National Bank

*Vanuatu's Own Bank*

# ANNUAL REPORT

# 2018

We are Vanuatu

# OUR VISION & OUR MISSION

## VISION

To be:

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

## MISSION

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


VANUATU

# BANK VALUES

### 01 RESPONSIVENESS
RESPONDING TO CUSTOMER IN A TIMELY MANNER

### 02 TRUSTWORTHINESS
BEING HONEST AND RELIABLE. TAKING RESPONSIBILITY

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

### 04 LEARNING
TAKING INITIATIVE TO DEVELOP & GROW

### 05 WORKING TOGETHER
WORKING TOGETHER TO ACHIEVE A COMMON GOAL


# Banking & Community

# BOARD OF DIRECTORS

**LINDSAY BARRETT** CA (NZ) TEP
CHAIRMAN
Appointed to Board in 2010
*Managing Partner Barret & Partners, Port Vila, Vanuatu*

**GEOFF TOONE**
BBUS (Bkg & Fin), GCM, F FIN, GAICD, MAIPM, AMAMI
MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER
Appointed to Board in 2017

**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*

**ALAIN LEW**
DIRECTOR
Appointed to board in 2018
*Managing Director, Port Vila Hardware*

**HENDRICKSON MALSOKLE**
BA (Econ)
Appointed to Board in 2018
*Executive Officer, Ministry of Finance & Economic Management*

**JEAN-FRANCOIS METMETSAN**
Appointed to Board in 2016
*Executive Officer, 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
RURAL BANKING
& FINANCIAL INCLUSION
Joined the National Bank in 2009

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

**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
CHIEF RISK OFFICER
Joined the National Bank in 2017

**STEVE BUCHANAN**
CHIEF CREDIT OFFICER
Joined the National Bank in 2012

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

**ANTONIO BAKEO**
GROUP TREASURER
Joined the National Bank in 2001

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# REPORT FROM NBV CHAIRMAN

It is my pleasure, on behalf of Board of Directors, to deliver the 2018 Annual report.

In the 2017 Annual Report I made a number of remarks around a slow recovery towards the end of 2018. In prior annual reports I have made mention of the impaired loan position and how it was having a negative impact on the Bank's performance. The positive aspects in 2018 have been a clean and crisp strategy of Balance Sheet stabilisation and direct action associated with the impaired loan position. I have seen a wide range of positive activities over 2018 from the management team, which has resulted in a markedly improved performance by the Bank.

I was pleased to see the Port Vila International Airport works accelerate in 2018 because I know from my decades of business experience how key this is to Vanuatu's long term future. These works along with other positive signs in our tourism industry and our customer base give me confidence for our bank as I look into the future.

In 2017 I forecast a slow and steady recovery across the economy provided the economy remained stable. I use this report to encourage our government's legislators to carefully consider changes to tax collection methods and foreign investment rules, as these could have a profound negative impact on Vanuatu's financial stability. We are in a market where we are in active competition for investment funds across the Pacific and beyond.

The board remains very proud of the focussed commitment of management surrounding financial literacy for all Ni-Vanuatu. Our financial literacy is second to none.

Finally, the Board recognises and very much appreciates the ongoing support of our fast-growing customer base.

I also take this opportunity to thank staff and management for making such a difference in 2018.

Lindsay Barrett CA (ANZ) TEP
Chairman

# RIPOT BLONG NBV JEAMAN

Long bihaf blong Bod blong ol Daerektas, mi glad tumas mo gat hona ya blong dilivarem Anuel Ripot blong yia 2018.

Insaed long 2017 Anuel Ripot, mi bin mekem sam rimaks we i riflektem wan slo rikaveri period we i hapen tuwods end blong yia 2018. Long ol las Anuel Ripot mi bin mensenem posisen blong Impaired Lon mo olsem wanem i stap riflektem neketif impakt blong pefomens blong bank.

Posetif lukluk blong 2018 hem i bin wan klin mo kwik strateji blong Balanced Sheet mo daerekt aksen we i asosiet wetem Impaired Lon Posisen.

Mi bin luk plante positif aktiviti we oli hapen long yia 2018 tru long Manejmen Tim we risalt blong hem i soemaot klia se bank i bin riflektem wan Impruv Pefomens.

Mi glad tumas blong luk se long 2018, ol wok blong Intenasonal Eapot i stap kam antap kwiktaem. From plante yia experians blong mi long saed blong bisnis, mi stap konfem se hemia nao stamba ki blong posetif mo long-tem fuja divelopmen blong Vanuatu.

Ol wok ya oli kavaremap ol narafala positif saen inkludim turisim indastri mo kastoma beis blong yumi, ol divelopmen ya i givim konfidens long mi tuwods bank blong yumi taem mi stap fokas i go long fuja.

Long 2017, mi fokasetem wan slo mo stedi rikaveri blong ful ekonomi we i soem se ekonomi i stap long wan stedi mo stebol level.

Mi stap yusum ripot ya blong engarejem ol pipol blong gavman we oli stap mekem ol loa blong olgeta i mas kefuli konsidarem ol jenses blong ol fasin blong Tax Koleksen mo ol Foren Investmen Rul from we ol loa ya oli save givim bigfala neketif impakt long Vanuatu faenansel stabiliti. Yumi stap insaed long maket we evriwan i stap patisipet long wan strong kompetisen blong Investmen Fund we i kavaremap evri kantri blong Pasifik mo aotsaed wol.

Bod i praod tumas blong aknolejem strong komitmen blong Manejmen Tim long eria bong Faenansel Litresi blong evri idividuel ni-Vanuatu. Ol trening kos program blong yumi hem i nambawan.

Faenali, Bod i wantem aknolejem mo aprisietem tumas on-going divelopmen blong fast growing Kastoma Beis blong yumi.

Mi wantem tekem opotuniti ya tu blong talem bigfala tangkiu long ol staf mo manejmen blong yumi evriwan i save mekem difrens long yia 2018.

Lindsay Barrett CA (ANZ) TEP
Jeaman

# RAPPORT DU PRESIDENT DU CONSEIL D'ADMINISTRATION DE LA BNV

J'ai le plaisir de présenter le rapport annuel de l'exercice 2018 au nom du conseil d'administration.

Dans le rapport annuel de l'exercice 2017, j'avais fait quelques remarques concernant une reprise en douceur sur la fin 2018. Dans des rapports antérieurs, j'avais mentionné la situation au plan des prêts défaillants qui avait un impact défavorable sur le rendement de la banque. Une stratégie claire et nette de stabilisation du bilan et une action directe liée à la situation des prêts défaillants sont des mesures positives prises en 2018. Je constate qu'il y a eu un vaste éventail d'activités positives menées tout au long de 2018 par l'équipe de direction, lesquelles ont abouti à un rendement nettement meilleur pour la banque.

J'ai été ravi de voir que les travaux à l'aéroport international de Port-Vila se sont accélérés en 2018 parce que je sais, fort des décennies d'expérience que j'ai acquise, combien cet aéroport est important pour l'avenir du Vanuatu au long terme. Ces travaux, assortis d'autres indicateurs positifs dans notre industrie touristique et de notre base de clients, suscitent en moi une confiance en l'avenir pour notre banque.

En 2017, j'avais prédit une reprise lente mais constante de toute l'économie dans son ensemble, à condition d'avoir un environnement stable. Je profite de ce rapport pour inviter les législateurs de notre gouvernement à bien réfléchir avant d'apporter des changements aux méthodes de perception des taxes et aux règles applicables aux investissements étrangers, car ceux-ci pourraient avoir un impact extrêmement nuisible sur la stabilité financière du pays. Nous opérons dans un marché où la concurrence est rude pour attirer des investissements, non seulement dans la région du Pacifique, mais aussi au-delà.

Le conseil d'administration continue d'être fier de l'engagement de la direction focalisé sur la littératie financière pour tous les Ni-Vanuatu. Nos programmes de cours n'ont pas leur pareil.

Pour clore, le conseil d'administration reconnaît et apprécie énormément le soutien continu de notre clientèle en pleine expansion.

Je tiens aussi à profiter de cette occasion pour remercier le personnel et la direction pour tous les efforts déployés en 2018.

Linsay Barrett CA (ANZ) TEP
Conceil D'administration de la BNV

NBV staff at Saratamata Branch
Ambae Mass Evacuation

Mr Geoff Toone
Managing Director & Chief Executive Officer

# REPORT FROM THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Last year I gave a division by division outline of the Bank. This year I wanted to give a view of the Bank through a different lens. The Bank reported a positive result this financial year. Our balance sheet repair program remains on track as we move into 2019. I have been very pleased to see the positive impact our people have made across all provinces.

There has been a lot to consider by our Bank in 2018. Our people have continued to thrive because of what we do for our customers and communities in which we operate. Our actions have built an unparalleled level of trust and customer advocacy. I believe this customer advocacy is a stand out amongst our competitors.

I feel we have achieved this because our customers are at the heart of every staff member and etched in our strategy. Our desire to improve all aspects of customer service has shown through during the year. We have seen additional ATMs deployed in the network. We have seen significant improvements in customer's choosing to move over to electronic banking channels from paper based. We have seen significant improvements in loan turnaround times.

We know banking is about trust. We feel privileged every day that customers across our network trust us with their financial transactions. We do not take this trust for granted and make proactive actions to ensure our customers understand how to get the best out of their relationship. With this we are confident in providing a brighter future for our customers and their families. We are extremely proud of our customer focussed culture and remain supremely confident in our Bank leading the way across every province.

Our Bank is also very pleased with our hard earned reputation, our commitment to making a difference and our key role in lifting Vanuatu's ongoing economic prosperity.

We have had a special place in Vanuatu society over many years based on our financial literacy programs. Our programs are highly respected amongst local communities as to the practical skills and knowledge they impart to participants. These programs are also recognised by peers around the Pacific as being effective and educational. Such financial literacy programs have taken place in every province this year with an absolute commitment that such programs will continue into 2019.

I would like to thank our people for their amazing efforts in making the Bank a customer focused Bank. I called out the great work our people did in 2017. I have been speechless as to the ongoing stories across 2018 that show just how extraordinarily committed our team is to the communities we serve every day.

The Bank now sets course for 2019. 2019 will be another fascinating year on global financial markets with Brexit, changing U.S.A.- China trade conditions, political instability in South America, an election in Australia and ongoing discussions of financial bubbles around the globe. Using this as our backdrop we expect to see domestic conditions remain highly liquid.

Geoff Toone - BBUS (Bkg & Fin), GCM, F FIN, GAICD, MAIPM, AMAMI

Managing Director & Chief Executive Officer

# RIPOT BLONG JIF EXEKUTIF OFISA & MANEJING DAEREKTA

Long las yia, mi bin givim divisen by divisen aotlaen blong bank. Be long yia ya, mi wantem givim wan lukluk blong bank we hem i lukluk blong kavremap ol narafala eria. Bank hem i ripotem wan risalt se yia ya hem i wan posetif faenansel yia.

Balens Sheet Ripea Program blong yumi i stap kontinu blong ron long sem rod kasem taem naoia we yumi stap muv i go insaed long 2019. Mi glad tumas blong luk positif impakt long ol pipol blong yumi truaot long evri provins blong kantri.

Long 2018, bank blong yumi i bin gat plante tingting blong hem i konsidarem. Ol pipol blong yumi i kontinu blong kam antap folem wanem we yumi bin mekem blong ol kastoma blong yumi mo ol komunti we yumi stap operet long olgeta. Ol aksen blong yumi i stap bildim wan difren level blong trast mo kastoma advokasi. Mi bilif se kastoma advokasi hem i wan aotstanding strateji blong yumi komperem yumi wetem ol narafala kompetita blong yumi.

Mi bilif se yumi bin ajivim gol blong yumi ya, from ol kastoma blong yumi oli stap olsem ol praeoriti blong evri memba blong staf mo folem wanem we strateji blong yumi i aotlaenem. Yumi bin pefom mo soemaot truaot long yia ya, bigfala diasea blong yumi impruvum evri aspekt blong kastoma seves. Yumi luk diploimen blong ol ATM masin long ol netwok blong yumi. Yumi luk bigfala impruvmen blong ol kastoma we oli jusum blong muvaot long pepa sistem mo muv i go insaed long sistem blong eletronik banking janel.

Yumi luk gudfala impruvmen blong ol program blong yumi.

Yumi save se banking hem i ol abaot trast. Evridei, yumi fil privelej from we evri kastoma blong yumi oli trastem yumi wetem faenansel transaksen blong olgeta. Yumi no tekem trast ya blong nating be yumi mekem ol proaktif aksen blong mekem sua se ol kastoma blong yumi oli andastanem olsem wanem blong olgeta oli save haremgud olsem risalt blong rilesensip blong olgeta. From risen ya, yumi gat konfidens blong provaedem wan gud fuja blong ol kastoma mo ol famlis blong olgeta.

Yumi gat hona mo praod tumas long kastoma fokas kalja sistem blong yumi mo yumi haeli konfident long banking lending program blong yumi we i kavremap evri provins blong kantri.

Bank blong yumi tu, hem i glad tumas long gudfala reputesen mo komitmen blong yumi mo ki rol blong yumi we hem i blong leftemap on-going ekonomik prosperiti long Vanuatu.

Yumi gat wan sepsel ples insaed long Vanuatu sosaeti folem plante yia we hem i beis blong ol faenansel litresi program blong yumi. Ol lokol komuniti oli haeli rispektem ol program blong yumi we i kavaremap ol praktikol skils mo nolej we oli ol tul blong ikwipim ol patisipen. Ol trening program blong yumi ya tu i atraktem rekoknisen mo konsidaresen blong ol fren kantri truaot long Pasifik olsem ol efektif mo edukesenal trening program.

Sem kaen faenansel litresi program ya, yumi bin ranem long evri provins long yia ya wetem strong komitmen se ol program ya bambae i kontinu i go kasem 2019.

Mi wantem tekem janis ya blong talem bigfala tangkiu i go long evri pipol from ol bigfala efot blong olgeta we i save mekem se bank ya i kam wan kastoma fokas bank.

Mi salutum bigfala wok we ol pipol blong yumi oli bin mekem long yia 2017. Mi no save talemaot evri singkel gudfala storian we oli hapen long yia 2018 we oli soemaot klia ol bigfala mo strong komitmen blong Manejmen Tim blong yumi we oli demonstretem i go tuwods ol komuniti mo ol pipol we yumi provaedem ol seveses i go long olgeta evridei.

Naoia bank i droemap ol plan blong yia 2019 finis. 2019 bambae hem i wan gudfala atraktif yia blong ol global faenansel maket inkludim BREXIT, USA - JAENA, Tred Kondisen, Politikel Instabiliti, Saot Amerika, wan eleksen long Ostrelia, inkludim ongoing faenansel diskasen blong faenansel kraeses we i stap hapen raon long wol. Yumi yusum opotuniti ya olsem wan back drop we yumi expektem blong luk domestik kondisen blong yumi i rimen long wan haeli stebol level.

Geoff Toone

BBUS (Bkg & Fin), GCM, F FIN, GAICD, MAIPM, AMAMI

Manejing Daerekta mo Jif Exekutif Ofisa

# RAPPORT DU DIRECTEUR GENERAL ET ADMINISTRATEUR DELEGUE

L'année dernière, j'ai donné un tour d'horizon de la banque section par section. Cette année, j'aimerais porter un autre regard sur la banque. Elle affiche des résultats positifs pour cet exercice. Notre programme de redressement du bilan est en bonne voie à l'aube de 2019. Je suis très content de l'impact positif que notre personnel a eu dans toutes les provinces.

Notre banque a eu beaucoup de choses à prendre en considération en 2018. Nos gens ont continué de prospérer grâce à ce que nous faisons pour nos clients et les communautés où nous sommes présents. Nos actions ont suscité un degré de confiance et de protection de la clientèle sans précédent. Je pense que la banque se distingue parmi nos concurrents par cette défense de nos clients.

Je crois que nous y sommes parvenus parce que nos clients sont au coeur de chaque membre du personnel et gravés dans notre stratégie. Notre volonté d'améliorer tous les aspects du service clientèle s'est manifestée tout au long de l'année. Nous avons vu des DAB supplémentaires installés un peu partout sur le réseau. Nous avons constaté des avancées considérables où les clients ont choisi de passer à la banque électronique et d'abandonner le système papier. Nous avons vu des améliorations considérables dans le temps de redressement des prêts.

Nous savons que tout ce qui touche à la banque est une question de confiance. Nous nous sentons privilégiés de ce que tous les jours, sur l'ensemble de notre réseau, les clients nous confient leurs opérations financières. Nous ne prenons pas cela pour argent comptant et déployons des mesures proactives pour nous assurer que les clients

comprennent comment tirer le meilleur parti de leur relation avec nous. Nous sommes confiants, de ce fait, de pouvoir apporter un avenir meilleur à nos clients et leurs familles. Nous sommes particulièrement fiers de notre culture focalisée sur la clientèle et nous restons suprêmement confiants que notre banque saura prendre la tête dans toutes les provinces.

En outre notre banque est très contente de sa réputation durement acquise, de son engagement à faire une différence et du rôle essentiel qu'elle joue en contribuant à la prospérité économique du pays.

Nous occupons une place particulière dans la société vanuataise depuis bien des années grâce à nos programmes de littératie financière. Ceux-ci sont vraiment appréciés par les communautés en raison des connaissances et aptitudes pratiques que les participants peuvent acquérir. Ces programmes sont reconnus par les pairs dans toute la région du Pacifique pour leur efficacité au plan éducatif. Ces programmes de littératie financière ont été menés dans chaque province cette année et la banque s'est engagée à les poursuivre en 2019.

Je tiens à remercier les membres de notre personnel pour les efforts remarquables dont ils ont fait preuve pour que la banque soit bien focalisée sur la clientèle. J'ai déjà applaudi leurs efforts en 2017. Je suis enchanté des récits dont on a parlé tout au long de 2018 qui montrent combien notre équipe est dévouée et engagée auprès des communautés que nous desservons au quotidien.

La banque a maintenant mis le cap sur l'exercice 2019. Ce sera une nouvelle année fascinante sur les marchés financiers mondiaux avec le Brexit, l'évolution des relations commerciales entre les Etats-Unis et la Chine, l'instabilité politique en Amérique du Sud, les élections en Australie et les discussions en cours concernant des bulles spéculatives un peu partout dans le monde. Sur cette toile de fond, nous nous attendons à ce que le taux de liquidité sur le marché intérieur reste élev

Geoff Toone

BBUS (Bkg & Fin), GCM, F FIN, GAICD, MAIPM, AMAMI

Directeur General et Administrateur Delegue

# FIVE YEAR SUMMARY

National Bank of Vanuatu
Five Year Summary

2014 - 2018

| (Expressed in ' 000 Vatu) | 2014 | 2015 | 2016 | 2017 | 2018 | (Exprimé en '000 Vatu) |
|---|---|---|---|---|---|---|
| **Profit & Loss** | | | | | | **Compte de résultat** |
| Interest income | 1,049,354 | 1,035,346 | 1,132,039 | 1,262,171 | 1,630,236 | Produits d'intérêts |
| Interest expense | (351,380) | (339,295) | (350,757) | (413,669) | (367,365) | Charges d'intérêts |
| Net Interest income | 697,974 | 696,051 | 781,282 | 848,502 | 1,262,871 | Intérêts nets |
| Other operating income | 367,673 | 423,310 | 427,004 | 547,619 | 585,943 | Autres produits d'exploitation |
| Provision for loan losses | (100,033) | (356,661) | (148,389) | (792,019) | (302,916) | Dotation aux provisions pour prêts douteux |
| Other operating expenses | (883,637) | (937,801) | (998,761) | (1,097,020) | (1,223,421) | Autres charges d'exploitation |
| Operating profit / (loss) before government grant | 81,977 | (175,101) | 61,136 | (492,918) | 322,477 | Bénéfice / (perte) d'exploitation avant subvention du gouvernement |
| Government grant | 0 | 0 | 0 | 0 | 0 | Subvention du gouvernement |
| **Profit / (loss) for the year** | 81,977 | (175,101) | 61,136 | (492,918) | 322,477 | **Bénéfice / (perte) de l'exercice** |
| **Balance sheet** | | | | | | **Bilan** |
| Net loans and advances | 10,482,459 | 11,103,346 | 12,107,976 | 12,922,982 | 13,886,610 | Prêts et créances nettes sur la clientèle |
| Total assets | 14,511,833 | 15,594,147 | 25,431,168 | 28,039,677 | 35,393,433 | Total de l'actif |
| Customer deposits | 12,331,618 | 13,363,361 | 23,413,775 | 26,439,131 | 33,427,641 | Dépôts clients |
| Shareholders' funds(Equity) | 1,596,894 | 1,421,793 | 1,482,929 | 990,011 | 1,312,488 | Capitaux propres |
| **Performance ratios** | | | | | | **Ratios mesurant la performance** |
| Return on shareholders' Funds (Equity) % | 5.13 | (12.32) | 4.12 | (49.79) | 24.57 | Retour sur fonds propres |
| Return on assets % | 0.56 | (1.12) | 0.24 | (1.76) | 0.91 | Rentabilité des actifs |
| Income growth % | 4.98 | 2.94 | 6.88 | 16.08 | 22.46 | Croissance des revenus |
| **Prudential ratios** | | | | | | **Ratios de prudence** |
| Capital adequacy % | 13.91 | 11.74 | 10.05 | 6.55 | 8.11 | Suffisance du capital |
| Liquid asset ratio % | 11.10 | 9.30 | 23.96 | 33.97 | 35.31 | Ratio des liquidités |

Chris Bule - Water Melon Farmer
NBV Micro-Finance Program

# CORRESPONDENT BANKS

**Australia**
Commonwealth Bank of Australia,
Sydney

National Australia Bank Ltd,
Melbourne

**Fiji**
Westpac Banking Corporation,
Suva

Bank South Pacific,
Suva

**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

**Fidji**
Westpac Banking Corporation,
Suva

Bank South Pacific,
Suva

**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

# National Bank

*Vanuatu's Own Bank*

## OUR 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

OUR BRANCH NETWORK

# IsiNet

Wherever, Whenever

## Hemi helpem yu kwik taem blong...

- Pem skul fi
- Transferem mani
- Mekem standing oda
- Pem laet, wota mo rent

**Hemi Isi! Hemi Kwik! Hemi sef!**

# BANK PRODUCTS

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

Yumi Vanuatu

# FINANCIAL STATEMENTS



**National Bank of Vanuatu Limited**

**Report of the directors**
**For the year ended 31 December 2018**

The directors present their report together with the audited financial statements for the year ended 31 December 2018 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 | Meetings | Attended |
|---|---|---|---|---|
| Geoffrey Toone (Managing Director) | 23/02/2017 | - | 5 | 5 |
| Lindsay Barrett (Director and Chairman) | 19/07/2012 | - | 5 | 5 |
| Lindley Edwards (Director) | 06/03/2013 | - | 5 | 5 |
| Jean-Francois Metmetsan (Director) | 20/04/2016 | - | 4 | 3 |
| Alain Lew (Director) | 19/06/2018 | - | 2 | 2 |
| Henrickson Malsokle (Director) | 06/11/2018 | - | 0 | 0 |
| Dorothy Ericson (Director) | 12/02/2014 | 23/01/2018 | 0 | 0 |
| Roan Lester (Director) | 22/12/2016 | 19/06/2018 | 3 | 3 |
| Tony Sewen (Director) | 15/05/2018 | 06/11/2018 | 2 | 0 |

**Principal activities:**

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

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

**State of affairs:**

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

**Result:**

The operating profit for the year was Vt 322,477,000 (2017: loss of Vt 492,918,000).

**Reserves:**

The directors propose that no transfer be made to reserves (2017: Nil).

**Dividends:**

There were no divideds proposed for the financial period (2017: Nil).

**National Bank of Vanuatu Limited**

**Report of the directors (continued)**
**For the year ended 31 December 2018**

**Directors' benefits:**

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

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

**Directors' declaration:**

It is the responsibility of the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its statement of comprehensive income, statement of cashflows and statement of changes in equity for that year. In the directors' opinion, the financial statements for the year ended 31 December 2018 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 2018. 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, 26 March 2019

Director

Director

law partners

CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

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

**Qualification**

IFRS 9: Financial Instruments became effective as of 1 January 2018 and is applicable to the National Bank of Vanuatu Limited for its current reporting financial year ended 31 December 2018. The Bank was not in a position to adopt IFRS 9 due to the complexity and resources required to meet all requirements for initial application of IFRS 9 including classification and measurement of financial assets and financial liabilities and the new requirements for the impairment of financial assets.

We are therefore unable to express an opinion on the provision for impairment figure to the extent that any adjustment to this amount would have an impact on both the statement of financial position and the statement of comprehensive income. We have obtained all other information and explanations that we have required.

**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 2018, 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 33 to 47

In our opinion, subject to the qualification stated above, 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 2018, 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.

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CHARTERED ACCOUNTANTS AND BUSINESS ADVISERS

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

**Responsibilities of directors for the financial statements**

The directors of the company are responsible for:

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

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

Our objectives are:

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

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

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. A further description of our responsibilities for the audit of the financial statements is located at the website https://www.ifac.org/system/files/publications/files/ISA-700-Revised_3.pdf. 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
27 March 2019

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**National Bank of Vanuatu Limited**

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
*(Expressed in '000 Vatu)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| Interest income | 5 | 1,630,236 | 1,262,171 |
| Interest expense | 6 | (367,365) | (413,669) |
| Net interest income | | 1,262,871 | 848,502 |
| Other operating income | 5 | 585,943 | 547,619 |
| Net banking income | | 1,848,814 | 1,396,121 |
| Severance pay expense | | (33,919) | (25,895) |
| Other operating expenses | 6 | (1,380,795) | (1,781,411) |
| **Operating profit / (loss) for the year** | | 434,100 | (411,185) |
| Tax expense | | (111,623) | (81,733) |
| Other comprehensive income | | - | - |
| **Total comprehensive income / (loss) for the year** | | 322,477 | (492,918) |

*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 33 to 47*

**National Bank of Vanuatu Limited**

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
*(Expressed in '000 Vatu)*

| | Issued & paid up capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|
| **2018** | | | | |
| Balance at the beginning of the financial year | 857,140 | 172,361 | (39,490) | 990,011 |
| Total comprehensive income for the year | - | - | 322,477 | 322,477 |
| | 857,140 | 172,361 | 282,987 | 1,312,488 |
| Dividends paid | - | - | - | - |
| Balance at the end of the financial year | 857,140 | 172,361 | 282,987 | 1,312,488 |
| **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) |
| | 857,140 | 172,361 | (39,490) | 990,011 |
| Dividends paid | - | - | - | - |
| Balance at the end of the financial year | 857,140 | 172,361 | (39,490) | 990,011 |

*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 33 to 47*

**National Bank of Vanuatu Limited**

**STATEMENT OF FINANCIAL POSITION**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
*(Expressed in '000 Vatu)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Liquid assets | 9 | 16,943,744 | 12,024,769 |
| Net loans and advances to customers | 10a | 13,886,610 | 12,922,982 |
| Investment securities | 12 | 3,786,833 | 2,124,081 |
| Other assets | 13 | 112,756 | 300,312 |
| Property, plant and equipment | 14 | 663,490 | 667,533 |
| **Total assets** | | 35,393,433 | 28,039,677 |
| **Liabilities** | | | |
| Customers' accounts | 15 | 33,427,641 | 26,439,131 |
| Other liabilities | 16 | 408,089 | 321,329 |
| Provisions | 17 | 245,215 | 289,206 |
| **Total liabilities** | | 34,080,945 | 27,049,666 |
| **Equity** | | | |
| Share capital | 18 | 857,140 | 857,140 |
| Share premium | | 172,361 | 172,361 |
| Retained earnings | | 282,987 | (39,490) |
| **Total equity** | | 1,312,488 | 990,011 |
| **Total liabilities and equity** | | 35,393,433 | 28,039,677 |

*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 33 to 47*

**Director** **Director**

Port Vila, 26 March 2019

**National Bank of Vanuatu Limited**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
*(Expressed in '000 Vatu)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 1,673,890 | 1,247,498 |
| Interest paid | | (345,884) | (397,071) |
| Other cash receipts in the course of operations | | 592,400 | 535,839 |
| Other cash payments in the course of operations | | (1,158,118) | (1,049,905) |
| | | 762,288 | 336,361 |
| *Changes in operating assets and liabilities* | | | |
| - Gross loans and advances to customers | | (1,266,544) | (1,607,025) |
| - Customers' accounts | | 6,988,510 | 3,025,356 |
| - Other assets | | 143,902 | 181,822 |
| - Transit accounts | | 65,620 | 104,071 |
| Net cash provided by operating activities | 22 | 6,693,776 | 2,040,585 |
| **Cash flows from investing activities** | | | |
| Net movement in investment deposits | | (1,662,752) | (1,578,267) |
| Net payments for leasehold improvements, plant and equipment | | (112,049) | (394,932) |
| Net cash used in investing activities | | (1,774,801) | (1,973,199) |
| **Cash flows from financing activities** | | | |
| Net increase in cash and cash equivalents held | | 4,918,975 | 67,386 |
| Cash and cash equivalents at beginning of the financial year | | 12,024,769 | 11,957,383 |
| Cash and cash equivalents at the end of the financial year | 9 | 16,943,744 | 12,024,769 |

*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 33 to 47*

## 1. Reporting entity

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

## 2. Basis of preparation

### (a) Statement of compliance

The financial statements of the Bank are drawn up in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the requirements of the Vanuatu Companies Act No. 25 of 2012.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (a) Revenue recognition

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

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

*Interest income and expense*

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

*Fee and commission income*

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

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

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

**(b) Foreign currency**

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

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

**(c) Non current assets**

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

**(d) Property, plant and equipment - Note 14**

*Acquisitions*

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

*Disposal of assets*

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

*Depreciation*

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

| | |
|---|---|
| Leasehold improvements | 1 - 50% |
| Plant and equipment | 6 - 100% |
| Computer system | 20% |

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

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 17**

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

*Severance allowance*
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.

## 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 11

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.

## 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.

## 4. New standards and interpretations not yet adopted in 2018

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

IFRS 9 is effective for the Bank from 1 January 2018. IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts in the Bank are outlined below.

*Impairment*

IFRS 9 replaces the incurred loss impairment model under IAS 39: Financial Instruments: Recognition and Measurement (IAS 39) with an expected credit loss (ECL) model incorporating forward looking information. The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised.
- Stage 3: Similar to the current IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecast of future economic conditions.

*Classification and measurement*

There are three measurement classifications under IFRS 9: Amortised cost, Fair Value Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely consistent with IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains and losses relating to changes in the entity's own credit risk are included in other comprehensive income.

*Transition to IFRS 9*

IFRS 9 has a date of initial application for the Banking Group of 1 January 2018 however the Bank will not be adopting this standard until 1 January 2019 whereby the classification and measurement and impairment requirements will be applied retrospectively by adjusting opening retained earnings at 1 January 2019. As a result, the Bank has accepted an audit qualification in relation to non-adoption of IFRS 9 for the 2018 financial statements.

*(Expressed in '000 Vatu)*

**4. New standards and interpretations not yet adopted in 2018 (continued)**

**(b) IFRS 15: Revenue from contracts with customers (periods beginning on or after 1 January 2018)**

This standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and their interpretations and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees. The recognition of revenues in the income statement shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

From the initial assessment conducted by the bank it was noted that the standard had no significant impact on the bank's financial statements as net interest income, which is a primary revenue stream of the bank, is not impacted by the adoption of IFRS 15 and the existing bank accounting treatment for revenue from contracts with customers, including fee and commission income, is generally in line with IFRS 15.

The assessment has also confirmed that the bank has very little or no stake in certain issues of first application of IFRS 15 such as real estate development and loyalty programs.

On the basis of the work carried out, the bank did not recognize any significant impacts related to the application of IFRS 15 on the opening equity or income statement for 2018.

**(c) IFRS 16: Leases (periods beginning on or after 1 January 2019)**

IFRS 16, 'Leases' – replaces the current guidance in IAS 17. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with IFRS 15, 'Revenue from contracts with customers'.

| | 2018 | 2017 |
|---|---|---|
| **5. Income** | | |
| **Interest income** | | |
| Loans and advances | 1,441,711 | 1,180,121 |
| Interbank foreign currency placing | 150,634 | 44,728 |
| Investment securities | 37,891 | 37,322 |
| | 1,630,236 | 1,262,171 |
| **Other operating income** | | |
| Fees, charges and commissions (*) | 362,422 | 303,881 |
| Net foreign exchange earnings | 189,537 | 225,127 |
| Other income | 33,984 | 18,611 |
| | 585,943 | 547,619 |

* 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
*(Expressed in '000 Vatu)*

## 6. Expenses

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Interest expense** | | | |
| On deposits | | 367,365 | 413,597 |
| Other accounts | | - | 72 |
| | | 367,365 | 413,669 |
| **Other operating expenses** | | | |
| *Personnel expenses* | | | |
| Salaries and wages | | 459,578 | 450,049 |
| VNPF contributions | | 23,483 | 18,457 |
| Other | | 105,141 | 87,737 |
| | | 588,202 | 556,243 |
| *Other operating expenses* | | | |
| Auditor's remuneration | 7 | 2,650 | 2,500 |
| Depreciation | 14 | 116,092 | 79,933 |
| Allowance for loan losses | 11 | 302,916 | 792,019 |
| Other expenses | | 370,935 | 350,716 |
| | | 792,593 | 1,225,168 |
| | | 1,380,795 | 1,781,411 |

## 7. Auditor's remuneration

| | 2018 | 2017 |
|---|---|---|
| Amounts received or due and receivable by the Auditors of the Bank for : | | |
| - Auditing the financial statements | 2,650 | 2,500 |
| - Other services | - | - |
| | 2,650 | 2,500 |

## 8. 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

## 9. Liquid assets

| | 2018 | 2017 |
|---|---|---|
| Currency notes and coins | 754,500 | 872,732 |
| Balance with Reserve Bank (including regulatory deposits) | 8,941,072 | 7,814,609 |
| Due from other banks | 7,248,172 | 3,337,428 |
| | 16,943,744 | 12,024,769 |

*(Expressed in '000 Vatu)*

**9. Liquid assets (continued)**

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

| **10. Loans and advances** | **Note** | **2018** | **2017** |
|---|---|---|---|
| **10a Net loans and advances to customers** | | | |
| Overdrafts | | 1,276,882 | 1,291,144 |
| Loans | | 14,073,365 | 13,010,430 |
| Total gross loans and advances | | 15,350,247 | 14,301,574 |
| Allowance for impairment | 11 | (1,463,637) | (1,378,592) |
| Net loans and advances | | 13,886,610 | 12,922,982 |

Maturities of gross loans and advances are summarised as follows:

| | | |
|---|---|---|
| Not later than 1 year | 1,920,899 | 1,149,665 |
| Between 1 and 2 years | 886,966 | 730,633 |
| Between 2 and 5 years | 2,422,828 | 2,542,104 |
| Later than 5 years | 10,119,554 | 9,879,172 |
| | 15,350,247 | 14,301,574 |

Collateral held in respect of loans and advances that are impaired amounts is Vt 3,813,105 (2017: Vt1,101,585).

| | | |
|---|---|---|
| **10b. Gross loans and advances to customers past due but not impaired** | 11,276,054 | 9,903,878 |

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

| | | |
|---|---|---|
| Not later than 1 year | 163,385 | 248,957 |
| Between 1 and 2 years | 6,001 | 632,280 |
| Between 2 and 5 years | 2,692,481 | 1,953,665 |
| Later than 5 years | 8,414,187 | 7,068,976 |
| | 11,276,054 | 9,903,878 |

| | | |
|---|---|---|
| **10c. Restructured gross loans and advances to customers** | 872,205 | 772,040 |

**11. Allowances for impairment of loans and advances to customers**

*Collective allowances*

| | | | |
|---|---|---|---|
| Balance at beginning of the year | | 103,315 | 95,227 |
| Charge to statement of comprehensive income | 6 | 15,146 | 7,828 |
| Loans written off / back | | 217 | 260 |
| Total collective allowance | | 118,678 | 103,315 |

*(Expressed in '000 Vatu)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| **11. Allowances for impairment of loans and advances to customers (continued)** | | | |
| *Individual allowances* | | | |
| Balance at beginning of the year | | 1,275,277 | 496,860 |
| Charge to statement of comprehensive income | 6 | 287,770 | 784,191 |
| Loans written off / back | | (218,088) | (5,774) |
| Total individual allowance | | 1,344,959 | 1,275,277 |
| Total allowances for impairment of loans and advances to customers | | 1,463,637 | 1,378,592 |

## 12. Investment securities

Maturities of investment securities are summarised as follows:

| | 2018 | 2017 |
|---|---|---|
| Not later than 1 year | 3,334,924 | 1,736,581 |
| Between 1 and 2 years | 64,409 | - |
| Between 2 and 5 years | 387,500 | 287,500 |
| Later than 5 years | - | 100,000 |
| | 3,786,833 | 2,124,081 |

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

## 13. Other assets

| | 2018 | 2017 |
|---|---|---|
| Accrued interest receivable | 81,839 | 125,493 |
| Projects – in progress | 25,843 | 20,741 |
| Other assets | 5,074 | 154,078 |
| | 112,756 | 300,312 |

## 14. Property, plant and equipment

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Cost | Accumulated depreciation | Net book value |
| *Leasehold premises and improvements* | 154,669 | (95,181) | 59,488 | 128,884 | (82,623) | 46,261 |
| *Plant and equipment* | 1,048,536 | (570,581) | 477,955 | 968,502 | (483,513) | 484,989 |
| *Computer system* | 123,793 | (123,680) | 113 | 123,793 | (123,676) | 117 |
| *Leasehold land, building and improvements* | 171,502 | (45,568) | 125,934 | 169,088 | (32,922) | 136,166 |
| *Total* | 1,498,500 | (835,010) | 663,490 | 1,390,267 | (722,734) | 667,533 |

*(Expressed in '000 Vatu)*

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

*Movement in total property, plant and equipment*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Opening carrying amount | Additions | Disposals/ writeoffs | Depreciation charge | Closing carrying amount |
| *Leasehold premises and improvements* | 46,261 | 25,784 | - | (12,557) | 59,488 |
| *Plant and equipment* | 484,989 | 83,880 | (38) | (90,876) | 477,955 |
| *Computer system* | 117 | - | - | (4) | 113 |
| *Leasehold land, building and improvements* | 136,166 | 2,465 | (42) | (12,655) | 125,934 |
| *Total* | 667,533 | 112,129 | (80) | (116,092) | 663,490 |

## 15. Customers' accounts

| | 2018 | 2017 |
|---|---|---|
| Current accounts | 6,429,245 | 5,991,864 |
| Savings accounts | 8,860,490 | 6,101,459 |
| Fixed term deposits | 18,137,906 | 14,345,808 |
| | 33,427,641 | 26,439,131 |

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*

| | 2018 | 2017 |
|---|---|---|
| Not later than 1 month | 10,211,745 | 8,010,416 |
| Between 1 and 3 months | 3,576,257 | 1,411,631 |
| Between 3 and 12 months | 3,431,284 | 4,423,212 |
| Later than 1 year | 918,620 | 500,549 |
| | 18,137,906 | 14,345,808 |

## 16. Other liabilities

| | 2018 | 2017 |
|---|---|---|
| Accrued interest payable | 92,648 | 71,167 |
| Transit accounts | 164,539 | 98,919 |
| Unearned income – lending fees | 91,320 | 68,715 |
| Unearned income – rural services grant | 10,317 | 26,465 |
| Due to other banks | 21,449 | 34,345 |
| Other | 27,816 | 21,718 |
| | 408,089 | 321,329 |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
*(Expressed in '000 Vatu)*

## 17. Provisions

| | 2018 | 2017 |
|---|---|---|
| *Current* | | |
| Annual leave provision | 41,919 | 35,029 |
| Other | 31,831 | 23,469 |
| Severance allowance | 155,354 | 204,220 |
| | 229,104 | 262,718 |
| *Non-current* | | |
| Severance allowance | 16,111 | 26,488 |
| | 245,215 | 289,206 |
| *Movement in severance allowance* | | |
| Balance at beginning of the year | 230,708 | 214,636 |
| Net charge to the income statement | 33,919 | 25,895 |
| Provision utilised | (93,162) | (9,823) |
| Balance at end of the year | 171,465 | 230,708 |

## 18. Share capital

**Authorised capital**

| | 2018 | 2017 |
|---|---|---|
| 85,714 (2017: 85,714) ordinary shares of Vt10,000 each | 857,140 | 857,140 |

**Issued and paid-up capital**

| | 2018 | 2017 |
|---|---|---|
| 85,714 (2017: 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 2018 (2017: Nil).

## 19. Commitments

*Operating lease commitments*

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

| | 2018 | 2017 |
|---|---|---|
| Not later than 1 year | 63,703 | 300,625 |
| Between 1 and 2 years | 114,423 | 55,000 |
| Between 2 and 5 years | 248,603 | 67,000 |
| Later than 5 years | - | 60,000 |
| | 426,729 | 482,625 |

## 20. Financial instruments

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

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

i) Gross loans and advances to customers; and

ii) Customers' accounts and deposits from credit institutions.

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

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

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

*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 10 (with fixed interest rates of up to 18 months on housing loan products only).

- Investment securities: fixed interest rates maturing as detailed in note 12.

**20. Financial instruments (continued)**

Financial liabilities:

- Customers' accounts: variable/fixed interest rates maturing as detailed in note 15.

- Deposits from credit institutions: floating interest rates at call.

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

*Liquidity risk*

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

Details of income and expenses for financial instruments follows:

| | 2018 | | |
|---|---|---|---|
| | Carrying value | Interest income and expenses | Fees, charges and commissions |
| *Loans and receivables* | | | |
| Net loans and advances to customers | 13,886,610 | 1,074,346 | 362,422 |
| *Held to maturity assets* | | | |
| Investment securities | 3,786,833 | 37,891 | - |

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.

*(Expressed in '000 Vatu)*

## 21. 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.

| | 2018 | 2017 |
|---|---|---|
| Bonds | 35,507 | 31,698 |
| Financial guarantees | - | - |
| Letters of credit | - | - |
| **Commitments** | | |
| Capital expenditure | 110,458 | 171,005 |
| Undrawn facilities | 51,529 | 57,264 |
| | 161,987 | 228,269 |

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

## 22. Notes to the statement of cash flows

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

| | 2018 | 2017 |
|---|---|---|
| Profit / (loss) for the year | 322,477 | (492,918) |
| *Non-cash items* | | |
| - Allowance for impairment and loans written off | 302,916 | 792,019 |
| - Depreciation | 116,092 | 79,933 |
| Net cash provided by operating activities before change in assets and liabilities | 741,485 | 379,034 |
| Change in assets and liabilities during the financial year | | |
| - Decrease / (increase) in accrued interest receivable | 43,654 | (14,673) |
| - Increase in loans and advances | (1,266,544) | (1,607,025) |
| - Decrease in other assets | 143,902 | 181,822 |
| - Increase in accrued interest payable | 21,481 | 16,598 |
| - Increase in deposits from customers and credit institutions | 6,988,510 | 3,025,356 |
| - Increase in other liabilities & provisions | 21,288 | 59,473 |
| Net cash provided by operating activities | 6,693,776 | 2,040,585 |

*(Expressed in '000 Vatu)*

## 23. Employees

The number of employees as at 31 December 2018 was 255 (2017: 244).

## 24. Related parties

*Transactions with directors and executive officers*

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

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

| | 2018 | 2017 |
|---|---|---|
| Director fees | 1,997 | 2,853 |
| Executive officers | 103,435 | 154,535 |
| | 105,432 | 157,388 |

*Loans to directors*

Loans to directors and director-related entities outstanding as at 31 December 2018 was Vt123,233 (2017: Vt91,474).

*Transactions with related parties*

Services providing by a director-related entity to the Bank during the financial year totalled Vt692,760 (2017: Vt2,065,426).

*Loans to other officers and employees*

Loans to other officers and employees outstanding as at 31 December 2018 totalled Vt1,025,619 million (2017: Vt963,835 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.

## 25. Post balance sheet events

No events have occurred since the balance date which would require any adjustments to or disclosure in the financial statements (2017: Nil).

# SEV, INVES & GRO


Yumi Vanuatu

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 our branches; from Sola in the north to our 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 longterm 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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