Protect. Adapt. Deliver.

2020 Annual Report

CREDIT CORPORATION

"2020 has been a challenging year. Despite this, we maintained our focus on strategic priorities, capacity creation and leadership capability — building to ensure our long-term future."

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About Credit Corporation (PNG)

Credit Corporation (PNG) Limited commenced business in 1978 as a general finance company and over the past 42 years has grown to become one of the South Pacific's most progressive financial institutions.

Our aim is not only to be the most progressive but also the most trusted financial services company throughout the South Pacific.

Our vision is to be the best performing financier in every market in which we operate in terms of customer experience and profitability.

Credit Corporation has a unique set of advantages: a solid and diversified business mix; diversification in key Pacific geographies and customer segments; a strong balance sheet and capital position; a disciplined approach to managing risk; a firm commitment to regulatory compliance; a focus on recruiting and retaining talented people; a trusted brand and a commitment to our customers which is at the heart of everything we do.

Given our deep knowledge and expertise on operating finance businesses in regulated markets throughout the South Pacific, our relationship-based model puts us in a unique position to assist our retail and business customers with appealing financial solutions for any stage of their business or life journey.

We offer a broad range of lending products that help our customers achieve their business goals including:

- equipment finance for customers to acquire a wide variety of motor vehicles, heavy machinery, plant and equipment for commercial and business use;
- personalised financing packages;
- insurance premium funding; and
- investment facilities.

Through its subsidiary companies, Credit Corporation Group owns and manages a portfolio of prime real estate assets, which have delivered a dividend each year for our shareholders since the company's incorporation.

Currently, the Group owns assets valued at K1.43 billion and operates offices in Port Moresby, Kokopo, Mount Hagen and Lae in Papua New Guinea (PNG), Suva, Nadi, Lautoka and Nakasi in Fiji; Honiara in the Solomon Islands; Santo and Port Vila in Vanuatu; and Dili in Timor-Leste — and we are still growing.

Credit Corporation (PNG) Limited is listed on the Port Moresby Stock Exchange and registered under the Papua New Guinea Companies Act 1997. The Company is incorporated and domiciled in PNG.

Who we are

Built on a strong 42-year foundation, our team of well-credentialed and experienced financial services, property and investment professionals exist to provide simple and safe financial and property solutions for our customers. Our relationship-based model uniquely positions us against other financial services companies throughout the Pacific — particularly in the current environment, where our service proposition to our retail and business customers has never been more important.

What we do

We maintain our commitment to the basics which have made our businesses so successful for more than four decades and is founded on a relationship-based services model.

Our model contrasts with many of our competitors who are focussed on customer volume, one-size-fits-all risk assessments and a cost-driven approach.

Our approach requires a deep understanding of our customers' business — focussed on understanding the individual needs of our customers in detail.

Core business areas

The Group has three core business areas comprising:

Finance

This business area specialises in providing the following range of financial products and services:

- Equipment finance for motor vehicles, heavy machinery, plant and equipment for commercial and business use;
- Tailored financing packages; and
- Investment facilities.

We are a licenced and regulated non-bank financial institutions in each of the countries we operate, including PNG, Fiji, Vanuatu, Solomon Islands and Timor-Leste.

Property

The Group owns and manages a portfolio of prime real estate assets.

Key properties include:

- Era Matana — a major residential development in PNG;
- Era Dorina — one of the largest, if not the largest, executive residential estates in Port Moresby;
- Credit House — a premier commercial address in Port Moresby; and
- Commercial buildings in Suva & Nadi, Fiji.

Investment

The Group is primarily invested in Bank South Pacific (BSP) shares.

Other equity investments include:

- Kina Asset Management;
- Capital Insurance Group Limited (unlisted);
- City Pharmacy Limited; and
- PNG Air Limited.

Our values

The Group's core values are:

- integrity;
- customer commitment;
- maintaining the highest standards in all aspects of business; and
- building a strong, honest and motivated employee group.

Our people

Credit Corporation has 270 talented and passionate employees working across offices in Port Moresby, Kokopo, Mount Hagen and Lae in Papua New Guinea, Suva, Nadi, Lautoka and Nakasi in Fiji, Honiara in the Solomon Islands, and Santo and Port Vila in Vanuatu.

We are committed to a business that attracts talented people and that fosters a collaborative and inclusive environment where employees feel a strong connection and commitment to our purpose. Professionalism and ongoing development are key attributes of our culture.

Country	Total	Male	Female
CC PNG (including Timore Leste)	198	143	54
CC Fiji	52	27	25
CC Solomon Islands	9	7	2
CC Vanuatu	11	4	7

2020 overview

2020 has been a challenging year, overshadowed by the impacts of Cyclone Harold and the coronavirus pandemic. However, despite the challenges, we remain committed to supporting our customers, our people, and the economies we serve.

Credit Corporation PNG has reported NPAT of K22.00m and Core Operating Profit of K25.66m for the 2020 financial year (FY20).

The FY20 results reflect the challenges of the COVID-19 pandemic during the year and also the Group's commitment to actively support PNG's SME market through these challenging conditions.

As a result, earnings have been significantly impacted by higher impairment charges due to the decline in economic activity across the Pacific and globally.

Despite the challenges of FY20, the Group maintained the strength of its balance sheet. The Group strengthened its liquidity position by 67% to K234m, funding grew by 3%, and the loan to deposit ratio improved to 92%.

The Group is well capitalised and its liquidity and funding metrics are considerably above regulatory requirements. During the period, the total risk weighted capital ratio increased to 32.6%.

We also maintained our focus on our strategic priorities, capacity creation and leadership capability — building to ensure our long-term future. Progress during the year included:

- the appointment of key executives;
- ongoing investment in upgrading our IT platforms, and improving and automating key business processes; and
- implementing structural and operational changes in relation to corporate governance and risk management.

External environment

2020 has been one of the most challenging year for the global and local financial services sector.

This has been primarily due to the impacts of the coronavirus pandemic and government actions to stop its spread.

Most Pacific Island countries took early steps to close borders and impose quarantine measures.

Pacific economies are highly dependent on tourism, commodities, trade, and migration, which were affected by government containment measures. PNG, the Solomon Islands and Timor-Leste have been impacted by falling commodity prices, while Fiji and Vanuatu have been severely affected by the loss of tourism.

> "The environment for businesses remains challenging as it does for the local financial services sector given lower interest rates, less activity and higher impairment charges in anticipation of an increase in customer defaults."

COVID-19 produced an immediate economic impact in the Pacific including declines in government revenue, foreign reserves, and cash balances.

Pacific Island governments also face significant financing and service delivery challenges as they embark on the road to recovery.

Governments and financial institutions have also been working together to help mitigate the financial impacts of the pandemic and to provide financial stability.

Governments have provided economic stimulus measures and financial services companies have introduced hardship relief measures for their customers.

Several Pacific countries have been extended grants or concessional financing from development banks (the ADB or the World Bank) to help finance their response to the pandemic.

The environment for businesses remains challenging as it does for the local financial services sector given lower interest rates, less activity and higher impairment charges in anticipation of an increase in customer defaults.

Despite Credit Corporation's strong market position, competition for deposits and loans remains strong given the number of competitors and range of products and services on offer.

While the pandemic and the fall-out from the Banking Royal Commission in Australia have reduced the focus of some international players in our markets, the rise of digital financial service offerings is contributing to intensified competition.

Key financial features

The Group delivered strong financial metrics despite impacts of the COVID-19 pandemic

FINANCIAL STRENGTH

Liquidity

K234M

Cash position

↑ **up 67%**

(as at 31 December 2020)

K548M

Funding

↑ **up 3%**

Leverage

32.6%

Total Risk Weighted Capital

↑ **90bps**

YIELD

12.8%

Net Interest Margin

↓ **down 70 bps**

PRUDENT PROVISIONING

K119M

Total provisions

↑ **from K64m**

NET PROFIT AFTER TAX

K22.00M

↓ **down 83%**

CORE OPERATING PROFIT

K25.66M

↓ **down 76%**

Key operational highlights

Focused on **health** and **wellbeing** of **customers** and **staff** throughout COVID-19 pandemic

Added resources and **enhanced** systems and processes within the **risk and compliance** team

Further **strengthened** our **executive team** with new appointments

Support has enabled many **customers** to **resume** normal **monthly** loan **repayments** or maintain interest payments

Diversified funding base in line with Group's funding strategy

Introduced new **technology** including upgrading IT platform and **improving** and automating key **business** processes

Tightly **managed** customer **support** included Loan Repayment Deferrals

Heavy focus on **mitigating** impact of COVID-19 providing **support** and **relief** for our **SME customers**

Increased direct **marketing** activities targeting **real estate** agents and larger companies that have potential to take up tenancies

Established a new **asset management unit** to implement **recovery** strategies and **manage** any stressed exposures

Looking for strategic **acquisition opportunities**

Chairman's address

Our actions to strengthen our balance sheet and capital position together with our progress on key strategic, governance and risk priorities has ensured the Group is well placed to deliver for our stakeholders.

The past year has been a particularly challenging one for our customers, with the economies of the Pacific nations and their communities facing twin crises, initially due to the coronavirus pandemic which was compounded by the impacts of Tropical Cyclone Harold, which hit Vanuatu, Tonga, Fiji, and the Solomon Islands in April.

Throughout these events we have remained determined to provide support for our customers and our people, to preserve working capital, and to keep credit flowing to businesses and delivering for our shareholders.

We also fulfilled our important role in facilitating economic activity and helped to provide financial stability in the economies where we operate throughout the Pacific.

I am extremely proud of our people, our management and my fellow Directors, who have done an outstanding job and responded rapidly and effectively to the challenges of COVID-19 — assisting our customers and supporting the various government initiatives in response to the global pandemic. This has included providing loan repayment relief to many of our customers in need.

"For Credit Corporation, our year will be defined by how we stepped up to help our customers when they needed us the most."

By serving customers well through this challenging period, we have enhanced our reputation and expect to deliver long-term value to our shareholders. History shows that we do well when our customers are doing well.

We are fortunate the actions taken by our Directors and management team over recent years to strengthen our balance sheet and improve our operations has ensured the Group is well positioned to support our customers as well as supporting the economic recovery.

Strategic priorities

Despite the challenges we faced during the year, we have continued to build the Group to ensure it is more resilient and able to perform better over the long-term. We will not lose sight of our objectives to achieve responsible growth and healthy returns for our shareholders.

Throughout the year our management team has also continued to deliver on our strategic priorities. This has included our ongoing technology investment to ensure we are ready for the future.

In delivering on our strategy there is no substitute for having a high calibre Board and management team.

As a Board, we are also focused on ensuring that we have an appropriate mix of skills and diversity in our composition — and we have some excellent skills on the Credit Corporation Board. For a diverse multi-national company such as ours, we must have a range of diverse and relevant experience that spans financial services, property, investment, international business, finance, management and accounting, and legal expertise.

The Board is hardworking, active, and engaged — the unique expertise of every Board member underpins our ability to represent shareholders and support the growth of your company.

We are making changes to the way our Board works with ongoing steps to improve processes and governance while focusing on strategy, management, customer service, financial performance, capital, and dividends. Importantly, given the current economic environment we are also focussed on financial and non-financial risk.

We have also considerably enhanced the bench strength of our executive team over the past 12 months, including the appointment of our Chief Operating Officer Danny Robinson, to this newly created role.

Central to the changes we are making is our ongoing focus on enhancing our management of both financial and non-financial risk to improve our governance, operational risk, and compliance practices.

Results

The Group's results were a reported NPAT of K22.00m and Core Operating Profit of K25.66m for the 2020 financial year (FY20).

Much of our results can be attributed to the challenging operating environment where we faced lower margins and higher impairment charges. It also reflected our commitment to standing by and supporting our SME customers.

I am particularly pleased that our focus on supporting customers has contributed to a high proportion of them being able to manage the impacts of COVID-19 and return to repayments.

Despite the challenges of the past year, our balance sheet remains strong, with the total risk weighted capital ratio increasing to 32.6%, while we have a prudent approach to provision levels to respond to ongoing uncertainties.

The Board declared a final dividend for FY19 of 12 toea per share, paid in August 2020.

However, I am conscious of the impact of our COVID-19 response on our shareholders with the decision not to pay an interim dividend for FY20.

This decision reflects the economic environment and consideration of our strong capital position. In every decision the Board makes we must carefully balance our short and long-term responsibilities to shareholders and our ongoing ability to serve our customers.

Outlook

As a result of the impacts of the pandemic and government measures to stop its spread, PNG, the Solomon Islands and Timor-Leste were hit hard by falling commodity prices, while Fiji and Vanuatu were are among countries which were severely affected by the loss of tourism.

While it is difficult to provide an accurate outlook for the future, as a Group we remain cautiously optimistic about prospects across our key markets.

In a year characterised by challenges and difficulties, we remain a strong and safe financial services company, well placed to take advantage of opportunities as they emerge in the future. Our ambition is clear and easily understood.

As previously announced, CEO Peter Aitsi decided not to renew his contract effective from March 2021.

Chief Operating Officer, Danny Robinson, is acting as CEO while an executive search is conducted for the new permanent CEO.

Danny is a highly experienced banking industry executive, having taken up the Credit Corporation COO role in May 2020.

He and his experienced senior executive team will work very capably with the Board to manage the transition to a new permanent CEO.

The Board is undertaking a thorough and robust executive recruitment process for a permanent CEO.

The Board is grateful for all that Peter has contributed to the Group during his tenure as CEO, and we are committed to continue building on the solid platform that he has established.

On behalf of the Board, thank you for your support as shareholders over the past year. Importantly, I would like to thank our people who have remained focused on doing the right things for customers and to help the nations of the Pacific where we operate get through this uneasy and difficult period.

Syd Yates OBE
Chairman

Chief Executive Officer's review

It is fair to say 2020 has been a year like no other. It has been a year of profound change with the effects of the coronavirus pandemic being all encompassing with significant impacts on businesses and our communities throughout the Pacific. Several of the island nations in the Pacific where we operate were also dealing with the impacts of Cyclone Harold when the pandemic hit.

As a result of these factors we have seen a significant decline in economic growth, lower interest rates and an increase in impairment charges which have had implications for our sector and our own growth during the year.

Despite these challenges and changes one thing has remained constant — our dedication to being there for our customers when they need us most.

I am extremely proud of the way our people stepped up to help our customers through the impacts of Cyclone Harold and then through COVID-19. They kept our businesses going and supported our customers when they needed our help.

They worked tirelessly to ensure our customers could access their funds when they needed them, and we also provided loan repayment relief to those customers who required our support.

We provided support to our customers and three-month repayment deferrals were provided on K291m of lending to customers between April and June 2020.

Subsequent deferral requests are being tightly managed, with many customers resuming their normal monthly repayments and those unable to do so, committing to pay either a reduced amount of their monthly repayment or at a minimum, interest payments.

It is pleasing to see that many of our customers have the confidence to seek an exit from loan repayment deferrals and are resuming repayments. However, some customers continue to require our support and we are working with them on an individual basis.

Our results

Our financial results this year reflect the challenging economic environment. This primarily reflects forward-looking provisions for expected deterioration in asset quality, revenue headwinds due to the economic environment including competitive interest rates and subdued credit demand.

The decision not to pay an interim dividend at the half year reflects this reality.

It also reflects our continued focus on ensuring a strong balance sheet and preserving our capital position. This will enable us to target growth opportunities and continue to support our customers despite the challenging market conditions.

As a result, we remain in a strong position to keep lending to and supporting our customers.

We want to make sure Credit Corporation is in a sound position today and for the future, and that we come through COVID-19 in a strong and safe position ready to help our customers take up opportunities as they emerge.

We understand that it is only through our ability to deliver for our customers that we can deliver long-term value to our shareholders.

Our priorities

Our ability to evolve continues to be one of our core strengths and supports sustained growth and a continued capability to deliver for our customers.

One thing the coronavirus pandemic has taught us is that the ability to overcome adversity, resilience, skills and capability building has never been more critical to the long-term success and growth of the company.

During FY20, Danny Robinson was appointed Chief Operating Officer, Karen Mathers was recruited as our first Chief Risk Officer, and Jack Parina was appointed as Company Secretary.

Our senior management team continued to focus on our strategic priorities throughout the year.

That includes continuing to respond to the increasingly digital world we live in through progressing the technology investment in upgrades to our IT platforms and improving and automating key business processes.

We also made progress on other strategic initiatives including:

- the appointment of key Group executives to build capability in priority areas;
- ongoing investment in upgrades to our IT platforms, and improving and automating key business processes; and
- implementing structural and operational changes in relation to corporate governance and the management of risk.

The most encouraging part is that despite large spending on capacity creation and capability building, we have been able to maintain solid financial metrics.

Outlook

The halt in international tourism due to the coronavirus pandemic and damage caused by Cyclone Harold has been extremely challenging for many Pacific economies.

However, looking ahead I remain optimistic regarding the future.

While the outlook remains uncertain, there is no doubt that businesses will lead our economic recovery and as one of the leading providers of financial services in the Pacific region we are well positioned to support them.

Some of the greatest challenges resulting from the pandemic involve unpredictability, and restrictions on international and domestic travel.

The key to recovery in the Pacific Islands is the re-opening of international borders. This will permit workers and tourists to travel and help to restore supply chains. We expect the opening of borders to continue in FY21.

As a sector we will continue to face a competitive interest rate environment, and impairment charges which are likely to remain elevated for some time due to economic conditions.

We want to be known as the best performing financer in every market in which we operate in terms of customer experience and profitability and we have a clear strategy in place to achieve our vision.

Looking ahead, it is likely the effects of the coronavirus pandemic will be with us for some time and while uncertainty remains, we will endeavour to deliver a better result in 2021.

We remain in good shape as an organisation with a strong balance sheet and the resources and capabilities to support our customers and ultimately deliver value to our shareholders.

As this is my last letter to shareholders, I want to express my deep appreciation to all of our people who have been instrumental in our accomplishments during my tenure.

Our people have worked incredibly hard through the challenges of the past year and have maintained their commitment to helping each other and our customers.

I have been honored to be CEO of this outstanding Group, and I share the confidence of our Board of Directors in its future.

I also want to thank our shareholders for their continued support and our Board of Directors for their thoughtful leadership and guidance during my tenure.

Peter Aitsi
Chief Executive Officer

Five year performance snapshot

	2016	2017	2018	2019	2020
Profit and Loss (K'000)					
Core Operating Profit	65,943	75,424	86,273	105,018	25,663
Property Revaluations	(22,052)	(19,821)	(8,952)	(22,221)	(16,777)
Investment Revaluations	56,859	18,590	27,395	55,480	6,926
Operating Profit before Tax & after Revaluations	**100,749**	**74,193**	**104,716**	**138,277**	**15,812**
Income Tax Expense (Benefit)	1,812	555	6,793	6,292	(6,184)
Operating Profit after Tax attributable to the Group	**98,937**	**73,638**	**97,923**	**131,985**	**21,996**
Retained Earnings	**374,104**	**403,648**	**426,065**	**456,616**	**446,477**
Dividends (K'000)					
Final Dividend Paid	56,692	43,154	52,313	61,509	36,952
Dividend per share (Kina)	0.18	0.14	0.17	0.20	0.12
Balance Sheet (K'000)					
Finance Receivables	395,381	480,879	581,939	613,111	504,450
Total Assets	1,249,150	1,358,179	1,431,080	1,541,258	1,546,936
Deposits	361,447	454,352	483,431	531,966	548,287
Shareholders' Funds	787,292	811,720	851,210	921,232	915,719
Performance Ratios					
Return on Assets*	5.3%	5.6%	6.0%	6.8%	1.7%
Return on Equity**	8.4%	9.3%	10.4%	11.9%	2.8%
Expense/Income***	42.6%	44.3%	37.7%	38.0%	50.2%
Net Asset Backing Per Share	2.50	2.63	2.76	2.99	2.97
EPS (Basic and Diluted)	0.31	0.24	0.32	0.43	0.07
No. of o/s ordinary shares	314,839,331	308,280,832	307,936,332	307,936,332	307,936,332
Weighted ave. no. of ordinary shares	314,866,510	312,672,856	308,990,373	307,936,332	307,936,332
Exchange Rates (One (1) PNG Kina buys):					
Fiji Dollar	0.6843	0.6511	0.6373	0.6299	0.5817
Solomon Islands Dollar	2.5995	2.4509	2.4208	2.4119	2.3028
Vanuatu Vatu	37.2400	33.3600	33.9200	33.9300	30.6700

* Core Operating Profit/Total Asset
** Core Operating Profit/Total Equity
*** Calculated before any fair value changes of investments and movement in bad debts provision

Strategic priorities

All Credit Corporation's activities are guided by our Strategic Direction, which frames our decision-making and helps us measure progress over the long term. While these priorities may evolve to meet changes to the business environment, they are grounded by a commitment to create value for our shareholders over the longer term.

Strategic Direction — Guiding Principles

Our Strategic Direction is anchored by the following guiding principles:

REVENUE FIRST

We are focused on items that improve revenue as a priority, without compromising the customer promise.

REALLOCATE FUNDING

We will free up funds from low-value activities.

VALUE PROPOSITION

Everything we do should reinforce our value proposition.

SUPPORTED DISTRIBUTION MODEL

The countries we operate in are our distribution assets.

AGILE WAY OF WORK

Agile ways of working will provide a competitive edge.

COMMUNITY FOCUS

We are working to help our customers achieve funding for their businesses and lifestyle.

Strategic Direction

We are building on our strong foundations established over the past 42 years to position the Group for long term success.

Credit Corporation has a unique set of advantages: a solid and diversified business mix; diversification in key Pacific geographies and customer segments; a strong balance sheet and capital position; a disciplined approach to managing risk; a firm obligation to regulatory compliance; a focus on recruiting and retaining talented people; a trusted brand and an unwavering commitment to our customers which is at the heart of everything we do.

"We are expanding, redesigning and strengthening our technology foundation."

Good progress was made with ongoing focus on the Group's Strategic Direction in FY20. The Group's Strategic Direction includes the plans and actions that need to be put in place to work toward this vision of the future and focuses on enhancing customer experience in all facets of the Group's business.

Despite the current economic headwinds, the Group has continued its focus on key priority areas including strengthening its systems, processes, and corporate governance framework.

During FY20, the Group continued its technology investment including the ongoing upgrade of IT platforms and improving and automating key business processes.

Strategic direction and priorities

In line with the strategic direction the Group initiated in early 2019, the management team has also been focused on implementing the following key initiatives:

- Preparing the Group for organic and inorganic growth opportunities;
- Diversifying the Group funding base in line with the Group Funding Strategy; and
- Improving the marketing of Credit Corporation properties.

The Group continues to review its investment portfolio to ensure that it is optimised without capital or revenue impact, as a hedge against cyclical downtrends in other sectors.

Aligned with these priorities, the Group is continuing to seek growth opportunities via merger and acquisitions, geographic expansion, and distribution networks.

During FY20, the Group continued its focus on lifting its marketing efforts to improve occupancy levels. This included increasing direct marketing activities targeting real estate agents and larger companies that have potential to take up multiple tenancies. Targeted high traffic sites have been chosen for advertising billboards that drive the brand message of family lifestyle living. Newspaper advertising has been used to highlight potential in country tenants that CC Properties offer a high level of service and amenity.

During the financial year, Credit Corporation has strengthened its approach to risk management, supporting the Risk Management Framework through additional investment in both people and resources.


FUNDING
FUTURES.
CREDIT CORPORATION

Our divisions

FINANCE

The impact of Cyclone Harold and our response to the COVID-19 pandemic has had a significant impact on our finance business revenue, profitability and returns.

Our result showed a net profit after tax of K22.0m.

The FY20 results reflected the challenges of the COVID-19 pandemic during the year and also the Group's commitment to actively support the SME market through these challenging conditions.

Our focus on supporting customers has contributed to a high proportion of them being able to manage the impacts of COVID-19 and return to repayments.

"Throughout the pandemic, we have been able to support our customers and continue lending"

During the period, the pandemic impacted key sectors of each economy with travel restrictions together with government measures to halt its spread impacting business activity. For the Group, this has resulted in a decline in revenue in the key markets, while impairment costs increased to K63.4m in FY20 reflecting the expected credit losses.

The Group took a balanced approach to loan provisioning levels in increasing total provisions by K49.5m from FY19 to reflect the level of uncertainty within the global and local markets. Loan provisions stood at K119m, as at 31 December 2020.

The Group is well capitalised and its liquidity and funding metrics are considerably above regulatory requirements. During the period, the total risk weighted capital ratio increased to 32.6%.

Funding grew by 3% to K548.3m in FY20 as the Group raised more funding to ensure it retained liquidity to strengthen its financial position due to uncertainties posed by COVID-19. The Group focused on diversification of its funding base, to bring more certainty around its funding profile.

The net interest margin reduced by 70bps to 12.8% in FY20 due to increased costs of funds given current macroeconomic headwinds.

Gross loan receivables (net of unearned charges) reduced by K54m or 8% in FY20 because of restrictions being applied to new business lending in all jurisdictions.

The loan to deposit ratio improved to 92%, which highlights that we have significant reserves available for unexpected contingencies.

While stressed exposures increased as a percentage of gross loans, the Group has adopted a prudent approach to increasing impairment provisions.

While assisting our valued customers as their businesses rebounded from the COVID related challenges, we have also established a new asset management unit to implement recovery strategies and manage any stressed exposures.

In line with the requirements of IFRS 9, the Group also undertook a review process of its entire loan portfolio to ensure that each loan asset was restated according to the relevant credit quality measures.

PNG

Papua New Guinea is experiencing similar challenges to other economies in the Pacific region due to the impact of COVID-19.

PNG along with the Pacific region economies is expected to post a modest recovery in 2021. However, growth is dependent on key resource projects proceeding in the future.

On the positive; front the delayed Total-led liquefied natural gas (LNG) export development has signed a key fiscal stability agreement with the government. This marks a significant step in de-risking the proposed Papua LNG scheme.

Furthermore, an Environmental Permit has been awarded to the Wafi-Golpu Joint Venture project. This is a key step in it achieving a special mining licence.

PNG experienced a fall in commodity prices which was exacerbated by the pandemic during the year.

A loss of K12.7 million was recognised for CCF PNG for FY20. This was attributed to a 5% drop in revenue in addition to increased loan impairment costs attributed to macroeconomic headwinds posed by COVID-19. The net loan book reduced by 21% to K262m as a result of reduced sales activiity and increased loan impairment provisions.

A review of all loan assets has been implemented and tested for loan security quality (collateral values) and loan arrears history.

Fiji

Fiji businesses, particularly those in tourism related areas have been majorly impacted by the pandemic and unemployment has increased significantly.

A key focus area of the Fiji business has been on processing the number of Loan Repayment Deferral (LRD) requests. Many customers have been granted an LRD to allow them to recover from the economic impacts.

The Fiji business profit after tax for the year was a modest K2.5m, with net loan receivables down K20.3m or 8.6% and impairment costs up K14.5m, compared to FY19.

While the Fiji business has faced significant challenges in FY20, it is well placed to weather the storm given it is well capitalised with a comfortable liquidity position.

Our divisions (continued)

The Solomon Islands

The Solomon Islands faced the dual impacts of Cyclone Harold and the COVID-19 pandemic during the year.

As a result, the Solomon Island's business recorded profit after tax was K3.1m for the year, with loan receivables down K3.4m and impairment costs down K6.9m compared to FY19.

The Group has been working on remedial actions to improve the portfolio quality with the expectation of recoveries from legacy loans to improve CC Solomon Island's result in FY21.

Vanuatu

Vanuatu was impacted by the loss of tourism as a result of COVID-19 during the year and also the impact of Category 5 Cyclone Harold in April 2020.

The Vanuatu business recorded a net profit of K0.5m in 2020, with provisioning of K7.3m being the largest expense. Liquidity remained strong during the year while the operation was selective in writing new business as the focus post COVID-19 remained on collections and managing the existing loan portfolio.

PROPERTY

COVID-19 has had an impact on the Properties segment during FY20 with declining occupancies, downward pressure on rental rates and increased rental abatements.

Customers in our property portfolio were also affected by COVID-19, resulting in certain relief measures to maintain occupancy and support our tenancies through this difficult period.

As a result, the Property segment's core operating profit reduced to K11.532m.

Occupancy by properties was as follows:

- Era Dorina — occupancy decreased to 52% (61% in FY19).
- Era Matana — occupancy decreased to 84% (94% in FY19).
- Credit House — occupancy remained stable at 95% (95% in FY19).

Average occupancy levels for the property portfolio decreased to 76% during FY20 compared to 82% in FY19.

Occupancy levels at Credit House have been stable, while more focus has been placed on securing occupancy levels at our residential properties after the initial departure of tenants as a result of repatriation of expatriate staff by the Australian Government and other international agencies.

Other competitor residential properties have also suffered declining occupancies due to the COVID-19 travel and movement restrictions. This has placed downward pressure on rental rates that were already challenged due to the existing oversupply of high-end properties in the Port Moresby market. This has resulted in lease tenure for residential properties reducing from an average of 24 months to 12 months.

The Group will prudently invest in the upkeep of its property portfolio to maintain its position as a premium brand in the market and continue to strive for points of differentiation. Era Matana Estate now offers complimentary high-speed Wi-Fi with IPTV and entertainment streaming opportunities for improved tenant leisure time.

Era Dorina has been positioned as a family-friendly residential complex and due to COVID-19 experienced a significant loss of tenant families who chose to relocate to Australia during the pandemic.

Era Matana continues to hold its place in the market as a high-quality premium product targeting business executives. The excellent location and design and ease of access to the CBD continues to be a key selling feature.

Credit House locked in tenancies of two floors for a further six months each for FY20 to maintain 95% occupancy to year-end. With an oversupply of commercial space now available in Port Moresby, this will see downward pressure placed on rental space from 2021 onwards.

> "A focus on building capacity in staff resources has seen an improvement in tenant customer services with reduced turnaround time on maintenance issues at Era Dorina, Era Matana and Credit House."

The Group continued its focus on lifting its marketing efforts to improve occupancy levels. This included increasing direct marketing activities targeting real estate agents and also larger companies that have potential to take up multiple tenancies. High traffic sites have been targeted for advertising billboards that drive the brand message of family lifestyle living. Newspaper advertising has been used to highlight the potential in country tenants that CC Properties offer a high level of service and amenities. To date this has seen an increase in potential tenant interest at our Era Matana Estate.

Investments

The investment portfolio consists of listed equities, predominantly BSP shares. The valuation of shares in BSP increased by 1.6% compared to FY19 and the dividend yield reduced by 1.7%, mainly due to the appreciation of the BSP share price over the last 12 months.

Risk management

Managing risk effectively is also critical to building a safe, secure, and resilient financial services company.

Risk management is critical to the Group. It enables the business to identify the risks it wants to take, apply appropriate controls to manage the risks, and ensure an appropriate return that reflects the level of risk both now and through the business cycle.

This has never been more critical than during the last 12 months.

In 2020, our Risk team launched new Governance, Risk and Compliance plans and measures to support the ownership and management of our obligations, risk, and controls environment.

The Group updated and enhanced its Governance, Risk & Compliance (GRC) plan in 2020 following the onboarding of the Chief Risk Officer. The newly formed risk team is focusing on strengthening the Group governance structures and enhancing the Risk Management Framework to fit the current market, strategy, and business priorities.

A new Group Executive Committee has been formed which manages the key risks (and overall operations) for the Group. Risk is now managed in five key function areas across three divisions:

1. Credit Risk Division
2. Governance Risk & Compliance Division:
   a. Material Risk Management;
   b. Compliance Management; and
   c. Governance.
3. Asset Management Unit (newly formed).

The Risk Appetite Statements for the Group are being reviewed which will determine more quantitative measures to assist the Board in Risk oversight.

With the emerging challenges, Credit Risk and Asset Management are our key risk priorities. The Group is implementing strategies to ensure robustness across these material risk areas.

Data integrity and aligning our customer experience with current economic challenges are also key focus areas.

COVID-19

Given the rapid onset of COVID-19 in March 2020, Credit Corporation found itself in a situation where many of our customers required some form of financial assistance.

Our relationship model, size and diversity of our geographic locations meant that we were uniquely positioned to proactively support our customers through ascertaining their position and determining if and what assistance was required. Our credit risk and business relationship teams worked closely together to determine tailored solutions in terms of the assistance required and duration for our customers.

In addition, Credit Corporation has undertaken a full review of the credit portfolio, including scenario analysis and stress testing to project potential future credit losses which may result from ongoing economic impacts of COVID-19.

The pandemic enabled Credit Corporation to test its operational resiliency and the accuracy of our business continuity planning.

Our technology systems, combined with the implementation of our business continuity plan, enabled us to rapidly activate operating structures and implement plans that ensured an ongoing ability to service and support our customers.

Given the ongoing impacts of COVID-19 and potential impacts on the economies where we operate, our customers, operational resilience and financial position continues to be monitored very closely by the Board and management team.

People and culture

Credit Corporation's people are at the heart of our business and our success.

The way our people behave and feel at work drives their focus and commitment towards our vision and purpose. A key aspect of our value proposition to customers is founded on our focus on cultural and human aspects of our business. We want to encourage and develop our people to ensure that they are our greatest ambassadors and consider Credit Corporation as the best place to work.

The fast onset of COVID-19 in early 2020 saw our people play critical roles in supporting our valued finance and property customers to deal with significant and unprecedented challenges. Our staff's ability to respond quickly to customer needs and concerns has been vital in this environment. We were guided by the principle of ensuring our people were safe and cared for during this period.

We implemented multiple initiatives to ensure their safety and to support our team transition back to work following the various states of emergencies and government restrictions imposed in the jurisdictions where we operate.

We have also provided timely and relevant communications to our people in relation to the matters which have been important to them during the year.

Community

Making a positive contribution

Credit Corporation is committed to making a positive contribution to improving the financial wellbeing of the communities we serve throughout the Pacific and making a meaningful difference to those societies.

Corporate Social Responsibility

For more than 40 years Credit Corporation has been making a positive contribution to our communities.

An estimated K420,000 was contributed to community projects across PNG and the Pacific.

Charities and NGOs

- Honiara Rotary
- Earthquake Appeal (PNG)
- Helena Goldie Hospital Appeal
- International Women's Association (Fiji)
- Fiji Red Cross
- Gospel School For The Deaf (Fiji)
- Disability Gala Awards (Fiji)
- Blind Society (Fiji)
- Pinktober (Fiji)
- Foundation of Needy Children (Fiji)
- Buk Bilong Pikinini (PNG)
- Susu Mamas (PNG)
- RSPCA (PNG)
- Rotary (Fiji)
- Badili Club (PNG)
- Transparency International (PNG)
- Proactive Mamas (Vanuatu).

Sport and culture

- Honiara High School Rugby Tournament (SI)
- Credit Corporation Sparrows Netball – Major Sponsor
- Credit Corporation Day – Honiara Golf Club
- Cricket PNG
- Harlequins Rugby Union – Major Sponsor (PNG)
- PNG Muruks
- Agmark Gurias RLFC – Major Sponsor (PNG)
- Pukpuks Rugby – Major Sponsor (PNG)
- Lotic Bige Rugby Tournament (PNG)
- Boroko Amateur Swimming Club (PNG)
- Women's Golf (Fiji)
- Frangipani Festival – Rabaul (PNG)
- Vanuatu Golf Open
- Vanuatu Paralympic Committee.

Business, Science and Education

- Leadership Fiji Program (Fiji)
- USP Medal & Prize – Most Outstanding Bachelor of Commerce Graduate (Fiji)
- USP Graduate School of Business (Fiji)
- Leadership Fiji Alumni Project .

Board of directors

Syd Yates OBE
FAICD

Syd Yates was appointed Chairman in November 2018. He is a Non-Executive and Independent Director and was appointed the Chair of the Disclosure Committee.

He is an experienced and respected executive and Director with more than 30 years' experience in the banking, finance and investment industries.

Mr Yates retired as CEO of Kina Group in January 2018 after 21 years and was the driving force behind Kina's transition to PNG's largest diversified financial services group. He successfully listed Kina on the Australian Stock Exchange and Port Moresby Stock Exchange in 2015.

He is currently a Director of Kina Funds Asset Management.

Beyond his business life, Mr Yates has made a significant contribution to both the community and sport in PNG. He was a Director and Chairman of Fundraising of the Papua New Guinea Olympic Committee and Commonwealth Games Association of PNG before retiring in June 2020.

Faye-Zina Lalo
LLB (UPNG), MBA (UPNG), PNGID

Faye-Zina Lalo was appointed to the Board in March 2017 as a non-executive director. She is also a member of the Board's Nominations and Remuneration Committee, Risk and Compliance Committee and served on the ad hoc Governance Working Group.

Ms Lalo is an experienced director, recognised by PNGID in 2018 in as "Female Director of the Year". Ms Lalo also serves on other corporate and not-for-profit boards. Her experiences as a corporate and commercial litigation lawyer and in working in a regulated telecommunications industry aids Ms Lalo in her appreciation of risks associated with operating in a regulated environment.

Prior to joining Credit Corporation PNG, Ms Lalo practised corporate and commercial law for over 10 years and held a number of senior legal and operational roles at Albatross Law, Digicel (PNG) Limited, Telikom PNG Limited and Posman Kua Aisi Lawyers.

Ms Lalo holds a Masters in Business Administration from the University of PNG and a Bachelor of Laws from the University of PNG.

Michael Varapik
OBE, MBA (Oxford), MAICD

Resigned 04/02/2021

Michael Varapik was appointed to the Board in May 2018. He is a Non-Executive and Independent Director. He served as a member of the Audit Committee, Risk and Compliance Committee and the ad hoc Governance Working Group.

Mr Varapik has extensive management, corporate, financial, operations and marketing experience spanning over 35 years in the private and public sectors. He was a Director on the Boards of Comrade Trustee Services Limited and Toea Homes Limited, a wholly-owned subsidiary of Comrade Trustee Services Limited and currently serves as a Director on the Board of Waigani Asset Limited.

Mr Varapik holds a Bachelor of Technology in Accountancy from the PNG University of Technology, Lae; a Bachelor of Business from Deakin University, Australia; and an MBA from the International Management Centres, Oxford Brookes College, University of Oxford in the UK.

A member of the PNG Institute of Directors, Mr Varapik received the Male Director of the Year Award in 2015, from the Institute, for distinguished services to commerce and business.

Richard Sinamoi

B.AppSc (UWS)

Richard Sinamoi was appointed to the Board in May 2018. He is a Non-Executive and Independent Director. He was appointed as Chair of the Nominations and Remuneration Committee, is a member of the Risk & Compliance Committee and Strategy and Investment Committee.

Mr Sinamoi is an experienced Executive and Director with extensive experience in the superannuation and financial services industry.

He has served on Boards for both private and public listed commercial entities and charitable organisations.

Mr Sinamoi is also an Independent Director with Nambawan Super Limited, the Paradise Company Limited and TransPacific Assurance Limited. He is currently the Executive Director of Kama Kofi Limited.

James Kruse

B. Bus, FCPA

Resigned 05/03/2021

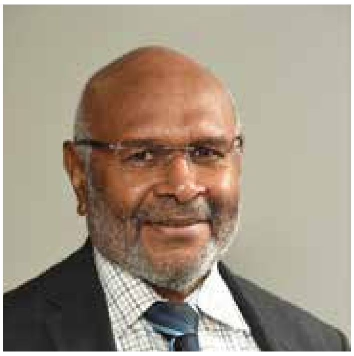
James Kruse was appointed to the Board in May 2018. He is a Non-Executive and Independent Director. He was appointed as Chair of the Strategy & Investment Committee and is a member of the Audit Committee.

Mr Kruse has significant accounting and finance experience with more than 30 years in the public accounting profession and several years in commercial accounting roles both in PNG and Australia.

Mr Kruse was previously a partner of Deloitte Touche Tohmatsu in PNG where he headed up the firm's business services, corporate advisory and insolvency services divisions.

Mr Kruse is a Fellow of both CPA PNG and CPA Australia, the immediate past president of CPA Australia PNG Branch. He is a member of the PNG Institute of Directors and a Councilor with the PNG Australia Business Council.

Board of directors (continued)



Dr Albert Mellam

PhD.Psy (ANU), MSc (Stirling Uni), GDip. Eco (SMU)

Dr Albert Mellam is the Executive Director of the PNG Chamber of Mines and Petroleum, an Adjunct Professor of Management, The Cairns Institute, James Cook University, Australia, and Visiting Academic with the School of Business Administration at the University of PNG. He was the immediate past Vice Chancellor of the University of PNG. Dr Mellam has undertaken academic engagements in Australia, India, Europe, and the South East Asian region. He holds a doctoral degree in Psychology from the Australian National University.

Dr Mellam also serve as a Director on several public and private sector boards in PNG. Some of these include the Nambawan Super Limited and Kumul Consolidated Holding. He is also a member of many professional organisations including the Global Development Network, the PNG and the Australian Institutes of Directors, and the Association of Asia-Pacific Business Schools. He has undertaken specific business-related assignments for the Government of PNG and multinational corporations within the Asia-Pacific and served in advisory capacity to several Economic Ministries with the Government of PNG including the Department of Prime Minister and National Executive Council's, Vision 2050 Centre and the Department of Commerce and Trade.

Abigail Chang

MScID (Birmingham), PgDip (Monash), BA (USP), MAICD

Abigail Chang was appointed to the Board in December 2016. She is a Non-Executive and Independent Director and was appointed as the Chair of the Risk and Compliance Committee in May 2019. She also serves as a member of the Nomination & Remuneration Committee.

She was appointed the Chairperson of Credit Corporation Fiji Pte. Ltd in September 2018 and has served on the Board as a Non-Executive and Independent member since June 2014.

Ms Chang has held executive management positions within the private sector and has central banking experience in the areas of financial system supervision, regulation, policy development and licensing within the banking, insurance, foreign exchange and superannuation industries. She has previously served as Acting Chief Manager Financial Institutions of Reserve Bank of Fiji.

Ms Chang has been a technical specialist across eight countries in the areas including financial inclusion policy and governance structures and financial education. She is currently the Country Director for Solomon Islands and Kiribati at the Australian Pacific Training Coalition (APTC).

Stephen Humphries

BSc (Combined Honours) (UAB), CA

Appointed 15/04/2021

Stephen Humphries was appointed as a Non-Executive Director on 15 April 2021.

Mr Humphries brings significant leadership experience across a wide range of businesses, across multiple jurisdictions including UK, Australia, NZ, PNG, Indonesia and South East Asia.

He has held Senior and Managing Partner roles with PWC in PNG, Indonesia and Australia.

His specialist assurance experience includes heavy engineering and construction, mining, technology, industrial products and telecommunications. He has also had significant experience across a broad spectrum of ASX 100 and large private companies.

Mr Humphries is the Deputy CFO of Healius Ltd, one of Australia's leading ASX-listed healthcare companies.

He is a Fellow of both the Institute of Chartered Accountants in Australia and the Institute of Chartered Accountants in England and Wales.

Senior executive team

Peter John Aitsi MBE
Group Chief Executive Officer

Resigned 31/03/2021

Peter John Aitsi was appointed Chief Executive Officer in January 2018.

Mr Aitsi has over 30 years of experience leading a number of PNG's more prominent companies and has focused on building successful teams, ensuring they are well supported with strong systems to create productive work environments.

Prior to joining Credit Corporation, he was Country Manager for Newcrest Mining Ltd in PNG, where he represented the interests of Newcrest providing support to its operations in Lihir, Hidden Valley, Wafi Golpu, and exploration sites in Manus and Simberi.

He has had a diverse career holding senior leadership positions with the Australian Aid Program, GHD Papua New Guinea, PNGFM, Belltek Chemicals and Bank South Pacific.

Mr Aitsi has had long term involvement with a number of key PNG organisations and currently serves on the Transparency International PNG and the Coral Sea Hotel Group Boards and is Chairman of PNGFM Ltd.

Danny Robinson
Interim Chief Executive Officer

Danny Robinson is the Interim Chief Executive Officer responsible for the transition plan. Mr Robinson joined Credit Corporation in 2020 as Group Chief Operating Officer and was named Interim Chief Executive Officer in February 2021.

As Interim Chief Executive Officer and Group Chief Operating Officer, Mr Robinson is responsible for the day-to-day operational activities for the group across PNG and the offices in Fiji, Vanuatu, Timor and Solomon Islands.

Mr Robinson's appointment follows his recent success as Executive General manager of Banking at Kina Bank in Port Moresby. Prior to Kina Bank, Mr Robinson enjoyed a long and successful career in financial services including senior executive roles with Suncorp across the group's Retail and Business Banking divisions.

He brings a wealth of experience and an admirable track record in establishing financial services distribution networks in new markets, achieving significant asset growth and delivering excellent customer service outcomes.

Jeff Undah (FCPA)
Group Chief Financial Officer

Jeff Undah was appointed Chief Financial Officer in September 2018.

Mr Undah has over 15 years' accounting and finance experience at top multi-national companies. He has worked across various roles at middle to executive management levels on short and long-term service engagements in Fiji, Solomon Islands, Australia and PNG.

Mr Undah started his career at Deloitte as a Graduate Accountant. Prior to joining Credit Corporation PNG, Mr Undah held the role of Financial Controller at Kina Bank. He also spent more than six years at Westpac Bank (PNG) Limited and held various senior management roles including Chief Financial Officer and Company Secretary positions.

Mr Undah is a Fellow Certified Practising Accountant and holds a Bachelor of Accounting degree from the University of Papua New Guinea.

Senior executive team (continued)

Karen Mathers
Group Chief Risk Officer

Karen Mathers was appointed as Chief Risk Officer in 2020.

This is a newly created role which encompasses all financial and non-financial risk in the business as well as the compliance functions.

Ms Mathers has more than 20 years in risk management, with experience at organisations such Shell Company of Australia, Ernst & Young, and financial services companies including ANZ and BankVic.

As a member of the executive management team, she will lead Credit Corporation's risk function throughout its PNG and Pacific operations.

Brent St. Hill
General Manager Properties

Mr Brent St. Hill was appointed as the General Manager Properties in September 2019. Mr St. Hill has an extensive professional executive management background in property, development, asset, hotel, apartment and hospitality services in PNG, Australia and New Zealand.

Having been in PNG for more than 18 years, Mr St. Hill has held executive positions with Coral Sea Hotels, Steamships Trading, RPYC and more recently Kumul Hotels trading as IHG Crowne Plaza Hotels.

Jack Parina
Company Secretary

Appointed 12/11/20

Jack Parina was appointed Company Secretary in November 2020.

He joined Credit Corporation from Nasfund where he was appointed Company Secretary in November 2014. Prior to that he was Company Secretary for MRDC (July 2012 to October 2014). He was also the Company Secretary of Kina Group (2010 to 2011).

He practised law in PNG for over 12 years in both litigation and commercial law, starting his career with Blake Dawson (now Ashurst Lawyers) in 2002.

Jack completed his service with the company on 13 April 2021.

Country heads

Peter Dixon
Country head for Credit Corporation Fiji

Peter Dixon was appointed Managing Director of Credit Corporation Fiji in March 2012.

Mr Dixon has more than 36 years' management experience in PNG and Fiji, specialising in finance and management, business and strategic planning, and staff training and development.

He previously held the position of General Manager at Bank South Pacific, where he oversaw the operation and performance of the Corporate, Commercial and Business Lending units. Prior to this, Mr Dixon established a management consultancy company, Dedicated Management Ltd, which provided specialised services to the banking and finance sector in PNG, as well as corporate governance training.

Mr Dixon is a Senior Associate of the Financial Services Institute of Australia and a Graduate Member of the Australian Institute of Company Directors. He also holds a Masters of Business Administration from Charles Sturt University.

Ronald Vikash Prasad
Country head for Credit Corporation Solomon Islands

Ronald Vikash Prasad was appointed to Country Manager in December 2020.

Mr. Prasad has more than 15 years of experience in the finance industry both in Fiji and Solomon Islands.

Prior to joining Credit Corporation Solomon Islands, he held the position of Chief Financial Officer for SPBD Microfinance SI Ltd. He has also spent more than 8 years at Sugar Cane Growers Fund in Fiji and has held various senior management roles.

Mr. Prasad is a certified Practicing accountant and holds a bachelor's degree with majors in Accounting/ Financial Management and Economics from University of South Pacific in Fiji.

Chris Durman
Country head for Credit Corporation Timor-Leste

Chris Durman was appointed Country Head for Credit Corporation's Timor-Leste branch in January 2016.

Mr Durman is a strategic executive with more than 40 years' experience in international banking, finance and broking for banks and financial institutions, specialising in finance and banking start-ups.

Prior to joining Credit Corporation PNG, Mr Durman held senior positions with PNG's largest bank, the Bank South Pacific – in its Corporate, and Client Support Business Units. Mr Durman previously established ANZ Private in Western Australia, was Head of Distribution for ANZ Trustees and successfully designed, launched and managed ANZ Timor-Leste.

Mr. Durman currently serves as Honorary Consul of the Democratic Republic of Timor-Leste to PNG. He is a Fellow of the Financial Services Institute of Australasia, and holds a Diploma of Finance and Mortgage Broking.

Mohammed Nawaz
Country Manager for Credit Corporation (Vanuatu) Limited

Mohammed Nawaz was appointed Country Manager of Credit Corporation (Vanuatu) Limited in March 2021.

Mr Nawaz has 14 years of progressive finance & operational experience at major multinational companies. In his immediately preceding role, Mr Nawaz was the Financial Controller of Credit Corporation (Fiji) Pte Limited for the past 5 years.

Prior to joining Credit Corporation Fiji, Mr Nawaz commenced his career at PwC Fiji & progressed with Reserve Bank of Fiji before moving into a senior finance role at QBE Insurance (Fiji) Pte Limited.

Mr Nawaz is a Certified Practicing Accountant with CPA Australia and a Chartered Accountant with Fiji Institute of Accountant (FIA). He is also a member of the FIA Professional Development Committee. Mr Nawaz is a Fellow of Leadership Fiji.

Corporate governance statement

I. OVERVIEW

This Corporate Governance Statement sets out the Credit Corporation Group's key governance policies and practices operating during the 2020 financial year.

A copy of this Statement can be obtained on Credit Corporation's website www.creditcorporation.com.pg.

Credit Corporation (PNG) Limited is incorporated in Papua New Guinea (PNG) and is listed on PNG's national stock exchange, PNGX Markets (PNGX). The Group's head office is in PNG where most functional leads are housed to effect governance oversight to its locally incorporated subsidiaries in the other countries in which the Group operates throughout the Pacific.

Our governance structure is influenced by the requirements of regulators throughout the Pacific, with the parent company, Credit Corporation, maintaining oversight on holistic issues and global influences, and being responsible for setting and monitoring compliance with the Group's governance framework.

Credit Corporation and its subsidiaries each has a Board and Management structure appropriate for its operations, complexity, growth and size. Whilst our subsidiaries are locally incorporated in the jurisdiction in which they operate, they must comply with the Group's Corporate Governance Framework.

Legal and Regulatory Framework

Credit Corporation and each of its subsidiaries must comply with relevant laws in each of the countries in which they operate.

The Credit Corporation Group operates in a highly regulated environment. While Credit Corporation is not a regulated entity itself, our finance subsidiaries are regulated and supervised as finance and authorized deposit-taking institutions by various Pacific regulatory and supervisory bodies (including Central Banks) in the jurisdictions in which we operate.

Accordingly, the Credit Corporation Group must comply with strict regulatory requirements in respect of governance, capital, liquidity, risk management, conduct, financial crime and systems and controls, among other things.

As Credit Corporation is listed on PNGX, it must also comply with the PNGX Listing Rules.

Risk Management Structure

Credit Corporation has a conservative yet consistent approach to risk, which has seen us deliver sustained long-term growth by protecting our capital to lend responsibly and support our business growth.

All of our employees are responsible for the management of risk, with the ultimate accountability residing with the Board. Our risk culture is developing and will be embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework that is under continuing development, is applied throughout the Group, and is reinforced with our values and code of conduct. Our risk management structure is central to our strategy and was bolstered by the appointment our first dedicated Group Chief Risk Officer in 2020.

II. THE BOARD OF DIRECTORS

1. THE BOARD STRUCTURE AND ROLE

The Board of Directors has ultimate responsibility for the success of the Group, and is charged with delivering sustainable financial performance and long-term shareholder value and is responsible for the overall direction, supervision and control of the Group and its management.

The Board has adopted a Board Charter, that sets out, among other things:

- the role and responsibilities of the Board (the key aspects of which are set out in Table One), including matters specifically reserved to the Board; and
- the role and responsibilities delegated to the Chief Executive Officer, which is primarily the management of the day-to-day operations of Credit Corporation.

The Board comprises seven Directors (five independent and two non-executive Directors).

TABLE ONE	BOARD ROLE
Strategy	Identify, develop, review and approve the strategic direction and business plan for the key businesses.
Financial oversight	Adopt the annual budget and capital expenditure plan, and monitor management and financial performance of the businesses.
Risk management framework	Oversee the effectiveness of risk management and compliance (with the Board committees) .
Financial and other reporting	Approve the Group's half-year and annual financial statements, and monitor and review management processes for the integrity of financial and other reporting as required by law.
Board performance and composition	Evaluate the performance of the Board and individual Directors on at least an annual basis in determining its size and composition.
Leadership selection	Evaluate the performance of and selection of the CEO.
Succession and remuneration planning	Plan for Board, CEO and executive succession and remuneration, and set Non-executive Director remuneration.
Sustainability	Consider the social, ethical and environmental impact of the Group's activities and operations in the various jurisdictions.
Regulators	Monitor the conduct of the Company's relationship with key regulators to ensure the Company's obligations are being met, and set standards and monitor compliance with the Company's sustainability responsibilities, practices and policies.
Material transactions	Approve major expenditure and capital initiatives in excess of the authority levels delegated to management.
Corporate Governance	Review and monitor the Company's corporate governance policies and practice.

Corporate governance statement (continued)

The Board operates within the ambit of the Companies Act 1997, Credit Corporation's Constitution and the Board Charter. In discharging its duties, the Board has elected to form five (5) separate Board committees.

Committee	Functions/Role
Audit Committee	The function of the Audit Committee is to serve as an independent and objective body with oversight of: • the Group's accounting policies, financial reporting and disclosure controls and procedures; • the quality, adequacy and scope of external audit; • the Group's compliance with financial reporting requirements; • the Executives' approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance; and • the performance of the Group's Internal Audit function. The Executives, led by the Group Chief Financial Officer, are responsible for the preparation, presentation and integrity of the Group's financial statements. External auditors are responsible for auditing the Group's annual financial statements and for reviewing the half yearly financial statements.
Risk Committee	The function of the Risk Committee is to oversee and support the Board in fulfilling its duty to set and supervise an appropriate risk management and control framework with oversight into all material risks.
Disclosure Committee	The function of the Disclosure Committee is to assist the CEO, CFO and the audit committee in preparing the disclosures required under the various regulations and listing rules, including ensuring: • disclosure controls and procedures are properly implemented; and • any communication is appropriate, timely, accurate and complete.
Nomination & Remuneration Committee	The function of this Committee is to: • govern any Board appointments at the Group level; • oversee the Group's remuneration policy; • oversee the remuneration of Directors and senior Group employees; and • review the effectiveness of the remuneration policy in the context of effective risk management.
Strategic & Investment Committee	The function of this committee is to validate and test the Group's strategic plans whilst evaluating the capital deployment in the context of a variety of investment scenarios.

Each committee is governed by its own Charter which defines roles, responsibilities and membership, and each committee provides recommendations to the Board and advice on specific issues.

There are five (5) Board committees. The Board decided to divide the previous Audit & Risk Committee into two completely separate committees, reflecting a sharper focus on Risk Management and driving the *three lines of defence* model.

TABLE TWO: BOARD COMMITTEE MEMBERS AS AT 31 DECEMBER 2020

		Member of:				
Director	Board	Risk & Compliance Committee	Audit Committee	Nominations & Remuneration Committee	Strategy & Investments Committee	Disclosure Committee
Sydney Yates*	M	–	AC	–	–	C
Dr Albert Mellam	M	–	–	M	M	–
Abigail Chang*	M	C	–	M	–	–
Faye-Zina Lalo	M	M	–	M	M	–
James Kruse*	M	–	M	–	C	–
Richard Sinamoi*	M	M	M	C	–	–
Michael Varapik*	M	M	M	–	–	M

Key: M-Member, C-Chair, AC-Acting Chair

Note: * indicates the named Director is an Independent Director on the Board.

TABLE THREE: DIRECTORS ATTENDANCE AT BOARD & COMMITTEE MEETINGS

	Board meeting	Audit Committee meeting	R & C Committee meeting	N & R Committee meeting	S & I Committee meeting	Disclosure Committee meeting
Number of meetings	**19**	**5**	**6**	**5**	**2**	**10**
Dr Albert Mellam	13/19			5/5	2/2	
Abigail Chang	18/19		6/6	5/5		
Faye-Zina Lalo	19/19		6/6	5/5		
Sydney Yates	19/19	5/5			2/2	10/10
James Kruse	17/19	5/5			2/2	
Richard Sinamoi	19/19	4/5	6/6	5/5	2/2	
Michael Varapik	19/19	5/5	6/6			10/10

2. BOARD'S RELATIONSHIP WITH THE CHIEF EXECUTIVE OFFICER

The Board confirms the duties and responsibilities of the CEO annually, and approves the Key Performance Indicators for the CEO, linked to the Group's strategic goals as set by the Board.

The CEO is responsible for the day-to-day management and operations of the Group's businesses and reports to the Board on key operational and management issues, including both financial matters and material risk and compliance matters.

Corporate governance statement (continued)

3. CHAIR

The Directors elected Sydney Yates as Chair of the Board in November 2018. The Chair is an independent Director.

The role of the Chair is set out in the Board Charter and includes:

- representing the Board to shareholders and communicating the Board's position;
- leading the Board and facilitating and encouraging constructive discussion in meetings;
- assessing and agreeing professional development plans for all the Directors; and
- monitoring the contribution of individual Directors, and providing annual feedback on their performance and effectiveness.

The performance of the Chair is reviewed every year by the Board as part of the annual Board Self-Assessment Process. The Board understands that Board leadership is key to having an effective Board that sets the direction of Credit Corporation and its subsidiaries, and discharges its fiduciary and other duties under the Companies Act and other laws.

4. BOARD SKILLS AND COMPOSITION

The Board seeks members who combine a broad spectrum of experience and expertise with a reputation for integrity and localised knowledge in the jurisdictions we operate.

Directors are chosen from external leaders in the community based upon contributions they can make to the Board and management. Our Board is able to challenge management in a constructive manner and drive strategic results.

The Board comprises a majority of independent Directors and, as a collective group, offers a diversity of skills, opinion and perspectives with varying experiences, gender and demographics. This drives robust decision making.

Regular review of membership is conducted by the Board to ensure the current and future members provide the mix of skills necessary to support the strategic direction, and rise to the challenges of the Group.

The key skills and experience of the Board members are captured below:

- Corporate governance
- Government policy and relations
- Financial services/banking expertise
- Risk management
- Listed company experience
- Capital management and debt funding
- Insurance
- Tax
- Financial acumen
- Strategic Planning
- Regulatory and compliance
- Information technology
- Company culture and talent management
- Public affairs and communication
- Crisis management
- Global orientation and exposure
- Operational management
- Market understanding and awareness

5. BOARD PERFORMANCE EVALUATION

The Board expects a high level of performance from each Director. The Chair is responsible for the performance evaluation process to confirm this.

The Board assesses its performance each year and is required to have an independent assessment every three years as part of compliance with the BPNG Prudential Standards. The last independent Board assessment was conducted in 2019 by an external consultant.

6. DIRECTOR APPOINTMENT AND ELECTION

The appointment of Directors is governed by Credit Corporation's Constitution.

All Directors are appointed for an initial three-year term. Directors can only serve a total of three terms, being nine years.

All Directors must satisfy two requirements prior to taking up active duty on the Board – they:

i. must be cleared by BPNG as a 'Fit and Proper' person pursuant to the Prudential Standards issued by BPNG under the *Banks and Financial Institutions Act 2000*; and

ii. they must be duly appointed by the Board or the shareholders in a general meeting in accordance with the Constitution.

A Director appointed by the Board holds office only until the next AGM and is eligible for election by the shareholders at that meeting.

Table Four presents the summary of Directors' tenure with an indication of rotation of Directors pursuant to Article 66 (2) of the Constitution.

TABLE FOUR: DIRECTORS' TENURE

Director	Board Appointment date	Current tenure on Board	Shareholder ratification date (Initial appointment)	Rotation and re-election at AGM
Dr Albert Mellam	19.08.2013	7 years 4 months	27.06.2019	(Due to retire)
Abigail Chang	07.09.2016	4 years 3 months	27.06.2019	Yes, last rotation was in 2019
Faye-Zina Lalo	02.12.2016	4 years	25.06.2020	No, last rotation was in 2020
Sydney Yates	21.05.2018	2 years 7 months	25.06.2020	No, last rotation was in 2020
Michael Varapik*	21.05.2018	2 years 7 months	27.06.2018	(Resigned on 04.02.2021)
James Kruse*	21.05.2018	2 years 7 months	27.06.2018	(Resigned on 05.03.2021)
Richard Sinamoi	21.05.2018	2 years 7 months	25.06.2020	No, last rotation was in 2020

Note: *Directors that retired or resigned in the year.

7. DIRECTOR DEVELOPMENT

In 2020, there was number of external workshop and courses that Directors participated in to improve the Board's performance, oversight capability and insight into the business. Most Directors completed the required 20 hours of training in the year.

8. DIRECTOR INDEPENDENCE

The Board determined that a majority of the Directors (five out of seven) were independent throughout the reporting period. The Board reviews the interests notified by Directors regularly and formally assesses Director independence annually.

Directors are considered to be independent where they are independent of management and free of any business or other relationship that could, or reasonably be perceived to, materially interfere with their capacity to bring independent judgement on issues before the Board and to act in the best interests of Credit Corporation and its shareholders generally. Independent Directors must not be an ex-employee of Credit Corporation nor should they hold more than a 5% shareholding interest in the company.

As part of the formal independence assessment, the Board considers all business relationships between the Group on the one hand, and the Directors and companies of which they are directors or substantial shareholders on the other hand. In each case, those business relationships were of an amount not material to both parties and the Director was not involved in decisions about those relationships.

Corporate governance statement (continued)

9. CEO AND SENIOR EXECUTIVE PERFORMANCE AND REMUNERATION

The Nominations & Remuneration Committee reviews the performance of the CEO and executive employees, and makes recommendations about remuneration and employment conditions to the Board for approval.

10. CONFLICTS OF INTEREST

Any Director who considers they have a conflict of interest or a material personal interest in a matter concerning Credit Corporation must declare it immediately to the Chair.

The Company Secretary maintains a Register of Interests which is updated at every Board meeting. The Secretary also monitors all information coming to the Board and its committees, and potential conflicts are flagged with the affected Director and the Chair.

11. INDEPENDENT ADVICE

Directors are entitled to seek independent advice on their duties at the Group's expense, provided that they receive the prior approval of the Chair. The advice is normally made available to all Directors. No Director sought independent advice during the 2020 year.

12. COMPANY SECRETARY

There is one Company Secretary for the Board and the Board committees. The Company Secretary is appointed by the Board under the Constitution.

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

The current Company Secretary was appointed in November 2020 and is a lawyer by profession with over 15 years experience in the legal profession and industry. Prior to his appointment with Credit Corporation, he was company secretary for NASFUND.

The incumbent Company Secretary resigned on 13 April 2021. An interim arrangement is in place for an Acting Company Secretary whilst the Board is actively seeking for a replacement to fill the vacant role.

III. RISK MANAGEMENT & ASSURANCE

1. RISK MANAGEMENT FRAMEWORK

The Board oversees risk management within the Group. The Group's businesses are exposed to a range of strategic, financial, operational and compliance related risks. These risks are inherent in operating finance, property and investment businesses.

The risk strategy continues to operate a "*three lines of defence*" model, but has been enhanced to link risk methodology into its material risk management processes explained in the following diagram.

The Board implemented its annual risk review process resulting in enhancements in 2020 including the functional shift of key business areas into separate first and second line teams within the risk management framework.

The design of the Group's Risk Management Framework was reviewed and significantly updated to provide more rigorous risk ownership, accountability and reporting during the reporting period.

GOVERNANCE	
Risk Management Strategy "RMS"	Clear linkage between mission statement, risk management framework and risk appetite statement
Risk Appetite Statement "RAS"	Risk Appetite limits are typically measurable and follow a clear methodology in the setting
Risk Management Framework "RMF"	Comprehensive coverage of RMF taxonomy
Strategic Risk, Financial Risk, Credit Risk, Reputational Risk, Operational Risk, Compliance Risk, IT Risk, People Risk	Consistent setting across all material risk domains
	Cascading into business operations and reporting packs
	Defining policies in line with RAS objectives

The CEO and the Executive Management team ensures risks are monitored, controlled and reported to the Board via the governance framework operated by the Group Risk Office.

The diagram below sets out a description of how risk governance operates in the Group together with key responsibilities of the Board, the Group Executive Management, Business Units and Audit. The governance was enhanced by the introduction of three group risk committees being:

- Asset & Liability Committee;
- Risk Management Committee; and
- Credit Risk Management Committee.

BOARD OF DIRECTORS

Strategy & Investment Committee	Nomination & Remuneration Committee	Risk & Compliance Committee	Disclosures Committee	Audit Committee

EXECUTIVE MANAGEMENT

Operational Performance Metrics	Staff Consultative Management	Risk & Compliance Management	Expenditure Approval
Workplace Health & Safety	Strategic and Project Oversight	IT Monitoring	

MANAGEMENT COMMITTEE

Asset Liability Committee	Risk Management Committee	Credit Committee

BUSINESS	RISK MANAGEMENT	AUDIT
1st line of defence	2nd line of defence	3rd line of defence
• Responsible for managing own processes • Responsible for identifying and controlling risks by using business control framework, and implementing internal processes and adequate controls	• Setting bank-wide Risk Management Framework • Independent reporting to Board (inc Risk/Audit Com) • Ensure 1st line takes ownership • Advisor/Consultant to 1st line and Board	• Provides assurance about design and effectiveness of 1st and 2nd line • Reporting to Audit Committee • Advisory role to improve processes

Corporate governance statement (continued)

2. MATERIAL BUSINESS RISKS

Following an extensive risk assessment process during the reporting period, the Group identified and confirmed nine material business risks for the organisation.

All risks are routinely monitored and corrected. Risks are escalated to the Board where significant impact on business operations occur.

MATERIAL RISKS (KEY RISKS)

Financial Risk	HR Risk	Investment Risk	IT Risk	Reputational Risk	Strategic Risk	Compliance Risk	Credit Risk	Operational Risk

3. EXTERNAL AUDITOR

KPMG has been the Group's external auditor for over 20 years. The external audit appointment and performance are reviewed annually. The Board re-appointed KPMG as external auditor in 2018. Every five years the lead audit partner responsible is rotated.

Mr Herbert Maguma was appointed lead audit partner for KPMG for financial year 2020 (FY2020).

Details of the non-audit services provided by the external auditor over the reporting period are included in the Financial Statements. The Audit Committee has not set any nominal "cap" on the level of non-audit services to be performed by the external auditor, as it considers that this may restrict the ability of Credit Corporation to access the best advisers for the particular task.

KPMG has provided the required independence declaration to the Board for FY20. The independence declaration forms part of the Directors' Report in the Annual Report.

Credit Corporation does not invite any ex-Group audit partners to be appointed as Directors. If such a person was proposed for appointment in a management position, this would require Board approval.

The lead audit partner attends and presents audit findings to the Audit Committee, and is available to meet with members of the Audit Committee as and when required, including holding in camera meetings with the Committee without management's presence.

The lead audit partner attends the Credit Corporation's AGM and is available to answer questions from shareholders relevant to the audit.

4. INTERNAL AUDITOR

The Group has an independent internal audit function (Group Internal Audit), based in Fiji. Group Internal Audit provides independent and objective assurance services to management and the Board in relation to the internal controls, risk management framework and governance of the Group. It does so through:

- performing audits in accordance with an Internal Audit Plan. The Plan is formulated using a risk-based approach and approved annually by the Audit Committee;
- having direct access and being accountable to the Board through the Audit Committee, with the right to communicate to it in the absence of management; and
- regular reporting to the Audit Committee on the results of its audits.

The Audit Committee has an Internal Audit Charter and is responsible for reviewing the performance of the Internal Audit Manager and the function each year.

IV. COMMUNICATING WITH SHAREHOLDERS

1. SHAREHOLDER ENGAGEMENT

Shareholders and other stakeholders are informed of all material matters affecting Credit Corporation through PNGX announcements, periodic communications and a range of forums and publications, available on Credit Corporation's website. These communications are part of Credit Corporation's continuous disclosure obligations. Shareholders have the option to utilize electronic communications.

Other shareholder engagement activities include:

- the Annual General Meeting;
- the Annual Report; and
- regular releases of financial information, including half and full-year financial results.

V. CORPORATE ETHICS

1. CORE VALUES

The Group's core values are:

i. Integrity;
ii. customer commitment;
iii. maintaining highest standards in all aspects of business; and
iv. building a strong, honest & motivated employee group.

2. CODES OF CONDUCT

Credit Corporation has consistently themed Codes of Conduct throughout the organisation. These Codes set out the standards expected of Directors and employees. The Codes of Conduct emphasise the standards of honesty, integrity and fair dealing by all employees in their interaction with customers, suppliers, the community, competitors and each other in the performance of their duties.

3. OTHER POLICIES

The Board and executive management maintain a range of other policies which define Credit Corporation's commitment to good corporate governance and responsible business practices.

VI. DIVERSITY

Credit Corporation drives diversity throughout the Group in a number of lead areas such as social diversity (race, nationality, age), gender, skills and experience and thought leadership. We celebrate diversity and inclusion and sees them as key strengths. Across our operations spanning five nations – in our boardrooms, meeting rooms, branches, and all places in between – this commitment to diversity and inclusion helps ensure that everyone at Credit Corporation feels valued, respected and heard.

We believe teams that are both diverse and inclusive attain higher levels of engagement, loyalty and growth and through diversity of thought comes innovation and better decision-making. As a company that is founded on strong partnerships and relationships, we know that diversity and inclusion help us better reflect different needs and perspectives of the communities we serve so we are better able to meet their needs.

Corporate governance statement (continued)

Our commitment to diversity and inclusion goes beyond the doors of our business. We support customers and communities through a range of initiatives, such as making financial services more accessible to customers with diverse needs and contributing to branch level celebrations of cultural expression.

Credit Corporation is proud to promote inclusion in the communities where we operate, and to support the diversity of all our employees and customers.

The Group supports female representation at all levels of management and business operations and has appointed many talented female Directors and employees. Focused leadership coaching and mentoring will continue as part of our overall succession planning for male and female talent.

TABLE FIVE: GENDER BREAKDOWN

		Percentage of women as a total (%)
Board	(2/7)	29
Executive Manager	(1/4)	25
Senior Managers	(3/9)	33
Total women in management	(7/23)	30
Non-management	(82/247)	33

VII. CORPORATE SOCIAL RESPONSIBILITY

The Group supports community projects and incentives that relate to women's and children's health welfare, local disaster relief outreach programs and youth through sporting sponsorships. This community support is reported at page 27 of this Annual Report.

Contents

Directors' declaration

Credit Corporation (PNG) Limited and Its Controlled Entities
Annual Report for the year ended 31 December 2020

Directors' Report

Your directors present their annual report on the affairs of Credit Corporation (PNG) Limited (the "Company") and its controlled entities (together "the Group") including the financial statements for the year ended 31 December 2020.

Activities

The principal activities of the Group during the course of the financial year remain that of providing general finance, leasing and hire purchase financing, investment property and equity investment.

There were no significant changes in the nature of the activities of the Company and the Group during the year.

Results

The net profit after taxation for the Group attributable to the members of the Group for the year was K21,995,858 (2019: K131,985,218) and for the Company was K36,660,643 (2019: K114,183,544).

Dividends

The Company paid a final dividend of K36,951,760 (K0.12 per share in August 2020) (2019: K39,981,000 final dividend (K0.13 per share) in August 2019 and K21,528,00 interim dividend (K0.07 per share in November 2019).

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Directors

The directors at the date of the report of the Company are listed on pages 28 to 30. No director was a shareholder of the Company as 31 December 2020 and none had any material interest in any contract or arrangement with the Company or any related entity during the year.

Remuneration of Directors and Employees

The Directors and employees' remuneration information is disclosed in Note 6.3 (b).

Interests Register

The details of information recorded in the Interests register is disclosed in Note 6.3 (a).

Auditors' remuneration

The detail of the auditors' remuneration is disclosed in Note 2.3.

Donations

During the year, the Company made donations totalling K39,209 (2019: K39,136).

For and on behalf of the board of directors

Sydney Yates
Chairman
Date: 19 March 2021

Abigail Chang
Director
Date: 19 March 2021

KPMG

Independent Auditor's Report

To the shareholders of Credit Corporation (PNG) Limited ("Company") and its subsidiaries ("Group").

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of the Company and the Group.

In our opinion, the accompanying Financial Report of the Company and the Group is in accordance with the *Companies Act 1997*, including:

- giving a true and fair view of the Company and Group's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with International Financial Reporting Standards.

The Financial Report comprises:

- statements of financial position as at 31 December 2020;
- income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows for the year then ended 31 December 2020; and
- notes including a summary of significant accounting policies.

The Group consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with International Auditing Standards. 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 and Group in accordance with the *Companies Act 1997* and the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Papua New Guinea. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We confirm that we have remained independent as required by the Code throughout the period of our audit and to the date of this Auditor's Report.

Key Audit Matters

The Key Audit Matters we identified are:

- Valuation of investment property;
- Allowance for expected credit losses on finance receivables; and
- Valuation of investment in subsidiaries measured at fair value.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment property (K258,968,099) – Group

Refer to Note 3.6 *Investment property* to the Financial Report

The key audit matter	How the matter was addressed in our audit
The investment property balance is a significant balance and represents 16.7% of the Group's total assets. The valuation of investment properties is dependent on a number of assumptions and inputs including tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Amongst others, the following assumptions are key in establishing fair value: • The occupancy rates and vacancy allowances; • The capitalisation rate; • Capital expenditure allowances; • Letting allowances; • Market lease rates; and • The adopted discount rate. We considered the valuation of investment property to be a key audit matter due to the: • Financial significance of investment property in the statement of financial position. • The property market is largely illiquid and inactive with minimal comparable transactions. This increases the subjectivity as there are minimal comparable transactions and published data on capitalisation rates etc. • Inherently subjective nature of investment property valuations which increased as a result of the current COVID-19 environment and its sensitivity to key input assumptions, including, vacancy allowance, capitalisation rates and discount rates.	Our procedures included the following: • We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment property in the industry, and with the Group's stated valuation policy; • We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations of likely movements in investment property values and underlying key assumptions such as capitalisation rates, discount rates and vacancy allowances; • For a sample of tenancy agreements, we compared the rental income used in the investment property valuations to the tenancy schedules; • We compared the capitalisation rates and discount rates used by the Group in their investment property valuations to rates used for other comparable properties determined reasonable based on their location and asset grade; • We considered and challenged the Group's assessment of the impact of COVID-19 on the key input assumptions; and • We assessed the appropriateness of the Group's accounting policies and disclosures in respect of investment property in accordance with IFRS 13 *Fair value measurement.*

Allowance for expected credit losses on finance receivables (K119,153,992) – Group	
Refer to Note 3.2 *Finance receivables* to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Allowance for credit losses on finance receivables are considered to be a key audit matter due to the significance of finance receivables to the Group's financial position and the inherent complexity of the Group's Expected Credit Loss (ECL) models (ECL models) used to measure ECL allowances. The ECL models are reliant on data as well as a number of estimates and assumptions. The following assumptions are key in establishing the ECL allowances: • expected future cash receipts; • collateral valuation, and estimated sale proceeds of the assets held as collateral (haircuts); • time to realisation of collateral; • probability and timing of default; • cure rate; • determination of significant increases in credit risk; and • the impact of future changes in macroeconomic environment, including COVID-19 related economic impacts Separate from the ECL calculation, allowances for individually assessed loans are specifically assessed by the Group. These specific allowances are established based on future expected repayments and estimated proceeds from the value of the collateral held by the Group in respect of these loans. Management ECL model overlay adjustments are made by the Group to address known ECL model impairment limitations or emerging trends in the loan portfolios as well as risks not captured by models. They represent approximately 14.4% net of the ECL. These adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts especially in relation to economic uncertainty as a result of COVID-19.	Our audit procedures for the allowance for ECL and disclosures included assessing the Group's significant accounting policies against the requirements of the accounting standard. Additionally our procedures covered the following: We tested key controls in relation to: • Data entry of information from the signed loan agreements to the core banking system. This included the principal amount of the loan, the interest rate and the loan tenure; and • Key Information Technology and credit risk monitoring controls relating to the accuracy of data, inputs in the provision models and controls in the arrears supervision process. In addition to controls testing, our procedures included the following: • We obtained an understanding of the Group's processes to determine ECL allowances, evaluating the Group's ECL model methodologies against established market practices and criteria in accounting standards; • We assessed the accuracy of the Group's ECL model predictions by re-performing, for a sample of loans, the ECL allowance and comparing to the amount recorded by the Group; • We assessed the accuracy of the data used in the ECL models by confirming key data fields such as the account balance, days in arrears, collateral values to relevant source systems for a sample of loans; • We challenged the reasonableness of the Group's key judgements and estimates made in complying with IFRS 9 *Financial Instruments* requirements, including selection of methods, models, key assumptions and data sources; • We assessed the completeness of additional allowance overlays by checking the consistency of the risks we identified in the general macroeconomic conditions to the Group's assessment; and

Allowance for expected credit losses on finance receivables (K119,153,992) – Group (continued)	
We exercise significant judgment in challenging the economic scenarios used and the judgemental management ECL model overlays the Group applies to the ECL results. The finance receivables and ECL allowances are also significant to the Group due to the level of required disclosures set out by the requirements of IFRS 7 *Financial Instruments: Disclosures.*	• We assessed the management overlay particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data. ***IFRS 7 Financial Instruments: Disclosures*** Assessing the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing against the requirements of the accounting standard.

Valuation of investment in subsidiaries measured at fair value (K335,727,698) – Company stand-alone	
Refer to Note 3.4(d) *Investments in subsidiaries* to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The investment in subsidiary balance is a significant balance and represents 39.1% of total assets of the Company. Investment in subsidiaries are carried at fair value at the reporting date using the Group's policy as described in Note 3.4(d). The valuation of investment in subsidiaries is dependent on a number of assumptions and inputs including price-to-book ratios. We considered the valuation of investment in subsidiaries to be a key audit matter due to the: • Financial significance of investment in subsidiaries in the statement of financial position. • Inherently subjective nature of investment valuations arising from the use of assumptions in the valuation methodology. • Sensitivity of valuations to key input assumptions, including, earnings multiples, discount factors and forecast sustainable earnings and the impacts caused by the current COVID-19 environment.	Our procedures included the following: • Working with our KPMG Corporate Finance specialists, we challenged the Company's price-to-book ratios. We compared these ratios to published studies of industry trends and expectations, and considered differences for the subsidiaries' operations. We used our knowledge of the subsidiaries, their past performance, business and our industry experience; • We assessed the accuracy of the data used by comparing key underlying financial data inputs to external sources such as financial information of comparable businesses, the investee company audited accounts; • We considered the sensitivity of the models by ;key assumptions, such as the price-to-book ratio, within a reasonable possible range and included specific analysis of reasonable possible impacts of COVID-19; and • We assessed the appropriateness of the Company's accounting policies and disclosures in respect of investment in subsidiaries against the requirements of the relevant accounting standards.

Other Information

Other Information is financial and non-financial information in Credit Corporation (PNG) Limited and its subsidiaries' annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report. The remaining Other information, the annual report, is expected to be made available to us after the date of the Auditor's Report.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with the *International Financial Reporting Standards and the Companies Act 1997;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company and Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company and Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

KPMG

Auditor’s responsibilities for the audit of the Financial Report (continued)

As part of the audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the (consolidated) financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Report on other legal and regulatory requirements

The *Companies Act 1997* requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the Financial Report for the year ended 31 December 2020:

- We have obtained all the information and explanations that we have required; and
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

kpmg
Chartered Accountants

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby
19 March 2021

Statements of financial position

As at 31 December 2020

	Note	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
ASSETS					
Cash and cash equivalents	3.1	234,358	140,138	18,970	5,948
Other deposits	3.4(f)	–	–	14,930	27,973
Finance receivables	3.2	504,450	613,111	–	–
Other receivables	3.3	5,608	7,841	32,604	35,241
Interest bearing securities	3.4(a)	20,033	1,270	–	–
Other equity investments	3.4(b)	34	34	34	34
Investment in associate	3.4(c)	8,283	8,283	8,283	8,283
Other investments	3.4(d)(e)	440,336	433,409	776,065	808,118
Inventories		1,582	953	–	–
Income taxes receivable	2.6(b)	1,599	3,188	843	675
Property and equipment	3.5	28,535	27,265	2,451	571
Investment property	3.6	258,968	275,700	3,800	3,800
Deferred tax assets	2.6(c)	43,150	30,066	145	423
TOTAL ASSETS		**1,546,936**	**1,541,258**	**858,125**	**891,066**
EQUITY					
Share capital	5.1	21,984	21,984	21,984	21,984
Reserves	5.2	447,258	442,633	663,268	656,342
Retained earnings		446,477	456,616	163,726	209,925
TOTAL EQUITY		**915,719**	**921,232**	**848,978**	**888,251**
LIABILITIES					
Trade and other payables	3.7	13,272	10,323	8,759	2,609
Deposits and borrowings	3.8	600,451	587,986	–	–
Employee benefits	3.9	3,204	3,157	299	99
Deferred tax liabilities	2.6(c)	14,290	18,560	89	107
TOTAL LIABILITIES		**631,217**	**620,026**	**9,147**	**2,815**
TOTAL EQUITY AND LIABILITIES		**1,546,936**	**1,541,258**	**858,125**	**891,066**

For and on behalf of the board of directors

Director
Date: 19 March 2021

Director
Date: 19 March 2021

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 127.

Income statements

For the year ended 31 December 2020

	Note	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Finance income	2.1	98,938	109,677	–	–
Finance costs	2.2	(26,696)	(24,731)	–	–
Net finance income		**72,242**	**84,946**	**–**	**–**
Other income	2.1	79,902	92,564	46,923	73,219
Fair value gain on financial assets	3.4(e)	6,926	55,480	6,926	55,480
Fair value loss on investment properties	3.6	(16,777)	(22,221)	–	(600)
Net operating income		**142,293**	**210,769**	**53,849**	**128,099**
Impairment loss on finance receivables	3.2	(63,374)	(13,953)	–	–
Change in impairment allowance on other receivables	3.3	–	–	325	(2,496)
Personnel expenses	2.4	(22,117)	(19,323)	(5,148)	(2,006)
Depreciation expenses	3.5	(5,502)	(4,638)	(254)	(116)
Other operating expenses	2.3	(35,488)	(30,399)	(11,952)	(6,071)
Results from operating activities		**15,812**	**142,456**	**36,820**	**117,410**
Share of loss of equity accounted investee (net of tax)	3.4(c)	–	(4,179)	–	(4,179)
Profit before tax		**15,812**	**138,277**	**36,820**	**113,231**
Income tax benefit/(expense)	2.6(a)	6,184	(6,292)	(161)	953
Profit attributable to equity holders of the company		**21,996**	**131,985**	**36,659**	**114,184**
Earnings per share based on profit for the year					
Basic and Diluted		0.07	0.43	0.12	0.37

The Income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 127.

Statements of comprehensive income

For the year ended 31 December 2020

	Note	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Profit for the period		**21,996**	**131,985**	**36,659**	**114,184**
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Foreign currency translation differences for foreign operations	5.2(c)	9,443	(454)	–	–
Items that will not be reclassified subsequently to profit and loss					
Revaluation of subsidiaries	5.2(a)	–	–	(38,980)	30,453
Other comprehensive income for the year (net of income tax)		**9,443**	**(454)**	**(38,980)**	**30,453**
Total comprehensive income for the year attributable to equity holders of the company		**31,439**	**131,531**	**(2,321)**	**144,637**

The statements of comprehensive income are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 127.

Statements of changes in equity Consolidated

As at year ended 31 December 2020

	Note	Share capital K'000	Reserves K'000	Retained earnings K'000	Total K'000
Balance at 1 January 2019		**21,984**	**403,161**	**426,065**	**851,210**
Total comprehensive income for the year		–	–	131,531	131,531
Transfer to reserves		–	39,472	(39,472)	–
		–	**39,472**	**92,059**	**131,531**
Transactions with owners					
Dividends to equity holders	2.5	–	–	(61,509)	(61,509)
Share buy-back transactions	5.1	–	–	–	–
Transfer to Retained Earnings		–	–	–	–
Total transactions with owners		**–**	**–**	**(61,509)**	**(61,509)**
Balance at 31 December 2019		**21,984**	**442,633**	**456,615**	**921,232**
Balance at 1 January 2020		**21,984**	**442,633**	**456,615**	**921,232**
Total comprehensive income for the year		–	–	31,439	31,439
Transfer to reserves		–	4,625	(4,625)	–
		–	**4,625**	**26,814**	**31,439**
Transactions with owners					
Dividends to equity holders	2.5	–	–	(36,952)	(36,952)
Share buy-back transactions	5.1	–	–	–	–
Total transactions with owners		**–**	**–**	**(36,952)**	**(36,952)**
Balance at 31 December 2020		**21,984**	**447,258**	**446,477**	**915,719**

The statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 127.

Statements of changes in equity Company

As at year ended 31 December 2020

	Note	Share capital K'000	Reserves K'000	Retained earnings K'000	Total K'000
Balance at 1 January 2019		**21,984**	**570,829**	**212,310**	**805,123**
Total comprehensive income for the year		–	30,453	114,184	144,637
Transfer to reserves		–	55,060	(55,060)	–
		–	85,513	59,124	144,637
Transactions with owners					
Dividends to equity holders	2.5	–	–	(61,509)	(61,509)
Share buy-back transactions	5.1	–	–	–	–
Transfer to Retained Earnings		–	–	–	–
Total transactions with owners		**–**	**–**	**(61,509)**	**(61,509)**
Balance at 31 December 2019		**21,984**	**656,342**	**209,925**	**888,251**
Total comprehensive income for the year		–	–	(2,321)	(2,321)
Transfer to reserves		–	6,926	(6,926)	–
		–	6,926	(9,247)	(2,321)
Transactions with owners					
Dividends to equity holders	2.5	–	–	(36,952)	(36,952)
Share buy-back transactions	5.1	–	–	–	–
Total transactions with owners		**–**	**–**	**(36,952)**	**(36,952)**
Balance at 31 December 2020		**21,984**	**663,268**	**163,726**	**848,978**

The statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 127.

Statements of cash flows

For the year ended 31 December 2020

	Note	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
OPERATING ACTIVITIES					
Charges earned on leases & loans		98,938	109,677	–	–
Commission, fees and rents		34,159	39,888	3,831	6,598
Dividends received		–	–	45,262	67,201
Interest payments		(26,696)	(24,731)	–	–
Payments to suppliers and employees		(54,353)	(45,414)	(10,449)	(5,881)
Operating cash flows before changes in operating assets		52,048	79,420	38,644	67,918
Net cash received/(advanced) in respect of finance receivables		45,287	(45,125)	–	–
Net cash received in respect of deposits		16,321	48,535	–	–
Net cash from operating activities before income tax		113,656	82,830	38,644	67,918
Income taxes paid		(9,352)	(14,887)	(71)	–
Cash flows from operating activities		**104,304**	**67,943**	**38,573**	**67,918**
INVESTING ACTIVITIES					
Purchase of property & equipment		(3,620)	(6,234)	(2,148)	(333)
Acquisition of investment property		(46)	(1,296)	–	–
Proceeds from sale of property		350	832	41	–
Dividend received		43,962	46,614	–	–
Interest from funds deposited		3,459	2,109	467	803
Net cash flow from short term investments		(18,741)	5,213	13,041	(5,011)
Cash flows from/(used in) investing activities		**25,364**	**47,238**	**11,401**	**(4,541)**
FINANCING ACTIVITIES					
Repayment of borrowings		(4,600)	(5,680)	–	–
Repayment of interest		(2,915)	(2,479)	–	–
Dividends paid (net)		(36,952)	(61,509)	(36,952)	(61,509)
Cash flows used in financing activities		**(44,467)**	**(69,668)**	**(36,952)**	**(61,509)**
Effect of exchange rate changes on foreign subsidiaries cash and cash equivalents		9,019	738	–	–
Net increase in cash and cash equivalents		**94,220**	**46,251**	**13,022**	**1,868**
Cash and cash equivalents at 1 January		140,138	93,887	5,948	4,080
Cash and cash equivalents at 31 December	3.1	**234,358**	**140,138**	**18,970**	**5,948**

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 60 to 127.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS

1.1 CORPORATE INFORMATION

These are the financial statements for Credit Corporation (PNG) Limited ("the Company") and its controlled entities (together "the Group") for the year ended 31 December 2020.

1.2 REPORTING ENTITY

Credit Corporation (PNG) Limited (the "Company") is a company domiciled in Papua New Guinea. The address of the Company's registered office is Credit House, Cuthbertson Street, Port Moresby, Papua New Guinea. The consolidated financial statements as at and for the year ended 31 December 2020, comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates. The Group is primarily involved in providing general finance, leasing and hire purchase financing, property and equity investment.

1.3 BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

The consolidated financial statements have been authorised for issue by the Board of Directors on 19 March 2021.

(b) Basis of measurement

The consolidated financial statements have been prepared primarily on the historical cost basis except for financial instruments and investment property which are measured at fair value through profit or loss.

(c) Functional currency

The financial statements are presented in the Papua New Guinea currency, the Kina, which is also the Company's functional currency.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods if affected.

Information about critical judgements in applying accounting policies that will have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 3.2 — Finance receivables;
Note 3.4(d) — Investments in subsidiaries;
Note 3.6 — Investment property; and
Note 4 — Financial instrument disclosures.

The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, the actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and recoverable amount assessments of non-financial assets.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.3 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

Coronavirus (COVID-19) pandemic
The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these consolidated financial statements. The estimation uncertainty is associated with:

- the extent and duration of the disruption of business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in these consolidated financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below and/or in the relevant note to these consolidated financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

Expected credit loss ("ECL") allowances
The modeling methodology applied in estimating ECL in these financial statements is briefly described in note 1.6 of these consolidated financial statements.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the year ended 31 December 2020.

Judgment/assumptions *(Descriptions discussed in Note 1.6)*	Changes and considerations during the year ended 31 December 2020
1 Measuring both 12-month and lifetime credit losses	The probability of default (PD), exposure at default (EAD), and loss given default (LGD) model risk policy stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the policies during the year ended 31 December 2020.
2 Forward-looking information	There have been no changes to the types of forward looking variables (key economic drivers) used in the model inputs in the current year. The Group has considered the degree of uncertainty posed by COVID-19 and factored reasonable economic overlays into the model inputs based on readily available information.
3 Macroeconomic factors	As at 31 December 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank (monetary policy), governments (wage subsidies) and institution specific responses (such as payment holidays). These are readily available information considered in determining the length and severity of the forecast economic downturn. The principal macroeconomic indicators are discussed below.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.3 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

Expected credit loss ("ECL") allowances (continued)

Judgment/assumptions *(Descriptions discussed in Note 1.6)*		Changes and considerations during the year ended 31 December 2020
4	Multiple forward-looking scenarios	In addition to the base case forecast which reflects largely the negative economic consequence of COVID-19, lower ECL weightings have been applied to the downside scenarios given the Group's assessment of downside risks. The assigned ECL weightings in PNG, Fiji, Solomon Islands, Vanuatu and Timor-Leste are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations within the Group's portfolios in determining them.
5	Assessment of significant increase in credit risk (SICR)	Various initiatives, such as repayment holidays, deferrals and special agreements have been offered to customers in this year, recognising the potential detrimental impact of COVID-19 to businesses and individuals. Such offers, if accepted, are not automatically considered to indicate SICR but are used as necessary within the broader set of indicators used to assess and grade customer facilities.
6	Collateral	Haircut on collateral increased in light of drop in business sentiments and a general slowdown in economic activities across key markets. Security values are expected to deteriorate further in view of the impact of COVID-19.
7	Management overlays	The uncertainty associated with COVID-19 pandemic, and the extent to which the actions of government, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into the existing ECL models. Accordingly, management have applied a number of adjustments to the modelled ECL to ensure credit provisions are appropriate. Management overlays (including COVID-19 overlays) have been made for risks particular to small business, companies in the wholesale and retail industry, construction, transport and tourism in PNG.

The uncertain evolution of the COVID-19 pandemic increases the risk to the forecast resulting in potential misstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- the extent and duration of the economic down turn, along with the time required for economies to recover; and
- the effectiveness of government stimulus measures, in particular their impact on the magnitude of economic downturn and the extent and duration of the recovery.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.3 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

Base case economic forecast assumptions

The table below summarises the principal macroeconomic indicators included in the economic scenarios used for finance receivables at 31 December 2020 and the forecast for the years 2021 to 2023, taking into consideration the impact of COVID-19.

	Revised Base case economic forecast as at 31 December 2020	Base case economic forecast as at 31 December 2019
Papua New Guinea		
GDP	PNG's GDP decreased by 3.3% in 2020 but is expected to grow by 1.20% in 2021	GDP was expected to increase by 2.6%.
Consumer price index	Average CPI for 2020 was at 3.5% and this is expected to be maintained in 2021.	Growth expected to rise from current levels.
Fiji		
GDP	Fiji's GDP decreased by 21% in 2020 but is expected to grow by 11.50% in 2021	GDP was expected to increase by 3.0%.
Consumer price index	Average CPI for Fiji for 2020 was 1.5% but is expected to increase to 3.5% in 2021.	Growth expected to rise modestly.
Vanuatu		
GDP	Vanuatu's GDP decreased by 8.30% in 2020 but is expected to grow by 4.3% in 2021.	GDP was expected to increase by 3.1%.
Consumer price index	Average CPI for Vanuatu for 2020 was 3.0% but is expected to decrease to 2.2% in 2021.	Growth expected to rise from current levels.
Solomon Islands		
GDP	GDP is expected to contract by 5% in 2020 and grow by 4.5% in 2021.	GDP was expected to increase by 2.9%.
Consumer price index	Average CPI for Solomon Islands for 2020 was 6.0% but is expected to decrease to 3.0% in 2021.	Growth expected to rise from current levels.
Timor-Leste		
GDP	Timor Leste's GDP decreased by 6.8% in 2020 but is expected to grow by 4.0% in 2021.	GDP was expected to increase by 5.0%.
Consumer price index	Inflation for Timor Leste was at 1.0% in 2020 and is expected to be maintained at the same rate in 2021.	Growth expected to rise from current levels.

*Source: International Monetary Fund

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.3 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements (continued)

Fair value of investment properties

Fair values were determined using present value cash flows, having regard to current market characteristics for similar properties located in Papua New Guinea. Assessment was also based on unobservable inputs that reflect the effect of COVID-19 in the Group's expectations of future cash flows related to the asset or liability at the reporting date.

Valuations of properties are based on capitalisation and direct comparison approaches by making reference to comparable sales transactions as available in the relevant markets and having regard to the tenancy agreements in place.

Judgment/assumptions		Changes and considerations during the year ended 31 December 2020
1	Market capitalisation rate	The Group has taken into consideration the current situation and impact of COVID-19 pandemic and thus, expects market capitalisation rate to increase in the calendar year, decreasing fair values of properties.
2	Market lease rentals	The Group expects a decrease in demand in leasing properties, low investments, and delays in major projects, contributing to the decrease in occupancy rates and lease prices.

1.4 BASIS OF CONSOLIDATION

(a) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. The Parent measures its investment in subsidiaries at fair value with any changes posted through other comprehensive income.

(b) Investments in associates

Associates are those entities in which the Group has a significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of profit and other comprehensive income of the associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.4 BASIS OF CONSOLIDATION (CONTINUED)

(d) Basis of consolidation

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group (see 1.4 a).

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

1.5 FOREIGN CURRENCY

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to PNG Kina at exchange rates at the reporting date. The income and expenses of foreign operations are translated to PNG Kina at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Foreign exchange differences have been recognised in the exchange fluctuation reserve (EFR). When a foreign operation is disposed of, in part or in full, the relevant amount in the EFR is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the EFR.

1.6 FINANCIAL ASSETS AND LIABILITIES

(a) Classification and measurement of financial instruments

(i) Recognition and initial measurement

The Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Except for trade receivables that do not have a significant financing component, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Trade receivables that do not have a significant financing component are measured at their transaction price at initial recognition.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Classification and measurement of financial instruments (continued)

(ii) Classification and subsequent measurement of financial assets

The Group classifies financial assets into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

Financial assets include both debt and equity instruments.

a. Debt instruments

Debt instruments include loans and debt securities and are classified into either amortised costs or measured at FVTPL measurement categories.

Debt instruments measured at amortised cost – debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash, flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised as interest income using the effective interest rate method.

Debts instruments measured at FVTPL – debt instruments are measured at FVTPL if assets:

i. are held for trading purposes;

ii. are held as part of a portfolio managed on a fair value basis; or

iii. whose cash flows do not represent payments that are solely payments of principal and interest.

The Group did not have any debts instruments that are measured at FVTPL in 2020 (2019: None).

The classification of debt instruments is determined based on:

a. the business model under which the asset is held; and

b. the contractual cash flow characteristics of the instrument.

Business model assessment: Business model assessment involves determining how financial assets are managed in order to generate cash flows. The business model of the Group is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model. The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortisation of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs, and a profit margin.

If the Group identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Classification and measurement of financial instruments (continued)

b. Equity instruments

Equity instruments are classified into fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI). Equity instruments are measured at FVTPL, unless an election is made to designate them at FVTOCI upon purchase.

At initial recognition, the Group measures equity instruments at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition the changes in fair value are recognised as part of fair value (loss)/gain on financial assets line in the Consolidated Income Statement for FVTPL or in other comprehensive income for FVTOCI.

(iii) Classification and subsequent measurement of financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised cost.

Deposits are accounted for at amortised cost. Interest on deposits, calculated using the effective interest rate method, is recognised as interest expense. Interest on borrowings is recognised using the effective interest rate method as interest expense.

(iv) Determination of fair value

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Group has access at the measurement date.

The Group values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments represent a Level 1 valuation. When quoted market prices are not available, the Group maximises the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. During the year, there were no transfers between levels of the fair value hierarchy (2019: None).

(v) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan's terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Classification and measurement of financial instruments (continued)

(v) Modification of financial assets (continued)

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency, change of counterparty and the extent of change in interest rates, maturity and covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification.

The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms. When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition.

For financial assets modified as part of the Group's restructuring policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar restructuring action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

(vi) Derecognition of financial assets and liabilities

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Group transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Group has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Group has retained substantially all of the risks and rewards of ownership.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(a) Classification and measurement of financial instruments (continued)

(vi) Derecognition of financial assets and liabilities (continued)

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Group derecognises the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Group retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the Consolidated Income Statement.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the Consolidated Income Statement.

(b) Impairment of financial assets carried at amortised cost

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 *Financial Instruments*.

(i) Expected credit loss impairment model

The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the Group's assessment of expected credit losses from its portfolio which are subject to a number of management judgements and estimates.

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.
- Stage 2 – When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Credit loss allowances are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.
- Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(i) Expected credit loss impairment model (continued)

The diagram below shows the impairment approach under IFRS 9.

CHANGE IN CREDIT QUALITY SINCE INITIAL RECOGNITION

Performing (Initial Recognition)	Underperforming (SICR since initial recognition)	Non-performing (Credit Impaired Assets)
Recognition of ECL		
12-month ECL	Lifetime ECL	Lifetime ECL
Interest revenue		
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortised cost carrying amount (i.e. net of credit allowance)

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of key statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(i) Expected credit loss impairment model (continued)

Qualitative information assumptions on ECL changes.

Assumptions	Scenario	2020	2019	Increase/decrease
Haircut on Collateral	Base	45%	30%	Increased
	Upturn	14%	15%	Decreased
	Downturn	75%	75%	Stable
Time to realisation	Base	12 months	12 months	Stable
	Upturn	6 months	6 months	Stable
	Downturn	30 months	30 months	Stable
Costs to recover		0%	0%	Stable
Cure rate	Base	22%	30%	Decreased
	Upturn	25%	40%	Decreased
	Downturn	0%	0%	Stable
ECL Weighting	Base	71%	75%	Decreased
	Upturn	5%	10%	Decreased
	Downturn	24%	15%	Increased

(ii) Forward-looking information

The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgment.

(iii) Macroeconomic factors

In its models, the Group relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, interest rates, and house-price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2020 for the years 2021 to 2023, for finance receivables.

Country – GDP Growth		2020	2021	2022	2023
Papua New Guinea	Base scenario	-3.30%	1.20%	2.90%	3.09%
Fiji	Base scenario	-21.00%	11.50%	8.50%	5.00%
Solomon Islands	Base scenario	-5.00%	4.50%	3.90%	3.70%
Vanuatu	Base scenario	-8.30%	4.30%	3.90%	3.30%
Timor-Leste	Base scenario	-6.80%	4.00%	4.80%	2.40%
Group Total GDP Growth					
	Base scenario	-44.40%	25.50%	24.00%	17.40%
	Upside scenario 10%	-39.96%	28.05%	26.40%	19.14%
	Downside scenario 10%	-48.84%	22.95%	21.60%	15.66%

*Source: International Monetary Fund

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(iii) Macroeconomic factors (continued)

Multiple forward-looking scenarios

The Group determines its allowance for credit losses using three probability-weighted forward-looking scenarios. The Group considers both internal and external sources of information and data in order to achieve an unbiased projections and forecasts.

The weightings assigned to each economic scenario were as follows:

At 31 December 2020

Scenario	Base	Upturn	Downturn
Weighting	71%	5%	24%

At 31 December 2019

Scenario	Base	Upturn	Downturn
Weighting	75%	15%	10%

The 'base case' represents the most likely outcome. The upturn scenario represents more optimistic outcome while the downturn represents more pessimistic outcomes. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

(iv) Assessment of significant increase in credit risk (SICR)

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.
- applied a credit provision overlay that is supported by the uncertainty of the environment and a balanced risk appetite.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(iv) Assessment of significant increase in credit risk (SICR) (continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The common assessments for SICR include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

(v) Expected life

When measuring expected credit loss, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options. For revolving credit facilities, the expected life is estimated based on the period over which the Group is exposed to credit risk and how the credit losses are mitigated by management actions.

(vi) Presentation of allowance for credit losses in the Statement of Financial Position

- Financial assets measured at amortised cost: as a deduction of impairment, if any, from the gross carrying amount of the financial assets; and
- Off-balance sheet credit risks which include undrawn lending commitments: as a provision in other liabilities.

(vii) Restructured financial assets

The contractual terms of a loan my be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

(viii) Definition of default

The Group considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;
- default or delinquency in interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganisation; and
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Group considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

Financial assets in default are also considered credit impaired.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(ix) Write-off policy

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the impairment loss on finance receivables line in the Consolidated Income Statement.

(x) Sensitivity analysis

The key assumptions affecting the ECL allowances are:

1. Haircut on collateral values;
2. Weighting on economic scenarios;
3. Recovery amount; and
4. Time to realisation.

Set out below is the sensitivity analysis on reasonable changes to these key assumptions:

	31 December 2020	
Increase/(decrease) by	**Increase by 10%**	**Decrease by 10%**
	K'000	**K'000**
Change in collateral values	3,781	(3,636)
Changes in probability weighted scenarios	(7,375)	7,375
Recovery amount	–	–
Time to realisation	681	(685)

	31 December 2019	
Increase/(decrease) by	**Increase by 10%**	**Decrease by 10%**
	K'000	**K'000**
Change in collateral values	2,676	(2,550)
Changes in probability weighted scenarios	(2,461)	2,461
Recovery amount	–	–
Time to realisation	626	(631)

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(xi) Collateral

The Group has a range of policies that are used for the purpose of managing and mitigating credit risks. To reduce its exposure to credit risks the Group accepts collateral to funds advanced. The specific types of collateral and valuation of collateral during the loan origination process and period assessment of credit quality are clearly outlined in the internal credit policies. The different collateral types for loans and advances are:

- Fixed and floating charges over company assets;
- Chattel mortgage over personal property; and
- Registered Mortgage over property.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Finance receivables that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure (Net of unearned income) K'000	Impairment allowance K'000	Carrying amount K'000	Fair value of collateral held K'000
2020				
Credit impaired assets				
Stage 1	344,687	7,904	336,783	832,385
Stage 2	97,708	21,748	75,960	195,014
Stage 3	181,209	89,503	91,706	339,800
	623,604	**119,155**	**504,449**	**1,367,199**
2019				
Credit impaired assets				
Stage 1	486,865	12,924	473,942	1,079,369
Stage 2	71,945	4,912	67,033	127,355
Stage 3	118,793	46,657	72,136	121,900
	677,603	**64,492**	**613,111**	**1,328,625**

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.6 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Impairment of financial assets carried at amortised cost (continued)

(xii) Changes in loss allowance

The loss allowance recognised in the period was impacted by the following factors:

- Movement of exposures between the three stages depending on the whether there has been a significant increase in credit risk for exposures since initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.
- Additional allowances as a result of new financial instruments added during the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period as a result of regular updates on general models.
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements.
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

(xiii) Credit Risk Exposure

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	2020 K'000	**2019 K'000**
Stage 1—12-month ECL	344,687	487,379
Stage 2—Lifetime ECL	97,708	71,832
Stage 3—Lifetime ECL	181,208	118,392
Gross carrying amount	**623,603**	**677,603**
Allowance for credit loss	(119,154)	(64,492)
Net carrying amount	**504,449**	**613,111**

1.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, such as property and equipment, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.7 IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.8 LEASES

(a) The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is included under 'Deposits and borrowings' in the statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.8 LEASES (CONTINUED)

(a) The Group as lessee (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in the 'Property and equipment' line in the consolidated statements of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 1.7.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

(i) Amounts recognised in the statements of financial position

The statements of financial position shows the following amounts relating to leases:

	Consolidated	
Right-of-use assets	**2020 K'000**	**2019 K'000**
Building		
At 1 January	1,474	2,322
Additions/Disposals/transfers	1,469	(206)
Depreciation for the year	(914)	(649)
Effect of FX	71	7
At 31 December	**2,100**	**1,474**
Lease liabilities		
Current	555	335
Non current	1,622	1,255
	2,177	**1,590**

See note 3.8 (d) for maturity analysis of lease liabilities as at 31 December 2020.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.8 LEASES (CONTINUED)

(a) The Group as lessee (continued)

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	**2020 K'000**	**2019 K'000**
Buildings	(914)	(649)
Interest expense (included in finance cost)	187	116
Expense relating to short-term leases (included in other operating expenses)	912	1,992
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in other operating expenses)	–	–
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses)	48	50

The total cash outflow for leases in 2020 was K1,055,639 (2019: K513,912).

(b) The Group as lessor

The Group enters into lease agreements as a lessor with respect to its investment properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

1.9 NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, except as stated in Note 5, the Group has not early adopted the new and amended standards in preparing these consolidated financial statements.

- *Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37).*
- *COVID-19-Related Rent Concessions (Amendment to IFRS 16).b*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
- *Reference to Conceptual Framework (Amendments to IFRS 3).*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.*
- *Annual improvements to IFRS standards 2018-2020.*
- *Sale or contribution of assets between an investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

The Group is assessing the potential impact on its financial statements resulting from the application of these standards.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.10 CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted Definition of a Business (Amendments to IFRS 3) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 that do not have a material effect on the Group's financial statements.

(a) Definition of a business

The Group applied Definition of a Business (Amendments to IFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Group's financial statements because the Group has not acquired any subsidiaries during the year. However, the Group has amended its accounting policies for acquisitions on or after 1 January 2020. The details of accounting policies are set out in Note 1.4.

2. FINANCIAL PERFORMANCE

2.1 FINANCE AND OTHER INCOME

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Finance income	**98,938**	**109,677**		
Other income				
Profit on sale of listed shares	–	–	–	–
Profit on sale of property and equipment	63	678	25	30
Dividend income				
- from subsidiaries (note 3.4(d))	–	–	1,300	20,587
- from investments in listed companies (note 3.4(e))	43,962	50,583	43,962	50,583
Rental income from investment property (note 3.6)	26,875	31,553	88	88
Rental outgoings	5,237	4,216	80	128
Interest on term deposit, treasury bills and semi-government bonds	3,459	3,113	467	803
Other operating income	306	2,421	1,001	1,000
Total other income	**79,902**	**92,564**	**46,923**	**73,219**

2. FINANCIAL PERFORMANCE (CONTINUED)

2.1 FINANCE AND OTHER INCOME (CONTINUED)

Recognition and measurement

REVENUE

(a) Finance income

Finance income comprises finance charges earned from the provision of lease finance and is recognised over the finance contract using the effective interest rate method.

(b) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

(c) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(d) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as other income.

(e) Other income

Other income comprises interest income on funds invested (including other equity investments financial assets), gains on the disposal of other equity investments financial assets. Interest income on funds deposited is recognised as it accrues in profit or loss, using the effective interest rate method.

2.2 FINANCE COSTS

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Interest on customer deposits	(26,696)	(24,731)	–	–

Recognition and measurement
Finance costs comprise interest expense on interest bearing deposits and other costs associated with financing income.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

2. FINANCIAL PERFORMANCE (CONTINUED)

2.3 OTHER OPERATING EXPENSES

The operating profit for the year as stated after (crediting)/ charging the following items:

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
General administrative expenses	18,895	16,110	4,841	1,952
Software licensing and other IT costs	1,991	2,422	–	–
Legal Fees	24	5	–	–
Auditors remuneration				
– audit fees	1,147	1,044	116	115
Professional advisory fees	8,264	4,355	6,854	3,872
Donations	39	39	–	–
Direct operating expenses for investment property that generated rental income	5,128	6,425	141	132
	35,488	**30,399**	**11,952**	**6,071**

2.4 PERSONNEL EXPENSES

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Wages and salaries	16,388	12,945	3,899	958
Contributions to defined contribution plans	1,735	1,822	–	338
Long service leave and annual leave	1,032	395	–	99
Other staff costs	2,962	4,161	1,249	611
	22,117	**19,323**	**5,148**	**2,006**

The number of employees at 31 December 2020 employed in the Group was 270 (2019: 255).

2.5 DIVIDENDS

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Final dividend of K0.12 per share (2019: K0.13 per share)	36,952	39,981	36,952	39,981
Interim dividend (2019: K0.07 per share)	–	21,528	–	21,528
	36,952	**61,509**	**36,952**	**61,509**

Final dividend for the year ended 31 December 2019 was declared on 25 June 2020 and paid on 29 August 2020. No interim dividend was declared during the year.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.6 TAXATION

(a) Income tax expense

Income tax expense	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Current tax expense	13,067	14,127	–	–
Under/(over) provisions in tax expense/(benefit)	(1,897)	(666)	(99)	(671)
Deferred tax expense	(17,354)	(7,168)	260	(282)
	(6,184)	**6,292**	**161**	**(953)**
Income tax expense/(benefit)				
Profit before tax	15,812	138,277	36,820	113,231
Computed tax using the applicable PNG corporate income tax rate (30%)	4,744	41,483	11,046	33,969
Effect of tax rates in foreign jurisdictions	171	(4,354)	–	–
Tax effect of:				
Share of profit of equity accounted associate reported net of tax	–	1,254		1,254
Current year unrealised gains for which no deferred tax is recognised	(1,992)	(16,644)	(1,992)	(16,644)
Dividend income exempt from tax asset	(9,135)	(15,175)	(9,135)	(15,175)
Revaluation gains and losses on which deferred tax has not been recognised	–	(2,727)	–	(128)
Non-tax deductible impairment provision for capital items	–	749	–	749
Dividend income exempt from subsidiaries	–	–	–	(6,176)
Recognition of previously unrecognised deferred tax	–	–		–
Non-deductible expenses	123	102	32	27
Under provision in prior years and other	(95)	1,604	210	1,171
Tax expense in the income statement	**(6,184)**	**6,292**	**161**	**(953)**

2. FINANCIAL PERFORMANCE (CONTINUED)

2.6 TAXATION (CONTINUED)

(b) Income taxes (receivable)/payable

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
At 1 January	(3,188)	(1,172)	(675)	3
Income tax expense for the year	13,067	14,127	–	–
Under/over provision in prior years	(1,897)	(666)	(99)	(671)
Income taxes paid during the year	(9,352)	(14,887)	(69)	-
Interest withholding tax credit	(16)	(351)	–	(87)
Reversed GST tax credit offset	–	781	–	–
Other	(213)	(1,020)	–	80
At 31 December	**(1,599)**	**(3,188)**	**(843)**	**(675)**

(c) Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2020 and 2019 are attributable to the items detailed in the table below:

	2020			2019		
	Asset K'000	Liability K'000	Net K'000	Asset K'000	Liability K'000	Net K'000
Consolidated						
Property, equipment and investment properties	11,801	(14,522)	(2,721)	11,908	(18,233)	(6,325)
Employee benefits	622	147	769	740	–	740
Provision for impairment – finance receivables	28,564	–	28,564	13,866	–	13,866
Other items	2,163	85	2,248	3,552	(327)	3,225
Net tax assets/(liabilities)	**43,150**	**(14,290)**	**28,860**	**30,066**	**(18,560)**	**11,506**
Company						
Property, equipment and investment properties	–	(89)	(89)	–	(50)	(50)
Employee benefits	90	–	90	30	–	30
Other items	55	–	54	393	(57)	337
Net tax assets/(liabilities)	**145**	**(89)**	**56**	**423**	**(107)**	**316**

2. FINANCIAL PERFORMANCE (CONTINUED)

2.6 TAXATION (CONTINUED)

(c) Deferred tax assets and liabilities (continued)

Recognition and measurement

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred taxes

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.7 OPERATING SEGMENTS

The Group has nine (9) reportable segments, as described below, which operate under the Group's three (3) strategic business units. The strategic business units offer different products and services, and are managed separately. For each of the reportable segment, the Group's CEO reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable segment:

1. General finance, leasing and hire purchase financing
   - Credit Corporation Finance Limited (CCFL);
   - Credit Corporation (SI) Limited (CCSI);
   - Credit Corporation (Fiji) Limited (CCFJ); and
   - Credit Corporation (Vanuatu) Limited (CCVT).

2. Property investment
   - Era Dorina Limited - residential (EDL);
   - Credit House Limited - commercial (office spaces) (CHL);
   - Era Matana Limited - residential (EML); and
   - Credit Corporation Industrial Limited - commercial investment block of land (CCIL).

3. Investment company
   - Credit Corporation (PNG) Limited (CCPNG)

2. FINANCIAL PERFORMANCE (CONTINUED)

2.7 OPERATING SEGMENTS (CONTINUED)

Parent entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about reportable segments

At 31 December 2020	General finance, leasing and hire purchase K'000	Property investment K'000	Investment company K'000	Total K'000
Revenue	103,488	31,364	43,988	178,840
Inter-segment revenue	2,461	3,262	2,936	8,659
Finance costs	(26,696)	–	–	(26,696)
Fair value (loss)/gain	–	(16,777)	6,926	(9,851)
Depreciation	(2,770)	(2,478)	(254)	(5,502)
Reportable segment profit before income tax	(14,242)	(5,246)	35,300	15,812
Share of profit of equity-method investee	–	–	–	–
Reportable segment assets	783,814	288,905	474,217	1,546,936
Investment in associate	–	–	8,283	8,283
Reportable segment liabilities	560,542	69,693	982	631,217

At 31 December 2019	General finance, leasing and hire purchase K'000	Property investment K'000	Investment company K'000	Total K'000
Revenue	115,931	33,677	52,633	202,241
Inter-segment revenue	2,365	4,521	20,587	27,472
Finance costs	(24,731)	–	–	(24,731)
Fair value (loss)/gain	–	(21,621)	54,880	33,259
Depreciation	2,275	2,247	116	4,638
Reportable segment profit before income tax	47,413	(4,052)	117,410	160,771
Share of profit of equity-method investee	–	–	(4,179)	(4,179)
Reportable segment assets	812,964	316,735	882,782	2,012,481
Investment in associate			8,283	8,283
Reportable segment liabilities	585,615	144,785	2,815	733,215

Notes to and forming part of the financial statements

For the year ended 31 December 2020

2. FINANCIAL PERFORMANCE (CONTINUED)

2.7 OPERATING SEGMENTS (CONTINUED)

Reconciliation of reportable segment revenues, profits or loss, assets and liabilities:

	2020 K'000	2019 K'000
Revenues		
Total revenue for reportable segments	187,499	229,713
Fair value (loss)/gain	(9,851)	33,259
Finance costs	(26,696)	(24,731)
Elimination of inter-segment revenue	(8,659)	(27,472)
Net operating income	**142,293**	**210,769**
Profit or loss		
Total profit or loss for reportable segments	16,950	160,771
Elimination of inter-segment profit	(1,138)	(18,315)
Share of profit of equity-accounted investee	–	(4,179)
Consolidated profit before tax	**15,812**	**138,277**
Assets		
Total assets for reportable segments	1,968,478	2,012,481
Investment in equity-accounted investee	8,283	8,283
Elimination of inter-company balance	(94,097)	(104,799)
Elimination of investment in subsidiaries	(335,728)	(374,707)
Consolidated total assets	**1,546,936**	**1,541,258**
Liabilities		
Total liabilities for reportable segments	733,903	736,215
Elimination of inter-company balances	(102,686)	(116,189)
Consolidated total liabilities	**631,217**	**620,026**

	Net operating income (K'000)		Net assets (K'000)	
Geographical segments	**2020**	**2019**	**2020**	**2019**
Papua New Guinea	99,183	140,926	794,454	815,244
Fiji	28,497	42,157	80,617	72,002
Solomon Islands	4,336	9,982	17,688	13,758
Vanuatu	10,277	17,704	22,960	20,228
Total	**142,293**	**210,769**	**915,719**	**921,232**

2. FINANCIAL PERFORMANCE (CONTINUED)

2.7 OPERATING SEGMENTS (CONTINUED)

Recognition and measurement

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire Property and equipment.

2.8 EARNINGS PER SHARE

The calculation of basic earnings per share (consolidated) at 31 December 2020 was based on profit attributable to ordinary shareholders of K21,995,858 (2019: K131,985,218) and a weighted average number of ordinary shares outstanding of 307,931,332 (2019: 307,931,332). There is no difference between basic and diluted earnings per share.

Recognition and measurement

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

3. FINANCIAL POSITION

3.1 RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purpose of the Statements of Cash Flows, cash and cash equivalents includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash and cash equivalents as at the end of the financial year as shown in the Statements of Cash Flows are reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Cash at bank and on hand	201,852	116,223	18,674	5,652
Short term deposits	32,506	23,915	296	296
Cash and cash equivalents	**234,358**	**140,138**	**18,970**	**5,948**

Cash and cash equivalents include cash on hand and at bank and short-term deposits with a maturity not more than three months. Cash at bank and on hand and short-term deposits interest rates range between 0.9% to 2.75%.

3. FINANCIAL POSITION (CONTINUED)

3.2 FINANCE RECEIVABLES

(i) Analysis of net finance receivables

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Gross finance receivables	698,038	779,554	–	–
Less: Unearned charges	(69,564)	(96,104)	–	–
Less: Deferred establishment fees	(4,870)	(5,847)	–	–
Less: Provision for impairment	(119,154)	(64,492)	–	–
Net finance receivables	**504,450**	**613,111**	**–**	**–**
Gross finance receivables were split as follows:				
Current	350,680	393,956	–	–
Non-current	272,925	385,598	–	–
	623,605	**779,554**	**–**	**–**

(ii) Finance leases included in finance receivables analysed as follows:

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Note later than one year	3,929	6,787	–	–
Later than one year and not later than five years	32,383	32,267	–	–
	36,312	39,054	–	–
Less: Unearned charges	(4,442)	(6,050)	–	–
Present value of lease payments receivable	31,870	33,004	–	–
Impairment loss allowance	(6,744)	(1,853)	–	–
Net finance leases	**25,126**	**31,151**	**–**	**–**

(iii) Analysis of provisions

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
ECL allowance	119,154	64,492	–	–
	119,154	**64,492**	**–**	**–**
Impairment allowance				
Balance at 1 January 2020	**64,492**	**60,547**	**–**	**–**
Increase in provisions	63,374	13,953	–	–
Recoveries on overdue accounts	2,521	–	–	–
Reclassification to gross loans	(3,623)	–	–	–
Effect of FX	4,924	212	–	–
Bad debts written off	(12,534)	(10,220)	–	–
Closing balance	**119,154**	**64,492**	**–**	**–**

None of the finance receivables that have been written off is subject to enforcement activities.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

3. FINANCIAL POSITION (CONTINUED)

3.2 FINANCE RECEIVABLES (CONTINUED)

(iv) Analysis of finance receivables by industry

	Consolidated – 2020		Consolidated – 2019	
	K'000	%	K'000	%
Agriculture	16,238	2%	21,125	3%
Mining	9,293	1%	12,532	2%
Manufacturing	18,014	3%	42,457	5%
Forestry and saw–milling	6,898	1%	8,587	1%
Civil contracting	40,178	6%	37,670	5%
Building and construction	84,739	12%	82,884	11%
Real Estate	37,597	5%	38,770	5%
Wholesale/Retail	81,906	12%	82,351	11%
Transport and storage	230,370	33%	265,918	34%
Professional and business services	57,582	8%	70,876	9%
Private and self employed	80,278	12%	77,034	10%
Other	34,945	5%	39,350	5%
	698,038	**100%**	**779,554**	**100%**

Recognition and measurement

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Lease income

Finance income on finance leases is recognised on a basis that reflects a constant periodic return on the net investment in the finance lease.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Key judgements and estimates

When we measure collectability of finance receivables, we use management's judgement of the extent of losses at reporting date. This is assessed both specifically and collectively. The key assumptions used within the provision are reviewed regularly to reflect actual loss experience. For further details refer to note 1.6 (a).

3. FINANCIAL POSITION (CONTINUED)

3.3 OTHER RECEIVABLES

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Current				
Amounts owed by related corporations	–	–	29,917	33,763
Dividend withholding tax receivable	940	940	940	940
Other debtors and prepayments	4,668	6,901	1,747	538
	5,608	**7,841**	**32,604**	**35,241**

The amounts owed from related corporation relate to intercompany receivable from various subsidiaries. Refer Note 6.3 (c). These intercompany balances are interest free and repayable on demand. The amount stated is net of impairment provision of K11,456,589 (2019: K11,781,454).

Other debtors and prepayments comprises of receivables from our rentals properties and GST returns. The majority of the amounts are due to be settled within twelve months of the balance sheet date.

3.4 INVESTMENTS

(a) Interest bearing securities

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
	20,033	**1,270**	**–**	**–**

Interest bearing deposits as at 31 December 2020 relates to term deposits held by Credit Corporation Finance Limited with Kina Bank Limited which earns interest at a rate of 3.5% per annum. Interest is paid upon maturity. These deposits mature in December 2021. The interest bearing security as at 31 December 2019 refers to central bills held by Credit Corporation (Fiji) Limited which had a tenure of 8 years and had matured on 15 February 2020.

(b) Other equity investments

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
	34	**34**	**34**	**34**

The Company purchased shares in Credit & Data Bureau (K33,600) in 2008.

Equity investments are non-current and are classified at fair value through profit and loss.

3. FINANCIAL POSITION (CONTINUED)

3.4 INVESTMENTS (CONTINUED)

(c) Investments in associate (non-current)

Equity-accounted investee

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Equity-accounted investee	**8,283**	**8,283**	**8,283**	**8,283**

Credit Corporation (PNG) Limited has an associate that is material to the Group which is equity accounted.

The Group owns 25% (2019: 25%) of the issued shares of Capital Insurance Group (its principal place of business is Papua New Guinea) and has determined that it has significant influence because it has representation on the board of the investee but does not have a controlling vote. At 31 December 2020, the investment was valued at K8,282,659 (2019:K8,282,659).

Capital Insurance Group is a large insurance company in the South Pacific region with subsidiaries operating in both life and general insurance business. The investment was acquired for strategic purposes to complement the opportunities and safeguard the risks inherent within the finance and properties business segments.

The Group and Company's share of losses after tax including impairment losses in Capital Insurance Group for the year was nil (2019: K4,179,395). During the year, the Group and Company received no dividend (2019: nil) from the Capital Insurance Group.

Financial Position

Year	Current assets K'000	Non-current assets K'000	Total assets K'000	Current liabilities K'000	Non-current liabilities K'000	Total liabilities K'000	Net assets K'000
2020	178,103	8,000	186,103	149,247	3,015	152,262	**33,841**
2019	210,827	3,506	214,333	178,387	2,816	181,203	**33,130**

Financial Performance

Year	Income K'000	Expenses K'000	Profit/Loss K'000
2020	127,887	145,871	**(17,984)**
2019	169,542	203,910	**(34,368)**

The carrying amount of the investment in associate reconciles between opening and closing balances as below:

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Opening balance at 1 January	8,283	12,462	8,283	12,462
Net share of operating and impairment losses	–	(4,179)	–	(4,179)
Closing balance 31 December	**8,283**	**8,283**	**8,283**	**8,283**

The data about financial position and financial performance are based on financial information provided by the Capital Insurance Group and adjusted by the Group's management for the purposes of equity accounting.

3. FINANCIAL POSITION (CONTINUED)

3.4 INVESTMENTS (CONTINUED)

(d) Investments in subsidiaries

	Country	Ownership	2020 K'000	2019 K'000
Credit Corporation Finance Limited	PNG	100%	72,871	90,000
Credit House Limited	PNG	100%	65,031	63,687
Era Dorina Limited	PNG	100%	103,321	107,022
Era Matana Limited	PNG	100%	–	–
Credit Corporation Industrial Limited	PNG	100%	–	–
Credit Corporation (Fiji) Limited	Fiji	100%	63,010	80,000
Credit Corporation (Vanuatu) Limited	Vanuatu	100%	19,000	19,000
Credit Corporation (Solomon Islands) Limited	Solomon Islands	100%	12,496	15,000
			335,729	**374,709**

Fair value analysis

The Company values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments represent a level 1 valuation. When quoted market prices are not available, the Group maximizes the use of observable inputs within the valuation models. When all the significant inputs are observable, the valuation is classified as level 2. Valuations that require the significant use of unobservable inputs are considered level 3.

Valuation techniques used to derive level 3 fair values

Subsidiaries – Property segment
Fair values of Credit House Limited, Era Dorina Limited, Credit Corporation Industrial Limited and Era Matana Limited were determined based on estimated core assets, having regard to current market environment and competitive position of individual companies and adjusted by fair values of non-core assets and liabilities.

Subsidiaries – Finance segment
Fair values of investments in subsidiaries within finance segment were determined based on price-to-book ('P/B') ratios. These ratios were based on comparable businesses and recent transactions involving companies of similar nature of business while having regard also to the current market environment and the estimated sustainable long-term earnings and competitive position for each individual company. The P/B ratio used ranged from 0.83 to 0.85.

The fair value of a financial asset is the price (using quoted market prices, where available), that would be received to sell an asset in an orderly transaction between market participants. The movement in fair value of investments in subsidiaries is recognised in the statement of other comprehensive income. It is excluded from statement of profit before tax because the gains and losses have not yet been realised. An unrealised gain or loss occurs when an investment has appreciated or depreciated in fair value, but a sale transaction has not yet occurred for the gain or loss to be realised. Therefore, total gains/(losses) are recognised through the statement of comprehensive income.

3. FINANCIAL POSITION (CONTINUED)

3.4 INVESTMENTS (CONTINUED)

(e) Financial assets designated at fair value through profit and loss

Credit Corporation (PNG) Limited owns listed shares of other entities mandatorily measured as financial assets at fair value through profit and loss. The summary of listed shares is presented below.

Listed shares

	2020				2019		
	% Held	No. of shares	Fair value K'000	Fair value gain/(loss) K'000	No. of shares	Fair value K'000	Fair value gain/(loss) K'000
Bank South Pacific	7.77%	36,294,081	435,529	7,985	36,294,081	427,544	55,167
PNG Air	0.65%	2,000,000	–	(240)	2,000,000	240	–
City Pharmacy Limited	0.95%	1,953,544	977	(606)	1,953,544	1,582	313
Kina Asset Management Ltd.	8.61%	4,255,463	3,830	(213)	4,255,463	4,043	–
			440,336	**6,926**		**433,409**	**55,480**

The increase in market value of K6,926,326 (2019: K55,479,570) resulting from the revaluation of listed shares investment is recorded in the profit and loss account

Sensitivity analysis

	Effect on profit or loss and equity increase/(decrease)	
	2020 K'000	2019 K'000
Increase of 10% in share prices	44,034	43,341

A decrease in share prices would have the opposite effect for profit or loss and equity.

(f) Other deposits (current)

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Other deposits	–	–	**14,930**	**27,973**

Credit Corporation (PNG) Limited has investments in short-term deposits with Credit Corporation Finance Limited, which earn interest of 2%. The balance including accrued interest as at 31 December 2019 is K14,930,663 (2019: K27,972,932).

3. FINANCIAL POSITION (CONTINUED)

3.5 PROPERTY AND EQUIPMENT

Consolidated	Building, capital WIP & ROUA* K'000	Furniture & Fittings K'000	Motor Vehicles K'000	Office Equipment K'000	Total K'000
Cost					
At 1 January 2019	16,026	12,389	5,963	9,165	43,543
Additions	16	2,739	1,924	2,380	7,059
Disposals/transfers	–	(3)	(1,530)	(28)	(1,561)
IFRS 16 right of use asset	(1,282)	–	–	–	(1,282)
Effect of FX	126	21	28	23	198
At 31 December 2019	14,886	15,146	6,385	11,540	47,957
At 1 January 2020	14,886	15,146	6,385	11,540	47,957
Additions	810	665	484	3,130	5,089
Disposals/transfers	–	(1,331)	(386)	(314)	(2,031)
IFRS 16 right of use asset	1,469	–	–	–	1,469
Effect of FX	1,066	55	212	189	1,522
At 31 December 2020	18,231	14,535	6,695	14,545	54,006
Depreciation					
At 1 January 2019	2,434	7,256	3,115	5,631	18,436
Charge for the year	129	1,701	1,071	1,088	3,989
IFRS 16 depreciation—ROUA	649	–	–	–	649
Disposals/transfers	(1,076)	(2)	(1,337)	(21)	(2,436)
Effect of FX	19	5	11	19	54
At 31 December 2019	2,155	8,960	2,860	6,717	20,692
At 1 January 2020	2,155	8,960	2,860	6,717	20,692
Charge for the year	141	1,905	1,091	1,451	4,588
IFRS 16 depreciation—ROUA	914	–	–	–	914
Disposals/transfers	–	(806)	(237)	(162)	(1,205)
Effect of FX	161	44	130	147	482
At 31 December 2020	3,371	10,104	3,844	8,153	25,471
Carrying amounts					
At 1 January 2019	13,592	5,133	2,848	3,534	25,107
At 31 December 2019	12,731	6,186	3,525	4,823	27,265
At 31 December 2020	14,860	4,431	2,851	6,392	28,535

* Right-of-use assets

Notes to and forming part of the financial statements

For the year ended 31 December 2020

3. FINANCIAL POSITION (CONTINUED)

3.5 PROPERTY AND EQUIPMENT (CONTINUED)

Company	Building & Capital WIP K'000	Motor Vehicles K'000	Office Equipment K'000	Total K'000
Cost				
At 1 January 2019	–	302	1,388	1,690
Additions	–	320	12	332
Disposals/transfers	–	–	–	–
At 31 December 2019	–	622	1,400	2,022
At 1 January 2020	–	622	1,400	2,022
Additions	266	125	1,757	2,148
Disposals/transfers	–	(136)	–	(136)
At 31 December 2020	266	611	3,157	4,034
Depreciation				
At 1 January 2019	–	122	1,213	1,335
Charge for the year	–	75	41	116
Disposals/transfers	–	–	–	–
At 31 December 2019	–	197	1,254	1,451
At 1 January 2019	–	197	1,254	1,451
Charge for the year	–	114	140	254
Disposals/transfers	–	(122)	–	(122)
At 31 December 2020	–	189	1,394	1,583
Carrying amounts				
At 1 January 2019	–	180	175	355
At 31 December 2019	–	425	146	571
At 31 December 2020	266	422	1,763	2,451

Recognition and measurement

Items of Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of Property and equipment have different useful lives, they are accounted for as separate items (major components) of Property and equipment.

Gains and losses on disposal of an item of Property and equipment are determined by comparing the proceeds from disposal with the carrying amount of Property and equipment, and are recognised net within other income or expenses in profit and loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Property that is being constructed for future use as investment property is accounted for at fair value.

3. FINANCIAL POSITION (CONTINUED)

3.5 PROPERTY AND EQUIPMENT (CONTINUED)

Subsequent costs

The cost of replacing a part of an item of Property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of Property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of Property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation is calculated on a straight line basis over the following periods:

Buildings and improvements	50 years
Furniture and fittings	5–10 years
Motor vehicles	5 years
Office equipment	5–10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.6 INVESTMENT PROPERTY

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Balance as at 1 January	275,700	297,410	3,800	4,400
Fair value (loss) recognised in profit or loss	(16,777)	(22,221)	–	(600)
Transfer (to) Property and equipment	–	(785)	–	–
Acquisitions	45	1,296	–	–
Balance as at 31 December	**258,968**	**275,700**	**3,800**	**3,800**

Investment properties are land and buildings held for long-term investments. The carrying amount of the following investment properties is the fair value of the properties as determined by management.

Investment property with a total carrying amount of K258,968,099 (2019: K275,700,416) was encumbered at 31 December 2020.

3. FINANCIAL POSITION (CONTINUED)

3.6 INVESTMENT PROPERTY (CONTINUED)

Investment Property	Valuation Basis	Independent Valuer	Valuation Date	Value as at 31 December 20120 K'000	Value as at 31 December 2019 K'000
Era Dorina	Direct capitalisation	Directors' valuation	31 December 2020	126,286	137,937
Credit House	Direct capitalisation	Directors' valuation	31 December 2020	72,149	72,928
Era Matana	Direct capitalisation	Directors' valuation	31 December 2020	52,733	56,936
Credit Corporation Industrial Limited land	Replacement cost	Directors' valuation	31 December 2020	4,000	4,100
Credit Corporation (PNG) Limited property	Direct capitalisation	Directors' valuation	31 December 2020	3,800	3,800
				258,968	**275,700**

Fair values were determined using present value cash flows, having regard to current market characteristics for similar properties located in Papua New Guinea. In the current year, the directors assessed that the carrying value of the investment properties are fairly stated. The valuation for 2019 were performed by Savills Valuation & Professional Services (S) Pte Ltd, an independent valuer.

Measurement of fair value, fair value model and significant unobservable inputs

Information about how the fair values of the Group's investment properties are determined (in particular, the valuation method(s) and inputs used) is detailed as follows:

Direct capitalisation is a fair valuation model, which considers the annual gross income of the property adjusted for vacancies and expenses. The net operating income is divided by a capitalisation rate. The capitalisation rate is derived from comparable markets transactions and adjusted for certain property specific characteristics such as the physical deterioration of the property and its location (prime or secondary). Key unobservable input includes the capitalisation rates of 11.00% and 11.5% (2019: 10.00% to 11.50%) and market lease rates.

The Group decided to use direct capitalisation approach to ensure consistency with the fair valuation model used by external valuations available as at the 2020 year end.

Fair value hierarchy:

The fair value measurement for investment properties of K259 million have been categorised at Level 3 fair value, as the inputs to the valuation techniques used made reference to significant observable inputs such as risk-adjusted capitalisation rates and market rental rates. Significant key unobservable inputs used include the risk adjusted market capitalization rates of between 10.00% and 11.50% (2019: 10.00% to 11.50%). Accordingly, an increase in market lease rental rates and / or a decrease in the discount rate and/or decrease capitalisation rate would increase the fair value of the properties. A decrease in market lease rates and / or an increase in discount rate and/or increase capitalisation rate would decrease the fair value of the properties. A sensitivity analysis is provided below.

3. FINANCIAL POSITION (CONTINUED)

3.6 INVESTMENT PROPERTY (CONTINUED)

Sensitivity analysis

	Effect on profit or loss and equity increase/(decrease)	
	2020 K'000	2019 K'000
Increase of 1% in market capitalisation rate	(21,136)	(23,255)
10% increase in market lease rentals	26,464	29,045

A decrease in any of the above unobservable inputs would have the opposite effect to profit or loss.

Recognition and measurement

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as Property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Key judgments and estimates

Judgement is required in determining the following key assumptions:

- Adopted capitalisation rate: The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence and the prior external valuation.
- Net market rental (per sqm): The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction.
- Land rate (per sqm): The land rate is the market land value per sqm.

3. FINANCIAL POSITION (CONTINUED)

3.6 INVESTMENT PROPERTY (CONTINUED)

Operating lease arrangements

Operating leases, in which the Group is the lessor, relate to investment property owned by the Group with lease terms of between 1 to 3 years, usually with an extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The unguaranteed residual values do not represent a significant risk for the Group, as they relate to property which is located in a location with a constant increase in value over the last 29 years. The Group did not identify any indications that this situation will change.

	Consolidated		Company	
Maturity analysis of operating lease payments	**2020 K'000**	**2019 K'000**	**2020 K'000**	**2019 K'000**
Year 1	21,553	24,092	–	88
Year 2	7,368	8,568	–	–
Year 3	2,836	4,017	–	–
Year 4 onwards	156	1,890	–	–
Total	**31,913**	**38,567**	**–**	**88**
Amounts reported in profit or loss				
Lease income on operating leases	26,875	31,553	88	88

3.7 TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Rental bonds payable/(receivable)	1,303	1,853	(24)	(24)
Rental income in advance	131	671	–	–
Other creditors and accrued expenses	11,838	7,799	8,783	2,633
	13,272	**10,323**	**8,759**	**2,609**

Other creditors and accrued expenses are payable within the next 12 months.

3. FINANCIAL POSITION (CONTINUED)

3.8 DEPOSITS AND BORROWINGS

	Notes	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Current					
Interest bearing deposits	(a)	498,026	481,837	–	–
IFRS 16 Lease Liability	(d)	555	335	–	–
Secured bank loans	(b) and (c)	49,988	54,430	–	–
		548,569	536,602	–	–
Non-current					
Interest bearing deposits	(a)	50,261	50,129	–	–
IFRS 16 lease liability	(d)	1,622	1,255	–	–
		51,883	51,384	–	–
		600,451	**587,986**	–	–

(a) Interest bearing deposits

Interest bearing deposits are subject to fixed interest rates and payable on maturity. Non-current portion of K50,260,980 is repayable within 5 years (2019: 4 years).

(b) The current secured bank loans were granted to Era Matana and Era Dorina.

The loan granted to Era Matana of K40,702,117 as at 31 December 2020 is scheduled to be repaid in monthly instalments of K474,354 (including interest) to February 2030. The loan granted to Era Dorina of K9,285,497 as at 31 December 2020 is scheduled to be repaid in monthly instalments of K131,276 (2019 to March 2020: K216,720) to January 2028. Interest on these loans of K3,122,742 (2019: K2,478,857) is included in other operating expenses.

These bank loans are classified as current because the bank may at any time vary the amount or timing of any repayment instalments for both loans.

(c) Bank facilities and security

Borrowings include:

i. Credit Corporation (Fiji) Limited has a bank overdraft facility of K10.3 million (FJD$6m) (2019: K9.5 million (FJD$6m)) with Bank of South Pacific Limited. The facility is secured by a first registered fixed and charge over all the assets and undertakings of Credit Corporation (Fiji) Limited including uncalled and unpaid capital and first registered mortgage over CT 6618 being freehold property at Gorrie Street, Suva. As at 31 December 2020, this facility has not been used.

ii. Credit Corporation (Vanuatu) Limited has a bank overdraft facility of K3.3million (VT100m) (2019: K2.9million (VT100m) with National Bank of Vanuatu. The facility is secured by first registered mortgage over all assets and undertakings of Credit Corporation (Vanuatu) Limited including uncalled and unpaid capital and with limited guarantee and indemnity from Credit Corporation (PNG) Limited for K3.3 million. As at 31 December 2020, this facility has not been used.

iii. Credit Corporation (PNG) Limited has a bank overdraft facility with Westpac Bank PNG Limited of K20 million at 31 December 2020 (2019: K20 million). This facility is secured by a guarantee with (joint and several) by Credit House Limited and Credit Corporation (PNG) Limited. First registered Mortgage over Lots 2, 3 and 8 Section 45, Granville, Port Moresby known as "Credit House". As at 31 December 2020 this facility has not been used.

3. FINANCIAL POSITION (CONTINUED)

3.8 DEPOSITS AND BORROWINGS (CONTINUED)

(c) Bank facilities and security (continued)

iv. Credit Corporation Finance Limited has a bank overdraft facility with Westpac Bank PNG Limited of K10 million at 31 December 2020 (2019: K10 million). This facility is secured by a guarantee with (joint and several) by Credit House Limited and Credit Corporation (PNG) Limited. First registered Mortgage over Lots 2, 3 and 8 Section 45, Granville, Port Moresby known as "Credit House". As at 31 December 2020, this facility has not been used.

v. Era Dorina Limited has an advance facility from Bank of South Pacific Limited of K19.5million at a variable interest rate. The loan is secured by a registered equitable mortgage over the fixed and floating assets of Era Dorina Limited, first registered mortgage over the residential property situated on Vol 36, Folio 97, Allotment 32 and 33, Section 34 and Portion 2259, Ela Makana, Granville, Port Moresby.

vi. Era Matana Limited has a facility limit from Bank South Pacific Limited of K50 million at a variable interest rate. The loan is secured by a first registered fixed and floating charge over the whole of the company's assets and undertakings including called but unpaid and called capital, first registered mortgage over, the residential property situated on Vol 13, Folio 80, Allotment 22, Section 33, Granville, Port Moresby known as "Era Matana" and a deed of guarantee and indemnity for K50 million by Era Dorina Limited and Credit Corporation PNG Limited.

vii. Credit Corporation (SI) Limited has a bank overdraft facility with Bank South Pacific Limited of K1.3 million (SBT$3m) ((2019: K1.2 million (SBT$3m)). This facility is secured by an unlimited amount of guarantee by Credit Corporation PNG Limited, registered equitable mortgage over the whole of Credit Corporation (SI) Limited company assets and undertaking including uncalled capital and first registered charged over residential property under purchase as described in parcel number 191-009-16 situated at Tavioa. As at 31 December 2020, this facility has not been used.

(d) Lease liabilities

Maturity analysis of IFRS 16 lease liabilities - See note 1.8 (a).

	Consolidated	
Maturity analysis:	**2020 K'000**	**2019 K'000**
Year 1	555	335
Year 2	264	360
Year 3	237	322
Year 4	219	285
Year 5	186	163
Onwards	716	125
	2,177	**1,590**
Less unearned interest	–	–
	2,177	**1,590**

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3. FINANCIAL POSITION (CONTINUED)

3.9 EMPLOYEE BENEFITS

	Consolidated		Company	
	2020 K'000	**2019 K'000**	**2020 K'000**	**2019 K'000**
Long service leave	616	680	52	40
Annual leave	1,229	975	247	59
Others	1,359	1,502	–	–
	3,204	**3,157**	**299**	**99**

Recognition and measurement

Long-term employee benefits

A liability is recognised for the amount to be paid as at 31 December 2020 in respect of long-term employee benefits (long service leave) other than pension plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee.

Short-term employment benefits

A liability is recognised for the amount expected to be paid under short-term cash bonus and annual leave if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee.

4. FINANCIAL INSTRUMENT DISCLOSURES

4.1. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Finance and other receivables

The Group's exposure to credit risk is influenced mainly by the industry and sector in which Management also considers the default risk of the industry and country in which these operate, as these factors may have an influence on credit risk.

The Risk Management Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references.

Lending limits are established for each customer, which represents the maximum open amount without requiring approval from the Risk Management Committee; these limits are reviewed quarterly.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group establishes an allowance for impairment that reflects the present value of all cash shortfalls related to default events either over the 12 months or over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

(ii) Investments, other deposits, cash and cash equivalents

The Group limits its exposure to credit risk by investing only in liquid securities (government securities and interest bearing deposits with banks). For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and short term deposits with a maturity not more than three months. Cash at bank and on hand and short-term deposits interest rates range between 0.9% to 2.75%.

(iii) Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. At 31 December 2020, K69.5 million (2019: K69.5 million) was guaranteed to wholly owned subsidiaries.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains various lines of credit facilities with banks.

Due to the nature of the Group's operations, the current asset/liability ratio is less than one. This arises as customer deposits classified as a current liability is used for new finance to customers, which generally have a higher non-current finance receivable component than current finance receivables.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Notwithstanding this, liquidity is managed by the Group through regular monitoring of its liquidity position. A key part of this monitoring is the completion of a cash flow forecast, which shows the forecast levels of inflows and outflows. This provides management and the Board with transparency over what levers it has available to it, should any liquidity matters arise.
The Board and Management are satisfied that the Group have appropriate levers to manage liquidity going forward.

The current exposure to liquidity risk of the Group is as follows:

	2020 K'000	2019 K'000
Current assets	552,290	463,545
Current liabilities	(565,014)	(547,605)
Net	(12,138)	(84,060)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign currency exchange rate and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Senior management regularly monitors movements in interest rates and equity prices.

(i) Equity price risk

The Group is exposed to equity price risks arising from equity investments.

Equity investments in unlisted entities (see note 3.4 (b)) are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The Group invested in a portfolio of listed shares which are held for trading (see note 3.4 (e)). This type of investment is approved by the board as the alternative to investment in money market funds in order to generate higher investment return on the spare funds.

Refer to note 3.4 (e) for equity price sensitivity analysis.

(ii) Foreign currency risk

The Group undertakes transactions denominated in foreign currencies. Consequently, exposures to exchange rate fluctuations arise.

Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

The table below shows the balances of monetary assets and liabilities denominated in foreign currency

	Fiji FJ$'000	Solomon Islands SB$'000	Vanuatu VuV'000	Timor-Leste US$'000
As at 31 December 2020				
Assets				
Finance receivables	125,554	53,835	812,142	2,625
Cash and cash equivalents	34,723	43,692	1,284,124	725
Other receivables	279	291	3,252	6
Income tax receivable	–	4,611	–	–
Net deferred tax assets	3,774	6,879	–	184
	164,330	109,308	2,099,518	3,540
Liabilities				
Trade and other payables	753	341	21,526	54
Deposits and borrowings	121,905	76,647	1,391,586	16
Income tax payable	492	–	–	–
Employee benefits	1,114	–	–	27
	124,264	76,988	1,413,112	97
Net foreign currency exposure	**40,066**	**32,320**	**686,406**	**3,442**
As at 31 December 2019				
Assets				
Finance receivables	148,724	64,591	1,448,134	2,948
Cash and cash equivalents	31,219	36,924	728,428	1,096
Interest bearing securities	800	–	–	–
Other receivables	449	88	7,447	8
Income tax receivable	674	–	–	2
Net deferred tax assets	1,977	15,036	–	125
	183,843	116,639	2,184,009	4,179
Liabilities				
Trade and other payables	3,279	1,025	19,927	26
Deposits and borrowings	141,083	82,503	1,489,815	716
Income tax payable	–	6,728	–	–
Employee benefits	1,223	–	–	19
	145,585	90,256	1,509,742	761
Net foreign currency exposure	**38,258**	**26,383**	**674,267**	**3,418**

Notes to and forming part of the financial statements

For the year ended 31 December 2020

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

Foreign exchange risk sensitivity analysis

The following analysis is performed for reasonably possible movements in the foreign exchange rates to PGK (assumption:+/- 10%) with all other variables held constant, showing the impact on profit/(loss) before income tax and equity due to changes in the fair value of currency sensitive monetary assets and liabilities.

There are no changes from prior year on this assumption.

Effect on profit/(loss) before income tax	Change	Fiji K'000	Solomon Islands K'000	Vanuatu K'000	Timor-Leste K'000
31 December 2020	10%	(318)	(417)	(49)	20
31 December 2020	-10%	318	417	49	(20)
31 December 2019	10%	(1,760)	64	(777)	66
31 December 2019	-10%	1,760	(64)	777	(66)
Effect on equity					
31 December 2020	10%	(7,379)	(1,652)	(2,225)	1,496
31 December 2020	-10%	7,379	1,652	2,225	(1,496)
31 December 2019	10%	(6,546)	(1,251)	(1,839)	(1,057)
31 December 2019	-10%	6,546	1,251	1,839	1,057

As shown in the table above, the Group is primarily exposed to changes in PGK exchange rates against other functional currencies used by the group companies in their respective jurisdictions. The main functional currencies that are used to denominate monetary assets and liabilities are shown in the sensitivity table above.

Exchange rates used by the Group in preparing financial statements

PGK 1 is equivalent to the rates below.

	2020		2019	
	Average	At year-end	Average	At year-end
Fijian dollar	0.6244	0.5817	0.6387	0.6299
Solomon Islands dollar	2.3750	2.3028	2.4185	2.4119
Vanuatu vatu	33.2458	30.6700	34.0400	33.9300
US Dollar	0.2962	0.2925	0.3026	0.3010

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

Amounts recognised in profit or loss and other comprehensive income

During the year, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	2020 K'000	2019 K'000
Amounts recognised in profit or loss		
Net foreign exchange gain/(loss) included in other operating expenses	(287)	(367)
Net gains (losses) recognised in other comprehensive income		
Foreign currency translation differences on foreign operations	9,443	(454)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the members of Risk Committee. The results of the reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board of Directors and senior management of the Group.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as results from operating activities divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group's target in 2020 was to achieve a return on capital of between 5 and 15 percent; in 2020, the actual return was 2.40 percent (2019: 14.33 percent). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 4.87 percent (2019: 4.65 percent).

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2020 K'000	2019 K'000
Total liabilities	631,217	620,026
Less: cash and cash equivalents	(234,358)	(140,138)
Net debt	396,859	479,888
Adjusted capital	915,719	921,232
Debt to adjusted capital ratio at 31 December	0.43	0.52

There were no changes in the Group's approach to capital management during the year. Various finance subsidiaries are subject to respective Central Banks restrictions imposed on capital requirements. These subsidiaries have been in compliance with respective capital requirements imposed by their Central Banks as at and during the year ended 31 December 2020.

4.2 FINANCIAL INSTRUMENTS

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Interest bearing securities	20,033	1,270	–	–
Other equity investments	34	34	34	34
Finance receivables (net)	504,450	613,111	–	–
Other deposits	–	–	14,930	27,973
Other receivables	5,608	7,841	32,604	35,241
Cash and cash equivalents	234,358	140,138	18,970	5,948
Total	**764,483**	**762,394**	**66,538**	**69,196**

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

The maximum exposure to credit risk for finance receivables (net) at the reporting date by geographic region was:

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Papua New Guinea	229,778	297,755	–	–
Fiji	215,840	236,108	–	–
Solomon Islands	23,378	26,772	–	–
Vanuatu	26,480	42,680	–	–
Timor- Leste	8,974	9,796	–	–
Total	**504,450**	**613,111**	**–**	**–**

The maximum exposure to credit risk for gross finance receivables at the reporting date by type of counterparty was:

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Transport & Storage	230,370	265,918	–	–
Civil Contracting, Building & Construction and Real Estate	162,514	159,324		
Wholesale/Retail	81,906	82,351	–	–
Others	223,248	271,962	–	–
	698,038	**779,555**	**–**	**–**

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Not past due	263,596	368,891	–	–
Past due 1-30 days	74,085	105,729	–	–
Past due 31-180 days	120,662	85,066	–	–
Past due 181-360 days	37,495	10,381	–	–
Past due more than 1 year	8,612	43,045	–	–
Total	**504,450**	**613,111**	**–**	**–**

Management believes that the unimpaired amounts are collectible, based on historical payment behaviour and analysis of borrowers' credit risk, as well as analysis of collateral values.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Credit quality analysis

Asset quality impairment

	2020		
Figures in PGK'000	**Carrying amount**	**Provisions**	**Net Carrying Amount**
Loan Balance (net of unearned income)			
Stage 1 – 12 month ECL	344,687	(7,904)	336,783
Stage 2 – Life time ECL	97,708	(21,748)	75,960
Stage 3 – Life time ECL	181,209	(89,502)	91,707
Total	623,604	(119,154)	504,450

	2019		
Figures in PGK'000	**Carrying amount**	**Provisions**	**Net Carrying Amount**
Loan Balance (net of unearned income)			
Stage 1 – 12 month ECL	486,865	(12,924)	473,942
Stage 2 – Life time ECL	71,945	(4,912)	67,033
Stage 3 – Life time ECL	118,793	(46,657)	72,136
Total	**677,603**	**(64,492)**	**613,111**

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Reconciliation of opening and closing balance of loss allowance for each stage.

Consolidated	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020				
Balance at 1 January 2020	(12,923)	(4,912)	(46,657)	**(64,492)**
Transfer to Stage 1	(3,461)	983	2,478	–
Transfer to Stage 2	1,832	(2,274)	442	–
Transfer to Stage 3	1,464	2,275	(3,739)	–
Net remeasurement of loss allowance	6,941	(15,189)	(31,541)	**(39,789)**
New financial assets originated	(2,026)	(3,062)	(3,476)	**(8,564)**
Financial assets that have been derecognised	936	321	5,361	**6,618**
Write-offs	324	463	3,945	**4,732**
Foreign exchange and other movement	(991)	(352)	(1,316)	**(2,659)**
Management overlay	–	–	**(15,000)**	**(15,000)**
Balance at 31 December 2020	**(7,904)**	**(21,747)**	**(89,503)**	**(119,154)**
As at 31 December 2019				
Balance at 1 January 2020	(8,154)	(11,849)	(40,544)	**(60,547)**
Transfer to Stage 1	(7,043)	4,006	3,037	–
Transfer to Stage 2	1,062	(2,637)	1,575	–
Transfer to Stage 3	546	2,777	(3,323)	–
Net remeasurement of loss allowance	4,291	2,454	(14,327)	**(7,582)**
New financial assets originated	(4,707)	(1,279)	(1,668)	**(7,653)**
Financial assets that have been derecognised	1,102	1,213	4,777	**7,092**
Write-offs	55	419	3,941	**4,415**
Foreign exchange and other movement	(76)	(16)	(126)	**(218)**
Balance at 31 December 2020	**(12,923)**	**(4,912)**	**(46,657)**	**(64,492)**

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

(i) Consolidated

Amounts at 31 December 2020 Non-derivative financial liabilities	Carrying amount K'000	Contracted cash flows K'000	Less than one year K'000	1-2 years K'000	3-5 years K'000	More than 5 years K'000
Secured borrowings	49,988	52,652	52,652	–	–	–
Interest bearing deposits	548,287	561,650	508,141	40,167	12,566	776
Lease liabilities	2,177	2,177	555	264	642	716
Trade and other payables	13,272	13,272	13,272	–	–	–
Total	**613,724**	**629,751**	**574,620**	**40,431**	**13,208**	**1,492**

Amounts at 31 December 2019 Non-derivative financial liabilities	Carrying amount K'000	Contracted cash flows K'000	Less than one year K'000	1-2 years K'000	3-5 years K'000	More than 5 years K'000
Secured borrowings	54,430	58,359	58,359	–	–	–
Interest bearing deposits	531,966	548,150	494,245	48,343	5,562	–
Lease liabilities	1,590	1,590	335	682	448	125
Trade and other payables	10,323	10,323	10,323	–	–	–
Total	**598,309**	**618,422**	**563,262**	**49,025**	**6,010**	**125**

(ii) Company

At 31 December 2020, non-derivative financial liabilities, all of which are due within the year were K8,759,067 (2019: K2,608,996).

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Consolidated		Company	
	2020 K'000	2019 K'000	2020 K'000	2019 K'000
Fixed rate instruments				
Financial assets	52,539	25,185	15,226	28,269
Finance receivables	340,791	380,797	–	–
Financial liabilities	(548,287)	(531,966)	–	–
Total net	**(154,957)**	**(125,984)**	**15,226**	**28,269**
Variable rate instruments				
Finance receivables	163,659	232,314	–	–
Financial liabilities	(49,988)	(54,430)	–	–
Total net	**113,671**	**177,884**	**–**	**–**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2019.

Consolidated	100bps increase		100bps decrease	
	Profit/(loss) K'000	Equity K'000	Profit/(loss) K'000	Equity K'000
Variable rate instruments				
As at 31 December 2020	(1,137)	(1,137)	1,137	1,137
As at 31 December 2019	(1,779)	(1,779)	1,779	1,779

Company (not applicable)

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value versus carrying values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Consolidated		**Fair values**		**Carrying amounts**	
	Level of FV hierarchy	**2020 K'000**	**2019 K'000**	**2020 K'000**	**2019 K'000**
Assets					
Interest bearing securities	1	20,033	1,270	20,033	1,270
Financial assets designated at fair value through profit and loss	1	440,336	433,409	440,336	433,409
Other equity investments	3	34	34	34	34
Finance receivables	2	504,450	613,111	504,450	613,111
Other receivables	2	5,608	7,841	5,608	7,841
Cash and cash equivalents	1	234,358	140,138	234,358	140,138
		1,204,819	**1,195,803**	**1,204,819**	**1,195,803**
Liabilities					
Trade and other payables	2	(13,272)	(10,323)	(13,272)	(10,323)
Secured bank loans	2	(49,988)	(54,430)	(49,988)	(54,430)
Interest bearing deposits	2	(548,287)	(531,966)	(548,287)	(531,966)
Lease liabilities	2	(2,177)	(1,590)	(2,177)	(1,590)
		(613,724)	**(598,309)**	**(613,724)**	**(598,310)**
Company					
Assets					
Financial assets designated at fair value through profit and loss	1	440,336	433,409	440,336	433,409
Investments in subsidiaries	3	335,729	374,709	335,729	374,709
Other equity investments	3	34	34	34	34
Other deposits	2	14,930	27,973	14,930	27,973
Other receivables	2	32,604	35,241	32,604	35,241
Cash and cash equivalents	1	18,970	5,948	18,970	5,948
		842,603	**877,314**	**842,603**	**877,314**
Liabilities					
Trade and other payables	2	(8,759)	(2,609)	(8,759)	(2,609)

There are no debt markets in the segments the Group operates. Based on history, secondary market transactions for fixed rate instruments have been very minimal and have been at the interest rate implicit in the instrument. As a result, there is no difference between fair value and carrying value of fixed rate instruments.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy

Consolidated 31 December 2020	**Level 1 K'000**	**Level 2 K'000**	**Level 3 K'000**	**Total K'000**
Interest bearing securities	20,033	–	–	20,033
Other investments (Financial assets designated at fair value through profit and loss account)	440,336	–	–	440,336
Other equity investments	–	–	34	34
Finance receivables	–	504,450	–	504,450
Other receivables	–	5,608	–	5,608
Cash and cash equivalents	234,358	–	–	234,358
Total Assets	**694,727**	**510,058**	**34**	**1,204,819**
Liabilities				
Trade and other payables	–	(13,272)	–	(13,272)
Secured bank loans	–	(49,988)	–	(49,988)
Interest bearing deposits	–	(548,287)	–	(548,287)
Lease liabilities	–	(2,177)	–	(2,177)
	–	**(613,724)**	**–**	**(613,724)**

Consolidated 31 December 2019				
Interest bearing securities	1,270	–	–	1,270
Other investments (Financial assets designated at fair value through profit and loss account)	433,409	–	–	433,409
Other equity investments	–	–	34	34
Finance receivables	–	613,111	–	613,111
Other receivables	–	7,841	–	7,841
Cash and cash equivalents	140,138	–	–	140,138
Total Assets	**574,818**	**620,952**	**34**	**1,195,803**
Liabilities				
Trade and other payables	–	(10,323)	–	(10,323)
Secured bank loans	–	(54,430)	–	(54,430)
Interest bearing deposits	–	(531,966)	–	(531,966)
Lease liabilities	–	(1,590)	–	(1,590)
	–	**(598,309)**	**–**	**(598,309)**

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy (continued)

Company **31 December 2020**	**Level 1** **K'000**	**Level 2** **K'000**	**Level 3** **K'000**	**Total** **K'000**
Other investments (financial assets designated at fair value through profit and loss account)	440,336	–	–	440,336
Investment in subsidiaries	–	–	335,729	335,729
Other equity investments	–	–	34	34
Other deposits	–	14,930	–	14,930
Other receivables		32,604	–	32,604
Cash and cash equivalents	18,970	–	–	18,970
Total Assets	**459,306**	**47,534**	**335,763**	**842,603**
Liabilities				
Trade and other payables	–	(8,759)	–	(8,759)
31 December 2019				
Interest bearing securities	–	–	–	–
Other investments (financial assets designated at fair value through profit and loss account)	–	–	–	–
Investment in subsidiaries	–	–	374,709	374,709
Other equity investments	–	–	34	34
Other deposits	–	–	–	–
Other receivables	–	35,241	–	35,241
Cash and cash equivalents	–	–	–	–
Total Assets	**–**	**35,241**	**374,743**	**409,984**
Liabilities				
Trade and other payables	**–**	**(2,609)**	**–**	**(2,609)**

Level 1 investments consist mainly of investments in stock of public companies.

Level 2 investments consist mainly of investments in deposits, trade receivables and payables.

Level 3 investments consist primarily of investments in equity of subsidiaries. The investments in the subsidiaries were all valued as at 31 December 2020.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy (continued)

Recognition and measurement

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability: either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input t hat is significant to the entire measurement.

(a) Investment property

Valuation of investment property is based either on external valuation or directors' valuation. An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio as required. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time. Investment property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete construction, financing costs and a reasonable profit margin.

(b) Equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes.

(c) Finance and other receivables

The fair value of finance and other receivables is estimated as the present value of future cash flows. This fair value is determined for disclosure purposes.

4. FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows.

Key judgements and estimates
The Group evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgment and estimation in determining the carrying values of financial assets and liabilities at the balance sheet date.

The majority of valuation models the Group uses employ only observable market data as inputs. However, for certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgment to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

5. EQUITY

5.1 SHARE CAPITAL

	Consolidated & company	
Issued ordinary share capital	**2020 K'000**	**2019 K'000**
307,936,332 shares in issue at 1 January	21,984	21,984
Shares issued arising from dividend reinvestment plan (2019: nil)	–	–
Shares repurchased during the year none (2019: nil)	–	–
307,936,332 shares in issue at 31 December	**21,984**	**21,984**

In accordance with the provisions of the Companies Act 1997, the shares do not have a par value. All issued shares are fully paid.

In accordance with the provisions of the Constitution, the Board of Directors of the Company may issue shares as it thinks fit so long as it does not create a controlling interest in the Company and subject to complying with the requirements of Papua New Guinea's National Stock Exchange Listing Rules.

Measurement and recognition
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

5. EQUITY (CONTINUED)

5.2 RESERVES

		Consolidated		Company	
		2020 K'000	2019 K'000	2020 K'000	2019 K'000
Asset revaluation reserve	(a)				
Balance at 1 January		35,976	51,531	255,447	225,414
Surplus/(deficit) on revaluation of properties		(16,778)	(22,221)	–	(600)
Tax effect on revaluation of properties		5,033	6,666	–	180
Surplus/(deficit) on revaluation of investments		–	–	–	30,453
Balance at 31 December		**24,231**	**35,976**	**255,447**	**255,447**
Asset realisation reserve	(b)				
Balance at 1 January		149	149	149	149
Transfer from retained earnings		–	–	–	–
Balance at 31 December		**149**	**149**	**149**	**149**
Exchange fluctuation reserve	(c)				
Balance at 1 January		5,762	6,216	–	–
Translation adjustment		9,443	(454)	–	–
Balance at 31 December		**15,205**	**5,762**	**–**	**–**
General reserve	(d)				
Balance at 1 January		400,746	345,266	400,746	345,266
Transfer (to)/from retained earnings		6,926	55,480	6,926	55,480
Balance at 31 December		**407,672**	**400,746**	**407,672**	**400,746**
Total Reserves		**447,258**	**442,633**	**663,268**	**656,342**

5. EQUITY (CONTINUED)

5.2 RESERVES (CONTINUED)

(a) Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of Property and equipment prior to its reclassification as investment property and revaluation of investments in subsidiaries.

(b) Asset realisation reserve

The asset realisation reserve represents profits on sale of fixed assets over the cost.

(c) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company.

(d) General reserve

The general reserve represents amounts of net gains on long-term investments transferred from the profit and loss account.

6. OTHER DISCLOSURES

6.1 EMPLOYEE BENEFIT PLAN

The Group contributed to superannuation funds which are defined contribution plans, whereby employees contribute certain legislated percentage of their salary to the fund and the Group contributes a certain percentage of each member's salary as allowed by law. During 2020, the Group expensed K1,734,662 (2019: K1,822,161) in contributions payable.

Recognition and measurement
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

6.2 COMMITMENTS AND CONTINGENCIES

(i) Commitments

The Group expects a capital outlay of K 18.3 million for the acquisition of various property and equipment for its Property Division. There are no contractual capital commitments as at 31 December 2020.

(ii) Contingencies

There are no contingencies as at 31 December 2020.

Notes to and forming part of the financial statements

For the year ended 31 December 2020

6. OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES

(a) Interest register

The following are interests recorded in the Register for the year.

Name: Abigail Erica Wendy Chang **Nature of Interest**: Director	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Credit Corporation Fiji Limited.
Name: Professor Albert Conrad Mellam **Nature of Interest**: Director	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Nambawan Super Limited, Association of Asia Pacific Business School South Korea, National Road Authority, National Skills Agency.
Name: Professor Albert Conrad Mellam **Nature of Interest**: Executive Director	**Organisation** PNG Chamber of Mines and Petroleum.
Name: Faye-Zina Lalo **Nature of Interest**: Director	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Amalpack Limited, Capital Insurance Group Limited, Capital General Insurance Company Limited, Capital Life Insurance Company Limited, Fizo Holdings Limited, AFL PNG Development Limited, PNG Olympic Committee, Trident Security Group Limited.
Name: James Byron Kruse **Nature of Interest**: Director (resigned March 2021)	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Auwa Development Limited, JBK Consulting Limited, Manus Island Shipping & Transport Limited, Ndracalpu Holdings Limited, Fairway No. 129 Limited, Health Save Limited, Siarra Enterprises Pty Limited,Manus Building Supplies Limited.
Name: Sydney George Yates **Nature of Interest**: Director	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Kina Asset Management Limited, PNG Rugby Union (Interim Member).
Name: Michael James Varapik **Nature of Interest**: Director (resigned February 2021)	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Waigani Asset Limited.
Name: Richard Sinamoi **Nature of Interest**: Director	**Companies** Credit Corporation (PNG) Limited, Credit Corporation Finance Limited, Credit House Limited, Credit Corporation Industrial Limited, Era Matana Limited, Era Dorina Limited, Paradise Foods Limited, Nambawan Super Limited, Kama Kofi Limited, Iomanis Agi Import Export Pte Limited, PNGPC Limited, Trans Pacific Assurance Limited.

6. OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(b) Transactions with Directors and key management personnel

(i) Shareholdings of Directors and interested parties in Credit Corporation (PNG) Limited

	2020	2019
Sydney Yates, Chairman of the Company, sole owner of Columbus Investments Ltd. that holds shares as follows:	143,580	143,580
Sydney Yates, Chairman of the Company, sole owner of Columbus Investments Ltd. that holds shares in Kina Asset Management Limited that holds shares as follows:	1,899,960	1,899,960
David Doig (retired 27/06/2019), a former Director of the Company, is a former Director of National Superannuation Fund Limited that holds shares as follows:	–	62,099,367
Professor Albert Mellam, a Director of the Company, is a Director of Nambawan Superannuation Limited that holds shares as follows:	62,947,271	62,947,271
Johnson Kalo (resigned 10/09/2019), a former Director of the Company holds shares as follows:	–	6,000
James Kruse, a Director of the Company holds shares as follows:	75,000	75,000
Michael Varapik, a Director of the Company, is a former Director of Comrade Trustee Services Limited that holds shares as follows:	–	2,082,333
Michael Varapik, a Director of the Company holds shares as follows:	5,000	5,000
Richard Sinamoi, a Director of the Company, is a Director of Nambawan Superannuation Limited that holds shares as follows:	62,947,271	62,947,271
Richard Sinamoi, a Director of the Company holds shares as follows:	485,629	485,629
Abigail Chang, a Director of the Company holds shares as follows:	21,000	21,000

(ii) Remuneration of Directors

	2020 K	2019 K
Sydney Yates	171,000	140,000
Richard Sinamoi	150,000	126,000
Michael Varapik	142,000	123,000
Abigail Chang	140,000	128,000
Faye-Zina Lalo	136,000	123,000
James Byron Kruse	135,500	121,500
Professor Albert Mellam	134,000	121,000
	1,008,500	1,029,000

6. OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(iii) Remuneration of key management personnel

The number of management staff whose remuneration, including salaries and benefits (superannuation, accommodation, leave fares, insurance, school fees, club subscriptions and related entitlements), was within the specified bands as follows:

All amounts in Kina	2020	2019
130,000 - 139,999	1	1
200,000 - 259,999	1	1
260,000 - 319,999	1	1
320,000 - 379,999	–	1
380,000 - 439,999	–	1
440,000 - 499,999	1	–
560,000 - 669,999	1	
670,000 - 779,999	1	–
780,000 - 889,999	1	1
890,000 - 999,999	1	1
1,110,000 - 1,219,999	2	2
1,440,000 - 1,549,999	1	1
Total	11	10

(iv) Key management personnel compensation

	Note	Transaction value for the year end 31 December		Balance outstanding as at 31 December	
		2020 K'000	2019 K'000	2020 K'000	2019 K'000
Short term benefits		9,047	7,123	522	556
Long term benefits		137	36	–	36
		9,184	7,159	552	592

A related party is a person or an entity that is related to the reporting entity and has significant influence over the reporting entity in making financial or operational decisions.

The transactions were processed an arms length by the related parties concerned.

(i) Short-term employee benefits include wages, salaries, paid annual leave, superannuation, bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(ii) Other long-term employee benefits include only long-service leave.

6. OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(v) Other transactions with Directors and key management personnel

The aggregate value of transactions and outstanding balances related to Directors and key management personnel were as follows:

			Transaction value for the year end 31 December		Balance outstanding as at 31 December	
Related Party	**Transaction**	**Note**	**2020 K'000**	**2019 K'000**	**2020 K'000**	**2019 K'000**
Management personnel	Personal Loan	(i)	145	136	42	245
Management & Director	Deposit	(ii)	(3)	(14)	(64)	(94)
Total			142	122	(22)	151

Note: Balances with brackets indicate a payable balance.

(i) Staff are entitled to personal loans from Credit Corporation Finance Limited up to a maximum of 25% of the gross annual salary at an interest rate of 8% to 10% per annum.

(ii) A non-interest bearing deposit with Credit Corporation Finance Limited.

(c) Transactions with subsidiaries – the Company

All the transactions are in the normal course of business and on normal commercial terms and conditions and repayable on demand. Except for the finance loans from Credit Corporation Finance Limited, all the other transactions are unsecured.

		Transaction value for the year end 31 December		Balance outstanding as at 31 December	
Transaction	**Note**	**2020 K'000**	**2019 K'000**	**2020 K'000**	**2019 K'000**
Management fee	(i)	1,000	1,000	–	–
Interest bearing deposit	(ii)	467	577	15,159	28,269
Dividends	(iii)	1,300	20,587	–	3,969
Insurance premiums	(iv)	–	1,545	–	–
Other	(v)	1,245	4,174	33,688	33,780
		4,012	27,883	48,847	66,018

(i) Management fees paid by Credit Corporation Finance Limited (K1,000,000) to Credit Corporation (PNG) Limited annually.

(ii) Credit Corporation (PNG) Limited invested the excess funds from dividends, management & guarantee fees in at call and interest free deposits and one year deposits both with Credit Corporation Finance Limited at 2.1% interest rate per annum. The interest earned during 2020 was K466,830 (2019: K576,825).

(iii) Dividends were only received from Credit Corporation Finance Limited.

(iv) Insurance premiums were paid to Credit Insurance Group Limited, an associate company.

(v) Other transaction with subsidiaries including receivable from the subsidiary company Era Matana Limited and Credit Corporation Industrial Limited.

6. OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(d) Other related party transactions

(i) The associate company of Credit Corporation (PNG) Limited, Capital General Insurance Company Limited, has interest bearing deposit accounts amounting to K1,794,903 as at 31 December 2020 (2019: K2,249,241) at 6% per annum with Credit Corporation Finance Limited. The net interest paid was K110,208 (2019: K93,483).

(ii) Directors and entities have interest bearing deposits with the Group at commercial rates prevailing at the time of the deposit.

6.4 EVENTS OCCURRING AFTER BALANCE SHEET DATE

There were no events subsequent to the balance sheet date that would either require a disclosure in or adjustment to the financial statements.

Top 20 shareholders

As at 31 December 2020

		Share Held	%
1	NAMBAWAN SUPER LIMITED	62,947,271	20.44%
2	NATIONAL SUPERANNUATION FUND LIMITED	62,099,367	20.17%
3	TEACHERS SAVINGS AND LOAN SOCIETY LTD	48,613,500	15.79%
4	LAMIN TRUST FUND	19,158,710	6.22%
5	MOTOR VEHICLES INSURANCE LIMITED	17,100,000	5.55%
6	FEDERATION OF SAVINGS & LOAN SOCIETIES LIMITED	16,621,878	5.40%
7	ESTATE GARTH MCILWAIN	8,729,066	2.83%
8	MINERAL RESOURCES STAR MOUNTAINS LIMITED	4,374,011	1.42%
9	BANK SOUTH PACIFIC LIFE (FIJI) LIMITED	4,091,838	1.33%
10	MINERAL RESOURCES OK TEDI NO 2 LIMITED	4,064,848	1.32%
11	FINANCE CORPORATION LIMITED	3,190,647	1.04%
12	CAPUCHIN FRIARS MINOR OF PNG	2,452,214	0.80%
13	KINA ASSET MANAGEMENT NO. 1 LIMITED	2,146,337	0.70%
14	COMRADE TRUSTEE SERVICES LTD	2,082,333	0.68%
15	KINA NOMINEES LIMITED	2,010,000	0.65%
16	WEST NEW BRITAIN PROVINCIAL GOVERNMENT TRUST DEED NO 2 A/C	2,000,000	0.65%
17	PACIFIC MMI INSURANCE LIMITED	1,872,406	0.61%
18	DAUGHTERS OF OUR LADY OF SACRED HEART OLSH PROVINCIALATE	1,800,000	0.58%
19	NASFUND CONTRIBUTORS SAVINGS & LOAN SOCIETY LIMITED	1,550,000	0.50%
20	MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED	1,361,316	0.44%
		268,265,742	**87.12%**

Shareholding range	
1 – 1,000	335,963
1,001 – 5,000	1,011,726
5,001 – 10,000	2,653,904
10,001 – 100,000	7,957,277
100,001 and above	295,972,462
	307,931,332

Shares trade	No	Volume
2015	695	2,955,858
2016	312	3,765,352
2017	213	7,792,844
2018	150	2,820,515
2019	174	3,144,863
2020	115	1,290,828

Corporate directory

Registered Office
Ground Floor, Credit House, Cuthbertson Street Port Moresby, Papua New Guinea

Principal Place of Business
Ground & 4th Floor, Credit House, Cuthbertson Street Port Moresby, Papua New Guinea

Directors
Sydney Yates
Dr Albert Mellam
Abigail Chang
Faye-Zina Lalo
James Kruse (Resigned 05/03/2021)
Michael Varapik (Resigned 04/02/2021)
Richard Sinamoi

Chief Executive Officer
Peter Aitsi (Resigned 31/03/2021)

Company Secretary
Beverlyn Malken (Resigned 13/11/2020)

Jack Parina (Appointed 12/11/2020)
Jack completed his service on 13/04/ 2021

Auditors
KPMG Chartered Accountants
PO Box 507, Port Moresby
Papua New Guinea

Fiji – KPMG

Solomon Islands – KPMG (Fiji)

Vanuatu – Law Partners

Tax Advisors
PriceWaterhouseCoopers
PwC Haus, Level 6
Harbour City, Konedobu
Port Moresby, NCD 125
Papua New Guinea

Share Registry
PNG Registries Limited
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Port Moresby, Papua New Guinea
Telephone: +675 321 6377
Facsimile: +675 321 6379
Email: brenda@online.net.pg

Bankers
Australia and New Zealand Banking Group (PNG) Limited
Australia and New Zealand Banking Group (Fiji) Limited
Bank South Pacific Limited
National Bank of Vanuatu
Westpac Bank PNG Limited
Westpac Bank Sydney

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CREDIT CORPORATION