFFICER
Joined the National Bank in 2012

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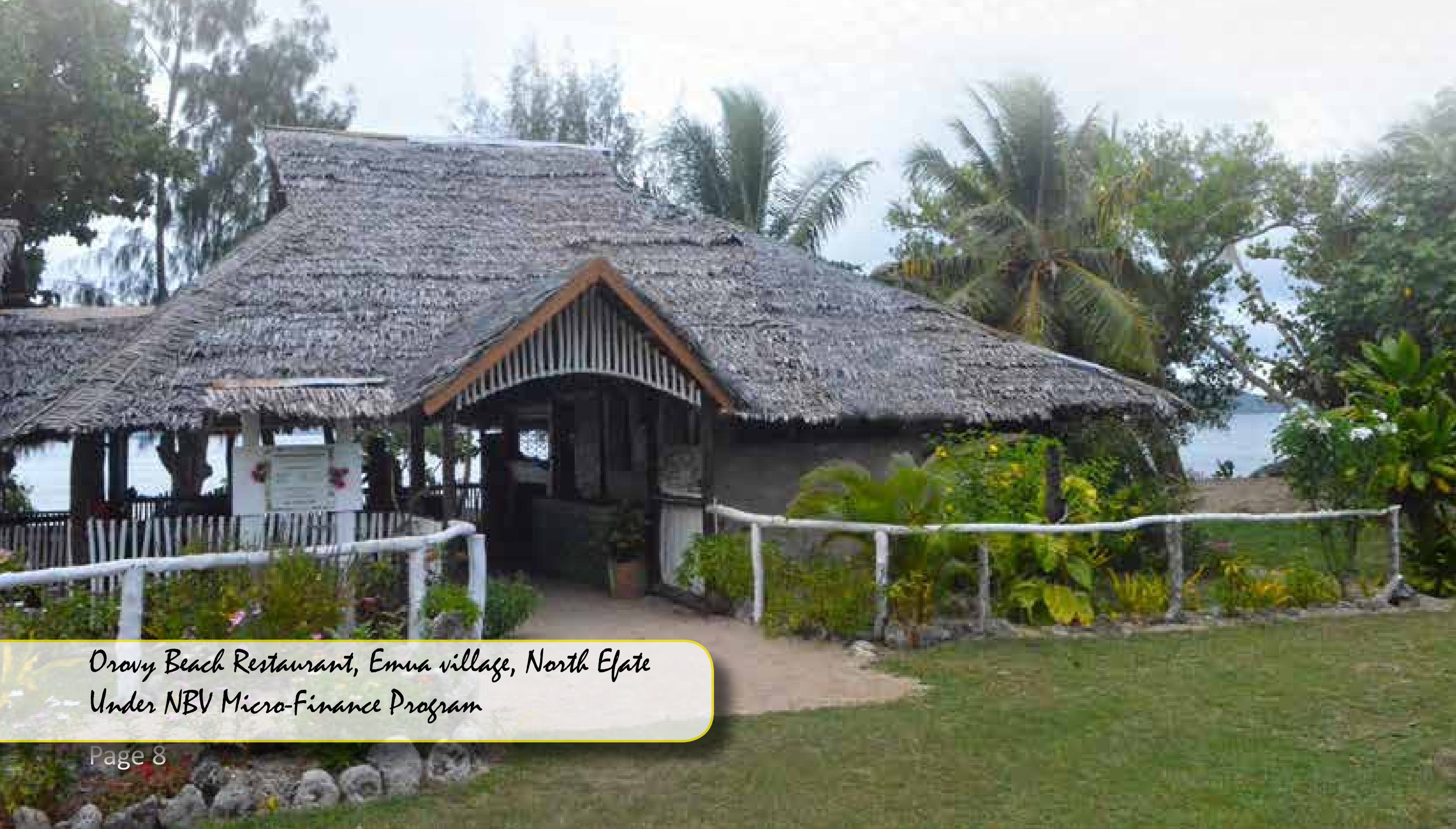


Orovy Beach Restaurant, Emua village, North Efate
Under NBV Micro-Finance Program

REPORT FROM NBV CHAIRMAN

It is my pleasure on behalf of the Board of Directors, to deliver the 2017 annual report.

In the 2016 annual report I made remarks around anticipating a slow recovery and a lack of foreign direct investment prevailing in the 2017 year. Those remarks have been demonstrated to be fairly accurate. I also made mention of the impaired loan position and that it was having a direct impact on the management team’s ability to grow; and this has carried through into the 2017 the results. For me the positive aspect in relation to impaired assets is that the management team formulated a solid plan to deal with these in the second half of 2017 and has commenced executing this plan in the current year, with positive and encouraging results which will see the worst behind us.

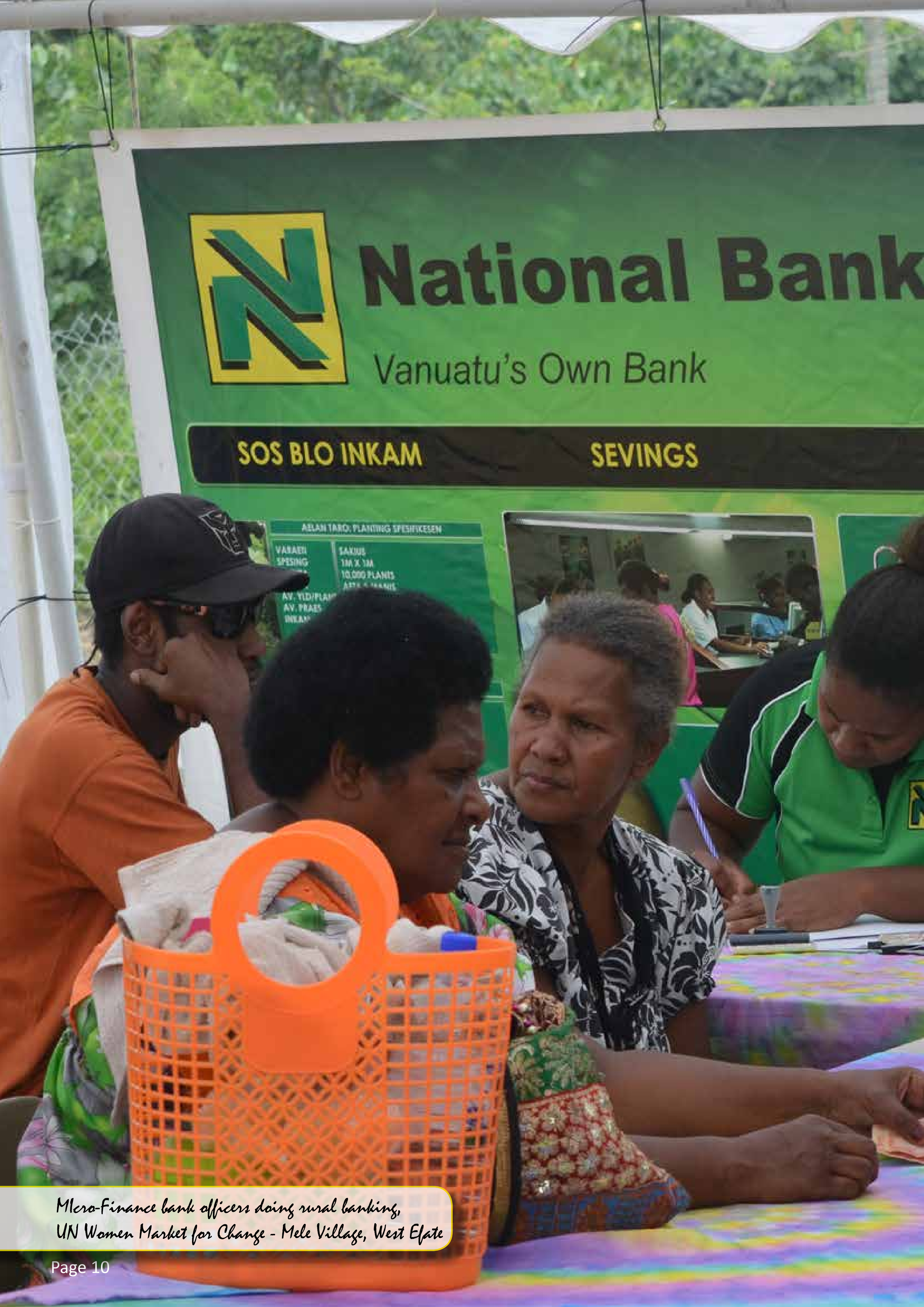
I am pleased to see the Port Vila International Airport remedial infrastructure works commence and know this will have a positive impact in international visitor numbers arriving by air over time. The enhancement to the Port Vila Maritime Port will also remove challenges for the cruise ship industry and thus make those first few steps for cruise ship passengers onto Vanuatu soil that much more memorable and positive.

I see a slow and steady recovery in the economy towards the end of 2018. Even so, this could take much longer if the prospect of a new proposed income tax regime becomes a reality as attraction of foreign private direct investment will become that much harder in what is an increasingly competitive global market where Government concessions are the major factors influencing new investors.

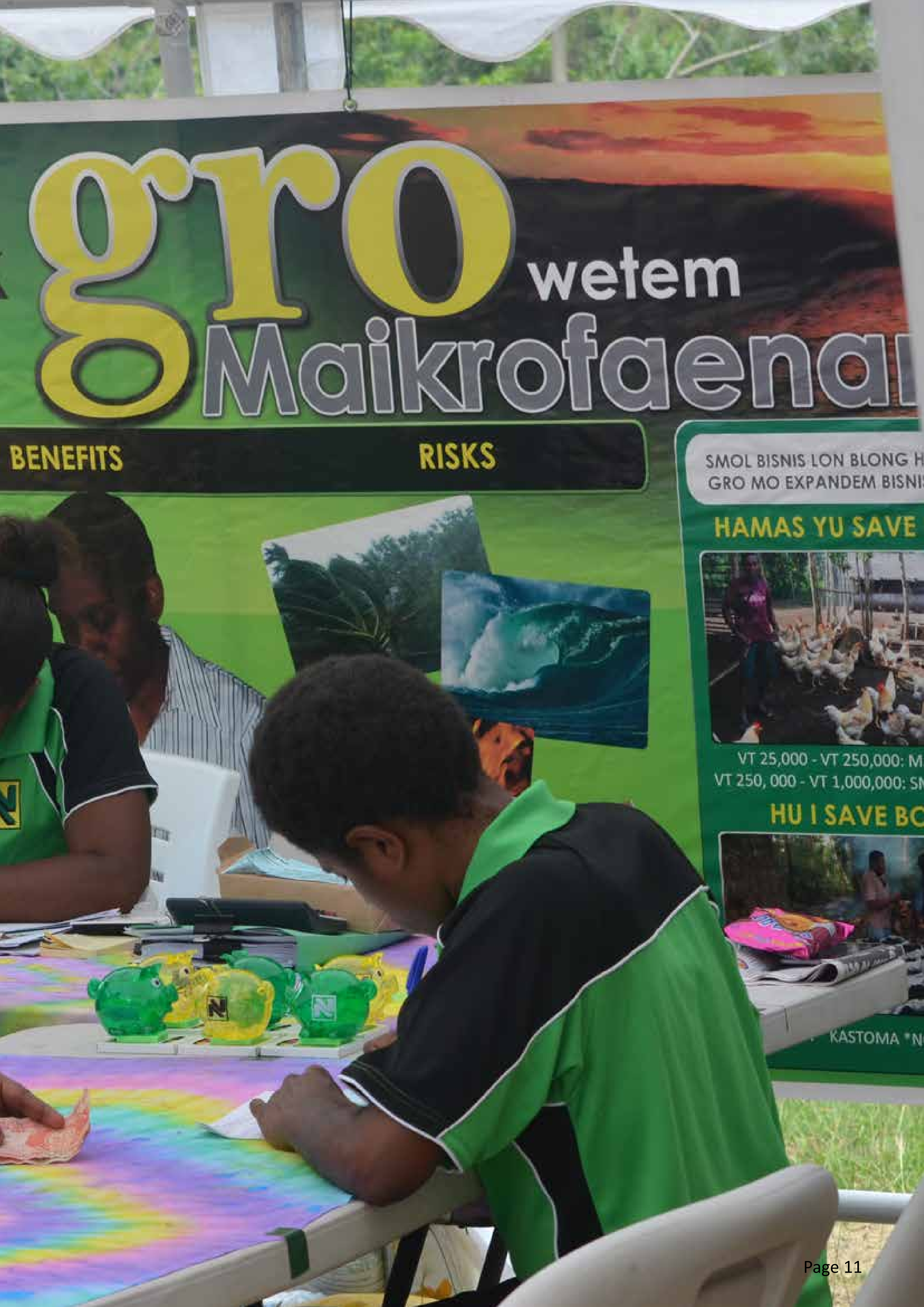
The Board remains very proud of the ongoing and unwavering commitment to providing financial literacy right across Vanuatu. Our courses have resulted in well over 38,000 people becoming more aware of our role in creating financial awareness.

Finally, the Board recognises and appreciates the ongoing support of our valued customers and the contribution and loyalty of our management and staff throughout Vanuatu.

Lindsay Barrett CA (ANZ) TEP
Chairman



Micro-Finance bank officers doing rural banking,
UN Women Market for Change - Mele Village, West Efate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RAPPORT DU PRESIDENT DU CONSEIL D'ADMINISTRATION DE LA BNV

J'ai le plaisir de remettre le rapport annuel de l'exercice 2017 au nom du conseil d'administration.

Dans le rapport annuel de l'exercice 2016, j'avais fait des remarques comme quoi il fallait s'attendre à une reprise au ralenti et un manque d'investissement direct de l'étranger tout au long de 2017. Ces remarques se révèlent avoir été assez exactes. J'ai aussi mentionné notre situation de prêts défaillants et que celle-ci avait un impact direct sur la capacité de l'équipe de direction d'assurer une croissance. Or cette situation a perduré en 2017, comme le montrent les résultats. A mes yeux, il y a eu un côté positif eu égard aux avoirs défaillants en ce sens que l'équipe de direction a mis au point un plan solide pour résoudre le problème dans la deuxième moitié de 2017 et a commencé à le mettre à exécution dans l'exercice en cours, avec des résultats positifs et encourageants qui indiquent que nous avons passé ce mauvais cap.

Je suis heureux de voir que les travaux de remise en état de l'infrastructure à l'aéroport international de Port-Vila ont démarré et je sais qu'à terme, ils auront un impact positif sur le nombre de visiteurs arrivant par avion. L'expansion du port maritime de Port-Vila permettra aussi d'éliminer les défis qu'il présentait pour l'industrie des croisières et donc de donner une première impression plus mémorable et positive aux passagers mettant pied à terre pour la première fois au Vanuatu.

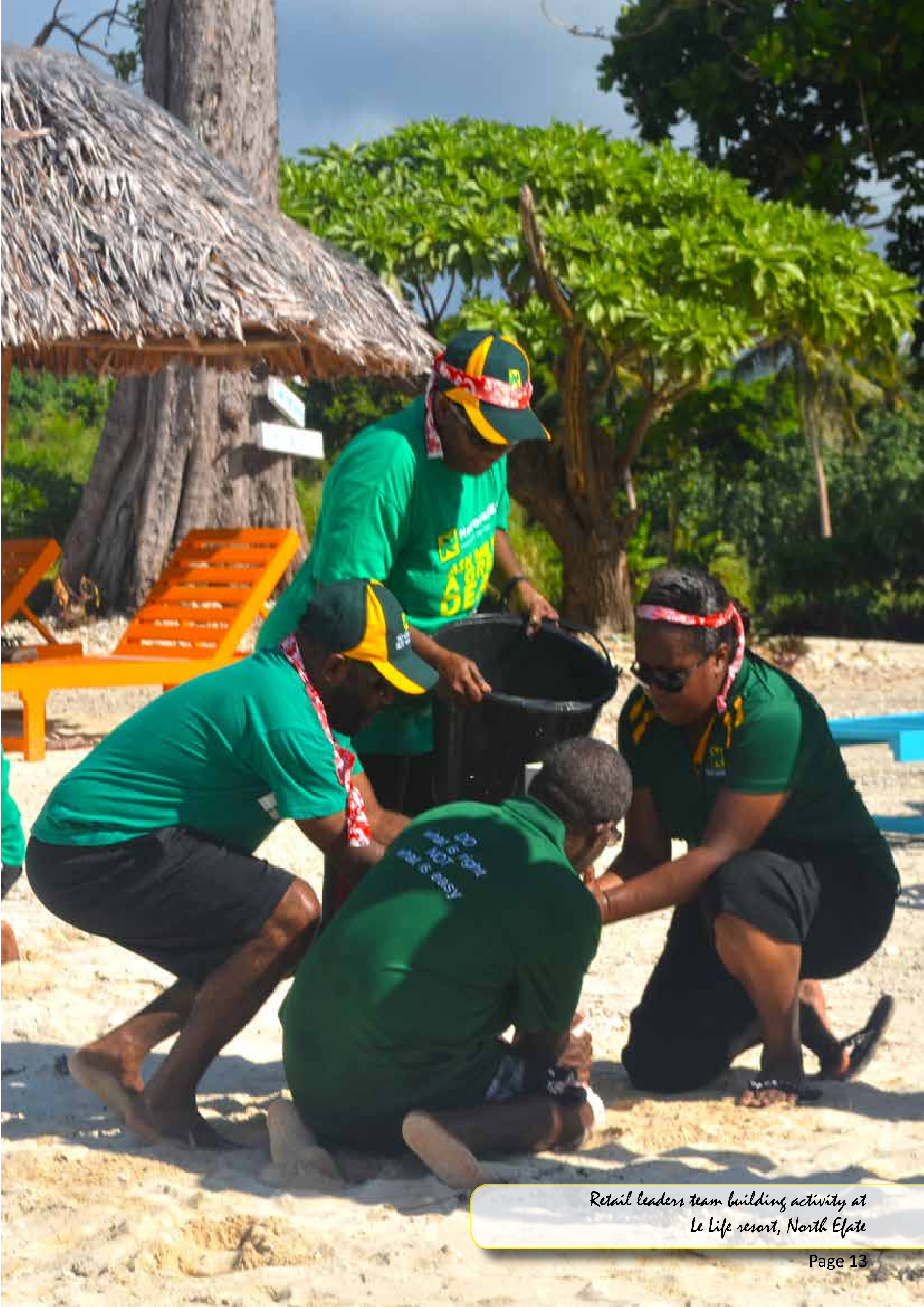
J'entrevois une reprise lente mais constante de l'économie vers la fin de 2018. Toutefois, cela pourrait prendre beaucoup plus de temps si la perspective d'un nouveau régime fiscal d'impôt sur le revenu, comme proposé, devait se concrétiser car il sera plus difficile d'attirer des investissements privés directs de l'étranger, compte tenu d'un marché mondial de plus en plus compétitif où les concessions consenties par un Etat sont un facteur important influençant les nouveaux investisseurs.

Le conseil d'administration continue d'être fier de l'engagement ferme et suivi à dispenser une éducation financière partout dans l'archipel du Vanuatu. Nos cours ont permis à plus de 38 000 personnes de mieux se rendre compte du rôle que nous jouons pour sensibiliser les gens à la finance.

Pour clore, le conseil d'administration tient à exprimer son appréciation et ses remerciements pour le soutien en continu apporté par notre aimable clientèle et l'implication et la fidélité de notre direction et de notre personnel partout au Vanuatu.

Lindsay Barrett CA (ANZ) TEP

Conceil D'administration de la BNV



Retail leaders team building activity at Le Life resort, North Efate

Board Members
Front to back: CEO Geoff Toone, Lester Sunghk &
Lindley Edwards

REPORT FROM THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

It is an honour and privilege to be leading the National Bank of Vanuatu through this period of change.

THE GLOBAL AND REGIONAL ENVIRONMENT

2017 was a year of unprecedented change around the globe and our region was certainly part of that. During 2017 the increased interest in nations such as Vanuatu was very obvious as many resource intensive nations were looking for opportunities outside traditional locations: - the seasonal worker opportunities for our nation is a good example.

For the National Bank of Vanuatu the 2017 year was as complex as it was challenging. The team worked tirelessly and diligently to ensure the community was served right across the nation. The recorded loss for 2017 was the result of a reassessment of our loan book and reflected prevailing business conditions. During 2017 the Bank has executed process improvements to ensure better identification of impaired assets into the future.

2017 also reflected a significant ongoing investment by the Bank in our regional, rural and remote activities. Activities that included financial literacy programs in every province and active support for our rural and regional farmers.
During the year the Bank completed a core banking system upgrade. Such an upgrade will deliver a platform allowing the Bank to improve and enhance both the customer experience and staff efficiency for many years to come.

BUSINESS UNIT OVERVIEW

RETAIL BANKING

With our extensive network of 28 branches across all provinces we are continually looking at ways to better serve our clients both in the major centres and the outer Islands. In the major centres it's around quick and efficient service, in the Island branches it's about leveraging on technology to ensure a safer way to interact with us and ensuring liquidity in the system.

Marketing is about raising awareness of our service improvements, educating our clients about our product range, its benefits and features. Fulfilling our corporate responsibility across the length and breadth of the country in areas such as grass root sports and community activities

AUDIT

TeamMate audit software continues to help the internal audit team produce quality reports that allow responses to be uploaded by auditees. It also allows the auditors to take a copy of the audit on-site and to then upload the results to the server.

Professional development within the small team continues.

FINANCE

Conversion of the Abacus core banking system to Temenos T24 in the early part of 2017 proved to be a major challenge for senior team members as was the production of meaningful financial reports for a while.

Apart from producing financial reports this unit monitors all the bank's assets, pays the bank's accounts & is the liaison point with the Reserve Bank of Vanuatu.

PROJECTS

This unit was created late in the year and will be the single point of control for all projects being undertaken by NBV. It has a full-time Senior Project Manager and draws resources from other business units as and when required.

The major focus in 2018 will be the issuing of a MasterCard and the acquiring of MasterCard transactions through the NBV ATM network. Work will also progress with ATM/POS transaction interchange between NBV, ANZ & Bred Bank

COMPANY SECRETARIAT

During 2017 the Board met on six occasions and sub-committees met four times. There were also two shareholder discussions in the latter part of the year.

VIPA (IFC is a 15% shareholder) and VFSC registration requirements were met.

RELATIONSHIP BANKING

The mainstream lending portfolio of the Bank includes commercial and larger consumer loan products and the responsibility rests with Relationship Banking. The business units are segmented to meet specific needs and requirements of our commercial, small business and consumer lending clients, creating a focused approach to budget and performance management.

The business unit had forecast strong interbank competition to continue in 2017 as the amount of good quality business was expected to remain reasonably flat. The Bank expected to grow the loan book by 20% after replacement of "book run-off" and the rehabilitation or sale of a number of non-performing loan assets.

However, major infrastructure projects have commenced such as, wharf, airstrip, seafront, road that we are yet hoping to see the outcome on the local economy

The year end result in terms of sales was in excess of the budget, however, the much anticipated rehabilitation or sale of the larger non-performing assets did not eventuate due to the ongoing slowdown in the economy and the post Cyclone Pam impacts on major businesses/individuals. Other major infrastructure issues encountered by the country such as the Bauerfield Airstrip rehabilitation further deteriorated the situation.

The volatile economic environment and issues continue to create strong competition amongst the banks while predominant shift from traditional home loan lending to finance investment purpose trend continues.

RURAL BANKING

The Retail and Rural Banking units manage a network of 28 branches and agencies around Vanuatu including Port Vila and Luganville. No additional branches were established during the year.

Generally, the provision of banking services in a rural setting remains the greatest challenge in various forms and extends to staffing, asset resource allocations, risk management and other mitigating factors that have often impacted branch operations and business growth.

Overall, rural lending through micro finance credit recorded another positive growth of 53% by end of the year reaching Vt590m over and above the previous year. Noticeable increments were recorded in retail and wholesale trade as well as agriculture and livestock. Growth was evident throughout each quarter of the year and reflected the outcomes of the bank's nation-wide financial literacy education program over the past 6 years. Similarly, the delivery of business related workshops around rural branch locations also assisted growth of the overall loan portfolio. Equally, in the midst of many challenges the loan recovery rate has been satisfactory achieving 98% of loans disbursed. It was a good year with positive outcomes and the potential of future growth is going to continue in lending portfolio development.

Financial Inclusion also becomes a vital undertaking for the National Bank of Vanuatu through its rural branch network following on from the nation-wide financial literacy education program between 2012 - 2015 under programed financial support from the New Zealand Government and continuing from the Bank's own resources. Evidence continues to show positive progress being made in savings from both new and existing customers. Besides the 28 physical branch and agency locations, the bank also reaches out every month to over 300 rural and remote community centres where additional banking services are provided as far north as Hiu Island in the Torres Group and in the south to Aneityum. These services include banking awareness, opening of new bank accounts, collection of deposits from existing customers, completion of micro loan applications, registrations for electronic banking services and many more. Efforts are continuous and are being made to reach out to as many unbanked Ni-Vanuatu citizens as much as is possible.

A second phase of UNDP-UN Women's financial literacy education program continued in 2017 following on from that conducted in 2016 with the Bank as training providers. It again focused on market vendors from around Port Vila, Teouma, Eton, Moso Island, Efate ring markets, Marobe market and Luganville Municipal market with many new accounts. Of those with bank accounts, a good number of them have progressed steadily and have ventured into various micro loan business activities of their own.

Looking ahead it is also very important to recognize the values and contributions of all age groups in respect to their active participation in sustainable rural economic developments. Maintaining this focus and attention requires setting a sound basis and scope upon which designed program activities can in future be further successfully implemented, managed and sustained.

OPERATIONS

The Operations teams (ICT, E-Banking and Logistics) provide functional support for the operations of the Bank and its network. It is dedicated to running, improving and transforming the processes that deliver products and services to the Bank's customers, and it seeks to do this as cost-effectively as possible and in line with the strategic plans of the Bank.

CREDIT & LENDING SUPPORT

The Credit and Lending Support teams provide a range of activities that support the 3 lending business units known as Relationship, Retail and Rural. The primary objectives are to ensure that all lending requests are aligned with the Bank's lending policy and are processed in terms of the Bank's Lending guidelines.

Lending Support assists the lending teams with documentation preparation, land title searches, stamping and registration of documents and any specific legal issues that may arise

RECOVERIES

The recoveries team function is to ensure the bank's non-performing loans are followed up in a timely manner. The team manages the legal process for recoveries and to this end has worked very closely with the Bank's panel lawyers during 2017. Due to adverse effects on the economy and the community as a whole there was an increase in loans being transferred during 2017. The department staff continue to work with all stakeholders with a first view of obtaining a work-out situation which will be beneficial to both the bank and customers alike.

HUMAN RESOURCE

Key activities in 2017 included ongoing staff development, multi-skilling through job rotations and in house training facilitated by Human Resources and other business units based on identified training needs and external training through USP TAFE for senior officers and GARP online courses for Internal Audit staff members.

Representation	Sub-Classification	Headcount	Percentage
Management-General Staff	Executive	10	4%
	General Staff	234	96%
Expat-Ni Van	Ni-Vanuatu	238	98%
	Expat	6	2%
Gender	Female	107	44%
	Male	137	56%

Establishment

At the end of December 2017, the bank directly employed 244 staff in total represented by:

NBV is an equal opportunity employer and strives to continue to maintain the balance represented in its gender representation across the board. The bank's FTE (Full Time Equivalent) at the end of 2017 was 232.
Turnover for the year was 5.89% a bit higher than previous year of 2.7% of which .37% was voluntary and 2.52% was involuntary.

Recruitment & Retention

100% of total budgeted recruitment for 2017 was achieved as planned by September 2017.
Staff benefits and entitlement review took place in 2017 with positive staff feedback. Ongoing review of the bank's recruitment process continued working towards an objective to improve the current process and apply best practice recruitment process, taking into consideration average lead time to recruit, recruitment costs and performance of the new recruits during the first 6 months of employment.
Outsourcing senior position recruitments to a recruitment agency proved effective and efficient.
Internal restructures happened throughout the year leading to Ni-Van promotions to senior supervisory and managerial positions.

Staff Benefits

The bank through HRD ensures it complies with the Employment Act (Cap 160) by making providing provisions for staff annual leave & severance entitlements across the Board.

Training

Implementing best talent management practices is one of the Bank's HR Strategic Objectives and in 2017, external and internal staff training continued for staff members. This included TAFE USP courses, AML (Anti-Money Laundering) training for general front office staff members and Risk and Audit training through GARP (Global Association of Risk Professionals).

SUMMARY

I take this opportunity to thank our valued and loyal customers for their ongoing support in 2017 and look forward to working with them in 2018. I also want to call out a thank you from myself and my management team to all the dedicated staff that make this Bank such a special Bank to be part of.

Geoff Toone
CEO & Managing Director BBUS
(BKG & FIN)

RAPPORT DU DIRECTEUR GENERAL ET ADMINISTRATEUR DELEGUE

C'est un honneur et un privilège pour moi que de diriger la Banque nationale de Vanuatu en cette période de changements.

DE LA SITUATION DANS LE MONDE ET DANS LA REGION

L'exercice 2017 a été une année de changements sans précédent partout dans le monde, y compris dans notre région. Tout au long de 2017, l'intérêt croissant pour des nations telles que le Vanuatu a été très évident, car beaucoup de pays à fort coefficient de ressources cherchaient des opportunités en dehors de leurs territoires traditionnels – les débouchés pour des travailleurs saisonniers de notre pays en est bon exemple.

Pour la Banque nationale de Vanuatu, l'exercice 2017 fut une année aussi complexe qu'elle a été stimulante. L'équipe a oeuvré sans relâche et assidûment à veiller à ce que la communauté soit desservie partout dans l'archipel. La perte enregistrée pour l'exercice 2017 résulte d'une réévaluation de notre carnet de prêts et reflète les conditions qui règnent dans le milieu des affaires. Durant l'année, la Banque a pris des mesures pour améliorer ses procédures en vue de mieux identifier les avoirs défaillants à l'avenir.

L'année 2017 a également vu d'importants investissements de la part de la banque se poursuivre dans le cadre de nos activités régionales, rurales et éloignées, dont des activités portant sur des programmes d'éducation financière dans chaque province et un soutien assidu pour nos agriculteurs ruraux et régionaux.

Au cours de l'année, la banque a procédé à une modernisation du système bancaire fondamental. Cette modernisation sert à mettre en place une plate-forme qui permettra à la banque d'améliorer et de rehausser aussi bien l'expérience des clients que l'efficacité du personnel pour des années à venir.

TOUR D'HORIZON DE LA CELLULE DES AFFAIRES

ACTIVITES DES BANQUES DE RESEAU

L'équipe des Services bancaires s'occupe des activités du réseau d'agences et de marketing.

LE RESEAU D'AGENCES

Avec notre vaste réseau de 28 agences réparties dans les 6 provinces, nous sommes continuellement à la recherche de moyens de mieux servir nos clients, tant dans les grands centres que dans les îles éloignées. Dans les grands centres, il s'agit de proposer un service rapide et efficace, tandis que dans les agences dans les îles, c'est une question de mettre à profit la technologie pour garantir un moyen plus sûr d'interaction avec nous et veiller à la liquidité dans le système.

MARKETING

Le marketing consiste à faire prendre conscience des améliorations au niveau de nos services et à éduquer nos clients concernant notre gamme de produits et leurs avantages et leurs caractéristiques. Il s'agit aussi de s'acquitter de notre responsabilité sociale dans tout l'archipel dans des domaines tels que les activités sportives et communautaires pour la population à la base.

VERIFICATION COMPTABLE

Le logiciel de vérification comptable TeamMate continue d'aider l'équipe de vérification interne à produire des rapports de qualité qui permettent aux services vérifiés de télécharger les réactions sur l'unité principale. Ce logiciel permet en outre aux vérificateurs de prendre une copie de la vérification sur place et ensuite de télécharger les résultats sur le serveur.

Le perfectionnement professionnel se poursuit au sein de la petite équipe.

FINANCE

La conversion du système bancaire fondamental Abacus au système Temenos T24 au début de 2017 s'est révélée être un véritable défi pour les membres supérieurs de l'équipe, de même que la production de rapports financiers significatifs pendant quelques temps.

En dehors de produire des rapports financiers, cette cellule surveille tous les avoirs de la banque, règle ses comptes et assure la liaison avec la Banque de Réserve de Vanuatu.

PROJETS

Cette cellule a été créée vers la fin de l'année et constituera le point unique de contrôle pour tous les projets entrepris par la BNV. Elle est dotée d'un chef principal des projets à plein temps et tire des ressources d'autres cellules d'affaires en fonction des besoins.

Elle va se focaliser sur l'émission d'une carte de débit Mastercard et l'acquisition de transactions avec la carte Mastercard par l'intermédiaire du réseau de DAB de la BNV. Elle va aussi faire avancer les échanges transactionnels par DAB / système électronique de point de vente entre la BNV et les banques ANZ et BRED.

SECRETARIAT SOCIAL

Au cours de l'année, le conseil d'administration s'est réuni six fois et ses sous-comités se sont réunis quatre fois. Il y a aussi eu deux séances de discussion avec les actionnaires sur la fin de l'année.

Les conditions d'enregistrement de l'OPIV (la SFI [Société financière internationale]/IFC [International Finance Corporation] étant actionnaire à hauteur de 15%) et de la CAFV ont été dûment remplies.

BANQUE RELATIONNELLE

La composante principale du portefeuille de crédit de la banque comprend des emprunts commerciaux et des gros crédits à la consommation, et la responsabilité en incombe à la section de la banque relationnelle. Elle est divisée en segments pour répondre aux besoins et impératifs particuliers de nos clients emprunteurs, commerçants, petites entreprises et consommateurs, créant une approche focalisée sur les cibles budgétaires et la gestion des résultats.

La cellule des affaires avait prédit qu'une forte concurrence inter-bancaire se poursuivrait au cours 2017 étant donné que le volume des affaires de grande qualité allait probablement rester relativement faible. La banque s'attendait à ce que son carnet de prêts augmente de 20% après le remplacement du "passage-machine" et la réhabilitation ou la vente d'un certain nombre d'avoirs aux prêts défaillants.

Or de gros projets d'infrastructure ont démarré, comme le quai, la piste d'atterrissage, le front de mer, les routes, dont nous attendons encore l'impact sur l'économie locale.

Le résultat en fin d'exercice au plan des ventes a dépassé les prévisions budgétaires, par contre la réhabilitation ou vente tant escomptée des plus gros avoirs non rentables ne s'est pas concrétisée en raison du ralentissement continu de l'économie et des retombées suite au cyclone Pam sur de grosses entreprises / particuliers. D'autres problèmes majeurs en rapport avec l'infrastructure que le pays a rencontrés, comme la remise en état de la piste de Bauerfield, n'ont fait qu'empirer la situation.

La conjoncture volatile et les problèmes économiques continuent d'intensifier la concurrence entre les banques, tandis que la tendance en faveur des financements à des fins d'investissement plutôt que des crédits traditionnels au logement se poursuit.

LA BANQUE RURALE

Les cellules des activités de banques de réseau et et de banque rurale gèrent un réseau de 28 agences dans tout l'archipel, y compris Port-Vila et Luganville. Il n'y a pas eu de nouvelles agences ajoutées au réseau durant l'année.

De manière générale, la prestation de services bancaires en milieu rural présente le plus gros défi, sous diverses formes, allant du personnel, de l'affectation de moyens, jusqu'à la gestion des risques, en passant par d'autres facteurs contraignants qui affectent fréquemment le fonctionnement des agences et la croissance des affaires.

Globalement, les emprunts ruraux par micro-financement ont de nouveau enregistré une croissance positive de 53% à la clôture de l'exercice, pour atteindre 590 millions de vatu de plus que l'année précédente. Une nette augmentation a été enregistrée dans le commerce de détail et de gros, de même que dans l'agriculture et l'élevage. Chaque trimestre de l'année a été marqué par une croissance, traduisant le résultat du programme d'éducation financière que la banque mène dans tout l'archipel depuis 6 ans. Parallèlement à cela, les ateliers de travail sur l'entreprise organisés dans les régions où se trouvent des agences ont eux aussi contribué à accroître le portefeuille global des prêts. En dépit des nombreux défis, le taux de recouvrement des prêts a lui aussi était satisfaisant, atteignant 98% des prêts débloqués. L'année a été fructueuse, avec des résultats positifs, et l'expansion du portefeuille de prêts va probablement se poursuivre à l'avenir compte tenu du potentiel qui existe.

L'inclusion financière devient une entreprise essentielle pour la Banque nationale de Vanuatu par l'intermédiaire de son réseau d'agences rurales pour donner suite au programme d'éducation financière mené dans tout le pays à partir de 2012 jusqu'en 2015 dans le cadre d'un soutien financier programmé apporté par le gouvernement néo-zélandais et qui se poursuit aujourd'hui sur financement propre de la Banque. De toute évidence, il y a des progrès encourageants au plan de l'épargne, tant chez les clients existants que nouveaux. En dehors des 28 agences et guichets de présence physique, la banque étend aussi ses services tous les mois à plus de 300 centres communautaires ruraux dans des endroits reculés allant tout au nord jusqu'à l'île de Hiu dans les Iles Torrès et jusqu'à Aneityum tout au sud. Ces services comprennent une sensibilisation aux opérations bancaires, l'ouverture de nouveaux comptes bancaires, l'acceptation de dépôts de la part de clients existants, le traitement de demandes de micro-prêts, l'enregistrement de services bancaires électroniques et bien d'autres encore. Les efforts se poursuivent pour atteindre autant de Ni-Vanuatu que possible qui restent en dehors du système bancaire.

Une deuxième phase du programme d'éducation financière lancé par le PNUD-l'organisation en faveur des femmes de l'ONU s'est poursuivie en 2017, donnant suite à celle menée en 2016, avec la banque comme prestataire de formation. Elle s'est de nouveau focalisée sur les vendeuses au marché aux alentours de Port-Vila, à Téouma, Eton, l'île de Moso, les marchés sur la route autour de l'île d'Efaté, le marché de Marobé et le marché municipal de Luganville à Santo. Dans tous ces endroits, on relève un très grand nombre de vendeuses, qui dépasse les 6 000 au total. Beaucoup ont ouvert des comptes bancaires et d'autres vont suivre. Parmi les femmes ayant un compte bancaire, maintes d'entre elles sont en progression constante et se sont lancées dans diverses activités d'entreprise grâce à des micro-crédits, en plus de leurs activités habituelles de production agricole.

Pour ce qui est de l'avenir, il est très important aussi de reconnaître la valeur et la contribution de tous les groupes d'âge eu égard à leur participation active au développement économique durable en milieu rural. Pour inciter à cette focalisation et cette attention, il faut établir une bonne base de grande portée sur laquelle des activités dans le cadre de programmes ciblés peuvent être mises en œuvre à l'avenir et, bien gérées, devenir pérennes.

OPERATIONS

Les équipes opérationnelles (TIC, banque électronique et logistique) assurent un soutien fonctionnel pour les opérations de la banque et de son réseau. Cette division se consacre à faire fonctionner, améliorer et transformer les procédés qui permettent de fournir des produits et des services aux clients de la banque, et elle s'efforce de le faire aussi rentablement que possible et conformément aux plans stratégiques de la banque.

SOUTIEN AU CREDIT ET A L'EMPRUNT

Les équipes de soutien au crédit et à l'emprunt s'occupent de tout un éventail d'activités à l'appui des 3 cellules d'affaires de la banque représentées par les équipes de crédit aux entreprises, de prêt aux particuliers et de micro-financement. Les objectifs premiers consistent à veiller à ce que toutes les demandes d'emprunt cadrent avec la politique de crédit de la banque et sont traitées suivant les lignes directrices de la banque en matière de crédit.

La division de soutien à l'emprunt aide les équipes de prêt dans le cadre de diverses activités, y compris préparer des documents, effectuer des recherches concernant les titres fonciers, faire timbrer et enregistrer des documents, et toute question spécifique d'ordre juridique qui pourrait se présenter.

RECOUVREMENTS

L'équipe de recouvrement a pour fonction de s'assurer qu'une suite est donnée en temps voulu aux prêts défaillants de la banque. L'équipe s'occupe des procédures légales de recouvrement et à cette fin, elle a travaillé en étroite collaboration avec les avocats de la banque durant 2017. En raison d'effets négatifs sur l'économie et la communauté dans son ensemble, il y a eu davantage de prêts renvoyés à ce service de gestion au cours de 2017. Le personnel du service continue de travailler avec toutes les parties prenantes en vue, dans un premier temps, de trouver une issue qui saura être bénéfique aussi bien pour la banque que pour les clients.

RESSOURCES HUMAINES

Les activités clés menées en 2017 ont inclu le perfectionnement continu du personnel, la polyvalence des compétences par le biais de la rotation de postes et la formation interne organisée par le département des ressources humaines et d'autres cellules d'affaires en fonction des besoins en formation identifiés, ainsi que des stages de formation externes par l'intermédiaire du TAFE à l'UPS pour les cadres supérieurs et des formations avec AMPR/GARP en-ligne pour le personnel du service de la vérification interne.

Effectifs

A la fin du mois de décembre 2017, la banque employait directement 244 personnes au total, réparties comme suit :

Répartition	Sous-catégorie	Nbre d'effectifs	Pourcentage
Direction - général	Exécutif	10	4%
	Personnel général	234	96%
Expat-Ni Van	Ni-Vanuatu	238	98%
	Expat	6	2%
Genre	Féminin	107	44%
	Masculin	137	56%

La BNV est un employeur paritaire et s'efforce de maintenir l'équilibre entre les membres féminins et masculins de son personnel dans toute l'organisation. Le nombre d'employés à plein temps à la fin de 2017 s'élevait à 232.

Le roulement sur l'année a été de 5,89%, supérieur à l'année précédente à 2,7%, dont 0,37% consistait en des départs volontaires et 2,52% involontairement.

Embauche et rétention

Le taux d'embauche prévu au budget a atteint 100% en 2017 et ce dès septembre 2017.

Un examen des avantages et prestations du personnel sur l'ensemble de la banque a eu lieu en 2017 avec un retour d'information positif à tous égards de la part du personnel. L'examen du processus de recrutement de la banque s'est poursuivi en vue de parvenir à l'objectif d'améliorer les procédures en vigueur et aboutir à un excellent processus de recrutement, prenant en compte le temps nécessaire en moyenne pour trouver du personnel, les coûts d'embauche et le rendement des nouveaux employés pendant les six premiers mois de leur emploi.

Par ailleurs, la sous-traitance à une agence extérieure pour les postes supérieurs s'est révélée être utile et efficace.

Des remaniements internes se sont déroulés tout au long de l'année et ont conduit à l'avancement de membres Ni-Vanuatu du personnel à des postes supérieurs de supervision et de direction.

Prestations des employés

Par le biais du DRH, la banque veille à se conformer à la loi du travail (Chap. 160) en provisionnant les congés annuels du personnel et les indemnités d'ancienneté.

Formation

Un des objectifs stratégiques de la banque pour ses RH consiste à appliquer les meilleures pratiques de gestion des talents et en 2017, des stages de formation externes et internes ont continué pour les membres du personnel, y compris des cours TAFE à l'UPS, une formation sur la lutte contre le blanchiment de capitaux (LBC) pour les effectifs à la réception et une formation sur les risques et le contrôle des comptes par l'intermédiaire de GARP (Global Association of Risk Professionals ou Association mondiale des professionnels du risque, AMPR).

RESUME

Je tiens à saisir cette occasion pour remercier nos fidèles clients pour leur soutien tout au long de l'année 2017 et je me réjouis de continuer à travailler avec eux en 2018. Je tiens aussi à exprimer nos remerciements, de ma part et de la part de mon équipe de direction, à tout le personnel dévoué qui fait de cette banque une banque si spéciale.

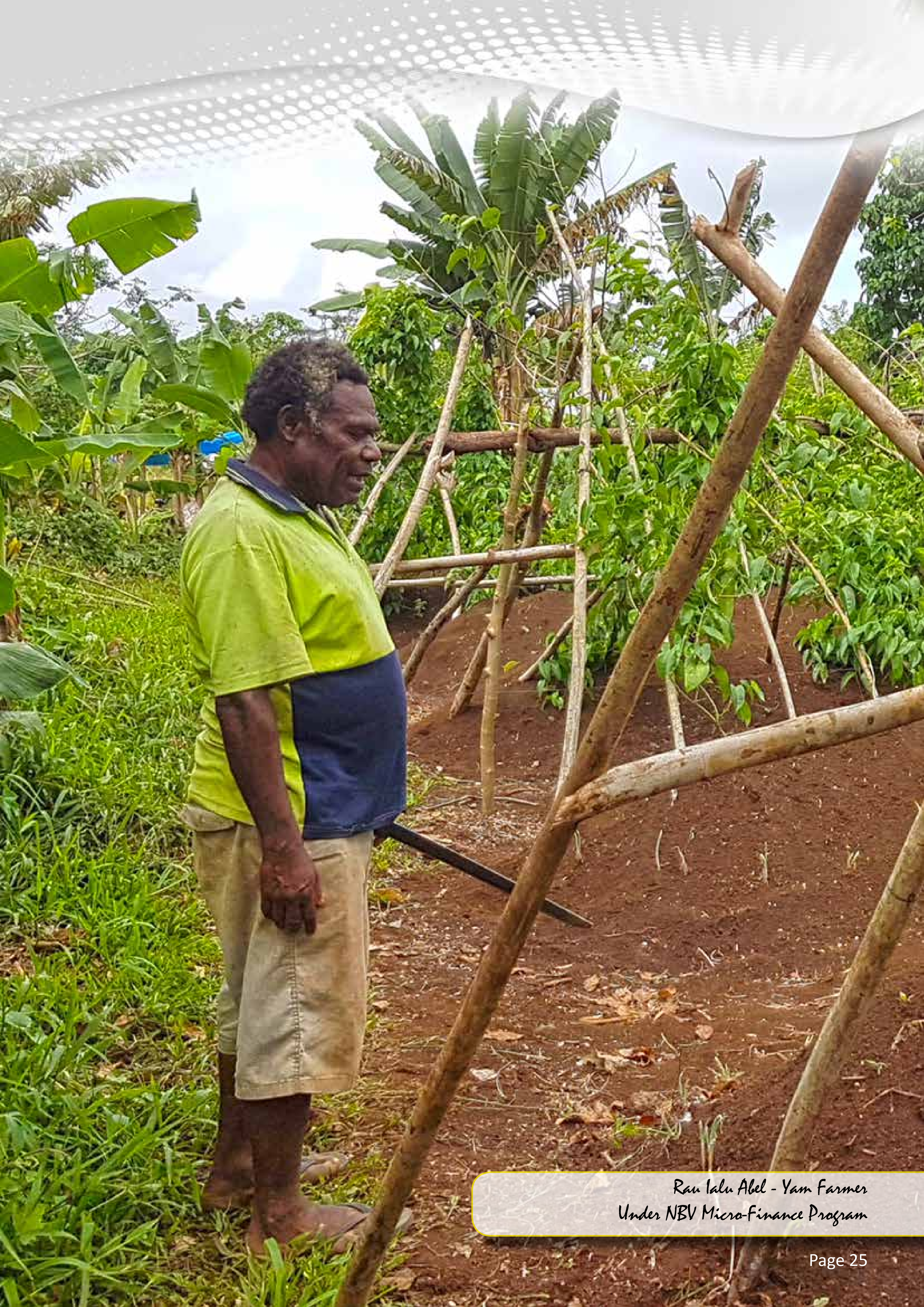
Geoff Toone
Directeur General et Administrateur Delegue BBUS (BKG & FIN)

FIVE YEAR SUMMARY

National Bank of Vanuatu
Five Year Summary

2013 - 2017

(Expressed in ' 000 Vatu)	2013	2014	2015	2016	2017	(Exprimé en '000 Vatu)
Profit & Loss						**Compte de résultat**
Interest income	994,462	1,049,354	1,035,346	1,132,039	1,262,171	Produits d'intérêts
Interest expense	(313,386)	(351,380)	(339,295)	(350,757)	(413,669)	Charges d'intérêts
Net Interest income	681,076	697,974	696,051	781,282	848,502	Intérêts nets
Other operating income	355,310	367,673	423,310	427,004	547,619	Autres produits d'exploitation
Provision for loan losses	(159,077)	(100,033)	(356,661)	(148,389)	(792,019)	Dotation aux provisions pour prêts douteux
Other operating expenses	(869,289)	(883,637)	(937,801)	(998,761)	(1,097,020)	Autres charges d'exploitation
Operating profit / (loss) before government grant	8,020	81,977	(175,101)	61,136	(492,918)	Bénéfice / (perte) d'exploitation avant subvention du gouvernement
Government grant	0	0	0	0	0	Subvention du gouvernement
Profit / (loss) for the year	8,020	81,977	(175,101)	61,136	(492,918)	**Bénéfice / (perte) de l'exercice**
Balance sheet						**Bilan**
Net loans and advances	10,030,980	10,482,459	11,103,346	12,107,976	12,922,982	Prêts et créances nettes sur la clientèle
Total assets	13,267,087	14,511,833	15,594,147	25,431,168	28,039,677	Total de l'actif
Customer deposits	11,204,928	12,331,618	13,363,361	23,413,775	26,439,131	Dépôts clients
Shareholders' funds(Equity)	1,514,917	1,596,894	1,421,793	1,482,929	990,011	Capitaux propres
Performance ratios						**Ratios mesurant la performance**
Return on shareholders' Funds (Equity) %	0.53	5.13	(49.79)	4.12	(49.79)	Retour sur fonds propres
Return on assets %	0.06	0.56	(49.79)	0.24	(1.76)	Rentabilité des actifs
Income growth %	131.09	4.98	2.94	6.88	16.08	Croissance des revenus
Prudential ratios						**Ratios de prudence**
Capital adequacy %	14.03	13.91	11.74	10.05	6.55	Suffisance du capital
Liquid asset ratio %	7.20	11.10	9.30	23.96	33.97	Ratio des liquidités



Rau Ialu Abel - Yam Farmer
Under NBV Micro-Finance Program

CORRESPONDENT BANKS

Australia
Commonwealth Bank of Australia,
Sydney

National Australia Bank Ltd,
Melbourne

National Australia Bank Ltd,
Sydney

Fiji
Westpac Banking Corporation,
Suva

Bank South Pacific,
Suva

Hong Kong
Bank of China,
Hong Kong

Japan
Bank of Tokyo Mitsubishi,
Tokyo

New Zealand
ASB Bank Limited,
Auckland

Westpac Banking Corporation,
Wellington

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

National Australia Bank Ltd,
Melbourne

National Australia Bank Ltd,
Sydney

Fidji
Westpac Banking Corporation,
Suva

Bank South Pacific,
Suva

Hong Kong
Bank of China,
Hong Kong

Japan
Bank of Tokyo Mitsubishi,
Tokyo

Nouvelle-Zélande
ASB Bank Limited,
Auckland

Westpac Banking Corporation,
Wellington

Bank of New Zealand,
Wellington

Papouasie Nouvelle-Guinée
Bank South Pacific,
Port Moresby

Tahiti
Banque de Tahiti
Papeete

Ilse Salomon
Bank South Pacific,
Honiara

BRANCH NETWORK

TORBA PROVINCE

Vanualava
Sola Branch
Gaua
Gaua Branch
Motalava
Motalava Branch

SANMA PROVINCE

Santo
Luganville Branch
Port Olry Branch

MALAMPA PROVINCE

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

PENAMA PROVINCE

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

SHEFA PROVINCE

Epi
Rovo Bay Branch
Tongoa
Morua Branch
Efate
Emua Branch
Port Vila Branch

TAFEA PROVINCE

Erromango
Ipota Branch
Tanna
Lenakel Branch
Whitesands Branch
Aneityum
Anelguhat Branch

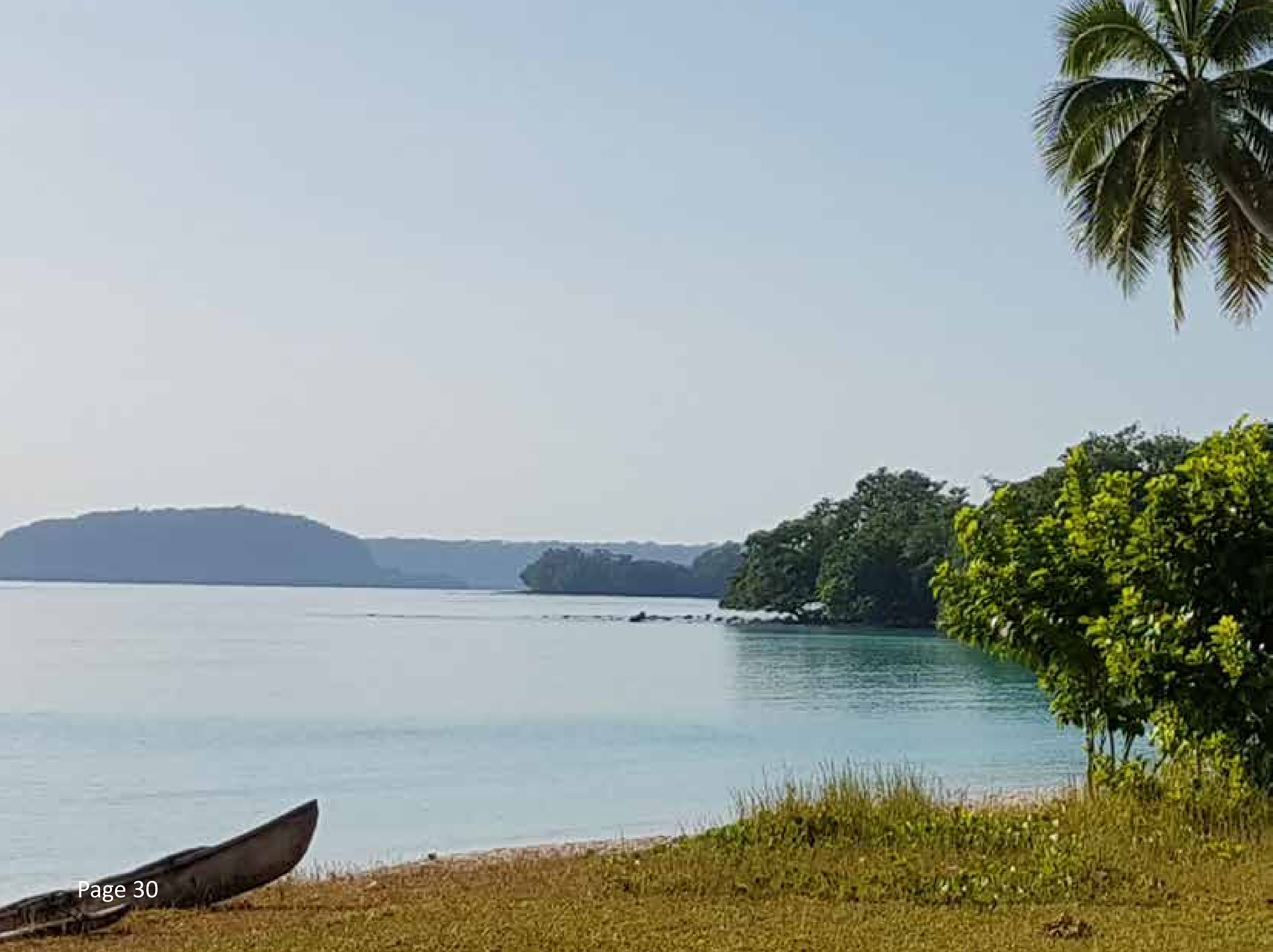
NBV Branches
Foreign Currency Exchange Agencies

BANK PRODUCTS

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

Bungalow in Port Olry, Santo
Under NBV Micro-Finance Program

FINANCIAL STATEMENTS



National Bank of Vanuatu Limited

Report of the directors
For the year ended 31 December 2017

The directors present their report together with the audited financial statements for the year ended 31 December 2017 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:

Director	Appointed	Resigned
Geoffrey Toone (Managing Director)	23/02/2017	-
Lindsay Barrett (Director and Chairman)	01/08/2012	-
Lindley Edwards (Director)	06/03/2013	-
Roan Lester (Director)	22/12/2016	-
Dorothy Ericson (Director)	02/02/2014	-
Jean-Francois Metmetsan (Director)	20/04/2016	-
Bob Hughes (Managing Director)	19/07/2012	23/02/2017

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 loss for the year was Vt492,918,000 (2016: profit of Vt61,136,000).

Reserves:

The directors propose that no transfer be made to reserves (2016 : Nil).

Dividends:

There were no divideds proposed for the financial period (2016 : Nil).

National Bank of Vanuatu Limited

Report of the directors (continued)
For the year ended 31 December 2017

Directors' benefits:

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

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

Directors' interests in contracts and related party transactions:

Directors serving during the year had no interests in contracts and related party transactions concerning the Bank.

Directors' declaration:

It is the responsibility of the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its statement of comprehensive income, statement of cashflows and statement of changes in equity for that year. In the directors' opinion, the financial statements for the year ended 31 December 2017 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 2017. 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, 24 April 2018

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 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 7 to 24.

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 2017, and of its financial performance and its cash flows for the year then ended in accordance 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.

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. 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.

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law partners

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

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

Auditors' responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole is 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. This description forms part of our auditor's report.

Law Partners

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

Jonathan Law
Partner
Port Vila
24 April 2018

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National Bank of Vanuatu Limited

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in '000 Vatu)

	Note	2017	2016
Interest income	4	1,262,171	1,132,039
Interest expense	5	(413,669)	(350,757)
Net interest income		848,502	781,282
Other operating income	4	547,619	427,004
Net banking income		1,396,121	1,208,286
Severance pay expense		(25,895)	(34,143)
Other operating expenses	5	(1,781,411)	(1,034,646)
Operating (loss) / profit for the year		(411,185)	139,497
Tax expense		(81,733)	(78,361)
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		(492,918)	61,136

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 39 to 54

National Bank of Vanuatu Limited

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in '000 Vatu)

	Issued & paid up capital	Share premium	Retained earnings	Total
2017				
Balance at the beginning of the financial year	857,140	172,361	453,428	1,482,929
Total comprehensive loss for the year	-	-	(492,918)	(492,918)
Dividends paid	-	-	-	-
Balance at the end of the financial year	857,140	172,361	(39,490)	990,011
2016				
Balance at the beginning of the financial year	857,140	172,361	392,292	1,421,793
Total comprehensive profit for the year	-	-	61,136	61,136
	857,140	172,361	453,428	1,482,929
Dividends paid	-	-	-	-
Balance at the end of the financial year	857,140	172,361	453,428	1,482,929

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 39 to 54

	Note	2017	2016
Assets			
Liquid assets	8	12,024,769	11,957,383
Net loans and advances to customers	9a	12,922,982	12,107,976
Investment securities	11	2,124,081	545,814
Other assets	12	300,312	467,461
Property, plant and equipment	13	667,533	352,534
Total assets		28,039,677	25,431,168
Liabilities			
Customers' accounts	14	26,439,131	23,413,775
Other liabilities	15	321,329	263,472
Provisions	16	289,206	270,992
Total liabilities		27,049,666	23,948,239
Equity			
Share capital	17	857,140	857,140
Share premium		172,361	172,361
Retained earnings		(39,490)	453,428
Total equity		990,011	1,482,929
Total liabilities and equity		28,039,677	25,431,168

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 39 to 54

Director **Director**

Port Vila, 24 April 2018

National Bank of Vanuatu Limited

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Expressed in '000 Vatu)

	Note	2017	2016
Cash flows from operating activities			
Interest received		1,247,498	1,155,247
Interest paid		(397,071)	(570,001)
Other cash receipts in the course of operations		535,839	409,863
Other cash payments in the course of operations		(1,049,905)	(1,083,109)
		336,361	112,000
Changes in operating assets and liabilities			
- Gross loans and advances to customers		(1,607,025)	(1,153,019)
- Customers' accounts		3,025,356	10,050,414
- Other assets		181,822	(135,386)
- Transit accounts		104,071	(65,785)
Net cash provided by operating activities	21	2,040,585	8,808,224
Cash flows from investing activities			
Net movement in investment deposits		(1,578,267)	(8,314)
Net payments for leasehold improvements, plant and equipment		(394,932)	(37,065)
Net cash used in investing activities		(1,973,199)	(45,379)
Cash flows from financing activities			
Net increase in cash and cash equivalents held		67,386	8,762,845
Cash and cash equivalents at beginning of the financial year		11,957,383	3,194,538
Cash and cash equivalents at the end of the financial year	8	12,024,769	11,957,383

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 39 to 54

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 except as explained in note 3 (a).

(a) Revenue recognition

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

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

Interest income and expense

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

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.

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	9 - 20%
Plant and equipment	20%
Computer system	20%

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

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

3. Significant accounting policies (continued)

(e) Provisions

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

Employee entitlements - Note 16

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

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

Vanuatu National Provident Fund (VNPF)
Employers contributions to the above fund are expensed as incurred.

(f) Cash and cash equivalents

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

(g) Financial instruments

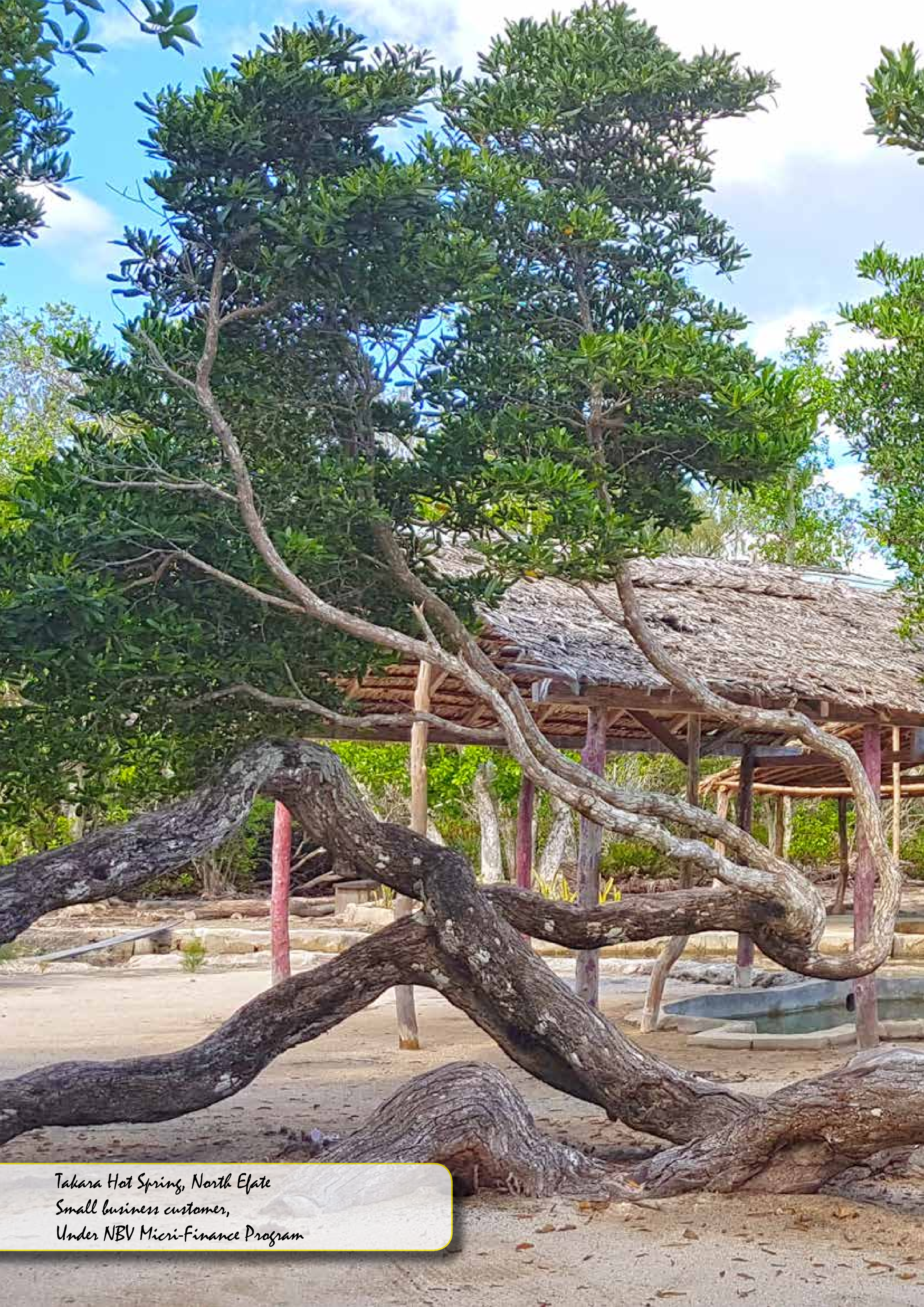
The Bank classifies its financial instruments into the following categories: loans and receivables, held to maturity assets and non-trading financial liabilities. The Bank currently has no financial assets at fair value through profit or loss.

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

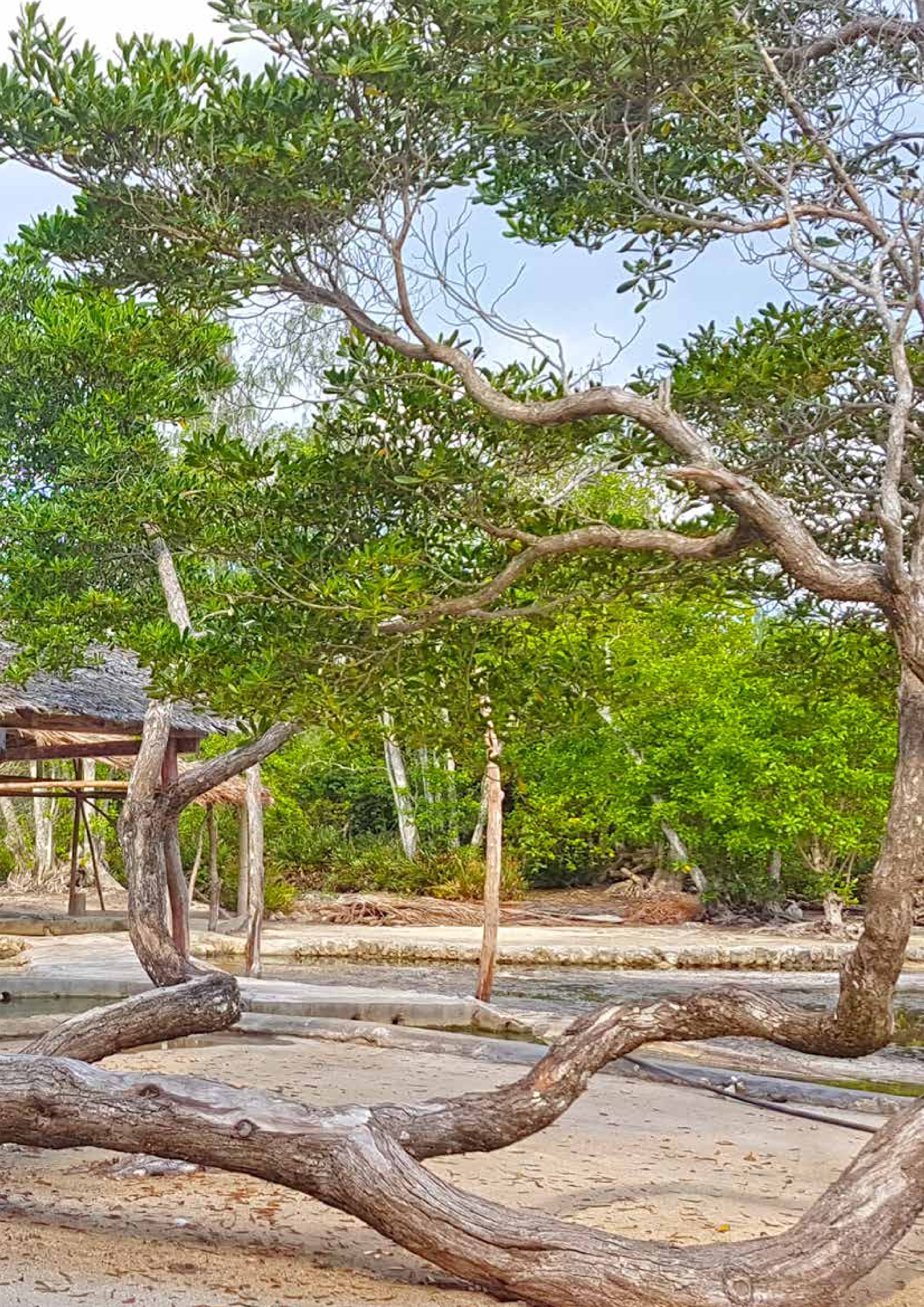
Loans and receivables comprise loans and advances to customers and are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective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

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

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



Takara Hot Spring, North Efate
Small business customer,
Under NBV Micri-Finance Program



3. Significant accounting policies (continued)

(g) Financial instruments (continued)

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

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

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

(h) Impairment of financial assets - Note 10

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

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

Impaired assets typically comprise the following :

- non-accrual assets where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal or interest, and

- restructured assets where the original contract terms have been formally modified to provide concessions of interest or principal for reasons related to the financial difficulties of the customer.

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

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

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

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

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

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

(Expressed in '000 Vatu)

3. Significant accounting policies (continued)

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

	Note	2017	2016
4. Income			
Interest income			
Loans and advances		1,180,121	1,080,001
Interbank foreign currency placing		44,728	13,553
Investment securities		37,322	38,485
		1,262,171	1,132,039
Other operating income			
Fees, charges and commissions (*)		304,156	268,053
Net foreign exchange earnings		225,127	129,302
Other income		18,336	29,649
		547,619	427,004

* 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.

	Note	2017	2016
5. Expenses			
Interest expense			
On deposits		413,597	350,506
Other accounts		72	251
		413,669	350,757
Other operating expenses			
Personnel expenses			
Salaries and wages		450,049	399,252
VNPF contributions		18,457	15,137
Other		87,737	84,301
		556,243	498,690
Other operating expenses			
Auditor's remuneration	6	2,500	2,200
Depreciation	13	79,933	88,011
Allowance for loan losses	10	792,019	148,389
Other expenses		350,716	297,356
		1,225,168	535,956
		1,781,411	1,034,646

6. Auditor's remuneration

	2017	2016
Amounts received or due and receivable by the Auditors of the Bank for :		
- Auditing the financial statements	2,500	2,200
- Other services	-	-
	2,500	2,200

(Expressed in '000 Vatu)

7. Segment analysis

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

Industry segments
General banking services

Products/service
Loans, overdrafts, current, savings and term deposits and foreign currency transactions

Geographical segments

The Bank operates predominantly in Vanuatu

	Note	2017	2016
8. Liquid assets			
Currency notes and coins		872,732	531,732
Balance with Reserve Bank (including regulatory deposits)		7,814,609	3,585,641
Due from other banks		3,337,428	7,840,010
		12,024,769	11,957,383

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

9. Loans and advances

9a. Net loans and advances to customers

	Note	2017	2016
Overdrafts		1,284,990	1,073,781
Loans		13,016,584	11,626,282
Total gross loans and advances		14,301,574	12,700,063
Allowance for impairment	10	(1,378,592)	(592,087)
Net loans and advances		12,922,982	12,107,976

Maturities of gross loans and advances are summarised as follows:

	2017	2016
Not later than 1 year	1,149,665	1,798,086
Between 1 and 2 years	730,633	641,475
Between 2 and 5 years	2,542,104	1,286,607
Later than 5 years	9,879,172	8,973,895
	14,301,574	12,700,063

Collateral held in respect of loans and advances that are impaired amounts is Vt1,101,585 (2016: Vt3,246,095).

(Expressed in '000 Vatu)

9. Loans and advances (continued)

	Note	2017	2016
9b. Gross loans and advances to customers past due but not impaired		9,903,878	3,276,092

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

		2017	2016
Not later than 1 year		248,957	705,878
Between 1 and 2 years		632,280	130,788
Between 2 and 5 years		1,953,665	168,499
Later than 5 years		7,068,976	2,270,927
		9,903,878	3,276,092
9c. Restructured gross loans and advances to customers		772,040	246,671

10. Allowances for impairment of loans and advances to customers

Collective allowances

	Note	2017	2016
Balance at beginning of the year		95,227	91,778
Charge to statement of comprehensive income	5	7,828	3,449
Total collective allowance		103,055	95,227

Individual allowances

	Note	2017	2016
Balance at beginning of the year		496,860	583,570
Charge to statement of comprehensive income	5	784,191	144,940
Loans written off / back		(5,514)	(231,650)
Total individual allowance		1,275,537	496,860
Total allowances for impairment of loans and advances to customers		1,378,592	592,087

11. Investment securities

Maturities of investment securities are summarised as follows :

	2017	2016
Not later than 1 year	1,736,581	100,000
Between 1 and 2 years	-	58,314
Between 2 and 5 years	287,500	287,500
Later than 5 years	100,000	100,000
	2,124,081	545,814

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

	2017	2016
Accrued interest receivable	125,493	110,820
Projects – in progress	20,741	300,107
Other assets	154,078	56,534
	300,312	467,461

(Expressed in '000 Vatu)

13. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Leasehold premises and improvements	128,884	(82,623)	46,261	128,261	(71,349)	56,912
Plant and equipment	968,502	(483,513)	484,989	667,246	(419,497)	247,749
Computer system	123,793	(123,676)	117	123,793	(123,660)	133
Leasehold land, building and improvements	169,088	(32,922)	136,166	77,403	(29,663)	47,740
Total	1,390,267	(722,734)	667,533	996,703	(644,169)	352,534

Movement in total property, plant and equipment

	2017				
	Opening carrying amount	Additions	Disposals/ writeoffs	Depreciation charge	Closing carrying amount
Leasehold premises and improvements	56,912	623	-	(11,274)	46,261
Plant and equipment	247,749	304,769	(2,151)	(65,378)	484,989
Computer system	133	-	-	(16)	117
Leasehold land, building and improvements	47,740	91,835	(144)	(3,265)	136,166
Total	352,534	397,227	(2,295)	(79,933)	667,533

(Expressed in '000 Vatu)

	2017	2016
14. Customers' accounts		
Current accounts	5,991,864	6,047,480
Savings accounts	6,101,459	7,986,108
Fixed term deposits	14,345,808	9,380,187
	26,439,131	23,413,775

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

Fixed term deposits	2017	2016
Not later than 1 month	8,010,416	102,482
Between 1 and 3 months	1,411,631	-
Between 3 and 12 months	4,423,212	-
Later than 1 year	500,549	9,277,704
	14,345,808	9,380,186

	2017	2016
15. Other liabilities		
Accrued interest payable	71,167	54,569
Transit accounts	98,919	65,772
Unearned income – lending fees	68,715	60,936
Unearned income – rural services grant	26,465	46,024
Due to other banks	34,345	26,543
Other	21,718	9,628
	321,329	263,472

	2017	2016
16. Provisions		
Current		
Annual leave provision	35,029	30,925
Other	23,469	25,431
Severance allowance	204,220	189,623
	262,718	245,979
Non-current		
Severance allowance	26,488	25,013
	289,206	270,992
Movement in severance allowance		
Balance at beginning of the year	214,636	210,278
Net charge to the income statement	25,895	34,143
Provision utilised	(9,819)	(29,785)
Balance at end of the year	230,712	214,636

(Expressed in '000 Vatu)

17. Share capital

	2017	2016
Authorised capital		
85,714 (2016: 85,714) ordinary shares of Vt10,000 each	857,140	857,140
Issued and paid-up capital		
85,714 (2016: 85,714) ordinary shares of Vt10,000 each, fully paid	857,140	857,140

The Government of Vanuatu holds 60,000 ordinary shares. Vanuatu National Provident Fund 12,857 ordinary shares and International Finance Corporation 12,857 ordinary shares.

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

Dividend
The directors have proposed no dividend will be paid out for 2017 (2016: Nil).

18. Commitments

Operating lease commitments

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

	2017	2016
Not later than 1 year	300,625	61,352
Between 1 and 2 years	55,000	112,983
Between 2 and 5 years	67,000	171,219
Later than 5 years	60,000	190,458
	482,625	536,012

19. Financial instruments

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

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

i) Gross loans and advances to customers; and

ii) Customers' accounts and deposits from credit institutions.

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

19. Financial instruments (continued)

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

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

Credit risk

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

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

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

Interest rate risk

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

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

Financial assets:

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

Financial liabilities:

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

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

Liquidity risk

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

19. Financial instruments (continued)

Details of income and expenses for financial instruments follows:

	2017		
	Carrying value	Interest income and expenses	Fees, charges and commissions
Loans and receivables			
Net loans and advances to customers	12,922,982	766,452	303,881
Held to maturity assets			
Investment securities	2,124,081	37,322	-

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

Capital risk management

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

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

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

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

20. Contingent liabilities and commitments

Contingent liabilities

Traditional off balance sheet risk instruments

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

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

(Expressed in '000 Vatu)

20. Contingent liabilities and commitments (continued)

	2017	2016
Bonds	31,698	27,381
Financial guarantees	-	52,822
Letters of credit	-	-
Commitments		
Capital expenditure	171,005	174,198
Undrawn facilities	57,264	98,454
	228,269	272,652

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

21. Notes to the statement of cash flows

Reconciliation of operating (loss) / profit to net cash flows from operating activities

	2017	2016
(Loss) / profit for the year	(492,918)	61,136
Non-cash items		
- Allowance for impairment and loans written off	792,019	148,389
- Depreciation	79,933	88,011
Net cash provided by operating activities before change in assets and liabilities	379,034	297,536
Change in assets and liabilities during the financial year		
- (Increase) / decrease in accrued interest receivable	(14,673)	23,208
- Increase in loans and advances	(1,607,025)	(921,369)
- Decrease / (increase) in other assets	181,822	(135,386)
- Increase / (decrease) in accrued interest payable	16,598	(19,244)
- Increase in deposits from customers and credit institutions	3,025,356	9,818,764
- Increase / (decrease) in other liabilities & provisions	59,473	(255,295)
Net cash provided by operating activities	2,040,585	8,808,214

22. Employees

The number of employees as at 31 December 2017 was 244 (2016: 233).

(Expressed in '000 Vatu)

23. Related parties

Transactions with directors and executive officers

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

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

	2017	2016
Director fees	2,853	3,196
Executive officers	154,535	145,176
	157,388	148,372

Loans to directors

Loans to directors and director-related entities outstanding as at 31 December 2017 was Vt91,474 (2016: Nil).

Loans to other officers and employees

Loans to other officers and employees outstanding as at 31 December 2017 totalled Vt963,835 million (2016: Vt855,452 million).

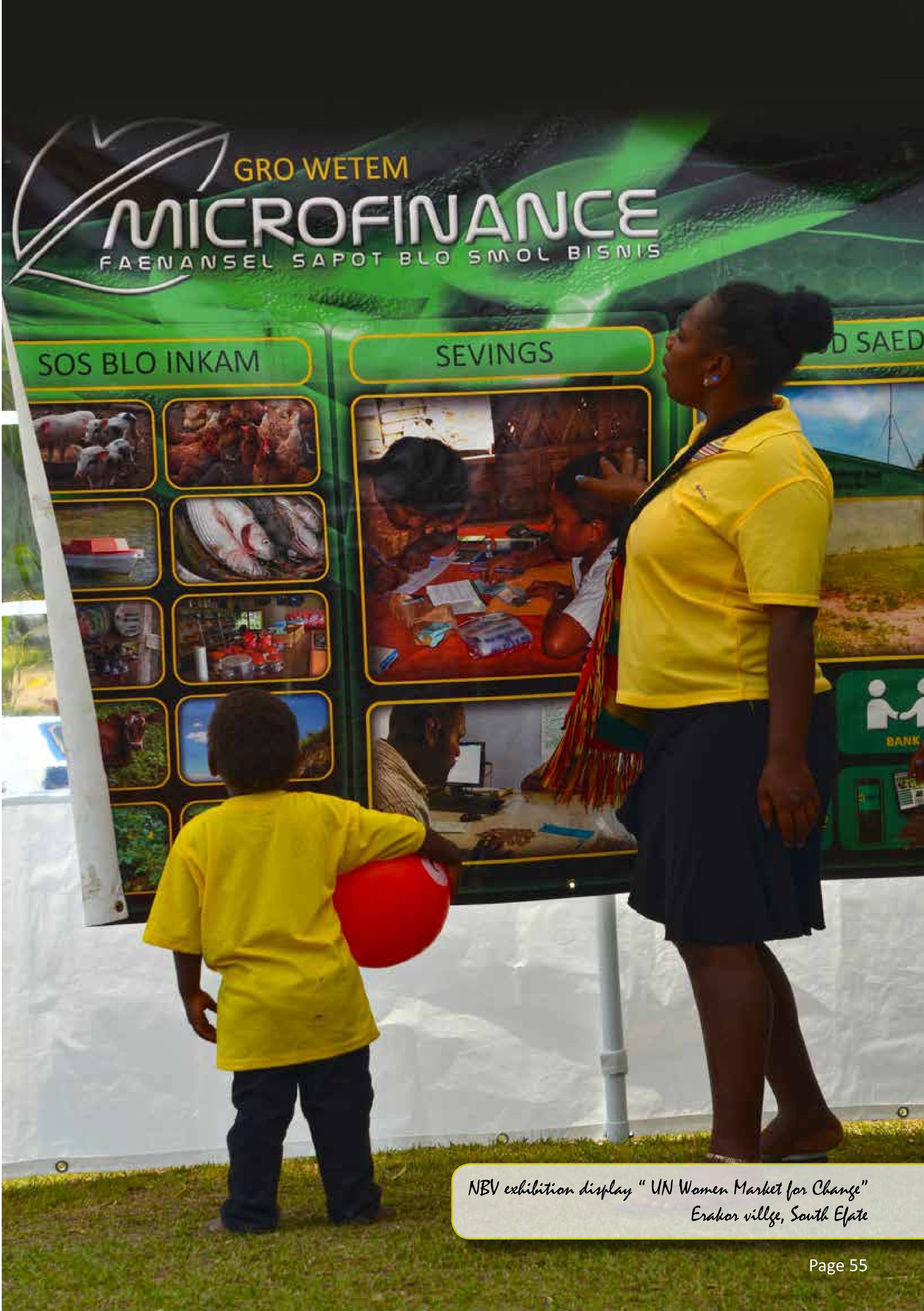
Shareholders

The Bank's shareholders are:

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

24. Post balance sheet events

No events have occurred since the balance date which would require any adjustments to or disclosure in the financial statements (2016: Nil).



NBV exhibition display " UN Women Market for Change"
Erakor villge, South Efate

CORPORATE GOVERNANCE

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

This Act was repealed and then gazetted on 19th October 2012 by the National Bank of Vanuatu (Restructuring) Act No. 3 of 2012. On the 16th November 2012 the company commenced operations under its new corporate structure with the subscription for new share capital from International Finance Corporation (a member of the World Bank Group) and the Vanuatu National Provident Fund. Upon completion of the restructure the Government of Vanuatu holds 70% of the issued shares, International Finance Corporation 15% and Vanuatu National Provident Fund 15%.
Upon commencement of operations of the NBV Ltd, the Board resolved to adopt a comprehensive set of Corporate Governance principles and policies to best reflect its Core Values of Honesty, Integrity, Responsiveness, Productivity and Economic Development.

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

BOARD OF DIRECTORS

The Board's primary role is to protect and enhance long-term Shareholder value whilst maintaining a strong focus on the economic development of Vanuatu. To fulfil this role, the Board is responsible for providing strategic guidance to NBV Ltd; monitoring and providing effective oversight of NBV Ltd management; overseeing NBV Ltd's risk management systems; and acting as an interface between NBV Ltd and its shareholders.

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

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

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

Membership and composition of the Board

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

Six of the board members shall comprise:

I. two to be nominated by the Government of Vanuatu (GoV):

the first shall be nominated on the recommendation of the Prime Ministerial Office

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. one may be nominated by Vanuatu National Provident Fund (VNPF);
II. one may be nominated by International Finance Corporation (IFC);
III. one shall be the Company's Managing Director; and
IV. one shall be nominated by the Finance Centre Association (FCA)

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

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

Chairman of the Board

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

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

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

Directors' Fees

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

- Chairman
- Deputy Chairman
- Non-Executive Directors

Board Performance Review

The Remuneration and Nomination Committee reviews the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director.
The Board is cognisant of the need to continually identify areas for improvement to ensure that it meets the highest standards of corporate governance and for the Board and each Director to make an appropriate contribution to the Company's objective of providing value to its stakeholders. The performance review is conducted annually and may involve external assistance.

Board and Board Committee Meetings

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

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

Relationship with Management

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

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

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

BOARD COMMITTEES

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

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

Board Audit Risk and Compliance Committee

The Board Audit Risk and Compliance Committee (BARCC) is comprised of three Non-Executive Directors who are duly appointed by the Board. The Chairman of the BARCC must be one of the Directors, other than the Chairman of the Board. The Chairman of the Board cannot sit on the BARCC.

Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Bank's Board.
The key responsibilities of this Committee include:

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

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

External Auditor

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

The Committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Reserve Bank of Vanuatu Prudential Guideline No 5 – Audit Arrangements, while ensuring their independence is in line with Board policy.
There is a review of the external auditor's proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditor to discuss any matters that the Committee or the external auditor believe, should be discussed privately. The external auditor attends meetings of the BARCC at which the external audit is an agenda item.

The Committee ensures that significant findings and recommendations made by the external auditor are received and discussed promptly, and that management responds to recommendations by the external auditor in a timely manner.
The duly appointed external audit firm may not be engaged by the company to provide specialist consultancy services relating to financial or strategic matters.

Internal Audit

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

The Committee meets separately with the internal auditor to discuss any matters that they or the internal auditor believe should be discussed privately. The Internal Auditor has direct access to the
BARCC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.
Internal Audit meets with the external auditor half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regard to internal audit's findings.

Compliance

The BARCC reviews the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations, and the Constitution of the Bank. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts, or non-compliance.
The Committee obtains regular updates from management, and the Bank's legal officers, regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.
Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the Board Audit Risk and Compliance Committee has the right to approach a Regulator directly in the event of a prudential issue arising.

Remuneration and Nomination Committee

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

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

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

Executives,

- review and make recommendations to the Board on employee remuneration and benefits
- policies and practices generally,
- engage external consultants as and when deemed appropriate to benchmark remuneration
- packages for Executives and Senior Management,
- review Board performance, tenure, and succession planning.

RISK MANAGEMENT

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

NBV Ltd identifies the following major risk areas:

- Governance Risk – The risk of failure of overall management through Board oversight and senior executives in directing and controlling the organization, using a combination of management information and hierarchical management control structures.
- Credit Risk - The potential for financial loss where a customer or counterparty fails to meet their financial obligation to the Bank.
- Market Risk - The potential financial loss arising from the Bank's activities in financial, including foreign exchange, markets. More detailed commentary on financial risk management is provided in the Notes to the published financial accounts.
- Liquidity Risk – The risk of failure to adequately meet cash demand in the short term without incurring financial losses.
- Interest Rate Risk - Risk to earnings from movement in interest rates.
- Operational Risk - The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal and compliance risk, and reputation risk.
- The Bank's Asset & Liability Committee monitors market risk, interest rate risk, and liquidity risk, and the Credit Committee monitors credit risk. Operational risk is managed at Business Unit level and a risk register system is in place across the bank. The Executive Committee and the Board overview the highest tier of risks within these risk registers.

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

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the bank's activities. Therefore, responsibility for overall risk management in NBV Ltd is vested with the Board. However, every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.
There is a formal system of financial and operational delegations from the Board to the Managing
Director, and from the Managing Director to the Executive Business Unit Heads. These delegations reflect the Bank's risk appetite, and are cascaded down to managers who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval, control and authorities limits) and reporting and monitoring requirements for the risk management process. The severity of risks identified in

the risk identification, analysis and evaluation processes, and noted in the Business Unit
Risk Registers, is used to determine the approval, control and authority limits. The Board reviews these risk limits annually along with an annual review of the bank's significant risks.

The Board has also delegated to the BARCC responsibility for overview of loss control and for overseeing the risk management function.
The BARCC is responsible for providing regular reports and recommendations to the Board on the risk management activities of the Bank, especially relating to risk issues that are outside the authority of the Bank's Executive Management to approve.

ETHICAL BEHAVIOUR

The Bank acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking company business. To this end, the Board has adopted a Corporate Mission, Objectives and Core Values Statement, which establish principles to guide all employees in the day-to-day performance of their individual functions within the Company.
NBV Ltd is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct.

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

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

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

SOCIAL & ENVIRONMENT MANAGEMENT SYSTEM POLICY

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

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

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

National Bank
Vanuatu's Own Bank

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