CREDIT CORPORATION

2021

Annual Report

A NEW PATHWAY

Our new strategic pathway set for the next five years aligns with our reset vision, mission and values, harnesses our core strengths, and focuses on the changes we need to make to be a successful and sustainable financial services group into the future.

We're proud of our community partnerships such as our sponsorship of the Agmark Rabaul Gurias which is a semi-professional PNG rugby league team from Kokopo.


JCB
Digicel
GMARK

ABOUT CREDIT CORPORATION

Credit Corporation (PNG) Limited commenced business in 1978 as a general finance company and over the past 43 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 the most trusted financial services company throughout the South Pacific.

Our vision is to be recognised as one of the leading financial services groups in the South Pacific.

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 diverse 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, the Credit Corporation Group owns and manages a portfolio of executive real estate assets including an office building and quality residential complexes.

Currently, the Group owns assets valued at K1.416 billion and operates from 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; and Santo and Port Vila in Vanuatu — and we are still growing. Credit Corporation has an investment portfolio which consists of listed equities, predominantly Bank South Pacific shares. The Group has a strong dividend record and shareholders have received a dividend each year since the incorporation of the Company in 1978.

Credit Corporation (PNG) Limited is a company incorporated and domiciled in PNG and is listed on the Port Moresby Stock Exchange.

WHO WE ARE

Built on a strong 43-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, founded on a relationship-based services model.

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

Our approach requires a deep understanding of our customers' businesses — focused on understanding the detailed needs of our customers.

The Group's commercial property and headquarters Credit House maintained 100% occupancy during FY21.

CORE BUSINESS AREAS

The Group has three core business areas comprising:

Finance

The finance companies 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;
- Insurance Premium Financing Solutions; and
- Investment facilities.

We are a licenced and regulated nonbank financial institution in each of the countries we operate, including PNG, Fiji, Vanuatu and Solomon Islands.

Property

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

Key properties include:

- Era Matana — a major residential development in Port Moresby;
- Era Dorina — one of the largest executive residential estates in Port Moresby;
- Credit House — a premier commercial address in Port Moresby; and
- Commercial buildings in Suva and 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 people

Credit Corporation has 285 talented and passionate employees working across multiple countries.

We are committed to attracting talented people, and fostering 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	215	149*	66
CC Fiji	51	26	25
CC Solomon Islands	9	7	2
CC Vanuatu	10	7	3
Total	**285**	**189**	**96**

*Includes security guards

Credit Corporation backs outstanding community initiatives such as Buk bilong Pikinini — a Not-for-Profit organisation seeking to promote literacy in Papua New Guinea.

2021 OVERVIEW

2021 was another challenging year as the impacts of the COVID-19 pandemic continued to create uncertainty for countries, businesses and people throughout the Pacific.

Throughout this period, Credit Corporation has remained steadfast in its support of its customers and its people. For our customers, we continued with a range of support measures such as repayment holidays. We remained open for business and available to support our customers whenever they have needed us.

The Group is proud to have helped so many of its SME and individual finance customers through the pandemic situation so that they have been able to return to full repayments or interest payments as a minimum.

2021 has been a year where we have made solid progress in resetting our strategic objectives, which are aligned with our renewed values, purpose and mission.

Throughout the course of FY21, the Group's governance framework was strengthened through recruitment at Board and senior management level.

There were minor delays to our plans as the Risk Management Framework rollout strategy developed in FY20 was slowed due to the departure of a number of key personnel. Despite this, there has been significant progress in terms of collecting data, monitoring and reviewing key risk areas of the business. The Internal Audit Function was outsourced during the year to PricewaterhouseCoopers with reviews commenced in the fourth quarter of FY21. This function will ultimately be brought back in house with a recruitment program underway.

Our future strategy involves simplifying our business to focus on becoming a niche commercial bank. We are committed to making life easier for our customers while boosting our performance and returns for shareholders.

Credit Corporation welcomes the opportunity to support community organisations such as Bush Dokta which addresses health inequalities of people in rural Papua New Guinea through connecting health workers in Australia and PNG to deliver appropriate health equipment and support.

KEY FINANCIAL FEATURES

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

FINANCIAL HIGHLIGHTS

NPAT
K76.9M
▲ up 249.5%

Core profit
K79.1M
▲ up 208.2%

Earnings per share
25 TOEA
PER SHARE
▲ up 257.1%

Dividend per share
22.6 TOEA
▲ up 88%

ROE
8.6%
▲ up 580bps

Total expenses
K71.5M
▼ down 43.5%

Finance division NPAT
K25.8M
▲ (a loss of K6m in FY20)

Net Interest Margin
13.7%
▲ up 90bps

Tier 1 Risk Weighted Capital Ratio
43.5%
▲ up 700bps

Property Division Core Operating Profit
K10.2M
▼ down 11.3%

Investment Income
K52.9M
▲ up 20.4%

Total impairment cost
K4.1M
▼ down 93.6%

OUR VALUES

WHAT YOU CAN EXPECT FROM US

FELLOWSHIP
I am genuine, inclusive and collegiate.

INTEGRITY
I unfailingly act with integrity.

GROWTH
I proactively collaborate and challenge myself and my colleagues to continually innovate, adapt and grow.

IMPACT
I am accountable to deliver to our customers and empowered to find impactful solutions and execute with excellence.

CUSTOMER OBSESSED
Everything I do, every decision I make, I make with the customer in mind, helping them to fund their future and achieve their dreams.

CHAIRMAN'S ADDRESS

It was a privilege to be elected to serve as the Chairman of the Board of Directors in 2021. I have been pleased with the progress the Group has made over the past year.

It has been pleasing that our earnings have recovered, and our capital and liquidity positions remain strong.

Accordingly, the Board was able to declare a total dividend of 22.6 toea per share, including a special dividend of 12.2 toea per share in May last year, up from 12 toea per share in FY20.

Our profitability was notably higher with a Core Operating Profit increase of 208% to K79m and 249% increase in NPAT to K76.9m, compared to FY20.

The positive results benefited from lower impairment costs and higher investment income from the Group's investee company, BSP Financial Group Limited.

On my appointment as Chairman and Mr Danny Robinson as CEO last year, the Board embarked on a strategic review process.

As a result, we have reset our strategy with a new pathway, developing a revised plan for the next five years. This plan supported by our shareholders will set Credit Corporation on a transition journey from a diversified finance company into a high-performing finance company and eventually entering into banking, to become a niche commercial bank serving individual, business and commercial customers.

This ambitious plan will involve a focus on building on our strong PNG and Fiji finance company franchises, simplifying the Group and divesting of non-core assets.

To deliver on the plan, requires a strong team in place. Danny Robinson has consolidated his position as a leader in the business since moving from the Interim CEO to the permanent CEO appointment last year. He has overseen significant change in the executive management team during the past year and is building the right team for the future of the Group. Danny and his team are continuing to make solid progress as we continue to build management capability.

While the challenges of COVID-19 remained throughout 2021, I am proud of the way our team has managed both the health and economic impacts. We kept our doors open, helping our customers get the support they needed and maintaining customer loyalty, while safeguarding the jobs of our own people.

There remains a level of uncertainty due to the ongoing impacts of COVID-19, but Credit Corporation remains optimistic about our new path forward and the economic recovery ahead.

During the year there were changes at Board level. I would like to thank our former Chairman Mr Syd Yates for his wonderful contribution, and I feel privileged to be elected to serve as the new Chairman of the Board.

Other departures included Directors Mr James Kruse and Mr Michael Varapik. Directors Mr Stephen Humphries, Sir Mel Togolo and Ms Clare Mazzetti were recruited to the Board during FY21. These Directors bring a wealth of financial services and industry knowledge, experience and qualifications. Memberships of Committees were reviewed in September 2021 following the appointment of these Directors.

I would like to thank my Board colleagues and management team for their ongoing commitment to Credit Corporation's success, particularly the way they have responded to the challenges of the COVID-19 pandemic. I wish to thank our staff for the way they have supported our customers.

Looking to the future, we are reshaping Credit Corporation to be a different company for the benefit of our stakeholders. At the same time, we will continue to embrace the culture and core values of integrity, customer obsession, impact, fellowship and growth.

Our view is that the Pacific economies will continue to improve over the coming years, but much will depend on the ongoing impacts of COVID-19.

At Credit Corporation, we remain committed to enhancing returns for our shareholders. We are harnessing the expertise of our new management team under Danny Robinson to improve performance as we simplify our business and commit to becoming a niche commercial bank in the future.

Richard Sinamoi
Chairman

> "Looking to the future, we are reshaping Credit Corporation to be a different company for the benefit of our stakeholders."

CHIEF EXECUTIVE OFFICER'S REVIEW

2021 has been both a challenging and an important year for Credit Corporation as we progress along our strategic pathway to transform the Group into a niche commercial bank.

It is a great privilege to be appointed to lead one of PNG and the Pacific's longest standing and largest financial services companies at such a pivotal moment in its evolution. Credit Corporation has strong foundations and deeply committed people, so I am confident that we will be successful in sharpening our focus on our core finance division, simplifying our current business model and delivering increasing results for all our stakeholders.

One main feature of the past two years has been managing our way through the COVID-19 pandemic. Throughout this period our focus has been on supporting our SME customers and keeping our people in work. We achieved an improved financial performance, maintaining a strong balance sheet, along with solid capital and liquidity positions. And we progressed our plans to reshape the Group.

We have taken this opportunity to strengthen Credit Corporation's foundations including important areas such as our risk management and technology capabilities. While we continue to focus on enhancing our financial performance and shareholder returns, we are committed to simplifying our operations and to transforming into a bank.

MANAGING PANDEMIC IMPACTS

COVID-19 restrictions, including lockdowns and border closures, continued to disrupt lives and businesses throughout the Pacific last year. Our support of our customers, which included repayment deferrals when the impact to their businesses was at its most severe, enabled many to be able to return to making repayments more quickly.

Supporting the safety and job security of our people has been another of our priorities.

We remain committed to ensuring the job security of our people during unforseen events like the COVID-19 pandemic.

RESHAPING CREDIT CORPORATION

In 2021, we developed a major new, five-year strategic pathway aimed at becoming a simpler, more focused business, transitioning to becoming a bank and ultimately listing on the ASX.

Implementing significant positive change requires the right mix of expertise across the executive team, and in 2021 the Group announced some key changes at the executive level with the appointments of Ms Anneka Linge to the Company Secretary position in April, Ms Lynda Kahari to the Acting Group Chief Operating Officer position in June and Ms Emily Polum to the Acting Group Chief Risk Officer position in August. Additionally, in early 2022 Mr Andre De Bakhapouve, was appointed as the new Chief Risk Officer, and Ms Rei Vagi as our new Chief Financial Officer, further deepening the financial services experience of our executive team.

Furthermore, we have enhanced our operating structures to speed up decision making and create clear accountability for our activities. We complemented this with the development of a refreshed mission and purpose, new strategic priorities and underpinning enabling values and behaviours.

A key element of our strategy is to ensure we adopt a sharp focus on ensuring we maintain the growth momentum of our important PNG and Fiji finance companies. Our approach will include focusing on quality loan growth and automating systems and processes.

Another plank of our strategy is the simplification of our business, and the divestment of our non-core assets where we do not have a competitive advantage.

A core element of our strategy is to firstly become a niche commercial bank servicing key target customers.

As with any transformation, our people will continue to play a key part in our success. I couldn't be prouder of the way that our people have leaned in to meet the business and personal challenges of COVID-19, and the way they have embraced our transformation strategy.

PERFORMANCE

It is pleasing that we achieved a major improvement in our financial performance in FY21 despite volatile economic conditions.

The result was underpinned by disciplined control of margins and operating costs, with a 43% reduction in total expenses and total impairment cost reduced by K59.3m compared to FY20.

The finance division achieved NPAT of K25.8m, compared to a loss of K6.1m in FY20.

Despite the strength of our finance company franchise throughout the Pacific, the net loan book declined by 18.8% to K410m compared to K504m in FY20, reflecting the operating difficulties faced by the Group's customers. In line with the reduction in the loan book, the Group reduced its term deposit rates, which reduced deposit levels while lowering finance costs.

The Group's key priorities in FY21 were to manage costs, improve the credit quality of the portfolio, strengthen collections and support distressed customers.

Our balance sheet remained strong. The Group's important liquidity and funding ratios were in line with targets and the Tier 1 Risk Weighted Capital Ratio improved 700bps to 43.5%.

The Property division achieved a Core Operating Profit of K10.2m which was down 11.3% from K11.5m in FY20. This reflected the weaker demand for residential properties as COVID-19 restrictions caused companies to re-evaluate their staff accommodation requirements.

Meanwhile, the Group's commercial property Credit House maintained occupancy levels at 100%.

The Group's investments provided enhanced investment income of K52.9m, up from K44.0m in FY20.

The valuation of shares in BSP increased by 2.1% compared to FY20 and the overall dividend yield increased by 180bps, mainly due to the increase in dividends received from BSP in FY21.

OUTLOOK

In the short term, border reopenings and easing COVID-19-related restrictions are expected to positively impact Credit Corporation finance and property divisions in PNG and across its three Pacific jurisdictions. With improved economic growth forecasts, there is potential for positive benefits to flow through to multiple sectors.

In FY22, we will continue to make progress on simplifying our business, and growing our core finance company franchise, while strengthening risk management.

Lending demand is expected to gain momentum as the economy improves.

Finally, I would like to take this opportunity to thank our people, the executive and leadership teams and our Board for their ongoing commitment to delivering for our customers.

Despite the challenges, everyone at Credit Corporation has worked hard to meet the financial needs of our customers.

Importantly, we have maintained a strong balance sheet, and the financial capacity and passion to continue to deliver for our customers, our shareholders, and the communities in which we live and operate.

Danny Robinson
Group Chief Executive Officer

FIVE-YEAR PERFORMANCE SNAPSHOT

	2017	2018	2019	2020	2021
Profit and Loss (K'000)					
Core Operating Profit	75,424	86,273	105,018	25,663	79,088
Property Revaluations	(19,821)	(8,952)	(22,221)	(16,777)	(5,001)
Investment Revaluations	18,590	27,395	55,480	6,926	10,336
Operating Profit before Tax & after Revaluations	**74,193**	**104,716**	**138,277**	**15,812**	**84,423**
Income Tax Expense (Benefit)	555	6,793	6,292	(6,184)	7,551
Operating Profit after Tax attributable to the Group	**73,638**	**97,923**	**131,985**	**21,996**	**76,872**
Retained Earnings	**403,648**	**426,065**	**456,616**	**446,477**	**446,922**
Dividends (K'000)					
Final Dividend Paid	43,154	52,313	61,509	36,952	69,592
Dividend per share (Toea)	14.0	17.0	20.0	18.0	18.0
Balance Sheet (K'000)					
Finance Receivables	480,879	581,939	613,111	504,450	409,544
Total Assets	1,358,179	1,431,080	1,541,258	1,546,936	1,416,246
Deposits	454,352	483,431	531,966	548,287	428,376
Shareholders' Funds	811,720	851,210	921,232	915,719	920,312
Performance Ratios					
Return on Assets*	5.60%	6.00%	6.80%	1.70%	5.60%
Return on Equity**	9.30%	10.10%	11.40%	2.80%	8.60%
Expense/Income***	44.30%	37.70%	38.00%	50.20%	51.30%
Net Asset Backing Per Share	2.63	2.76	2.99	2.97	2.99
EPS (Basic and Diluted)	0.24	0.32	0.43	0.07	0.25
No. of o/s ordinary shares	308,280,832	307,936,332	307,936,332	307,936,332	307,931,332
Weighted ave. no. of ordinary shares	312,672,856	308,990,373	307,936,332	307,936,332	307,931,332
Exchange Rates (One (1) PNG Kina buys):					
Fiji Dollar	0.6511	0.6373	0.6299	0.5817	0.6034
Solomon Islands Dollar	2.4509	2.4208	2.4119	2.3028	2.3177
Vanuatu Vatu	33.3600	33.9200	33.9300	30.6700	32.0200

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

EXTERNAL ENVIRONMENT

The past two years have been defined by the impacts of COVID-19.

The pandemic has severely affected several Pacific countries. In addition to the health impacts, countries had to grapple with the economic effects of COVID-19 on the tourism sector, while dealing with natural disasters and political uncertainty.

Despite the economic impact of the pandemic and natural disasters, financial systems have remained relatively resilient to date.

Most financial services companies in the region entered the pandemic with strong capital and liquidity buffers, and capital ratios are generally high by international standards.

This meant financial services industry participants including Credit Corporation, were able to support customers throughout the pandemic until they were in a position to resume repayments.

In FY21, financial services companies were able to recover from relatively lower profitability, mainly due to the material increases in credit impairment provisions in FY20, which proved to be particularly conservative and so provisions have been wound back.

Despite the relative resilience of the financial services sector in the region, there is potential for further pressures to emerge in FY22 and beyond.

The global anti-money laundering and counter-terrorism financing (AML/CTF) regulatory and enforcement landscape has become more stringent, with financial services companies required to undertake extensive scrutiny of their customers' account transactions and have a greater understanding of their financial arrangements. Non-compliance with these regulations can bring significant financial penalties and reputational damage.

A further complicating factor is the trend of some foreign banks withdrawing from the region.

For example, PNG has four licensed banks — BSP, Kina Bank, Westpac and ANZ. That number almost became three in FY21, with Kina Bank's bid to acquire Westpac's Pacific assets, in a deal ultimately rejected by PNG's Independent Consumer and Competition Commission (ICCC).

CREDIT CORPORATION FY22 OUTLOOK

Credit Corporation is entering FY22 in good shape and with a renewed purpose to transition to a bank.

On the PNG front, the business achieved an improved performance in FY21 and there has been a strong turnaround in terms of the finance business.

The Group's finance division has a focus on equipment and vehicle finance — a leading barometer of economic activity.

The Group is seeing a growing trend of middle market and high net worth individuals who have employment upgrading motor vehicles. This is a healthy sign, however the pandemic is causing supply issues for vehicle deliveries.

Offshore jurisdictions such as Fiji, Vanuatu and the Solomons were significantly impacted by COVID-19. Despite early concerns regarding Fiji's recovery, the environment is now more positive given a high vaccination rate and improved business confidence.

The Group sees an opportunity to provide banking services to SMEs, commercial customers and high net worth individuals in the future.

Throughout its existence, Credit Corporation has supported these customers with early stage or start-up equipment financing arrangements.

When those customers become successful, they have a tendency to move onto a relationship with a bank, which represents a lost opportunity for the Group.

The natural progression for us is to continue to support start-ups through our typical finance products. Then when they are in a position to borrow larger amounts, or for longer terms and can provide security, we can offer them a more holistic financial services package which would be similar to what the banks are providing.

The Group intend to work towards having an unrestricted banking license in place by the end of 2022, subject to regulatory approval.

OUR STRATEGY

OUR VISION

To be recognised as one of the leading financial services groups in the South Pacific.

Our new strategic pathway set for the next five years aligns with our reset vision, mission and values, harnesses our core strengths, and focuses on the changes we need to make to be a successful and sustainable financial services group into the future.

The key planks of our strategic pathway address the need to reshape our Group, focus on the strengths of our core business and key markets, and make changes to become a simpler and stronger business.

Our focus will continue to be on business segments that we know very well, including middle market and high net worth individuals, SMEs and commercial customers.

OUR MISSION

Building on our heritage of more than 43 years, we break down barriers to provide friendly, easy-to-understand, convenient, value-for-money, financial services and products for people, families and businesses throughout the Pacific.

OUR KEY STRATEGIC PLANKS

ENHANCING OUR CORE BUSINESS IN KEY MARKETS

- Achieving finance company growth in our key markets of PNG and Fiji
- Centralising and automating processes
- Improving credit quality of the portfolio
- Strengthening collections and support distressed customers
- Improving our management of risk and risk culture.

DIVEST NON-CORE ASSETS

Divest assets where the Group has no competitive advantage subject to achieving the appropriate value.

BECOME A NICHE COMMERCIAL BANK IN PNG

- Seeking an unrestricted banking licence
- Developing a new suite of banking products
- Targeting — Individual (emerging affluent and high net worth) customers, SME and commercial customers.

SECONDARY LISTING ON THE ASX

- Focusing on improving liquidity and reducing shareholder concentration.

As a sponsor Credit Corporation fully supports Buk bilong Pikinini's mission to help increase literacy rates in Papua New Guinea.

OUR BUSINESSES

FINANCE SEGMENT

FINANCIAL PERFORMANCE

The Finance Segment delivered a net profit after tax of K25.8m, while the net loan book declined by 18.8% to K409.5m compared to K504.5m in FY20, reflecting the operating difficulties faced by our customers.

The Net Interest Margin (NIM) increased by 90bps to 13.7%.

The Group's initiative to reduce the cost of funds by decreasing average interest rates, resulted in a reduction in the deposit portfolio to K428.4m, whilst simultaneously reducing its finance costs by 24.7% to K20.1m compared to K26.7m in FY20.

The Group maintains sufficient liquidity to cope with uncertainties posed by COVID-19.

OPERATING PERFORMANCE

In FY21, the Group focused on adapting to the uncertainties and challenges of the COVID-19 pandemic, while supporting customers and staff.

The positive results benefited from disciplined control of net interest margins and operating costs, plus a focus on collections and credit procedures generally, resulting in lower impairment costs.

The Finance Segment remained well capitalised with a solid liquidity position providing a strong defence against uncertainty.

PNG

FINANCIAL PERFORMANCE

In FY21, Credit Corporation Finance PNG delivered a net profit after tax of K12.2m compared to a loss of K12.6m in FY20.

OPERATING PERFORMANCE

COVID-19 remains a persistent threat in Papua New Guinea due to the low vaccination rate. Economic growth slowed significantly due to the impact of the pandemic restrictions, the closure of Porgera Mine in 2020 and delays in implementation of major LNG projects.

The favourable result is largely attributed to tightly managed costs, a significant decrease in impairment costs and additional interest income earned from investments.

The PNG business is well capitalised and has a strong liquidity position.

The Papua New Guinea economy is expected to grow by 5.4% in real terms in 2022 according to National Budget estimates, underpinned by major infrastructure projects, following a subdued recovery of 1.5% in 2021.

FIJI

FINANCIAL PERFORMANCE

Credit Corporation Fiji recorded a net profit after tax of K10.5m in FY21 compared to K2.5m in 2020.

The favourable variation in financial performance in 2021 from the prior year is attributed to tight control of expenses and lower impairment costs on the back of concerted collection efforts.

OPERATING PERFORMANCE

A challenging operating environment continued in Fiji in 2021, with borders remaining closed to tourists through to December 2021. The country was hit by a second wave of the COVID-19 pandemic during the year resulting in lockdowns and restrictions on movement damaging an already frail economy. However an aggressive vaccination program in Fiji set the stage for a progressive loosening of restrictions and re-opening of borders to tourism late in the year, and as a consequence an improvement in the operation of our Fiji business in the closing months of 2021.

The Fijian Government is confident that the domestic economy is on a path to recovery after two years of economic contraction, with recovery to be led largely by the tourism industry. The Fiji business remains well placed to continue to recover in concert with the Fijian economy, being well capitalised and with a comfortable liquidity position.

Top right photo: Credit Corporation (Fiji) Pte Limited are long-term sponsors of the Leadership Fiji program. The company is proud of its association with Leadership Fiji who play a key role in the development of many promising Fijians. A number of the company's senior staff are graduates of the program.

Bottom right photo: Credit Corporation Fiji (Pte) Limited donated five (5) refurbished computers to a remote school in Lutu village called Muaira District School in the highlands of Monasavu through the Rotary Club of Suva Peninsula Sunset. The Company believes in giving back to the community that it operates in and trusts that this modest gesture will go a long way in the everyday learning of the students of Muaira District School in Monasavu.

OUR BUSINESSES (CONTINUED)

The Fiji business remains in a strong position to weather the impacts of negative external factors given it is well capitalised with a comfortable liquidity position.

The Macroeconomic Committee revised economic growth numbers with double-digit growth projected for 2022.

SOLOMON ISLANDS

FINANCIAL PERFORMANCE

The FY21 results for Credit Corporation Solomon Islands are an improvement on FY20 with a net loss after tax of K2.7m.

OPERATING PERFORMANCE

During the period, a concerted effort was made on collections and recovery efforts.

The Solomon Islands economy remained subdued in FY21 due to the impact of COVID-19 and most recently political riots.

The loan book remains under stress due to the slow economic growth and our business continues to face challenges in recovery of delinquent exposures.

VANUATU

FINANCIAL PERFORMANCE

Credit Corporation Vanuatu recorded a net profit after tax of K4.7m.

OPERATING PERFORMANCE

The prolonged closure of the border due to the COVID-19 threat has severely impacted the Vanuatu economy.

Key challenges have included difficult access to export markets, a fall in foreign investment, a significant reduction in tourism earnings and lower employment.

Despite the current economic challenges Credit Corporation Vanuatu maintains a strong liquidity position.

PROPERTY SEGMENT

FINANCIAL PERFORMANCE

The Property Segment achieved a Core Operating Profit of K10.2m, compared to K11.5m in FY20.

OPERATIONAL PERFORMANCE

During FY21, Era Dorina and Era Matana Estates continued to be affected by the negative impacts of the COVID-19 pandemic. This resulted in declining occupancies driven by a continuation of departing tenants as companies right sized or restructured. Similar effects on competitors placed downward pressure on rental rates and some looked to reduce rental rates to attract new business.

Average occupancy levels for the property division decreased slightly to 75% during FY21 compared to 76% in FY20. Credit House ended FY21 at 100% occupancy.

Occupancy by property was as follows:

- Era Dorina — occupancy decreased to 46% for FY21 (52% in FY20)
- Era Matana — occupancy decreased to 80% for FY21 (84% in FY20)
- Credit House — occupancy increased to 100% for FY21 (95% in FY20). Occupancy levels at the residential properties are expected to regain lost ground in FY22, after the departure of tenants in FY20 and FY21.
- Credit Corporation introduced a new product offering in Serviced Units, aimed at both long term (more than 12 months) and short term (3 to 12 months). Linking into this growing market and fuelled by a tenants influx of Aid Agencies, this is expected to increase occupancy and profitability for the properties division as PNG begins to transition following the pandemic.

Era Dorina and Era Matana are being positioned for the future with the projected mineral and gas project expansions and large AID funded projects in PNG.

Towards the end of FY21, tailored marketing campaigns to entice new tenants were introduced along with incentives to maintain existing tenants through increased complimentary Wi-Fi, complimentary tenant airport and local transfers and improved unit offerings.

INVESTMENTS

FINANCIAL PERFORMANCE

Investment income increased 20.4% from K44.0m to K52.9m. The valuation of shares in BSP increased by 2.3% to K450.7m compared to FY20 and the overall dividend yield increased by 180bps to 11.7%.

Top right photo: Head of People & Culture Loka Niumatairua addresses the Credit Corporation team at one of the regular town hall meetings.

Bottom right photo: The Credit Corporation team gets right behind the Agmark Gurias rugby league team.

RISK MANAGEMENT

Credit Corporation devoted significant time and effort to improving the management of risk during the year. This will continue in the year ahead.

During FY21, we added significant skills and resources to the risk team both at executive and management levels.

In FY20, 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.

While the Risk Management Framework (for identifying, assessing and managing risk) and rollout strategy was developed and endorsed by the Board in FY21, it has been an important priority to ensure we have the right team in place in the risk area.

Despite these changes, there has been significant progress in terms of foundation activities, including collecting data, monitoring and reviewing key risk areas of the business.

Th Risk Management Framework means risk is now managed across key functional areas across three divisions:

1. Credit Risk Division
2. Risk and Compliance Division
   a. Material Risk Management
   b. Compliance Management
   c. Quality Assurance
3. Asset Management Unit
   a. Impaired Asset Division

The Group Executive Committee manages the key risks (and overall operations) for the Group under a revised governance structure.

In FY21, the Internal Audit Function was outsourced to PricewaterhouseCoopers and will operate in conjunction with our in-house risk management function.

The Risk Appetite Statements for the Group are subject to regular review with the objective of establishing more appropriate quantitative and qualitative measures to assist the Board in managing risk more holistically and with agility, so that it can react to developing market conditions and business priorities across our jurisdictions on a timely basis.

The management of non-financial risks (including Operational Risk and Compliance) has been identified as a key area of focus. This area within the Risk Management department has therefore been strengthened by bringing on board additional senior resources during FY21. Embedding a risk culture more holistically throughout the entire operations of the Group has been identified as a strategic priority within Risk Management for FY22.

Importantly, we continued to support our customers and our people during the pandemic, including the implementation of a new Business Continuity and Resilience strategy that has already been well-tested during the year.

STRENGTHENING RISK CULTURE

The strength of risk management at Credit Corporation is underpinned by its risk culture.

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.

Credit Corporation believes a strong risk culture is an environment where everyone can identify risks, and is aware of changing or new risks and proactively addressing these risks.

Strengthening Credit Corporation's risk culture is a key focus for the Group and a key element of our employee training programs.

Top right photo: Risk Management is a key focus of the Group.

Bottom right photo: All of the framework and culture improvements we are making in terms of our risk management allow the Group to operate more effectively, which in turn improves customer satisfaction.

DELIVERING FOR STAKEHOLDERS

Credit Corporation's stakeholders are at the heart of everything we do.

CUSTOMERS

DELIVERING FINANCIAL SERVICES TO CONSUMERS AND BUSINESSES THROUGHOUT THE PACIFIC.

- Provided K142.6m of new loans
- Trusted with K428m of deposits
- Supported customers throughout COVID-19.

EMPLOYEES

CREATING A GREAT ENVIRONMENT FOR PEOPLE TO WORK.

- Supported the safety and job security of our people
- Employed people throughout the Pacific
- Safeguarded the jobs of our people during COVID-19 pandemic
- Accelerated performance development and leadership programs — 10 new leaders graduated in 2021
- Advanced gender balance — 50% of managers are female and four of our six key executives are female
- Launched a refined Credit Corporation values statement.

COMMUNITIES

HELPING LOCAL COMMUNITIES.

- Helped our communities by donating much-needed medical supplies to hospitals during the pandemic
- Helped vulnerable children in our communities to continue with learning and reading activities
- Helped our communities to empower themselves by supporting financial literacy initiatives, such as how-to-save tips and advice
- Helped youth by supporting sporting activities, including netball and rugby
- Supported the University of the South Pacific, a premium regional university
- Supported Leadership Fiji in empowering and recognising our future Pacific leaders.

SHAREHOLDERS

DELIVERING RETURNS TO SHAREHOLDERS OVER THE LONG TERM.

- Our strong balance sheet provides flexibility to deliver shareholder value
- Paid out K69.6m in total dividends in FY21.

THE ECONOMY

A STRONG FINANCIAL SYSTEM, PROPERTY AND INVESTMENT MARKETS PLAY AN IMPORTANT PART IN THE ECONOMIES OF THE PACIFIC.

- Supported customers throughout the pandemic
- Supported tenants throughout the pandemic
- A significant shareholder in Bank South Pacific, the leading financial services provider in our chosen markets throughout the Pacific
- A significant tax payer in the countries where we operate.

Credit Corporation CEO Danny Robinson keeps staff up to date at a town hall meeting.

BOARD OF DIRECTORS

Richard Sinamoi

CHAIRMAN

Richard Sinamoi is an experienced executive and director with 19 years' experience in the superannuation and financial services industry.

He was appointed to the Credit Corporation Board in May 2018 and was appointed Chairman in July 2021.

Mr Sinamoi has served on boards for both commercial entities and charitable organisations, spanning a range of industries from food and beverage, general insurance, trustee services, micro banking and funds management. He is currently an Independent Director with Paradise Foods Limited, Nambawan Super Limited and TransPacific Assurance Limited, and Executive Director of Kama Kofi Limited.

Mr Sinamoi holds a Bachelor of Applied Science Systems from the University of Western Sydney, Australia.

Abigail Chang

Abigail Chang has held executive management positions within the private sector and has seven years of 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 was appointed to the Credit Corporation Board in December 2016 and in addition serves on the Chair of Credit Corporation Board Fiji.

Ms Chang is engaged at a regional and country level in the areas of national policy development, embedding financial education within national and sub-national education curricula and digitising Government to Person (G2P) payments.

Ms Chang has extensive work experience across all Credit Corporation jurisdictions in the areas of financial inclusion, financial capability development and payment digitisation.

Ms Chang is currently the Country Director for Solomon Islands and Kiribati at the Australia Pacific Training Coalition.

Ms Chang holds a MSc in International Development from the University of Birmingham, Post Graduate Diploma in Economics from Monash University, Bachelor of Arts in Economics and Banking and Finance from The University of the South Pacific, and has recently completed a Certificate in MBA Essentials from The London School of Economics and Political Science.

Dr Albert Mellam

Dr Albert Mellam holds Directorships on a number of company boards in PNG and the region including Nambawan Super Limited and is the Executive Director of the PNG Chamber of Mines and Petroleum.

He was appointed to the Credit Corporation Board in August 2013.

Dr Mellam is a member of professional organisations including the Global Development Network, the PNG and the Australian Institutes of Directors, and the Association of Asia-Pacific Business Schools, and has undertaken business assignments for the PNG Government and corporations within the Asia-Pacific.

He is the immediate past Vice Chancellor of the University of PNG and currently an Adjunct Professor of Management at The Cairns Institute, James Cook University, Australia, and Visiting Academic with the School of Business Administration at the University of PNG. He holds a doctoral degree in Psychology from the Australian National University.

Clare Mazzetti

Clare Mazzetti has built her career on various advisory, management consulting and transformation roles, and has deep subject-matter expertise within the banking and financial services industry. Her areas of expertise include financial services, and corporate strategy and transformation.

She was appointed as a Non-Executive Director on 24 December 2021.

Her areas of expertise including financial services for SMEs in banking, wealth management and sales and distribution. Coupled with her knowledge in corporate and business strategy and strategic planning and execution, Ms Mazzetti will lend great support to the growth plans for the Company.

Her Board experience includes the Australian Medical Association of Queensland, Australian Shareholders' Association and Police Bank. She is currently a Director of Qudos Bank and the Uniting Church of Australia (Synod of NSW & ACT), providing strategic, financial and transformation skills to her roles.

Ms Mazzetti is currently undertaking a PhD in digital exchange and exploring the role of digital currency, crypto, blockchain, digital wallets and fintech play in the transformation of the global financial system.

She is a Fellow of FINSIA and a Graduate member of the Australian Institute of Company Directors.

BOARD OF DIRECTORS

Faye-Zina Lalo

Faye-Zina Lalo is a corporate and commercial litigation lawyer and serves as a director on other boards of various corporate institutions as well as non-governmental organisations in Papua New Guinea.

Ms Lalo was appointed to the Credit Corporation Board in March 2017.

Before joining Credit Corporation PNG, Ms Lalo practised corporate and commercial law for more than 12 years in PNG in both private legal firms and corporate institutions.

Ms Lalo holds a Master's in Business Administration from the University of PNG and a Bachelor of Laws from the University of Papua New Guinea.

Stephen Humphries

Stephen Humphries brings significant leadership experience across a wide range of businesses and across multiple jurisdictions including UK, Australia, NZ, PNG, Indonesia and South East Asia. He is the Deputy CFO of Healius Ltd, one of Australia's leading ASX-listed healthcare companies.

He was appointed to the Credit Corporation Board on 15 April 2021.

Mr Humphries' specialist assurance experience includes heavy engineering and construction, mining, technology, industrial products and telecommunications. He has had significant experience across a broad spectrum of ASX 100 and large private companies and has held Senior and Managing Partner roles with PricewaterhouseCoopers in PNG, Indonesia and Australia.

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

Sir Melchior Togolo CBE

Sir Mel Togolo is well recognised in PNG business circles with over 40 years' experience in the public and private sector at senior management level, having worked and led the North Solomons Provincial Government and various companies in PNG and overseas.

He was appointed to the Credit Corporation Board on 29 October 2021.

Sir Mel is a founding member of the Business Council of PNG and was Vice President and then President for six years. He serves on the Board of Bougainville Copper Limited, Panamex Holdings (Singapore) Limited, Heritage Park Hotel Honiara and Loloata Island Resort Port Moresby.

He brings significant leadership experience across a wide range of businesses, including a strong background and experience in the superannuation industry, banking and finance, the hotel industry and hotel property development, with familiarity in the fast-moving consumer goods sector.

SENIOR EXECUTIVE TEAM

Danny Robinson

GROUP CHIEF EXECUTIVE OFFICER

Danny Robinson is the Group Chief Executive Officer, responsible for the day-to-day operational activities for the Group across PNG and the offices in Fiji, Vanuatu and Solomon Islands.

He joined Credit Corporation in 2020 as Group Chief Operating Officer and was appointed Group Chief Executive Officer in September 2021.

Prior to joining Credit Corporation, Mr Robinson was Executive General Manager of Banking at Kina Bank in Port Moresby. Prior to Kina Bank he 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.

Mr Robinson holds a Post Graduate Diploma in Banking Management from the Macquarie Graduate School of Management, Australia, and is a Graduate of the Australian Institute of Company Director.

Lynda Kahari

ACTING GROUP CHIEF OPERATING OFFICER

Lynda Kahari is an experienced and reputable finance and banking executive, bringing a rich international perspective from more than two decades of experience in the financial services and payments industry.

She joined Credit Corporation in December 2020 as Head of Customer Strategy and was later appointed as Acting COO. She currently holds both positions.

Prior to joining Credit Corporation, Ms Kahari was with Kina Bank where she held various roles as Head of Strategy, Head of Retail Branches, and Head of Product Development and Customer Experience. She has held various senior management roles for top-tier institutions such as Standard Chartered Bank, Standard Bank, Barclays Bank and MasterCard.

Mrs Kahari holds a Masters in Finance and Investment from the University of Witwatersrand and an MBA from the University of Hull. She is a Graduate Member of the Australian Company Directors and is a Certified Balance Scorecard Professional with a certificate in Digital Marketing Strategies and Banking Strategy from the University of London.

Loka Niumatairua

HEAD OF PEOPLE & CULTURE

Loka Niumatairua brings a wealth of experience in human resource management, change management, strategic planning and execution, and training and development having worked in reputable institutions such as Nambawan Super Limited, CPL Group and PNG Power, and previously managed teams comprising up to 390 people.

She joined Credit Corporation on 27 July 2020 as the Head of People & Culture.

Ms Niumatairua is focused on driving high performance through a transformed culture by installing the People and Culture function and anchoring people strategic objectives. Her journey with Credit Corporation continues to evolve and she is committed to promoting employee wellbeing and supporting an inclusive and diverse workforce by ensuring our people and communities are skilled for the future.

She holds a Bachelor of Arts with a major in Industrial Psychology from the University of Papua New Guinea and a fellowship with PNG Human Resource Institute.

Anneka Linge

COMPANY SECRETARY & GENERAL COUNSEL

Anneka Linge is an experienced company secretary with over 20 years of robust legal experience with prominent organisations such as Paradise Foods Limited, Comrade Trustee Services Limited and National Superannuation Fund Limited.

As the General Counsel and Company Secretary of Credit Corporation Ms Linge has responsibility over the Group's legal team and advises the CEO and the Board on legal matters and corporate governance. Her invaluable experience makes her a dynamic team player as she prioritises and ensures the fair and efficient resolution of the Company's legal matters and supports the effectiveness of the Board.

Prior to joining Credit Corporation, Ms Linge has a demonstrated history in the legal services industry and is skilled in risk assessment, occupational health, safety management systems in the mining industry and sporting organisations, as well as with statutory bodies such as the IRC.

Ms Linge holds a Bachelor of Law (LLB) from the University of Papua New Guinea.

Brent St. Hill

GENERAL MANAGER PROPERTIES

Brent St. Hill has over 15 years of experience in the property industry with extensive knowledge in multiple facets of property, asset and hotel management, gained by working both nationally and internationally.

He was appointed as General Manager Properties in August 2019.

Prior to joining Credit Corporation PNG, Mr St. Hill was the General Manager with the Crown Hotel Port Moresby and was previously the Group Operations Manager and Regional Manager with Steamships Trading Company, employed within its Coral Sea Hotels subsidiary.

SENIOR EXECUTIVE TEAM

Emily Polum

ACTING GROUP CHIEF RISK OFFICER

Emily Polum has more than 15 years' experience working in the banking and finance industry.

She joined Credit Corporation as Head of Credit Risk in April 2021 and appointed as Acting Group Risk Officer in August 2021.

Prior to joining Credit Corporation, Ms Polum had a long and successful career of almost 13 years with ANZ Bank in Port Moresby where she was promoted to the role of Associate Director Institutional. In this role, she was responsible for dealing with large corporates. She specialised in providing credit decisions, total solutions for funding and retaining customers.

Having been promoted through several positions at ANZ, Ms Polum has gained valuable banking experience across the Pacific and Asia regions.

Ms Polum has an Advanced Diploma, Accounting and Finance from Victoria University and she is completing a Master of Business Administration from Torrens University Australia.

Rei Vagi

GROUP CHIEF FINANCIAL OFFICER

Rei Vagi has over 14 years of experience as a financial controller, and extensive knowledge in financial reporting with adherence to accounting and auditing standards, cash flow management and financial planning, taxation, regulatory compliance as well as analysing financial strengths and weaknesses and proposing corrective actions.

Ms Vagi was appointed as Chief Financial Officer in March 2022.

Ms Vagi is passionate about training and development of people and building and strengthening capability of the finance team within the company. She has held various senior management roles for prominent organisations such as Kraft-Heinz PNG and PricewaterhouseCoopers and held the role of Financial Controller with Kina Securities Limited prior to joining Credit Corporation.

Ms Vagi holds a Bachelor of Commerce from the University of Technology and is a qualified Certified Practicing Accountant.

COUNTRY HEADS

Peter Dixon

COUNTRY HEAD (FIJI)

Peter Dixon has more than 39 years' management experience in Papua New Guinea and Fiji, specialising in finance and management, business and strategic planning, and staff training and development. During this time, he has developed an intimate understanding of local commercial conditions and has established an extensive network of contacts in the local business community.

He was appointed Country Head of Credit Corporation Fiji in March 2012.

Mr Dixon 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, he established a management consultancy company, Dedicated Management Ltd, which provided specialised services to the banking and finance sector in PNG, as well as providing corporate governance training.

Mr Dixon is Chairman of the Finance Companies Association in Fiji, a Senior Association Member of FINSIA, and a Graduate Member of the Australian Institute of Company Directors. He holds a Master of Business Administration from Charles Sturt University.

Mohammed Nakeem Nawaz

COUNTRY HEAD (VANUATU)

Mohammed Nawaz has 15 years of progressive finance and operational experience at major multinational companies. In his immediately preceding role, Mr Nawaz was the Financial Controller of Credit Corporation Fiji for the past five years.

He was appointed Country Head of Credit Corporation Vanuatu in March 2021.

Prior to joining Credit Corporation Fiji, Mr Nawaz commenced his career at PwC Fiji and progressed with the 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 Accountants (FIA). He is a member of the FIA Professional Development Committee and is a Fellow of Leadership Fiji.

Ronald Vikash Prasad

COUNTRY HEAD (SOLOMON ISLANDS)

Ronald Vikash Prasad has more than 16 years of experience in the finance industry both in Fiji and Solomon Islands.

He was appointed to Country Head Solomon Islands in December 2020.

Prior to joining Credit Corporation Solomon Islands, Mr Prasad held the position of Chief Financial Officer for SPBD Microfinance SI Ltd. He has spent more than eight 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.

CORPORATE GOVERNANCE STATEMENT

I. OVERVIEW

This Corporate Governance Statement sets out the Credit Corporation Group's key governance policies and practices.

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 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.

II. THE BOARD OF DIRECTORS

1. THE BOARD STRUCTURE AND ROLE

The Board of Directors has ultimate responsibility for the success of the Group, 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-independent 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.
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)

II. THE BOARD OF DIRECTORS (CONTINUED)

1. THE BOARD STRUCTURE AND ROLE (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; and • the Executives' approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance. 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. The committee is responsible for reviewing the performance of the Group's Internal Audit function.
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.
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.
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.

II. THE BOARD OF DIRECTORS (CONTINUED)

1. THE BOARD STRUCTURE AND ROLE (CONTINUED)

TABLE TWO: BOARD COMMITTEE MEMBERS AS AT 31 DECEMBER 2021

	Member of:					
Director	**Board**	**Risk Committee**	**Audit Committee**	**Nominations & Remuneration Committee**	**Strategy & Investments Committee**	**Disclosure Committee**
Richard Sinamoi	C	–	–	–	–	C
Abigail Chang	M	C	M	–	–	M
Dr Albert Mellam	M	–	–	M	C	–
Clare Mazzetti	M	M	–	–	M	–
Faye-Zina Lalo	M	M	M	C	–	–
Stephen Humphries	M	M	C	–	M	–
Sir Melchior Togolo	M	–	–	M	M	–

Key: M-Member, C-Chairman

TABLE THREE: DIRECTORS ATTENDANCE AT BOARD & COMMITTEE MEETINGS

	Board meeting	Audit Committee meeting	Risk Committee meeting	N & R Committee meeting	S & I Committee meeting	Disclosure Committee meeting
Number of meetings *including special meetings	**12***	**5**	**9***	**7***	**2**	**4**
Richard Sinamoi*	12	2*	3*	4*	–	2
Abigail Chang	12	4	9	6	–	4
Dr Albert Mellam	12	–	–	7	1	–
Clare Mazzetti (appointed 25 September 2021)	3	–	3	–	1	–
Faye-Zina Lalo	12	2	9	7	1 (as alternate)	–
Stephen Humphries (appointed 15 April 2021)	11	4	5	–	2	–
Sir Melchior Pesa Togolo (appointed 25 June 2021)	7	–	–	2	1	–
James Kruse (resigned 5 March 2021)	1	–	–	–	–	–
Michael Varapik (resigned 4 February 2021)	0	–	–	–	–	–
Sydney Yates (retired 25 June 2021)	5	–	–	–	–	2

* Richard Sinamoi appointed Acting Chairman on 25 June 2021 and relinquished all committee positions except as Chairman of Disclosure Committee.

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)

II. THE BOARD OF DIRECTORS (CONTINUED)

3. CHAIRMAN

Richard Sinamoi was elected as Chairman of the Board in July 2021.

The role of the Chairman 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 Chairman 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 Chairman 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 2021.

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, making a total of nine years.

II. THE BOARD OF DIRECTORS (CONTINUED)

6. DIRECTOR APPOINTMENT AND ELECTION (CONTINUED)

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
Richard Sinamoi	21.05.2018	3 years 2 months	25.06.2020	No, last rotation was in 2020
Abigail Chang	07.09.2016	5 years 3 months	27.06.2019	No, last rotation was in 2019
Dr Albert Mellam	19.08.2013	8 years 4 months	25.06.2021	Yes, last rotation was in 2021
Clare Mazzetti	02.09.2021	3 months		Due for rotation at next AGM
Faye-Zina Lalo	02.12.2016	5 years	25.06.2020	No, last rotation was in 2020
Stephen Humphries	15.04.2021	8 months	25.06.2021	Yes, appointed at AGM
Sir Melchior Togolo	26.06.2021	6 months	25.06.2021	Yes, appointed at AGM
James Kruse*	21.05.2018	3 years 2 months	27.06.2018	(Resigned on 05.03.2021)
Michael Varapik*	21.05.2018	3 years 2 months	27.06.2018	(Resigned on 04.02.2021)
Sydney Yates*	21.05.2018	3 years 2 months	25.06.2020	(Retired on 25.06.2021)

Note: *Directors who 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 (four 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)

II. THE BOARD OF DIRECTORS (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 Chairman.

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

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 Chairman. The advice is normally made available to all Directors. No Director sought independent advice during the 2021 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 Chairman, on all matters to do with the proper functioning of the Board.

The current Company Secretary was appointed in September 2021. She is a lawyer by profession with more than 20 years experience in the legal profession and industry. Prior to her appointment with Credit Corporation, she was Company Secretary for Paradise Foods Limited.

III. RISK MANAGEMENT & ASSURANCE

1. RISK MANAGEMENT FRAMEWORK

The Board oversees risk management within the Group. The Group's businesses are exposed to strategic, financial, operational and compliance related risks. These risks are inherent in 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 ongoing enhancements in 2021 including the functional shift of key business areas into separate first and second line teams within the risk management framework.

III. RISK MANAGEMENT & ASSURANCE (CONTINUED)

1. RISK MANAGEMENT FRAMEWORK (CONTINUED)

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 is enhanced by three Group Management committees.

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 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

III. RISK MANAGEMENT & ASSURANCE (CONTINUED)

2. MATERIAL BUSINESS RISKS

Our material risks have been reviewed and continue to be monitored at the Risk Management Committee and the Board Risk Management Committee.

MATERIAL RISKS (KEY RISKS)							
Financial Risk	HR 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 2021. Every five years the lead audit partner responsible is rotated.

Mr Herbert Maguma was the lead audit partner for KPMG for financial year 2021.

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 FY21. 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

PricewaterhouseCoopers was appointed to provide Internal Audit support during the year. 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 Risk Committee;
- having direct access and being accountable to the Board through the Risk Committee, with the right to communicate to it in the absence of management; and
- regular reporting to the Risk Committee on the results of its audits.

The Risk 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. fellowship;
ii. integrity;
iii. growth;
iv. impact; and
v. customer obsessed.

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 see 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 the different needs and perspectives of the communities we serve so we are better able to meet their needs. 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

	Total	Males	Females	Females %
Board	7	4	3	43%
Executive	7	3	4	57%
Senior Managers	9	7	2	22%
Managers	18	7	11	61%
Non-management	251	172	79	31%
TOTAL	**292**	**193**	**99**	**34%**

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 24 of this Annual Report.

CONTENTS

Credit Corporation backs outstanding community initiatives such as Buk bilong Pikinini — a Not-for-Profit organisation seeking to promote literacy in Papua New Guinea.

Company information

Credit Corporation (PNG) Limited is a registered company under the *Papua New Guinea Companies Act 1997*, and is incorporated and domiciled in Papua New Guinea.

REGISTERED OFFICE

Credit House, Cuthbertson Street
Port Moresby
Papua New Guinea

PRINCIPAL PLACE OF BUSINESS

Credit House, Cuthbertson Street
Port Moresby
Papua New Guinea

DIRECTORS (PNG)

Richard Sinamoi
Abigail Erica Wendy Chang
Dr Albert Conrad Mellam
Clare Mazzetti (appointed 2 September 2021)
Faye-Zina Lalo
Stephen Humphries (appointed 15 April 2021)
Sir Mel Togolo (appointed 25 June 2021)
Sydney George Yates (retired 25 June 2021)
Michael James Varapik (resigned 4 February 2021)
James Byron Kruse (resigned 5 March 2021)

SECRETARY

Anneka Linge (appointed 14 September 2021)

AUDITORS

KPMG
Chartered Accountants
PO Box 507
Port Moresby
Papua New Guinea

BANKERS

Bank of South Pacific Limited
Australia & New Zealand Banking Group (PNG) Limited
Australia & New Zealand Banking Group (Fiji) Limited
Australia & New Zealand Banking Group (Timor) Limited
National Bank of Vanuatu
Westpac Bank PNG Limited
Westpac Bank Sydney
Westpac Bank Fiji
Bred Bank Fiji
HFC Bank Fiji

Directors' declaration

Credit Corporation (PNG) Limited and Its Controlled Entities Annual Report for the year ended 31 December 2021

DIRECTORS' REPORT

Your directors present their annual report on the affairs of Credit Corporation (PNG) Limited (the "Company") and its controlled entities ("the Group") including the financial statements for the year ended 31 December 2021.

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 K76.9 million (2020: K22.0 million) and for the Company was K55.8 million (2020: K36.7 million).

DIVIDENDS

The Company paid a final dividend of K69.6 million (K0.226 per share in September 2021 (2020: K37.0 million or K0.12 per share in August 2021).

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 page 46. No director was a shareholder of the Company as at 31 December 2021 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 K88,000 (2020: K39,209).

For and on behalf of the Board of directors

Richard Sinamoi
Chairman

Date: 5 April 2022

S. Humph

Stephen Humphries
Director

Date: 5 April 2022

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 2021 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 2021;
- income statements, statements of comprehensive income, statements of changes in equity, statements of cash flows for the year then ended 31 December 2021; 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 (K254,773,258) – 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 (K114,987,605) – 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 2.3% 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: • Working with our financial risk management ('FRM') specialist, 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; • In collaboration with the FRM specialist, we also assessed the design of the expected credit loss model and re-performed model calculations to assess accuracy of ECL calculations. • 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 (K114,987,605) – 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 (K367,965,343) – 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 earnings and 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 performed a recalculation of management's valuations to assess the mathematical accuracy of these calculations; • We evaluated forecasted net maintainable earnings in light of current and expected market conditions and the historical performance of the companies. • We considered the sensitivity of the models by key assumptions, such as the price-to-earnings, price-to-book ratios and net maintainable earnings, 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.

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.

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
5 April 2022

Statements of financial position

As at 31 December 2021

		Consolidated		Company	
	Note	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Assets					
Cash and cash equivalents	3.1	189,339	234,358	13,017	18,970
Other deposits	3.4(f)	–	–	12,302	14,930
Finance receivables	3.2	409,544	504,450	–	–
Other receivables	3.3	7,843	5,608	35,886	32,604
Interest bearing securities	3.4(a)	31,789	20,033	–	–
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)	450,671	440,336	818,637	776,065
Inventories		1,188	1,582	–	–
Income taxes receivable	2.6(b)	4,491	1,599	894	843
Property and equipment	3.5	29,383	28,535	2,808	2,451
Investment property	3.6	254,773	258,968	3,800	3,800
Deferred tax assets	2.6(c)	28,908	28,860	1,373	56
Total Assets		**1,416,246**	**1,532,646**	**897,034**	**858,036**
Equity					
Share capital	5.1	21,984	21,984	21,984	21,984
Reserves	5.2	451,406	447,258	699,097	663,268
Retained earnings		446,922	446,477	146,319	163,726
Total Equity		**920,312**	**915,719**	**867,400**	**848,978**
Liabilities					
Trade and other payables	3.7	12,348	13,272	27,185	8,759
Deposits and borrowings	3.8	477,946	600,451	–	–
Employee benefits	3.9	5,640	3,204	2,449	299
Total Liabilities		**495,934**	**616,927**	**29,634**	**9,058**
Total Equity and Liabilities		**1,416,246**	**1,532,646**	**897,034**	**858,036**

For and on behalf of the Board of directors

S. Houp

Director
Date: 5 April 2022

Director
Date: 5 April 2022

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 61 to 129.

Income statements

For the year ended 31 December 2021

		Consolidated		Company	
	Note	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Finance income	2.1	81,553	98,938	–	–
Finance costs	2.2	(20,110)	(26,696)	–	–
Net finance income		**61,443**	**72,242**	**–**	**–**
Other income	2.1	89,140	79,902	63,062	46,923
Fair value gain on financial asset	3.4(e)	10,336	6,926	10,336	6,926
Fair value loss on investment properties	3.6	(5,001)	(16,777)	–	–
Net operating income		**155,918**	**142,293**	**73,398**	**53,849**
Impairment loss on finance receivables	3.2(iii)	(4,079)	(63,374)	–	–
Change in impairment allowance on other receivable	3.3	–	–	(545)	325
Personnel expenses	2.4	(23,516)	(22,117)	(6,617)	(5,148)
Depreciation expenses	3.5	(6,540)	(5,502)	(636)	(254)
Other operating expenses	2.3	(37,360)	(35,488)	(11,148)	(11,952)
Results from operating activities		**84,423**	**15,812**	**54,452**	**36,820**
Profit before tax		**84,423**	**15,812**	**54,452**	**36,820**
Income tax benefit/(expense)	2.6(a)	(7,551)	6,184	1,326	(161)
Profit attributable to equity holders of the company		**76,872**	**21,996**	**55,778**	**36,659**
Earnings per share based on profit for the year					
Basic and Diluted		0.25	0.07	0.18	0.12

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 61 to 129.

Statements of comprehensive income

For the year ended 31 December 2021

		Consolidated		Company	
	Note	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Profit for the period		**76,872**	**21,996**	**55,778**	**36,659**
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss					
Foreign currency translation differences for foreign operations	5.2(c)	(2,687)	9,443	–	–
Items that will not be reclassified subsequently to profit and loss					
Revaluation of subsidiaries	3.4(d)	–	–	32,236	(38,980)
Other comprehensive income for the year (net of income tax)		**(2,687)**	**9,443**	**32,236**	**(38,980)**
Total comprehensive income for the year attributable to equity holders of the company		**74,185**	**31,439**	**88,014**	**(2,321)**

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 61 to 129.

Consolidated statements of changes in equity

As at year ended 31 December 2021

	Note	Share capital K'000	Reserves K'000	Retained earnings K'000	Total K'000
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)
Total transactions with owners		**–**	**–**	**(36,952)**	**(36,952)**
Balance at 31 December 2020		**21,984**	**447,258**	**446,477**	**915,719**
Balance at 1 January 2021		**21,984**	**447,258**	**446,477**	**915,719**
Total comprehensive income for the year		–	–	74,185	74,185
Transfer to reserves		–	4,148	(4,148)	–
		–	**4,148**	**70,037**	**74,185**
Transactions with owners					
Dividends to equity holders	2.5	–	–	(69,592)	(69,592)
Total transactions with owners		**–**	**–**	**(69,592)**	**(69,592)**
Balance at 31 December 2021		**21,984**	**451,406**	**446,922**	**920,312**

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 61 to 129.

Company statements of changes in equity

As at year ended 31 December 2021

	Note	Share capital K'000	Reserves K'000	Retained earnings K'000	Total K'000
Balance at 1 January 2020		**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)
Total transactions with owners		**–**	**–**	**(36,952)**	**(36,952)**
Balance at 31 December 2020		**21,984**	**663,268**	**163,726**	**848,978**
Total comprehensive income for the year		–	32,236	55,778	88,014
Transfer to reserves		–	3,593	(3,593)	–
		–	35,829	52,185	88,014
Transactions with owners					
Dividends to equity holders	2.5	–	–	(69,592)	(69,592)
Total transactions with owners		**–**	**–**	**(69,592)**	**(69,592)**
Balance at 31 December 2021		**21,984**	**699,097**	**146,319**	**867,400**

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 61 to 129.

Statements of cash flows

For the year ended 31 December 2021

	Note	Consolidated 2021 K'000	Consolidated 2020 K'000	Company 2021 K'000	Company 2020 K'000
Operating Activities					
Charges earned on leases & loans		81,553	98,938	–	–
Commission, fees and rents		28,597	34,159	1,537	3,831
Dividends received		–	–	60,223	45,262
Interest payments		(20,110)	(26,696)	–	–
Payments to suppliers and employees		(57,157)	(54,353)	(18,109)	(10,449)
Operating cash flows before changes in operating assets		32,882	52,048	43,651	38,644
Net cash received/(advanced) in respect of finance receivables		90,826	45,287	–	–
Net cash received in respect of deposits		(119,739)	16,321	–	–
Net cash from subsidiaries		–	–	18,405	–
Net cash from operating activities before income tax		3,969	113,656	62,056	38,644
Income taxes paid		(9,025)	(9,352)	(51)	(71)
Cash flows from operating activities		**(5,056)**	**104,304**	**62,005**	**38,573**
Investing Activities					
Purchase of property & equipment		(5,089)	(3,620)	(993)	(2,148)
Acquisition of investment property		443	(46)	–	–
Proceeds from sale of property		(806)	350	–	41
Dividend received		52,937	43,962	–	–
Interest from funds deposited		2,691	3,459	–	467
Net cash flow from short term investments		(9,010)	(18,741)	2,628	13,041
Cash flows from/(used in) investing activities		**41,166**	**25,364**	**1,635**	**11,401**
Financing Activities					
Repayment of borrowings		(4,783)	(4,600)	–	–
Repayment of interest		(2,485)	(2,915)	–	–
Dividends paid (net)		(69,592)	(36,952)	(69,592)	(36,952)
Cash flows used in financing activities		**(76,859)**	**(44,467)**	**(69,592)**	**(36,952)**
Effect of exchange rate changes on foreign subsidiaries cash and cash equivalents		(4,270)	9,019	–	–
Net increase/(decrease) in cash and cash equivalents		**(45,019)**	**94,220**	**(5,952)**	**13,022**
Cash and cash equivalents at 1 January		234,358	140,138	18,970	5,948
Cash and cash equivalents at 31 December	3.1	**189,339**	**234,358**	**13,017**	**18,970**

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 61 to 129.

Notes to and forming part of the financial statements

For the year ended 31 December 2021

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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 2021.

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 2021, 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 (IFRSs) 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 5 April 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared primarily on the historical cost basis except for financial instruments measured at fair value through profit and loss 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 the Company's functional currency.

(d) Use of estimates and judgments

The preparation of a financial report in conformity with IFRSs 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 judgement 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
Note 4 – Financial instrument disclosures

The underlying assumptions are 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.

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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 2021 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 are briefly described in note 1.6 on these consolidated financial statements.

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)

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 2021.

	Judgment/assumptions (Descriptions discussed in Note 1.6)	**Changes and considerations during the year ended 31 December 2021**
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. The following methodology updates were made to the ECL model: • PD — segmentation by product grouping to calculate historical observed default; • LGD — use of EAD rather than net balance in denominator, Loss Given Write-off (LGW) calculated at customer level, updated backfill data, new cure rate calculation to output indicative cure rates relative to duration of 'cured' and 'default' period, and introduction of 3% LGD floor to serve as conservatory backstop and to capture collateral uncertainty; and • EAD — calculation logic for EAD updated to reflect a more aligned approach.
2	Forward–looking information	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 2021.
3	Macroeconomic factors	As at 31 December 2021, 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.
4	Multiple forward–looking scenarios	In addition to the base forecast which reflects the continued negative economic consequences of COVID-19, ECL weightings have been maintained and applied to the downside scenarios given the Groups assessment of downside risks. The assigned ECL weightings in PNG, Fiji, Solomon Islands and Vanuatu 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 weighting 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 payment 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 COVID-19 and initiatives offered such as repayment holidays.

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)

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.

Base case economic forecast assumptions

The table below summarises the principal macroeconomic indicators included in the economic scenarios used for finance receivables at December 31, 2021 and the forecast for the years 2022, taking into consideration the impact of COVID-19.

	Revised Base case economic forecast as at 31 December 2021	Revised Base case economic forecast as at 31 December 2020
Papua New Guinea		
Gross Domestic Products (GDP)	PNG's GDP increased by 1.5% in 2021 and expected to grow to 5.4% in 2022	PNG's GDP decreased by 3.3% in 2020 but is expected to grow by 1.20% in 2021
Consumer Price Index (CPI)	Average CPI for 2021 was at 5% and this is expected to be maintained around 5.6% in 2022	Average CPI for 2020 was at 3.5% and this is expected to be maintained in 2021
Fiji		
Gross Domestic Products (GDP)	Fiji's GDP increased by 11.7% in 2021 but is expected to grow by 10.2% in 2022	Fiji's GDP decreased by 21% in 2020 but is expected to grow by 11.50% in 2021
Consumer Price Index (CPI)	Average CPI for Fiji for 2021 was 1.1% but is expected to increase to 2.1% in 2022	Average CPI for Fiji for 2020 was 1.5% but is expected to increase to 3.5% in 2021
Vanuatu		
Gross Domestic Products (GDP)	Vanuatu's GDP decreased by 8% in 2021 but is expected to grow by 1.8% in 2022	Vanuatu's GDP decreased by 8.30% in 2020 but is expected to grow by 4.3% in 2021
Consumer Price Index (CPI)	Average CPI for Vanuatu for 2020 was 5.4% but is expected to decrease to 2.6% in 2022	Average CPI for Vanuatu for 2020 was 3.0% but is expected to decrease to 2.2% in 2021
Solomon Islands		
Gross Domestic Products (GDP)	GDP is expected to increase by 5.5% in 2021 and grow by 3.2% in 2022	GDP is expected to contract by 5% in 2020 and grow by 4.5% in 2021
Consumer Price Index (CPI)	Average CPI for Solomon Islands for 2021 was 2.4% but is expected to increase to 3.5% in 2022	Average CPI for Solomon Islands for 2020 was 6.0% but is expected to decrease to 3.0% in 2021

Source: International Monetary Fund

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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 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.

Valuation 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 2021
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.

(e) Comparatives

Comparative financial information has been reclassified to confirm to current presentation where necessary.

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 1.4a).

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.

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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 2021 (2020: 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)

(ii) Classification and subsequent measurement of financial assets (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 (2020: 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.

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

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.

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.

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)

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.

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 PD, EAD, and 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.

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	2021	2020	Increase/Decrease
Haircut on Collateral	Base	44%	45%	Decreased
	Upturn	16%	14%	Increased
	Downturn	71%	75%	Decreased
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	18%	22%	Decreased
	Upturn	26%	25%	Increased
	Downturn	0%	0%	Stable
ECL Weighting	Base	70%	71%	Decreased
	Upturn	5%	5%	Stable
	Downturn	25%	24%	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 December 31, 2021 for the years 2022 to 2024, for finance receivables.

Country – GDP Growth		2021	2022	2023	2024
Papua New Guinea	Base scenario	1.20%	4.00%	2.80%	2.90%
Fiji	Base scenario	-4.00%	6.20%	8.30%	4.50%
Solomon Islands	Base scenario	1.20%	4.40%	3.30%	3.00%
Vanuatu	Base scenario	1.20%	3.00%	4.10%	2.70%
Group Total GDP Growth					
	Base scenario	1.40%	21.40%	20.50%	15.90%
	Upside scenario 10%	1.54%	23.54%	22.55%	17.49%
	Downside scenario 10%	1.26%	19.26%	18.45%	14.31%

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 2021

Scenario	Base	Upturn	Downturn
Weighting	70%	5%	25%

At 31 December 2020

Scenario	Base	Upturn	Downturn
Weighting	71%	5%	24%

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;
- 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; and
- applied a credit provision overlay that is supported by the uncertainty of the environment and a balanced risk appetite.

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.

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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)

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 rentention 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 considered credit impaired.

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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 2021	
Increase/(decrease) by	**Increase by 10% K'000**	**Decrease by 10% K'000**
Change in collateral values	12,105	(18,630)
Changes in probability weighted scenarios	(7,299)	7,299
Recovery amount	–	–
Time to realisation	923	(922)

	31 December 2020	
Increase/(decrease) by	**Increase by 10% K'000**	**Decrease by 10% 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)

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. Refer to Note 1.3 (d) for considerations in relation to haircuts on collaterals.

	Gross exposure (Net of unearned income) K'000	Impairment allowance K'000	Carrying amount K'000	Fair value of collateral held K'000
2021				
Credit impaired assets				
Stage 1	260,073	(11,129)	248,944	769,428
Stage 2	55,396	(14,236)	41,160	111,137
Stage 3	209,062	(89,622)	119,440	349,077
	524,531	**(114,988)**	**409,544**	**1,229,642**
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**

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 represents the Group's maximum exposure to credit risk on these assets.

	2021 K'000	2020 K'000
Stage 1 – 12-month ECL	260,073	344,687
Stage 2 – Lifetime ECL	55,396	97,708
Stage 3 – Lifetime ECL	209,062	181,208
Gross carrying amount	**524,531**	**623,603**
Allowance for credit loss	(114,988)	(119,154)
Net carrying amount	**409,544**	**504,449**

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.

1. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.8 LEASES (CONTINUED)

(a) The Group as lessee (continued)

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

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	**2021 K'000**	**2020 K'000**
Buildings		
At 1 January	2,100	1,474
Additions/Disposals/transfers	3,314	1,469
Depreciation for the year	(1,413)	(914)
Effect of fx	(113)	71
At 31 December	3,888	2,100
Lease liabilities		
Current	1,167	555
Non current	3,018	1,622
	4,185	2,177

See note 3.8(d) for maturity analysis of lease liabilities as at 31 December 2021.

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:

	Consolidated	
Depreciation charge of right-of-use assets:	**2021 K'000**	**2020 K'000**
Buildings	(1,413)	(914)
Interest expense (included in finance cost)	–	187
Expense relating to short-term leases (included in other operating expenses)	–	912
Expense relating to variable lease payments not included in lease liabilities (included in other operating expenses)	50	48

The total cash outflow for leases in 2021 was K1.9 million (2020: K0.1 million).

(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. ABOUT OUR FINANCIAL STATEMENTS (CONTINUED)

1.9 NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED

The application of new accounting standards and interpretations has no material impact on the amounts recognised in the financial statements. A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021; however, the Group did not apply the following or amend standards in preparing these financial statements:

Effective date	New Standard or amendments
1 April 2021	COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37) Annual Improvements to IFRS Standards 2018-2020
1 January 2022	Property, Plant and Equipment: proceeds before Intended Use (Amendments to IAS 16) Reference to the 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
1 January 2023	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) Definition of Accounting Estimates (Amendments to IAS 8) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IFRS 10 and IAS 28)
Available for optional adoption/effective date deferred indefinitely	Sales of Contribution of Assets between in 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.

1.10 CHANGES IN ACCOUNTING POLICIES

The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) that are relevant to the Group were adopted by the Group effective for annual periods beginning on or after 1 January 2021 unless otherwise indicated;

Effective date	New Standard or amendments
1 June 2020	COVID-19-Related Rent Concessions (Amendment to IFRS 16)
1 January 2021	Interest Rate Benchmark Reform- Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

2. FINANCIAL PERFORMANCE

2.1 FINANCE AND OTHER INCOME

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Finance income	**81,553**	**98,938**	**–**	**–**
Other income				
Profit on sale of property and equipment	160	63	–	25
Dividend income				
– from subsidiaries (note 3.4(d))	–	–	8,587	1,300
– from investments in listed companies (note 3.4(e))	52,937	43,962	52,937	43,962
Rental income from property (note 3.6)	24,987	26,875	88	88
Rental outgoings	5,412	5,237	60	80
Interest on term deposit, treasury bills and semi-government bonds	5,437	3,459	339	467
Other operating income	207	306	1,051	1,001
Total other income	**89,140**	**79,902**	**63,062**	**46,923**

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. FINANCIAL PERFORMANCE (CONTINUED)

2.2 FINANCE COSTS

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Interest on customer deposits	(20,110)	(26,696)	–	–

Recognition and measurement

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

2.3 OPERATING EXPENSES

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

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
General administrative expenses	19,304	18,895	3,688	4,841
Software licensing and other IT costs	1,394	1,991	–	–
Legal Fees	91	24	–	–
Auditors remuneration				
– audit fees	1,126	1,147	258	116
Professional advisory fees	10,349	8,264	7,105	6,854
Donations	88	39	–	–
Direct operating expenses for investment property that generated rental income	5,008	5,128	97	141
	37,360	**35,488**	**11,148**	**11,952**

2.4 PERSONNEL EXPENSES

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Wages and salaries	21,555	16,388	5,921	3,899
Contributions to defined contribution plans	462	1,735	–	–
Long service leave and annual leave	123	1,032	–	–
Other staff costs	1,376	2,962	696	1,249
	23,516	**22,117**	**6,617**	**5,148**

The number of employees at 31 December 2021 employed in the Group was 285 (2020: 273).

2. FINANCIAL PERFORMANCE (CONTINUED)

2.5 DIVIDENDS

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Final dividend of K0.18 per share (2020: K0.12 per share)	55,428	36,952	55,428	36,952
Interim dividend of K0.046 per share (2020: K0 per share)	14,164	–	14,164	–
	69,592	**36,952**	**69,592**	**36,952**

Final dividend for the year ended 31 December 2020 was declared on 24 May 2021 and paid on 28 July 2021. In addition an interim dividend for the year ended December 2021 was declared on 24 September 2021 and paid on 26 November 2021.

2.6 TAXATION

(a) Income tax expense/(benefit)

	Consolidated		Company	
Income tax expense	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Current tax expense	6,117	13,067	–	–
Under/(over) provisions in tax expense/(benefit)	1,482	(1,897)	(9)	(99)
Deferred tax expense	(48)	(17,354)	(1,317)	260
Income tax expense/(benefit)	**7,551**	**(6,184)**	**(1,326)**	**161**
Profit before tax	84,422	15,812	54,452	36,820
Computed tax using the applicable				
PNG corporate income tax rate (30%)	25,327	4,744	16,336	11,046
Effect of tax rates in foreign jurisdictions	942	171		–
Tax effect of:				
Current year unrealised gains for which no deferred tax is recognised	(3,101)	(1,992)	(3,101)	(1,992)
Dividend income exempt from tax asset	(13,901)	(9,135)	(13,901)	(9,135)
Exempt interest income - GIS	(737)	–	–	–
Non-deductible expenses	28	123	(24)	32
Under provision in prior years and other	(1,070)	(95)	(9)	210
Derecognisation of previously recognisation of DTA	691	–	–	–
Recognition of previously unrecognised deferred tax	(627)	–	(627)	–
Tax expense/(benefit) in the income statement	**7,551**	**(6,185)**	**(1,326)**	**160**

2. FINANCIAL PERFORMANCE (CONTINUED)

2.6 TAXATION (CONTINUED)

(b) Income taxes (receivable)/payable

Taxes (receivable)/payable	Consolidated 2021 K'000	Consolidated 2020 K'000	Company 2021 K'000	Company 2020 K'000
At 1 January	(1,599)	(3,188)	(843)	(675)
Income tax expense for the year	6,117	13,067	–	–
Under/over provision in prior years	1,482	(1,897)	–	(99)
Income taxes paid during the year	(9,025)	(9,352)	(51)	(69)
Interest withholding tax credit	(16)	(16)		–
Other	(1,450)	(213)		–
At 31 December	**(4,491)**	**(1,599)**	**(894)**	**(843)**

(c) Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2021 and 2020 are attributable to the items detailed in the table below:

	2021 Asset K'000	2021 Liability K'000	2021 Net K'000	2020 Asset K'000	2020 Liability K'000	2020 Net K'000
Consolidated						
Property and equipment and investment properties	20	(1,801)	(1,781)	11,801	(14,522)	(2,721)
Employee benefits	1,350	–	1,350	622	147	769
Provision for impairment - finance receivables	24,584	–	24,584	28,564	–	28,564
Other items	165	(250)	(84)	2,163	85	2,248
Tax losses	4,840	–	4,840	–	–	–
Net tax assets/(liabilities)	**30,960**	**(2,051)**	**28,908**	**43,150**	**(14,290)**	**28,860**
Company						
Property and equipment and investment properties	493	–	493	–	(89)	(89)
Employee benefits	735	–	735	90	–	90
Other items	145	–	145	55	–	55
Net tax assets/(liabilities)	**1,373**	**–**	**1,373**	**145**	**(89)**	**56**

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.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.6 TAXATION (CONTINUED)

(c) Deferred tax assets and liabilities (continued)

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)

Parent entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must 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.

2. FINANCIAL PERFORMANCE (CONTINUED)

2.7. OPERATING SEGMENTS (CONTINUED)

Information about reportable segments

At 31 December 2021	General finance, leasing and hire purchase K'000	Property investment K'000	Investment company K'000	Total K'000
Revenue	88,550	29,205	52,937	170,692
Inter-segment revenue	2,463	4,495	10,124	17,082
Finance costs	(20,110)	–	–	(20,110)
Fair value (loss)/gain	–	(5,001)	10,336	5,335
Depreciation	(3,254)	(2,650)	(636)	(6,540)
Reportable segment profit before income tax	32,735	5,228	46,460	84,423
Reportable segment assets	661,983	268,832	485,431	1,416,246
Investment in associate	–	–	8,283	8,283
Reportable segment liabilities	440,866	51,751	3,317	495,934

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
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

2. FINANCIAL PERFORMANCE (CONTINUED)

2.7. OPERATING SEGMENTS (CONTINUED)

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

	2021 K'000	2020 K'000
Revenues		
Total revenue for reportable segments	187,774	187,499
Fair value (loss)/gain	5,335	(9,851)
Finance costs	(20,110)	(26,696)
Elimination of inter-segment revenue	(17,081)	(8,659)
Net operating income	**155,918**	**142,293**
Profit or loss		
Total profit or loss for reportable segments	92,466	16,950
Elimination of inter-segment profit	(8,043)	(1,138)
Consolidated profit before tax	**84,423**	**15,812**
Assets		
Total assets for reportable segments	1,884,222	1,968,478
Investment in equity-accounted investee	8,283	8,283
Elimination of intercompany balance	(108,294)	(94,097)
Elimination of investment in subsidiaries	(367,965)	(335,728)
Consolidated total assets	**1,416,246**	**1,546,936**
Liabilities		
Total liabilities for reportable segments	616,222	733,903
Elimination of intercompany balances	(120,288)	(102,686)
Consolidated total liabilities	**495,934**	**631,217**

Geographical segments	Net operating income (K'000)		Net Assets (K'000)	
	2021	2020	2021	2020
Papua New Guinea	118,990	99,183	793,648	794,454
Fiji	28,397	28,497	85,817	80,617
Solomon Islands	2,637	4,336	14,249	17,688
Vanuatu	5,894	10,277	26,599	22,960
Total	**155,918**	**142,293**	**920,312**	**915,719**

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 2021 was based on profit attributable to ordinary shareholders of K76.9 million (2020: K22.0 million) and a weighted average number of ordinary shares outstanding of 307,931,332 (2020: 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.

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Cash at bank and on hand	158,808	201,852	12,722	18,674
Short term deposits	30,531	32,506	295	296
Cash and cash equivalents	**189,339**	**234,358**	**13,017**	**18,970**

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 0.25% to 0.9%.

3.2 FINANCE RECEIVABLES

(i) Analysis of net finance receivables

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Gross finance receivables	582,035	698,038	–	–
Less: Unearned charges	(53,683)	(69,564)	–	–
Less: Deferred establishment fees	(3,820)	(4,870)	–	–
Less: Provision for impairment	(114,988)	(119,154)	–	–
Net finance receivables	**409,544**	504,450	**–**	**–**

Gross finance receivables less finance charges and deferred establishment fees were split as follows:

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Current	131,763	350,680	–	–
Non-current	392,769	272,925	–	–
	524,532	**623,605**	**–**	**–**

3 FINANCIAL POSITION (CONTINUED)

3.2. FINANCE RECEIVABLES (CONTINUED)

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

	Consolidated		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Not later than one year	4,232	3,929	–	–
Later than one year and not later than five years	19,544	32,383	–	–
	23,776	36,312	–	–
Less: Unearned charges	(2,060)	(4,442)	–	–
Present value of lease payments receivable	21,716	31,870	–	–
Impairment loss allowance	(7,560)	(6,744)	–	–
Net finance leases	**14,156**	**25,126**	–	–

(iii) Analysis of provisions

	Consolidated		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
ECL allowance	114,988	119,154	–	–
	114,988	**119,154**	–	–
Impairment allowance			–	–
Balance at 1 January	**119,154**	**64,492**	**–**	**–**
Increase in provisions	4,079	63,374	–	–
Recoveries on overdue accounts	(794)	2,521	–	–
Prior period adjustment	–	(3,623)	–	–
Effect of FX	3,876	4,924		
Bad debts written off	(11,328)	(12,534)		
Closing balance	**114,987**	**119,154**		

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

3 FINANCIAL POSITION (CONTINUED)

3.2. FINANCE RECEIVABLES (CONTINUED)

(iv) Analysis of finance receivables by industry

	Consolidated — 2021		Consolidated — 2020	
	K'000	%	K'000	%
Agriculture	8,435	1%	16,238	2%
Mining	7,884	1%	9,293	1%
Manufacturing	13,037	2%	18,014	3%
Forestry and saw-milling	3,699	1%	6,898	1%
Civil contracting	105,799	18%	40,178	6%
Building and construction	9,203	2%	84,739	12%
Real Estate	32,410	6%	37,597	5%
Wholesale/Retail	61,740	11%	81,906	12%
Transport and storage	188,124	32%	230,370	33%
Professional and business services	43,219	7%	57,582	8%
Private and self employed	91,985	16%	80,278	12%
Other	16,500	3%	34,945	5%
	582,035	**100%**	**698,038**	**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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Current				
Amounts owed by related corporations	–	–	29,716	29,917
Dividend withholding tax receivable	940	940	940	940
Dividend receivable	–	–	1,302	–
Other debtors and prepayments	6,903	4,668	3,928	1,747
	7,843	**5,608**	**35,886**	**32,604**

The amounts owed from related corporations 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 K12.0 million (2020: K11.5 million).

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	
2021 K'000	2020 K'000	2021 K'000	2020 K'000
31,789	**20,033**	**–**	**–**

Interest bearing deposits as at 31 December 2021 relates to Government Inscribed Stock (GIS) which matures February 2024 and August 2026 with interest rate of 9% and 10% respectively. Interest is paid semi-annually until maturity. Interest bearing deposits as at 31 December 2020 relates to term deposits held by held by Credit Corporation Finance Limited with Kina Securities Limited which earned interest at a rate of 3.5% per annum. Interest is paid upon maturity. These deposits matured in December 2021.

(b) Other equity investments

Consolidated		Company	
2021 K'000	2020 K'000	2021 K'000	2020 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	
2021 K'000	2020 K'000	2021 K'000	2020 K'000
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% (2020: 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 2021, the investment was valued at K8.3 million (2020:K8.3 million).

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 (2020: Nil). During the year, the Group and Company received no dividend (2020: 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
2021	204,945	21,360	226,305	156,788	5,176	161,964	64,341
2020	178,103	8,000	186,103	149,247	3,015	152,262	33,841

Financial Performance

Year	Income K'000	Expenses K'000	Profit/(Loss) K'000
2021	91,665	82,486	**9,178**
2020	127,887	145,871	**(17,984)**

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

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Opening balance at 1 January	8,283	8,283	8,283	8,283
Net share of operating and impairment losses	–	–	–	–
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	2021 K'000	2020 K'000
Credit Corporation Finance Limited	PNG	100%	80,944	72,871
Credit House Limited	PNG	100%	75,414	65,031
Era Dorina Limited	PNG	100%	91,113	103,321
Era Matana Limited	PNG	100%	–	–
Credit Corporation Industrial Limited	PNG	100%	–	–
Credit Corporation (Fiji) Limited	Fiji	100%	79,321	63,010
Credit Corporation (Vanuatu) Limited	Vanuatu	100%	22,872	19,000
Credit Corporation (Solomon Islands) Limited	Solomon Islands	100%	18,302	12,496
			367,966	**335,729**

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 other subsidiaries were determined based on Profit to book ratio based on comparable businesses, recent transactions involving companies of similar nature f business, having regard to sustainable long-term earnings estimated for each individual company, current market environment and competitive position of individual companies. 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

		2021			2020		
	% 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	444,602	9,074	36,294,081	435,529	7,985
Airlines PNG Limited	0.65%	2,000,000	–	–	2,000,000	–	(240)
City Pharmacy Limited	0.95%	1,953,544	1,856	879	1,953,544	977	(606)
Kina Asset Management Ltd	8.53%	4,255,463	4,213	383	4,255,463	3,830	(213)
			450,671	**10,336**		**440,336**	**6,926**

The increase in market value of K10.3 million (2020: K6.9 million) 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)	
	2021 K'000	2020 K'000
Increase of 10% in share prices	45,067	44,034

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

(f) Other deposits (current)

Consolidated		Company	
2021 K'000	2020 K'000	2021 K'000	2020 K'000
–	–	**12,302**	**14,930**

Credit Corporation (PNG) Limited has investments in short-term deposits with Credit Corporation Finance Limited, which earn interest of 2.1%. The balance including accrued interest as at 31 December 2021 is K12.3 million (2020: K14.9 million).

Notes to and forming part of the financial statements

For the year ended 31 December 2021

3 FINANCIAL POSITION (CONTINUED)

3.5 PROPERTY AND EQUIPMENT

Consolidated	Buildings, Capital WIP & ROUA* K'000	Furniture & Fittings K'000	Motor Vehicles K'000	Office Equipment K'000	Total K'000
Cost					
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
At 1 January 2021	18,231	14,535	6,695	14,545	54,006
Additions	327	1,595	1,484	1,532	4,938
Disposals/transfers	(266)	(1,206)	(1,066)	252	(2,286)
IFRS 16 right of use asset	3,315	–	–	–	3,315
Effect of fx	(491)	(19)	(93)	(34)	(637)
At 31 December 2021	21,116	14,905	7,020	16,295	59,336
Depreciation					
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	10,103	3,844	8,153	25,471
At 1 January 2021	3,371	10,103	3,844	8,153	25,471
Charge for the year	167	2,059	1,076	1,825	5,127
IFRS 16 depreciation - ROUA	1,413	–	–	–	1,413
Disposals/transfers	–	(913)	(904)	(5)	(1,822)
Effect of fx	(95)	(17)	(59)	(65)	(236)
At 31 December 2021	4,856	11,232	3,957	9,908	29,953
Carrying amounts					
At 1 January 2020	12,731	6,186	3,525	4,823	27,265
At 31 December 2020	14,860	4,432	2,851	6,392	28,535
At 31 December 2021	16,260	3,673	3,063	6,387	29,383

*Right-of-use assets

Notes to and forming part of the financial statements

For the year ended 31 December 2021

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 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
At 1 January 2021	266	611	3,157	4,034
Additions	–	–	1,260	1,260
Disposals/transfers	–	–	(266)	(266)
At 31 December 2021	266	611	4,151	5,028
Depreciation				
At 1 January 2020	–	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
At 1 January 2021	–	189	1,394	1,583
Charge for the year	–	122	515	636
Disposals/transfers	–	–	–	–
At 31 December 2021	–	311	1,909	2,219
Carrying amounts				
At 1 January 2020	–	425	146	571
At 31 December 2020	266	422	1,763	2,451
At 31 December 2021	266	300	2,242	2,808

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	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Balance as at 1 January	258,968	275,700	3,800	3,800
Fair value gain/(loss) recognised in profit or loss	(5,001)	(16,777)	–	–
Acquisitions	806	45	–	–
Balance as at 31 December	**254,773**	**258,968**	**3,800**	**3,800**

Notes to and forming part of the financial statements

For the year ended 31 December 2021

3 FINANCIAL POSITION (CONTINUED)

3.6. INVESTMENT PROPERTY (CONTINUED)

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 K255 million (2020: K259 million was encumbered at 31 December 2021.

				Value as at 31 December	
Investment Property	**Valuation Basis**	**Independent valuer**	**Valuation Date**	**2021 K'000**	**2020 K'000**
Commercial	Direct capitalisation	Directors' valuation	31 December 2021	85,234	75,949
Residential	Direct capitalisation	Directors' valuation	31 December 2021	165,539	179,019
Replacement cost	Replacement cost	Directors' valuation	31 December 2021	4,000	4000
				254,773	**258,968**

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.

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 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 2021 year end.

Fair value hierarchy:

The fair value measurement for investment properties of K255 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 capitalisation rates of between 10% and 11.5% (2020: 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.

Sensitivity analysis

	Effect on profit or loss and equity increase/(decrease)	
	2021 K'000	**2020 K'000**
Increase of 1% in market capitalisation rate	(20,850)	(21,136)
10% increase in market lease rentals	25,151	26,464

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

3 FINANCIAL POSITION (CONTINUED)

3.6. INVESTMENT PROPERTY (CONTINUED)

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.

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.

Maturity analysis of operating lease payments

	Consolidated		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Year 1	20,973	21,553	–	–
Year 2	3,001	7,368	–	–
Year 3	406	2,836	–	–
Year 4 onwards	2,884	156	–	–
Total	**27,264**	**31,913**	**–**	**–**

Amounts reported in profit or loss

Lease income on operating leases	24,987	26,875	88	88

3 FINANCIAL POSITION (CONTINUED)

3.7 TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Rental bonds payable/(receivable)	1,499	1,303	(24)	(24)
Rental income in advance	244	131	–	–
Other creditors and accrued expenses	10,626	11,838	1,090	1.069
Intercompany	–	–	26,119	7,714
	12,349	**13,272**	**27,185**	**8,759**

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

3.8 DEPOSITS AND BORROWINGS

		Consolidated		Company	
	Note	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Current					
Interest bearing deposits	(a)	373,032	498,026	–	–
IFRS 16 Lease Liability	(d)	1,167	555	–	–
Secured bank loans	(b) and (c)	45,385	49,988	–	–
		419,584	**548,569**	**–**	**–**
Non-current					
Interest bearing deposits	(a)	55,344	50,261	–	–
IFRS 16 Lease Liability	(d)	3,018	1,622	–	–
		58,362	51,883	–	–
		477,946	**600,452**	**–**	**–**

(a) Interest bearing deposits

Interest bearing deposits are subject to fixed interest rates and payable on maturity. Non-current portion of K55.3 million (2020:K50.3 million) is repayable within 5 years (2020: 5 years).

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

The loan granted to Era Matana of K37.2 million as at 31 December 2021 is scheduled to be repaid in monthly instalments of K474,354 (including interest) to February 2030. The loan granted to Era Dorina of K8.2 million as at 31 December 2021 is scheduled to be repaid in monthly instalments of K131,276 (2020: K216,720) to January 2028. Interest on these loans of K2.2m (2020: K3.1 million) 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.

3 FINANCIAL POSITION (CONTINUED)

3.8 TRADE AND OTHER PAYABLES (CONTINUED)

(c) Bank facilities and security

Borrowings include:

(i) Credit Corporation (Fiji) Limited has a bank overdraft facility of K9.9 million (FJD$6m) (2020: K10.3 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 2021, this facility has not been used.

(ii) Credit Corporation (Vanuatu) Limited has a bank overdraft facility of K3.1 million VT100m) (2020: K3.3 million (VT100 million) 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 2021, this facility has not been used.

(iii) 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.

(iv) 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.

(v) Credit Corporation (SI) Limited has a bank overdraft facility with Bank South Pacific Limited of K1.29 million (SBT$3m) ((2020: K1.3 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 2021, this facility has not been used and on hold due to COVID-19 situation.

(vi) Credit Corporation Finance Limited has a bank overdraft facility with Westpac Bank PNG Limited of K10 million at 31 December 2021 (2020: K10 million). This facility is secured by a guarantee with (joint & several) by Credit House Limited and Credit Corporation (PNG) Limited. First registered Mortgage over Lots 2,4 and 8 Section 45, Granville, Port Moresby known as "Credit House". As at 31 December 2021, this facility not been used.

3 FINANCIAL POSITION (CONTINUED)
3.8 TRADE AND OTHER PAYABLES (CONTINUED)

(d) Lease liabilities

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

	Consolidated	
	2021 K'000	**2020 K'000**
Maturity analysis:		
Year 1	1,167	555
Year 2	912	264
Year 3	675	237
Year 4	713	219
Year 5	256	186
Onwards	462	716
	4,185	2,177
Less unearned interest	–	–
	4,185	**2,177**

3.9 EMPLOYEE BENEFITS

	Consolidated		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Long service leave	643	616	85	52
Annual leave	1,078	1,229	192	247
Others	3,919	1,359	2,172	–
	5,640	**3,204**	**2,449**	**299**

Recognition and measurement

Long-term employee benefits

A liability is recognised for the amount to be paid as at 31 December 2021 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 and others

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. The Group recognised short term incentives in the amount of K2.2 million as accruals for bonus and other incentives for the period. The payout of bonuses and incentives will be made in the following year.

4. FINANCIAL INSTRUMENT DISCLOSURES

4.1 FINANCIAL 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 audit and risk management framework. The Board has established the Audit and Risk Management 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 audit and 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 Audit and Risk Management 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.

(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 considers the default risk of the industry and country in which these operate, as these factors may have an influence on credit risk.

The Audit and 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 Audit and 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.

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(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 2021, K69.5 million (2020: 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.

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.

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:

	2021 K'000	2020 K'000
Current assets	334,624	552,290
Current liabilities	(436,929)	(565,014)
Net	**(102,305)**	**(12,724)**

(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.

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(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.

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

As at 31 December 2021	Fijian dollar FJ$000	Solomon Islands dollar SBD$000	Vanuatu vatu VuV000	Timor-Leste US dollar US$000
Assets				
Finance receivables	103,180	41,610	415,240	344
Cash and cash equivalents	44,675	32,405	1,242,019	2,675
Other receivables	258	182	3,249	2
Income tax receivable	-	6,872	–	–
Net deferred tax assets	5,909	5,562	–	158
	154,022	86,631	1,660,508	3,179
Liabilities				
Trade and other payables	661	3,501	23,933	64
Deposits and borrowings	104,828	62,169	808,284	–
Income tax payable	2,156	–	–	–
Employee benefits	1,214	–	–	3
	108,859	65,670	832,217	67
Net foreign currency exposure	45,163	20,961	828,291	3,112

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(ii) Foreign currency risk (continued)

As at 31 December 2020	Fijian dollar FJ$000	Solomon Islands dollar SBD$000	Vanuatu vatu VuV000	Timor-Leste US dollar US$000
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

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 2021	10%	(1,193)	(189)	(427)	105
31 December 2021	-10%	1,193	189	427	(105)
31 December 2020	10%	(318)	(417)	(49)	20
31 December 2020	-10%	318	417	49	(20)
Effect on equity					
31 December 2021	10%	(7,802)	(946)	2,418	1,717
31 December 2021	-10%	7,802	946	(2,418)	(1,717)
31 December 2020	10%	(7,379)	(1,652)	(2,225)	1,496
31 December 2020	-10%	7,379	1,652	2,225	(1,496)

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.

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(ii) Foreign currency risk (continued)

Exchange rates used by the Group in preparing financial statements.

PGK 1 is equivalent to the rates below

	2021		2020	
	Average	At year-end	Average	At year-end
Fijian dollar	0.5926	0.6034	0.6244	0.5817
Solomon Islands dollar	2.3003	2.3177	2.3750	2.3028
Vanuatu vatu	31.3708	32.0200	33.2458	30.6700
US dollar	0.2925	0.2925	0.2962	0.2925

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:

	2021 K'000	2020 K'000
Amounts recognised in profit or loss		
Net foreign exchange gain/(loss) included in other operating expenses	269	(287)
Net gains (losses) recognised in other comprehensive income		
Foreign currency translation differences on foreign operations	(2,687)	9,443

(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.

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.1 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk (continued)

Compliance with Group standards is supported by a program of periodic reviews undertaken by the members of Audit and Risk Management 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.

(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 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 2021 was to achieve a return on capital of between 5 and 15 percent; in 2021, the actual return was 8.6 percent (2020: 2.4 percent). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 4.69 percent (2020: 4.87 percent). The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2021 K'000	2020 K'000
Total liabilities	495,934	631,217
Less: cash and cash equivalents	(189,339)	(234,358)
Net debt	306,595	396,859
Adjusted capital	920,312	915,719
Debt to adjusted capital ratio at 31 December	0.33	0.43

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 2021.

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

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	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Interest bearing securities	31,789	20,033	–	–
Other equity investments	34	34	34	34
Finance receivables (net)	409,544	504,450	–	–
Other deposits	–	–	12,302	14,930
Other receivables	7,843	5,608	35,886	32,605
Cash and cash equivalents	189,339	234,358	13,017	18,970
Total	**638,549**	**764,483**	**61,239**	**66,539**

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

	Consolidated		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Papua New Guinea	206,446	229,778	–	–
Fiji	170,998	215,840	–	–
Solomon Islands	17,954	23,378	–	–
Vanuatu	12,968	26,480	–	–
Timor- Leste	1,178	8,974	–	–
Total	**409,544**	**504,450**	**–**	**–**

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

	Consolidated		Company	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Transport & Storage	188,124	230,370	–	–
Civil Contracting, Building & Construction and Real Estate	147,412	162,514	–	–
Wholesale/Retail	61,740	81,906	–	–
Others	184,759	223,248	–	–
	582,035	**698,038**	**–**	**–**

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

	Consolidated		Company	
	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Not past due	228,995	263,596	–	–
Past due 1-30 days	57,295	74,085	–	–
Past due 31-180 days	74,041	120,662	–	–
Past due 181-360 days	25,075	37,495	–	–
Past due more than 1 year	24,137	8,612	–	–
Total	**409,544**	**504,450**	**–**	**–**

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.

Credit quality analysis

Asset quality impairment

	2021		
Figures in PGK'000	**Carrying Amount**	**Provisions**	**Net Carrying Amount**
Loan Balance (net of unearned income)			
Stage 1 — 12-month ECL	260,073	(11,129)	248,944
Stage 2 — Life time ECL	55,396	(14,236)	41,160
Stage 3 — Life time ECL	209,062	(89,622)	119,440
Total	**524,531**	**(114,988)**	**409,544**

	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**

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.

As at 31 December 2021	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	(7,904)	(21,747)	(89,503)	**(119,154)**
– Transfer to Stage 1	(7,390)	3,277	4,113	–
– Transfer to Stage 2	1,314	(3,149)	1,835	–
– Transfer to Stage 3	1,577	10,188	(11,765)	–
Net remeasurement of loss allowance	5,110	(2,727)	(1,936)	**447**
New financial assets originated	(4,747)	(2,956)	(11,946)	**(19,649)**
Financial assets that have been derecognised	617	1,947	11,005	**13,569**
Write-offs	44	—	7,534	**7,578**
Foreign exchange and other movement	275	935	1,012	**2,222**
Balance at 31 December 2021	**(11,104)**	**(14,232)**	**(89,651)**	**(114,988)**

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
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)	(46,541)	**(54,789)**
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)**
Balance at 31 December 2020	**(7,904)**	**(21,747)**	**(89,503)**	**(119,154)**

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 2021 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	45,385	47,788	47,788	–	–	–
Interest bearing deposits	428,375	455,784	400,440	55,344	–	–
Lease liabilities	4,185	4,185	1,167	1,572	969	462
Trade and other payables	12,348	12,348	12,348	–	–	–
Total	**490,293**	**520,104**	**461,742**	**56,931**	**969**	**462**

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**

(ii) Company

At 31 December 2021, non-derivative financial liabilities, all of which are due within the year were K26,637,851 (2020: K8,759,067).

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	
	2021 K'000	**2020 K'000**	**2021 K'000**	**2020 K'000**
Fixed rate instruments				
Financial assets	62,320	52,539	295	15,226
Finance receivables	267,920	340,791	–	–
Financial liabilities	(408,760)	(548,287)	–	–
Total net	**(78,520)**	**(154,957)**	**295**	**15,226**
Variable rate instruments				
Finance receivables	141,624	163,659	–	–
Financial liabilities	(19,616)	(49,988)	–	–
Total net	**122,008**	**113,671**	**–**	**–**

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 2020.

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 2021	(1,220)	(1,220)	1,220	1,220
As at 31 December 2020	(1,137)	(1,137)	(1,137)	(1,137)

Company (not applicable)

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value versus carrying values (continued)

(c) 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:

		Fair values		Carrying amounts	
Consolidated	**Level of FV hierarchy**	**2021 K'000**	**2020 K'000**	**2021 K'000**	**2020 K'000**
Assets					
Interest bearing securities	1	31,789	20,033	31,789	20,033
Financial assets designated at fair value through profit and loss	1	450,671	440,336	450,671	440,336
Other equity investments	3	34	34	34	34
Finance receivables	2	409,544	504,450	409,544	504,450
Other receivables	2	7,843	5,608	7,843	5,608
Cash and cash equivalents	1	189,339	234,358	189,339	234,358
		1,089,220	**1,204,819**	**1,089,220**	**1,204,819**
Liabilities					
Trade and other payables	2	(12,348)	(13,272)	(12,348)	(13,272)
Secured bank loans	2	(45,385)	(49,988)	(45,385)	(49,988)
Interest bearing deposits	2	(428,376)	(548,287)	(428,376)	(548,287)
Lease liabilities	2	(4,185)	(2,177)	(4,185)	(2,177)
		(490,295)	**(613,723)**	**(490,295)**	**(613,724)**
Company					
Assets					
Financial assets designated at fair value through profit and loss	1	450,671	440,336	450,671	440,336
Investments in subsidiaries	3	367,966	335,729	367,966	335,729
Other equity investments	3	34	34	34	34
Other deposits	2	12,302	14,930	12,302	14,930
Other receivables	2	35,886	32,604	35,886	32,604
Cash and cash equivalents	1	13,017	18,970	13,017	18,970
		879,876	**842,603**	**879,876**	**842,603**
Liabilities					
Trade and other payables	2	(27,185)	(8,759)	(27,185)	(8,759)

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)

(d) Fair value hierarchy

Consolidated 31 December 2021	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Interest bearing securities	31,789	–	–	31,789
Other investments (Financial assets designated at fair value through profit and loss account)	450,671	–	–	450,671
Other equity investments	–	–	34	34
Finance receivables	–	409,544	–	409,544
Other receivables	–	7,843	–	7,843
Cash and cash equivalents	189,339	–	–	189,339
Total Assets	**671,799**	**417,387**	**34**	**1,089,220**
Liabilities				
Trade and other payables	–	(12,348)	–	(12,348)
Secured bank loans	–	(45,385)	–	(45,385)
Interest bearing deposits	–	(428,376)	–	(428,376)
Lease liabilities	–	(4,185)	–	(4,185)
	–	**(490,295)**	**–**	**(490,295)**

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)
	–	**(613,723)**	**–**	**(613,723)**

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy (continued)

Company 31 December 2021	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)	450,671	–	–	450,671
Investment in subsidiaries	–	–	367,966	367,966
Other equity investments	–	–	34	34
Other deposits	–	12,302	–	12,302
Other receivables		35,886	–	35,886
Cash and cash equivalents	13,017	–	–	13,017
Total Assets	**463,688**	**48,188**	**368,000**	**879,876**
Liabilities				
Trade and other payables	–	(27,185)	–	(27,185)
31 December 2020				
Other investments (Financial assets designated at fair value through profit and loss account)	440,336	–	–	440,336
Other equity investments	–	–	335,729	335,729
Finance receivables	–	–	34	34
Other receivables	–	14,930	–	14,930
Cash and cash equivalents	–	32,604	–	32,604
Total Assets	18,970	–	–	18,970
	459,306	**47,534**	**335,763**	**842,603**
Liabilities				
Trade and other payables	–	(8,759)	–	(8,759)

- 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 2021.

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
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 that is significant to the entire measurement.

(i) 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 revisionary 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.

(ii) 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.

(iii) 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.

(iv) 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.

4 FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

4.2. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value hierarchy (continued)

Recognition and measurement (continued)

Determination of fair values (continued)

(iv) Non-derivative financial liabilities (continued)

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	**2021 K'000**	**2020 K'000**
307,936,332 shares in issue at 1 January	21,984	21,984
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.

5 EQUITY (CONTINUED)
5.2 RESERVES

		Consolidated		Company	
		2021 K'000	2020 K'000	2021 K'000	2020 K'000
Asset revaluation reserve	(a)				
Balance at 1 January		24,232	35,976	255,447	255,447
Surplus/(deficit) on revaluation of properties		(5,001)	(16,778)	–	–
Tax effect on revaluation of properties		1,500	5,034	–	–
Surplus/(deficit) on revaluation of investments		–	–	25,493	–
Balance at 31 December		**20,731**	**24,232**	**280,940**	**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		15,205	5,762	–	–
Translation adjustment		(2,687)	9,443	–	–
Balance at 31 December		**12,518**	**15,205**	**–**	**–**
General reserve	(d)				
Balance at 1 January		407,672	400,746	407,672	400,746
Transfer (to)/from retained earnings		10,336	6,926	10,336	6,926
Balance at 31 December		**418,008**	**407,672**	**418,008**	**407,672**
Total Reserves		**451,406**	**447,258**	**699,097**	**663,268**

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 2021, the Group expensed K1.6 million (2020: K1.7 million) 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 K18.5 million (2020: K18.3 million) for the acquisition of various property and equipment for its Property Division. There are no contractual capital commitments as at 31 December 2021.

(ii) Contingencies

There are no contingencies as at 31 December 2021.

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: Abigail Erica Wendy Chang **Nature of Interest**: Shareholder	**Companies** Credit Corporation (PNG) Limited - 21,000 ordinary shares
Name: Abigail Erica Wendy Chang **Nature of Interest**: Term Deposit Holder	**Companies** Credit Corporation Fiji Limited for FJD 11,338.36, matures February 2022
Name: Abigail Erica Wendy Chang **Nature of Interest**: Social or Professional Membership	**Organisation** Australian Institute of Company Directors
Name: Abigail Erica Wendy Chang **Nature of Interest**: Social or Professional Membership	**Organisation** Don Bosco Technical Institute
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, National Road Authority, National Skills Agency, Kumul Consolidated Holdings Ltd, Association of Asia Pacific Business School South Korea
Name: Professor Albert Conrad Mellam **Nature of Interest**: Executive Director	**Organisations** PNG Chamber of Mines and Petroleum
Name: Professor Albert Conrad Mellam **Nature of Interest**: Social or Professional Membership	**Organisations** Australian Institute of Company Directors
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, Trident Security Group Limited Fizo Holdings Limited, AFL PNG Development Limited, PNG Olympic Committee
Name: Faye-Zina Lalo **Nature of Interest**: Social or Professional Membership	**Professional bodies** FIZO Holdings Limited, Trident Security Group Limited, Australian Institute of Company Directors
Name: Stephen Humphries **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, Idameneo 789 Limited, Murdoch Hematology & Oncology Clinic Pty Limited, Murdoch Private Hospital Pty Ltd, Agilex Biolabs Pty Ltd, Good Environment Choice Australia (a registered not-for -profit entity)

Notes to and forming part of the financial statements

For the year ended 31 December 2021

6 OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(a) Interest register (Continued)

Name: Stephen Humphries **Nature of Interest**: Professional membership	**Professional bodies** Australian Institute of Chartered Accountants Institute of Chartered Accountants of England and Wales
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, Paradise Company ltd, Laga Industries Ltd
Name: Richard Sinamoi **Nature of Interest**: Shareholder	**Companies** Credit Corporation (PNG) Limited – 485,629 ordinary shares, Trans Pacific Assurance Limited, Kama Kofi Limited, Iomanis Agri Import Export Pte Limited, PNGPC Limited
Name: Richard Sinamoi **Nature of Interest**: Professional membership	**Professional bodies** Australian Institute of Company Directors, PNG Institute of Directors
Name: Sir Melchior Togolo **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, Panamex Holding (Singapore) Pte Limited, Heritage Park Hotel (Honiara SI), City Mission PNG, Loloata Island Resort, Bougaiville Copper Limited
Name: Sir Melchior Togolo **Nature of Interest**: Professional membership	**Professional bodies** Australian Institute of Company Directors
Name: Sir Melchior Togolo **Nature of Interest**: Shareholder	**Companies** BSP 12,500 shares jointly owned with spouse
Name: Clare Mazzetti **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, Qudoz Bank Limited, Uniting Church of Australia, Synod of NSW & ACT, Uniting Financial Services
Name: Clare Mazzetti **Nature of Interest**: Social or Professional Membership	**Professional bodies** Australian Institute of Company Directors Fellow - FINSIA
Name: Clare Mazzetti **Nature of Interest**: Shareholding	**Companies** Hip Pocket Investments Pty Ltd

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

	2021	2020
Sydney Yates, Chairman of the Company, sole owner of Columbus Investments Ltd. that holds shares as follows: (retired 25 June 2021)	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
Professor Albert Mellam and Richard Sinamoi, are Directors of the Company and are Directors of Nambawan Superannuation Limited and they each hold shares as follows:	62,947,271	62,947,271
James Kruse, a Director of the Company holds shares as follows: (resigned 05 March 2021)	75,000	75,000
Michael Varapik, a Director of the Company, is a Director of Comrade Trustee Services Ltd. that holds shares as follows: (resigned 04 February 2021)	5,000	5,000
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

	2021 K'000	2020 K'000
Sydney George Yates (resigned 25 June 2021)	117	171
Richard Sinamoi (appointed Chairman 16 July 2021)	202	150
Michael James Varapik (resigned 4 February 2021)	16	142
Abigail Chang	192	140
Faye-Zina Lalo	186	136
James Byron Kruse (resigned 5 March 2021)	30	136
Professor Albert Mellam	178	134
Clare Mazzetti (appointed 24 December 2021)	88	–
Sir Melchior Togolo (appointed 24 October 2021)	88	–
Stephen Humphries (appointed 22 April 2021)	142	–
	1,240	1,009

6 OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(b) Transactions with Directors and key management personnel (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	2021	2020
130,000 - 139,999	–	1
200,000 - 259,999	–	1
260,000 - 319,999	–	1
320,000 - 379,999	1	–
380,000 - 439,999	–	–
440,000 - 499,999	1	1
560,000 - 669,999	1	1
670,000 - 779,999	1	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
1,550,000 - 1,659,999	1	–
Total	10	11

(iv) Key management personnel compensation

		Transaction value for the year end 31 December		Balance outstanding as at 31 December	
	Note	2021 K'000	2020 K'000	2021 K'000	2020 K'000
Short term benefits	(i)	10,031	9,047	547	522
Long term benefits	(ii)	47	137	47	–
		10,078	9,184	594	522

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)

(b) Transactions with Directors and key management personnel (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**	**2021 K'000**	**2020 K'000**	**2021 K'000**	**2020 K'000**
Management personnel	Personal Loan	(i)	7	145	147	42
Management & Director	Deposit	(ii)	–	(3)	–	(64)
Total			7	142	147	(22)

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**	**2021 K'000**	**2020 K'000**	**2021 K'000**	**2020 K'000**
Management fee	(i)	1,050	1,000	–	–
Interest bearing deposit	(ii)	339	467	12,589	15,159
Dividends	(iii)	8,587	1,300	1,302	–
Other	(iv)	27,558	1,245	67,894	33,688
		37,534	4,012	81,785	48,847

6 OTHER DISCLOSURES (CONTINUED)

6.3 RELATED PARTIES (CONTINUED)

(c) Transactions with subsidiaries – the Company (Continued)

i) Management fees paid by Credit Corporation Finance Limited (K1,050,000) to Credit Corporation (PNG) Limited annually.

(ii) Credit Corporation (PNG) Limited has at call deposits with Credit Corporation Finance Limited totaling to K264,895. Surplus funds have been deposited in 1 year deposits with Credit Corporation Finance Limited at 2.10% interest rate per annum. The interest earned during 2021 was K388,811 (2020: K466,830).

(iii) Dividends were only received from CHL, CCFJ and CCSI amounted to K8.5m.

(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 and a payable of K26.1m to Credit Corporation Finance Limited for operating costs paid on behalf of the Company.

(d) Other related party transactions

(i) The associate company of Credit Corporation (PNG) Limited, Capital General Insurance, has interest bearing deposit accounts amounting to K1,845,702 as at 31 December 2021 (2020: K1,794,903) at 5.1% per annum with Credit Corporation Finance Limited.

(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 2021

		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

Richard Sinamoi
Abigail Erica Wendy Chang
Dr Albert Conrad Mellam
Clare Mazzetti (appointed 2 September 2021)
Faye-Zina Lalo
Stephen Humphries (appointed 15 April 2021)
Sir Mel Togolo (appointed 25 June 2021)
Sydney George Yates (retired 25 June 2021)
Michael James Varapik (resigned 4 February 2021)
James Byron Kruse (resigned 5 March 2021)

Group Chief Executive Officer

Danny Robinson

Company Secretary

Anneka Linge (appointed 14 September 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
Level 4, Cuthbertson House
PO Box 1265
Port Moresby, Papua New Guinea
Telephone: +675 321 6377
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

PAPUA NEW GUINEA

Credit Corporation (PNG) Limited

Credit House, Cuthbertson Street
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PO Box 1787, Port Moresby
Papua New Guinea
Telephone: +675 321 7066
Email: finance@creditcorporation.com.pg

Branch Offices

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East New Britain Province
Papua New Guinea
Telephone: +675 982 9559

Credit Corp Building
Butibam Road, Voco Point,
Lae, Morobe Province
Papua New Guinea
Telephone: +675 472 5855

Kintip Surgery Building
Unit 1, Section 22, Allotment 51,
Mount Hagen, Papua New Guinea
Telephone: +675 542 3585

FIJI

Credit Corporation (Fiji) Limited

Credit House
10 Gorrie Street, Suva,
Fiji Islands
PO Box 14070, Suva, Fiji Islands
Telephone: +679 330 5744
Email: info@creditcorp.com.fj

Branch Offices

Nadi
1st Floor Credit House,
Lot 15 Bountiful Subdivision
Queens Road, Namaka
PO Box 10107 Nadi Airport
Telephone: +679 672 4766

Lautoka
Naviti Street, Lautoka
PO Box 427, Lautoka
Telephone: +679 665 2025

Nakasi
Shop 14 Tebara Meat Complex
Kings Road, Nakasi
Telephone: +679 341 0029

SOLOMON ISLANDS

Credit Corporation (SI) Limited

Credit Corporation (SI) Limited
Heritage Park Commercial Building,
Ground Floor, Mendana Avenue,
Honiara, Solomon Islands
PO Box 1235, Honiara, Solomon Islands
Telephone: +677 22114
Email:info@creditcorp.com.sb

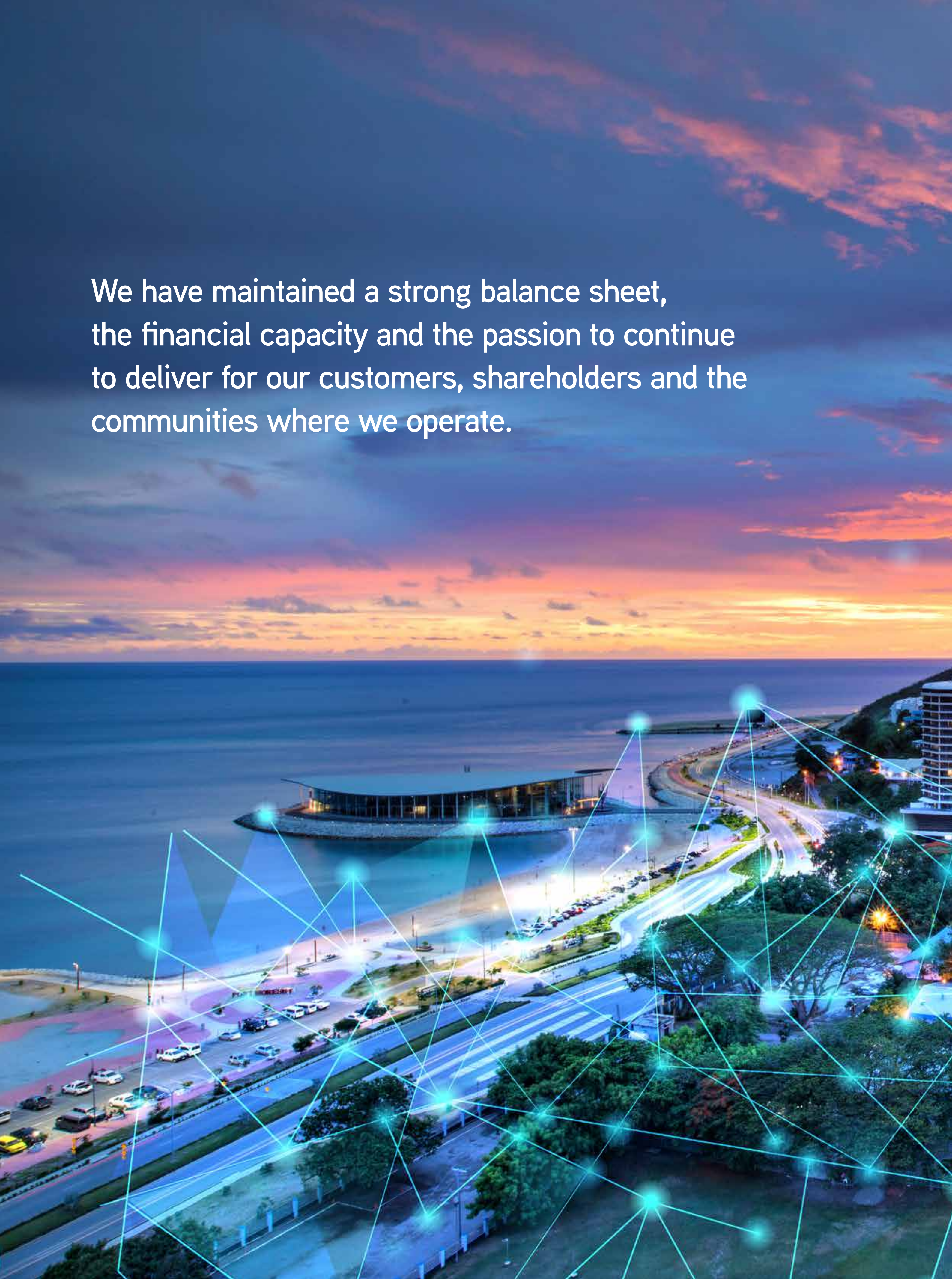
VANUATU

Credit Corporation (Vanuatu) Limited

Law Partners House,
Rue Lini Highway
PO Box 3494, Port Vila, Vanuatu
Telephone: +678 23822
Email: info@creditcorp.com.vu

Branch Office

Santo
CNS Building, USP Sub Street,
Luganville, Santo
Telephone: +678 36823/36826



We have maintained a strong balance sheet, the financial capacity and the passion to continue to deliver for our customers, shareholders and the communities where we operate.

CREDIT CORPORATION