Forward Finance
FinCorp

# FINANCE CORPORATION LIMITED
# AND ITS SUBSIDIARY COMPANY

# CONSOLIDATED & SEPARATE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2019

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

## INDEX

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**CORPORATE DIRECTORY**

**REGISTERED OFFICE**

Ground Floor, Tower 2,
Aopi Centre,
Allotment 7-11, Section 405,
Hohola,
N.C.D.
Papua New Guinea

**PRINCIPAL BUSINESS ADDRESS**

Ground Floor, Tower 2,
Aopi Centre,
Allotment 7-11, Section 405,
Hohola,
N.C.D.
Papua New Guinea

Telephone: 323 2399
Facsimile: 323 0167
Email: sales@fincorp.com.pg
Website: www.fincorp.com.pg

**POSTAL ADDRESS**

Finance Corporation Limited,
Private Mail Bag,
Waigani Post Office,
N.C.D.
Papua New Guinea

**DIRECTORS**

Sir Nagora Bogan KBE
David Guinn CSM, OBE, OAM
Noel Colin Mobiha
Goiye Gileng
Rosa Teria
Dato Andy Kuek

**COMPANY SECRETARY**

Dominic Steven Armbrust

**AUDITOR**

Ernst & Young,
Level 4, Credit House,
Cuthbertson Street,
Port Moresby,
N.C.D.,
P.O. Box 1380, Port Moresby, 121, N.C.D.,
Papua New Guinea

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

## REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the annual financial statements of **Finance Corporation Limited** ("the Company") and its controlled entity (both "the Group") for the year ended 31 December 2019.

### ACTIVITIES

The principal activities during the year of the Group were the provision of financial and insurance brokerage services. The subsidiary company, Sunrise Assurance Brokers Limited, commenced operations in 2016.

### RESULTS

The Group's total comprehensive income after taxation amounted to K36,663,863 (2018 – K35,739,767). The Company's total comprehensive income after taxation amounted to K36,663,863 (2018 – K35,739,767).

### DIVIDEND

Dividends of K10,011,000 and K4,970,000 were declared on 26 March 2019 and 3 October 2019, paid over three payments on 15,16 and 17 April 2019 and 15 October 2019, respectively. These dividends were at a rate of one kina forty-one toea (1.41) and seventy (70) toea per ordinary share, respectively.

### AUDITOR

The financial statements for the Group and the Company have been audited by Ernst & Young and should be read in conjunction with the Independent Audit Report set out on pages 5 to 7.

### FURTHER DISCLOSURES

In compliance with Section 212(3) of the Companies Act 1997 the Company has obtained consent from its shareholder not to disclose the matters required under Section 212(1)(a) and (d) to (j) of the Companies Act 1997.

**Signed at Hohola, National Capital District**

**For and on behalf of the Board of Directors**

**This 24th day of March 2020**

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**DIRECTOR** **DIRECTOR**

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**STATEMENT BY THE DIRECTORS**

In the opinion of the Directors of **FINANCE CORPORATION LIMITED:**

1. (a) The statements of comprehensive income is drawn up so as to give a true and fair view of the results of the business of the Group and the Company for the year ended 31 December 2019,

   (b) the statements of financial position is drawn up so as to exhibit a true and fair view of the state of affairs of the Group and the Company as at 31 December 2019,

   (c) the statements of cash flows is drawn up to exhibit a true and fair view of the movements in cash of the Group and the Company for the year ended 31 December 2019,

   (d) the statements of changes in equity is drawn up to exhibit a true and fair view of the changes in equity for the Group and the Company in respect of the financial year ended 31 December 2019,

   (e) at the date of this statement there are reasonable grounds to believe that the Group and the Company will be able to pay their debts as and when they fall due.

2. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted in Papua New Guinea and the Papua New Guinea Companies Act 1997.

3. The key risks facing the Group and the Company are identified on a continuous ongoing basis. Systems have been established to monitor and manage risks including setting and adhering to a series of prudential limits and by adequate and regular reporting. These risk management systems are operating effectively and are adequate having regard to the risks they are designed to control.

4. As required by the Prudential Standard 7/2005, Part III (3)(a)(1) Finance Corporation Limited and its subsidiary, have where applicable, have complied with the Bank and Financial Institutions Act 2000, the Bank of Papua New Guinea Prudential Standards, the Companies Act 1997 and other directives issued by the Central Bank and any other authorities in Papua New Guinea.

5. As required by the Prudential Standard 7/2005, Part III (3)(a)(2), as declared by the Chief Executive Officer and endorsed by the Board of Directors and the Group's executive management:
   (i) has identified the key financial risks of the Company or the Group;
   (ii) has established systems to control and monitor those risks including, where appropriate, adherence to prudent policies and procedures, to reasonable operating limits and to adequate and timely reporting processes; and
   (iii) is satisfied that the risk management systems are operating effectively and are adequate in regard to the risks they are designed to control.

6. As required by Prudential Standard 7/2005, Part III (3)(a)(3) we declare there is no actual or potential conflicts of interest with respect to Finance Corporation Limited ("FinCorp") engagement of the external auditor Ernst & Young, which has therefore not compromised the independence of the auditor's performance.

7. We have made an assessment of "the Group's" ability to continue as a going concern, taking into account all available information about the future, which is at least, but is not limited to, twelve months from the date of this letter. We confirm that we have not identified events or conditions that may cast significant doubt upon the Group's and FinCorp's ability to continue as a going concern and we have disclosed to you all information relevant to the preparation of the financial statements in accordance with the going concern assumption.

**Signed at Hohola, National Capital District**

**For and on behalf of the Board of Directors**

**This 24th day of March 2020**

.............................................. ..............................................

**Director** **Director**

Ernst & Young
Level 4, Credit House
Cuthbertson Street, Port Moresby
PO Box 1380, Port Moresby 121
National Capital District Papua New Guinea

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# Independent auditor's report to the shareholders of Finance Corporation Limited and its subsidiary company

## Opinion

We have audited the financial report of Finance Corporation Limited and its subsidiary company ("the Group"), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial report of the Group is in accordance with the Companies Act 1997, including:

a. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and

b. complying with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. 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 Group in accordance with the ethical requirements that are relevant to our audit of the financial report in Papua New Guinea, and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Matter – Subsequent Event COVID-19

Subsequent to 31 December 2019, the COVID 19 outbreak was declared a pandemic by the World Health Organization and is causing disruptions to businesses and economic activity. The outbreak is regarded as a non-adjusting post balance sheet event under International Financial Reporting Standards. Consistent with this assessment, the Group has made no adjustment to its financial statements as at 31 December 2019 for the impacts of COVID-19. As the situation is fluid and rapidly evolving, it is not practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the Group. The impact of this outbreak will be incorporated into the Group's IFRS 9 financial asset valuations and estimates of expected credit loss provisions in 2020.

## Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information is the Directors' report and the statement of the Directors' accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The Directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with International Financial Reporting Standards and the Companies Act 1997 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the 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 objectives are 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 the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, 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 control.

- 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's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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- Conclude on the appropriateness of the Directors' 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's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors 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.

Report on other legal and regulatory requirements

The Papua New Guinea Companies Act 1997 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

a. in our opinion proper accounting records have been kept by the Group, so far as appears from our examination of those records; and

b. we have obtained all the information and explanations we have required.

Ernst & Young

Ernst & Young

Madhu Nair
Partner

Registered under the Accountants Act 1996
Port Moresby this 25th day of March 2020

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | NOTES | CONSOLIDATED 2019 K | CONSOLIDATED 2018 K | COMPANY 2019 K | COMPANY 2018 K |
|---|---|---|---|---|---|
| Interest income | 7 | 87,501,612 | 82,204,170 | 87,501,612 | 82,204,170 |
| Interest expense | 7 | (5,255,493) | (5,015,911) | (5,274,636) | (5,036,548) |
| Net interest income | | 82,246,119 | 77,188,259 | 82,226,976 | 77,167,622 |
| Fee and commission income | 8 | 1,571,115 | 1,825,235 | 1,084,357 | 1,272,209 |
| Fee and commission expense | 8 | (46,137) | (51,249) | (45,098) | (50,296) |
| Net fee and commission income | | 1,524,978 | 1,773,986 | 1,039,259 | 1,221,913 |
| Net income from other financial instruments at amortised cost | | 990,892 | 585,387 | 990,892 | 585,387 |
| Other revenue | 9 | 2,055,766 | 1,858,216 | 2,055,766 | 1,858,216 |
| **Revenue** | | **86,817,755** | **81,405,848** | **86,312,893** | **80,833,138** |
| Other income | 10 | 2,982,911 | 4,175,965 | 2,982,911 | 4,175,965 |
| Impairment losses on investment in subsidiary | | - | - | (907,339) | (615,446) |
| Impairment losses on loans to customers | 13 | (12,410,245) | (6,452,962) | (12,410,245) | (6,452,962) |
| Personnel expenses | 11 | (11,599,703) | (10,824,402) | (10,924,016) | (10,293,375) |
| Depreciation and amortisation | 22, 24 | (1,728,673) | (1,598,547) | (1,629,388) | (1,565,606) |
| Interest expense on lease liability | | (207,210) | (258,271) | (181,010) | (258,271) |
| Other expenses | 12 | (13,312,736) | (13,266,594) | (12,701,707) | (12,642,406) |
| **Profit before taxation** | | **50,542,099** | **53,181,037** | **50,542,099** | **53,181,037** |
| Income tax expense | 25 | 16,208,685 | 15,977,238 | 16,208,685 | 15,977,238 |
| **Profit for the period** | | **34,333,414** | **37,203,799** | **34,333,414** | **37,203,799** |
| Other comprehensive income | | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Unrealised gain/(loss) on equity investments at FVOCI, net of tax | | 2,330,449 | (185,725) | 2,330,449 | (185,725) |
| Revaluation deficit on property | | - | (1,278,307) | - | (1,278,307) |
| **Total comprehensive income** | | **K 36,663,863** | **K 35,739,767** | **K 36,663,863** | **K 35,739,767** |
| Earnings per share | | **K 5.16** | **K 5.03** | **K 5.16** | **K 5.03** |

The accompanying notes on pages 12 to 36 form part of these financial statements.

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**STATEMENTS OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2019**

| | NOTES | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K | K | K | K |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 14 | 17,486,066 | 43,001,893 | 16,835,289 | 42,533,004 |
| Investment securities | 21 | 54,818,396 | 29,504,907 | 54,818,396 | 29,504,907 |
| Loans to customers | 15 | 171,176,673 | 148,857,938 | 171,176,673 | 148,857,938 |
| Other assets | 16 | 1,196,131 | 4,451,678 | 799,118 | 3,325,381 |
| Due from related entities | 31(d) | 157,951 | 2,961 | 154,437 | 6,540 |
| Investment in subsidiary | 18 | - | - | 924,667 | 832,006 |
| Investment properties | 23 | 29,900,000 | 29,900,000 | 29,900,000 | 29,900,000 |
| Property and equipment | 24 | 10,900,471 | 11,573,817 | 10,572,316 | 11,415,476 |
| Intangible assets | 22 | 130,390 | 182,693 | 130,390 | 182,693 |
| Prepaid income tax | 25 | 3,048,606 | - | 3,029,311 | - |
| Deferred tax | 25 | 5,200,987 | 8,071,075 | 5,200,987 | 8,721,473 |
| **TOTAL ASSETS** | | 294,015,671 | 275,546,962 | 293,541,584 | 275,279,418 |
| **LIABILITIES** | | | | | |
| Term deposits | 27 | 111,811,466 | 114,912,564 | 112,245,408 | 115,271,086 |
| Provision for taxation | 25 | - | 2,349,268 | - | 3,016,091 |
| Rental bonds | | 401,500 | 401,500 | 401,500 | 401,500 |
| Lease liabilities | 28 | 685,822 | 1,522,727 | 482,109 | 1,522,727 |
| Payables | 19 | 8,839,254 | 6,080,422 | 8,134,938 | 4,787,533 |
| Provision for employee benefits | 26 | 2,802,238 | 2,487,953 | 2,802,238 | 2,487,953 |
| **TOTAL LIABILITIES** | | 124,540,280 | 127,754,434 | 124,066,193 | 127,486,890 |
| **NET ASSETS** | | **169,475,391** | **K 147,792,528** | **K 169,475,391** | **K 147,792,528** |
| **SHAREHOLDER'S EQUITY** | | | | | |
| Issued share capital | 20 | 7,100,000 | 7,100,000 | 7,100,000 | 7,100,000 |
| Reserves | 17 | 5,021,325 | 2,690,876 | 5,021,325 | 2,690,876 |
| Retained earnings | | 157,354,066 | 138,001,652 | 157,354,066 | 138,001,652 |
| **EQUITY** | | **K 169,475,391** | **K 147,792,528** | **K 169,475,391** | **K 147,792,528** |

The accompanying notes on pages 12 to 36 form part of these financial statements.

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| CONSOLIDATED | SHARE CAPITAL | RESERVES | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| | K | K | K | K |
| Restated total equity at 01.01.2018 | 7,100,000 | 4,154,908 | 111,873,853 | 123,128,761 |
| Total comprehensive income for the year after taxation | - | - | 35,739,767 | 35,739,767 |
| Transfer to fair value reserve | | (1,464,032) | 1,464,032 | - |
| Dividend | - | - | (11,076,000) | (11,076,000) |
| Balance at 01.01.2019 | 7,100,000 | 2,690,876 | 138,001,652 | 147,792,528 |
| Total comprehensive income for the year after taxation | - | - | 36,663,863 | 36,663,863 |
| Transfer to fair value reserve | | 2,330,449 | (2,330,449) | - |
| Dividend | - | - | (14,981,000) | (14,981,000) |
| **Balance at 31.12.2018** | **K 7,100,000** | **K 5,021,325** | **K 157,354,066** | **K 169,475,391** |
| **COMPANY** | | | | |
| Restated total equity at 01.01.2018 | 7,100,000 | 4,154,908 | 111,873,853 | 123,128,761 |
| Total comprehensive income for the year after taxation | - | - | 35,739,767 | 35,739,767 |
| Transfer to fair value reserve | | (1,464,032) | 1,464,032 | - |
| Dividend | - | - | (11,076,000) | (11,076,000) |
| Balance at 01.01.2019 | 7,100,000 | 2,690,876 | 138,001,652 | 147,792,528 |
| Total comprehensive income for the year after taxation | - | - | 36,663,863 | 36,663,863 |
| Transfer to fair value reserve | | 2,330,449 | (2,330,449) | - |
| Dividend | - | - | (14,981,000) | (14,981,000) |
| **Balance at 31.12.2019** | **K 7,100,000** | **K 5,021,325** | **K 157,354,066** | **K 169,475,391** |

The accompanying notes on pages 12 to 36 form part of these financial statements.

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**STATEMENTS OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | NOTES | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K | K | K | K |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Profit before taxation | | 50,542,099 | 53,181,037 | 50,542,099 | 53,181,037 |
| Adjustments for: | | | | | |
| - Interest income | | (87,501,612) | (82,204,170) | (87,501,612) | (82,204,170) |
| - Interest expense | | 5,255,493 | 5,015,911 | 5,274,636 | 5,036,548 |
| - Interest on lease liability | | 207,210 | 258,271 | 181,010 | 258,271 |
| - Depreciation and amortisation | 22, 24 | 1,728,673 | 1,598,547 | 1,629,388 | 1,565,606 |
| - Asset revaluation | | - | (166,851) | - | (166,851) |
| - Bad debts written off | | (20,612,461) | (10,852,677) | (20,612,461) | (10,852,677) |
| - Write-off recoveries | | 1,303,822 | 1,818,185 | 1,303,822 | 1,818,185 |
| - Loss on disposal of fixed assets | | 27,579 | 31,497 | 26,142 | 31,497 |
| - Net impairment on loans at amortised cost | | 12,410,245 | 6,452,962 | 12,410,245 | 6,452,962 |
| - Impairment on investment in subsidiary | | - | - | 907,339 | 615,446 |
| | | (36,638,952) | (24,867,288) | (35,839,392) | (24,264,146) |
| Movements in working capital | | | | | |
| - Decrease/(increase) in receivables | | 3,255,547 | (2,100,400) | 2,526,263 | (1,252,360) |
| - Increase/(decrease) in payables | | (220,889) | (4,383,746) | 443,481 | (5,158,016) |
| - Interest received | | 72,081,271 | 88,700,758 | 72,081,271 | 88,700,758 |
| - Interest paid | | (5,062,585) | (4,588,226) | (5,082,105) | (4,608,153) |
| - Taxation paid | 25 | (18,736,471) | (15,447,650) | (18,733,601) | (15,444,555) |
| | | 51,316,873 | 62,180,736 | 51,235,309 | 62,237,674 |
| Cash flows from operating activities | | 14,677,921 | 37,313,448 | 15,395,917 | 37,973,528 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of property & equipment and investment property | 22,23,24 | (1,541,991) | (1,344,338) | (1,541,010) | (1,343,076) |
| Proceeds from sale of property & equipment | | 305,659 | 302,318 | 305,659 | 302,318 |
| Acquisition of investment securities in T-bills & C-bills | | (22,983,040) | (252,608) | (22,983,040) | (252,608) |
| Additional investment in subsidiary | 18 | - | - | (1,000,000) | (500,000) |
| Cash flows used in investing activities | | (24,219,372) | (1,294,628) | (25,218,391) | (1,793,366) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| Loans to related parties | | (154,990) | 389,531 | (147,897) | 407,488 |
| Dividend paid | | (14,981,000) | (11,076,000) | (14,981,000) | (11,076,000) |
| Payments for lease liabilities | | (838,386) | (761,200) | (746,344) | (761,200) |
| Cash flows used in financing activities | | (15,974,376) | (11,447,669) | (15,875,241) | (11,429,712) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | (25,515,827) | 24,571,151 | (25,697,715) | 24,750,450 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | 43,001,893 | 18,430,742 | 42,533,004 | 17,782,554 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **K 17,486,066** | **K 43,001,893** | **K 16,835,289** | **K 42,533,004** |

The accompanying notes on pages 12 to 36 form part of these financial statements.

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## 1 REPORTING ENTITY

Finance Corporation Limited ("the Company") is a company domiciled in Papua New Guinea. The address of the Company's registered office is Ground Floor, Tower 2, Aopi Centre, Allotment 7-11, Section 405, Hohola, National Capital District, Papua New Guinea. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiary, Sunrise Assurance Brokers Limited, (both "the Group"). The Group is primarily involved in the provision of financial and insurance brokerage services.

The Company is a wholly-owned subsidiary of Grand Columbia Limited, a company incorporated in Papua New Guinea.

The financial statements have been authorised for issue by the Board of Directors on 24th of March 2020.

## 2 BASIS OF PREPARATION

The consolidated financial statements 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.

**Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position which are measured at fair value:

- investment securities measured at fair value through other comprehensive income (FVOCI);
- investment properties; and
- land and buildings.

**Functional Currency**

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

**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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Note 15 Loans to customers
Note 23 Investment property
Note 18 Investment in subsidiary
Note 24 Property & equipment
Note 28 Lease liabilities

**Basis of Consolidation**

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to or has the right to variable returns from its investment with the investee and has the ability to affect these returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date in which control commences until the date when control ceases. The parent recognises its investment in subsidiary at cost net of any impairment. Intra-group balances and transactions and any unrealised income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## 3 SIGNIFICANT ACCOUNTING POLICIES

### (a) Revenue

**i. Interest Income and Expenses**

Interest income and expenses are recognised in the statement of comprehensive income for all interest bearing instruments on an accruals basis using the effective yield method. Interest income includes coupons earned on fixed income investments and available-for-sale securities and accrued discount and premium on treasury bills and other discounted instruments.

**ii. Establishment fees**

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

**iii. 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.

**iv. 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.

**v. Other income**

Other income comprises interest income on funds invested (including financial assets measured at FVOCI), dividend income, establishment fees on finance contracts, gains on the disposal of financial assets measured at FVOCI, fair value gains and losses on financial assets at fair value through profit or loss and investment properties. Interest income on funds deposited is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized 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.

### (b) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In which case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position. Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

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## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### (d) Impairment of loans at amortised cost

The Group applies the IFRS 9 simplified approach to measure expected credit loss (ECL). Loss allowances for loans to customers are measured at an amount equal to lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial asset. Loss allowances are deducted from the gross carrying amount of the loans to customers.

Interest calculated after accounts are considered doubtful is fully provided against.

Bad debts are written off against the provision in the year in which the debt is recognised as being unrecoverable.

### (e) Property & Equipment

Land and buildings are carried at their revalued amounts, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The carrying amount of fixed assets is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount for those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employed and subsequent disposal.

A revaluation surplus is recorded in the other comprehensive income and credited to reserves in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the reserves account.

Depreciation is calculated on the diminishing value method so as to write off the net costs of the various classes of fixed assets during their effective working lives.

Additions are depreciated from the date of purchase in the year of acquisition.

The principal annual rates in use are:

| | |
|---|---|
| Buildings | 4.5% |
| Building improvements | 4.5% |
| Plant, equipment and furniture | 7.50% - 30.00% |
| Motor vehicles | 30.0% |

### (f) Investment property

Investment properties are properties held for long-term rental yields and capital appreciation and are not occupied by the Group. Investment properties are initially stated at cost and subsequently carried at fair value, with any change therein recognised in the profit and loss.

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## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and "at call" deposits with banks or financial institutions investments in money market instruments maturing within three months, net of bank overdrafts.

### (h) Employee Benefits

The liability or amounts expected to be paid to employees for their pro-rata entitlement for long service leave, annual leave and leave fares are accrued annually at current pay rates having regard to period of service and statutory obligations.

### (i) Income Tax

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

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

Deferred 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 it 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 realized.

### (j) Leases

**Where the company is the lessor**

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

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## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Leases (Continued)

**Where the company is the lessee**
Under IFRS 16, the Group recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group applies the short-term lease recognition exemption to its leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short term leases are recognised as expense on a straight line basis over the lease term. Total rent expense on short term leases amounted to K 1,449,909 in 2019.

### (k) Financial Assets

The Group classifies its financial assets in the following categories: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of the financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions as is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flow; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions as is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Classification and measurement of financial assets and financial liabilities
Under IFRS 9, the Company classified and measured the following financial assets:

| Financial Instruments | Classification |
|---|---|
| Investment securities - Central/Treasury Bills | Amortised Cost |
| Investment securities - Shares | FVOCI - equity instrument |
| Loans to customers | Amortised Cost |
| Term deposits | Amortised Cost |

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## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The business model assessment

The Company made an assessment to determine the business model within which each financial asset is held.
For BPNG Cental and Treasury bills, under investment securities classification, no decrease in book value is required since these financial instruments meet the following requirements:

• The financial instruments have a low risk of default,
• The BPNG, in the short term, is expected to have a strong capacity to meet its obligations given past behaviour, despite Papua New Guinea's relatively poor international credit rating and
• The Company's management, in the longer term, believe the adverse changes in economic and business conditions, will not reduce the ability of BPNG to meet its obligations to pay Cental and Treasury bills upon maturity.

### (l) Financial Liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### (m) Impairment

The Group recognises loss allowances for ECLs on:
• Financial assets measured at amortised cost; and
• Debt instruments measured at FVOCI; and

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.
The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measures at 12-month ECLs:
- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort.
The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events have a detrimental impact on the estimated cash flows of the financial assets have occurred. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the company about the following loss events:

## 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Impairment (Continued)

i. Significant financial difficulty of the issuer or obligor;
ii. A breach of contract, such as a default or delinquency in interest or principal payments;
iii. The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
iv. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. The disappearance of an active market for that financial asset because of financial difficulties; or

When a loan is uncollectible, it is written off against the related provision for loan impairment in the year in which the debt is recognised as being irrecoverable. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. However, loans that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

If, in a subsequent period, the amount of the impairment loss of decrease and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors crediting rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the statement of comprehensive income.

**b. Non Financial Assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of the asset exceeds its estimated recoverable amount

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. Value in use represents the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Impairment losses are recognised in the statements of comprehensive income except for revalued assets where the impairment loss is first applied to the revaluation surplus and any excess is recognised in the statements of comprehensive income. Impairment losses recognised in prior periods are assessed at each reporting date for any indication 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 except for assets normally carried at revalued amounts.

## 4 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following valuation techniques detailed below. 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 categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

## 4 DETERMINATION OF FAIR VALUES (Continued)

- 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).
- Level 3: Inputs for the asset or liabilities that are 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 categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

### (a) Investment Property

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.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time. Investment property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the estimated costs to complete construction, financing costs and a reasonable profit margin.

### (b) Equity and debt securities

The fair value of financial assets at fair value through profit or loss, FVOCI - debt investment, FVOCI - equity investment and amortised cost financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of amortised cost investments is determined for disclosure purposes.

### (c) Land and buildings

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 land and buildings. 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.

## 5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

IFRS 16 published in January 2016, replaces the existing guidance in IAS 17 Leases. IFRS 16 includes revised guidance on the accounting for both finance and operating leases.

The Company adopted early IFRS 16 with initial application at 1 January 2018 for its leases using the Company's indicator lending rate (ILR) of 12.75% as the basis for computing the discount factor over the remaining term of the lease. The Company applied the modified retrospective transition method.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Group. The Group has not early adopted these standards, interpretations or amendments that have been issued but are not yet effective.

- IFRIC-23, *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to IAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to IFRSs* 2015-2017 Cycle
    - Amendments to IFRS 3, *Business Combinations,* and IFRS 11, *Joint Arrangements , Previously Held Interest in a Joint Operation*
    - Amendments to IAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
    - Amendments to IAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. The Group does not expect these pronouncements to have significant impact on its financial statements, unless otherwise indicated. The Group intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2020*

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IAS 1, *Presentation of Financial Statements* , and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

*Effective beginning on or after January 1, 2021*

- IFRS 17, *Insurance Contracts*

*Deferred effectivity*

- Amendments to IFRS 10, *Consolidated Financial Statements* , and IAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2019 on the consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

## 6 FINANCIAL INSTRUMENTS

The nature of activities and management policies with respect to financial instruments are as follows: -

**(i) Financial risk management**

The Group's activities expose it to a variety of financial risks, including the effects of changes in market prices and interest rates. The Group monitors these financial risks and seeks to minimise the potential adverse effects on the financial performance of the Group. The Group does not use any derivative financial instruments to hedge these exposures.

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## 6 FINANCIAL INSTRUMENTS (Continued)

### (ii) Currency risk

The Group does not undertake any significant transactions in foreign currencies and consequently is not exposed to any foreign currency risks.

### (iii) Credit risk

In the normal course of its business the Group incurs credit risk from consumer loans, leases trade debtors and financial institutions. The Group performs credit evaluations of all entities to which it has credit risk exposure. The Group maintains its cash and bank balances with financial institutions which have a high credit standing. The Group has satisfactorily provided for bad debts at balance date.

### (iv) Interest rate risk

The Group has short-term deposits with various financial institutions and commercial banks at commercial rates of interest. The Group's management monitors the interest rate risk arising from the interest rate differences in its lending assets and deposit liabilities.

**Profile**

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

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | K | K | K | K |
| **Fixed rate instruments** | | | | |
| Central and Treasury Bills | 37,732,440 | 14,749,400 | 37,732,440 | 14,749,400 |
| Term Deposits | (111,811,466) | (114,912,564) | (112,245,408) | (115,271,086) |
| | (74,079,026) | (100,163,164) | (74,512,968) | (100,521,686) |
| **Variable rate instruments** | | | | |
| Loans and advances to customers | 171,176,673 | 148,857,938 | 171,176,673 | 148,857,938 |
| | 171,176,673 | 148,857,938 | 171,176,673 | 148,857,938 |

**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 (bp) 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, remain constant. The analysis is performed on the same basis for 2018.

| **GROUP** | **100bp increase** | | **100bp decrease** | |
|---|---|---|---|---|
| | Profit or Loss | Equity | Profit or Loss | Equity |
| **Variable rate instruments** | | | | |
| As at 31 December 2019 | 1,711,767 | 1,711,767 | (1,711,767) | (1,711,767) |
| As at 31 December 2018 | 1,488,579 | 1,488,579 | (1,488,579) | (1,488,579) |
| **COMPANY** | | | | |
| **Variable rate instruments** | | | | |
| As at 31 December 2019 | 1,711,767 | 1,711,767 | (1,711,767) | (1,711,767) |
| As at 31 December 2018 | 1,488,579 | 1,488,579 | (1,488,579) | (1,488,579) |

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## 6 FINANCIAL INSTRUMENTS (Continued)

### (v) Liquidity risk

The Group aims to prudently manage liquidity risk by maintaining sufficient cash and other liquid assets or the availability of funding through uncommitted credit facilities to meet its financial obligations as and when they arise.

### (vi) Fair value

The face values less any estimated credit adjustments for financial assets and liabilities are assumed to approximate their fair values. The carrying amount of financial assets and liabilities approximates fair value.

| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K | K | K | K |
| 7 | **INTEREST INCOME** | | | | |
| | Interest from consumer loans | 71,421,121 | 63,411,415 | 71,421,121 | 63,411,415 |
| | Interest from commercial loans | 14,537,086 | 16,628,558 | 14,537,086 | 16,628,558 |
| | Default fees | 1,543,405 | 2,164,197 | 1,543,405 | 2,164,197 |
| | | 87,501,612 | 82,204,170 | 87,501,612 | 82,204,170 |
| | **INTEREST EXPENSE** | | | | |
| | Interest paid on term deposits | 5,255,493 | 5,015,911 | 5,274,636 | 5,036,548 |
| | Net interest income | 82,246,119 | 77,188,259 | 82,226,976 | 77,167,622 |
| 8 | **FEES AND COMMISSION INCOME** | | | | |
| | Processing fees | 671,440 | 910,059 | 671,440 | 910,059 |
| | Documentation fees | 412,917 | 362,150 | 412,917 | 362,150 |
| | Brokerage and broker fees | 486,758 | 553,026 | - | - |
| | | 1,571,115 | 1,825,235 | 1,084,357 | 1,272,209 |
| | **FEES AND COMMISSION EXPENSE** | | | | |
| | Bank charges | 46,137 | 51,249 | 45,098 | 50,296 |
| | Net fees and commission income | 1,524,978 | 1,773,986 | 1,039,259 | 1,221,913 |
| | | - | - | - | - |
| 9 | **OTHER REVENUE** | | | | |
| | Share dividends | 2,055,766 | 1,858,216 | 2,055,766 | 1,858,216 |
| 10 | **OTHER INCOME** | | | | |
| | Rent | 2,982,911 | 4,009,114 | 2,982,911 | 4,009,114 |
| | Gain on investment property revaluation | - | 166,851 | - | 166,851 |
| | | 2,982,911 | 4,175,965 | 2,982,911 | 4,175,965 |

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| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K | K | K | K |
| 11 | **PERSONNEL EXPENSES** | | | | |
| | Salaries and wages | 10,304,106 | 10,054,829 | 9,655,015 | 9,537,137 |
| | Other | 1,295,597 | 769,573 | 1,269,001 | 756,238 |
| | | 11,599,703 | 10,824,402 | 10,924,016 | 10,293,375 |
| | **EMPLOYEES** | | | | |
| | Average number of employees | 140 | 140 | 136 | 137 |
| 12 | **OTHER EXPENSES** | | | | |
| | Accountancy and audit | 50,442 | 32,623 | 35,085 | 17,663 |
| | Advertising and promotion | 1,652,642 | 2,017,547 | 1,629,072 | 1,945,473 |
| | Collection | 3,799,355 | 3,679,446 | 3,799,355 | 3,679,446 |
| | Consultants | 1,236,504 | 1,684,887 | 1,234,254 | 1,684,887 |
| | Directors' fees | 908,157 | 686,119 | 818,157 | 603,619 |
| | Electricity and water | 331,003 | 214,330 | 317,526 | 200,254 |
| | Interest expense on lease liability | 181,010 | 258,271 | 181,010 | 258,271 |
| | Motor vehicle | 296,017 | 353,553 | 290,831 | 347,418 |
| | Printing and stationery | 1,004,615 | 869,763 | 986,935 | 854,555 |
| | Rent | 1,635,402 | 1,459,786 | 1,449,909 | 1,150,414 |
| | Security | 482,850 | 489,351 | 482,850 | 489,351 |
| | Telephone, facsimile and internet | 374,296 | 360,377 | 347,553 | 331,885 |
| | Other | 1,360,443 | 1,160,541 | 1,129,170 | 1,079,170 |
| | | 13,312,736 | 13,266,594 | 12,701,707 | 12,642,406 |
| 13 | **IMPAIRMENT OF FINANCIAL ASSETS** | | | | |
| | ECL Impairment on loans at amortised cost | 12,410,245 | 6,452,962 | 12,410,245 | 6,452,962 |
| | ECL Impairment on due from finance institutions and central bank | - | - | - | - |
| | | 12,410,245 | 6,452,962 | 12,410,245 | 6,452,962 |
| 14 | **CASH AND CASH EQUIVALENTS** | | | | |
| | Cash on hand and at bank | 17,486,066 | 43,001,893 | 16,835,289 | 42,533,004 |

Cash and cash equivalents includes cash on hand and at bank and short term deposits with a maturity of not more than three months. Cash and cash equivalents interest rate range from 0% to 0.25%.

| | | CONSOLIDATED 2019 K | CONSOLIDATED 2018 K | COMPANY 2019 K | COMPANY 2018 K |
|---|---|---|---|---|---|
| 15 | **LOANS TO CUSTOMERS** | | | | |
| | Consumer loans | 154,455,531 | 144,484,719 | 154,455,531 | 144,484,719 |
| | Commercial and corporate loans | 112,591,339 | 103,782,063 | 112,591,339 | 103,782,063 |
| | Less: Impairment loss allowance | (17,517,237) | (24,415,631) | (17,517,237) | (24,415,631) |
| | Unearned interest | (77,276,056) | (73,960,892) | (77,276,056) | (73,960,892) |
| | Unearned fees | (1,076,904) | (1,032,321) | (1,076,904) | (1,032,321) |
| | | 171,176,673 | 148,857,938 | 171,176,673 | 148,857,938 |

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## 15 LOANS TO CUSTOMERS (Continued)

**Impairment loss allowance**

At 31st December 2019 the Company had provided K17,517,237 for impairment losses. The provision exceeds the minimum provision required by the Bank of Papua New Guinea. During the year the Group incurred an impairment expense of K12,410,245 (2018: K6,452,962) and wrote-off of K20,612,461 (2018: K10,852,677) of receivables.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | K | K | K | K |
| **16 OTHER RECEIVABLES** | | | | |
| Rental bonds | 124,861 | 123,479 | 124,861 | 123,479 |
| Rental receivable | - | 2,661,945 | - | 2,661,945 |
| Prepayments | 395,402 | 680,084 | 365,697 | 640,417 |
| Accrued interest | 199,615 | 58,045 | 199,615 | 58,045 |
| GST | 120,041 | (157,634) | 92,679 | (179,155) |
| Others | 356,212 | 1,085,759 | 16,266 | 20,650 |
| | 1,196,131 | 4,451,678 | 799,118 | 3,325,381 |
| **17 RESERVES** | | | | |
| Asset revaluation reserve | 3,826,700 | 3,826,700 | 3,826,700 | 3,826,700 |
| Investment revaluation reserve | 1,194,625 | (1,135,824) | 1,194,625 | (1,135,824) |
| | 5,021,325 | 2,690,876 | 5,021,325 | 2,690,876 |

The asset revaluation reserve arises on the revaluation of land and buildings. Where revalued land and building is sold that portion of the asset revaluation reserve which relates to that asset and is effectively realised and is transferred directly to retained earnings.

The investments revaluation reserve arises on the revaluation of financial assets as measured at fair value through OCI. Where a revalued financial asset is sold that portion of the reserve which relates to that financial asset and is effectively realised, is recognised in equity. When a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in profit or loss statement.

## 18 INVESTMENT IN SUBSIDIARY

| | | | | |
|---|---|---|---|---|
| Sunrise Assurance Brokers Limited | - | - | 4,000,000 | 3,000,000 |
| Provision for impairment | - | - | (3,075,333) | (2,167,994) |
| | - | - | 924,667 | 832,006 |

Details of the subsidiary are as follows:

**Principal activity**

During the year, the company is operating as an insurance broker. As at 31 December 2019, the net assets was K924,667 (2018: K832,006).

**Place of incorporation**

Papua New Guinea

**Ownership interest**

100%

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| | | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |
| | | K | K | K | K |
| 19 | **PAYABLES** | | | | |
| | Accrued expenses | 2,199,233 | 2,300,426 | 2,145,258 | 2,294,863 |
| | Accrued interest payable | 2,121,256 | 1,928,348 | 2,121,589 | 1,929,058 |
| | Others | 4,518,765 | 1,851,648 | 3,868,091 | 563,612 |
| | | 8,839,254 | 6,080,422 | 8,134,938 | 4,787,533 |
| 20 | **SHARE CAPITAL** | | | | |
| | 7,100,000 ordinary shares authorised and issued at K1.00 each (2018: 7,100,000) | 7,100,000 | 7,100,000 | 7,100,000 | 7,100,000 |
| | Reserves | 5,021,325 | 2,690,876 | 5,021,325 | 2,690,876 |

The reserves are composed of the annual revaluation of shares and the tri-annual revaluation of real property.

| | | | | | |
|---|---|---|---|---|---|
| 21 | **INVESTMENT SECURITIES** | | | | |
| | **A. Measured at Fair Value Through Other Comprehensive Income** | | | | |
| | **(i) Investments in listed companies** | | | | |
| | (a) 1,015,091 Bank South Pacific Limited Ordinary shares at an original cost of K6.09 per share (2019: 1,015,091 shares at market valuation of K11.77 per share) | 6,182,600 | 6,182,600 | 6,182,600 | 6,182,600 |
| | Revaluation - life to date | 5,765,021 | 4,232,234 | 5,765,021 | 4,232,234 |
| | | 11,947,621 | 10,414,834 | 11,947,621 | 10,414,834 |
| | (b) 3,190,647 Credit Corporation (PNG) Limited Ordinary shares at an original cost of K3.03 per share (2019: 3,190,647 shares at market valuation of K1.60 per share) | 9,675,432 | 9,675,432 | 9,675,432 | 9,675,432 |
| | Revaluation - life to date | (4,570,397) | (5,368,059) | (4,570,397) | (5,368,059) |
| | | 5,105,035 | 4,307,373 | 5,105,035 | 4,307,373 |
| | Total investments in listed companies at valuation | 17,052,656 | 14,722,207 | 17,052,656 | 14,722,207 |
| | **(ii) Investments in unlisted companies** | | | | |
| | (a) 33,300 Credit & Data Bureau Limited Ordinary shares at a cost of K1.00 per share | 33,300 | 33,300 | 33,300 | 33,300 |
| | Total investment in shares | 17,085,956 | 14,755,507 | 17,085,956 | 14,755,507 |

During the year, the Company received a gross dividend of K1,410,976 from Bank South Pacific Limited, a gross dividend of K638,129 from Credit Corporation (PNG) Limited and a gross dividend of K6,660 from Credit and Data Bureau Limited.

The movement in the market value of shares has led to a fair value gain of K2,330,449 (2018: loss K185,726) which has been recognised through other comprehensive income. As at 31 December 2019 the market values of shares in the listed companies were as follows:

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## 21 INVESTMENT SECURITIES (Continued)

| | |
|---|---|
| Bank South Pacific Limited | K11.77 per share (2018: K10.26) |
| Credit Corporation (PNG) Limited | K1.60 per share (2018: K1.35) |

The fair value of financial assets measured at FVOCI is determined by reference to their quoted class bid price at the report date. These instruments are classified as Level 1 in the fair value hierarchy.

| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | K | K | K | K |
| **B. Measured at Amortised Cost** | | | | |
| Central bills | 33,824,240 | 4,979,800 | 33,824,240 | 4,979,800 |
| Treasury bills | 3,908,200 | 9,769,600 | 3,908,200 | 9,769,600 |
| | 37,732,440 | 14,749,400 | 37,732,440 | 14,749,400 |
| Total investment securities | 54,818,396 | 29,504,907 | 54,818,396 | 29,504,907 |

## 22 INTANGIBLE ASSETS

| | | | | |
|---|---|---|---|---|
| Balance as at 1 January | 182,693 | 260,990 | 182,693 | 260,990 |
| Additions | 2,507 | - | 2,507 | - |
| Amortisation for the year | (54,810) | (78,297) | (54,810) | (78,297) |
| Balance as at 31 December | 130,390 | 182,693 | 130,390 | 182,693 |

## 23 INVESTMENT PROPERTIES

| | | | | |
|---|---|---|---|---|
| Balance as at 1 January | 29,900,000 | 29,712,752 | 29,900,000 | 29,712,752 |
| Revaluations | - | 166,851 | - | 166,851 |
| Additions | - | 20,397 | - | 20,397 |
| Balance as at 31 December | 29,900,000 | 29,900,000 | 29,900,000 | 29,900,000 |

**Sambra Haus**

Location: Allotment 2 Section 354, Waigani (Hohola), City of Port Moresby.

Description: A two level commercial office complex located within the Waigani Commercial precinct on a site of approximately 2,937 square meters situated on dual road frontages. The building is leased to the Department for Community, Development and Religion.

Valuation: An independent valuation was performed on 17th August 2018 by Professionals NCD Limited who valued the property at K27,900,000. The valuation was determined by capitalising the net rental income streams at a capitalisation rate which reflects the yields in the relevant market rental sales.

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## 23 INVESTMENT PROPERTIES (Continued)

**Paga Hill**

Location: Allotment 20 of Section 27, Bougainvillea Crescent, Granville, City of Port Moresby.

Description: A 973-square metres fully fenced vacant land with improvements being demolished.

Valuation: An independent valuation was performed on 21st August 2018 by Professionals NCD Limited who valued the property at K2,000,000. The valuation was determined by sales of comparable properties within the area.

**Fair Value hierarchy**

The fair value measurement for investment properties of K29,900,000 has been categorised at level 3 for fair value as the inputs to the valuation techniques used made reference to significant unobservable inputs such as risk adjusted capitalisation rates, sales rates per square metre and market rental rates. Significant unobservable inputs used include a capitalisation rate of 12% and an estimated value per square metre of K1,200. Accordingly an increase or decrease in the capitalisation rate or rate per square metre would impact fair value. Additionally an increase or decrease in market lease rates would impact the fair value of property.

| **Sensitivity analysis** | **2019** | **2018** |
|---|---|---|
| | **K** | **K** |
| Increase of 1% capitalisation rate | (2,147,008) | (2,147,008) |
| 10% increase in rate per square meter | 3,418,098 | 3,418,098 |

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

The measurement model used for the investment property is the Fair Value model to account for the investment property after initial recognition.
• Under fair value model, the investment property has been measured at fair value on the reporting date.
• Any change (increase or decrease) in the fair value of investment property at reporting date, is reported to the statement of comprehensive income.
• The investment property under the fair value model has not depreciated.
• An independent registered value was contracted in August 2018 to provide a report on the market value of the investment property.

The following amounts were recognized in statement of comprehensive income for Sambra Haus:
• Rent received from investment property amounted to K2,954,599
• Operating expense such as repair & maintenance, insurance and security expenses amounted to K339,625.

The Directors have determined that there has been no change in the fair value of land and buildings and investment property in 2019.

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## 24 PROPERTY AND EQUIPMENT

**CONSOLIDATED**

**2019**

| | Land and Buildings (revalued) | Plant, Equipment and Furniture (at cost) | Motor Vehicles (at cost) | Right of Use Asset (at cost) | Total |
|---|---|---|---|---|---|
| | K | K | K | K | K |
| Opening balance | 8,226,615 | 4,359,479 | 2,380,654 | 2,025,656 | 16,992,404 |
| Additions | 34,772 | 830,958 | 673,755 | 1,077,848 | 2,617,333 |
| Disposals - cost | - | (71,476) | (775,735) | (2,188,796) | (3,036,007) |
| | 8,261,387 | 5,118,961 | 2,278,674 | 914,708 | 16,573,730 |
| **Accumulated depreciation** | | | | | |
| Opening balance | 1,309,395 | 2,562,708 | 967,725 | 578,759 | 5,418,587 |
| Charge for the year | 173,820 | 429,196 | 477,172 | 593,675 | 1,673,863 |
| Disposals | - | (27,705) | (486,268) | (905,218) | (1,419,191) |
| | 1,483,215 | 2,964,199 | 958,629 | 267,216 | 5,673,259 |
| Written down value as at 31 December 2019 | 6,778,172 | 2,154,762 | 1,320,045 | 647,492 | 10,900,471 |

**COMPANY**

**2019**

| | Land and Buildings (revalued) | Plant, Equipment and Furniture (at cost) | Motor Vehicles (at cost) | Right of Use Asset (at cost) | Total |
|---|---|---|---|---|---|
| | K | K | K | K | K |
| Opening balance | 8,135,537 | 4,241,687 | 2,283,664 | 2,025,656 | 16,686,544 |
| Additions | 34,772 | 829,977 | 673,755 | 808,293 | 2,346,797 |
| Disposals - cost | - | (69,563) | (775,735) | (2,188,796) | (3,034,094) |
| | 8,170,309 | 5,002,101 | 2,181,684 | 645,153 | 15,999,247 |
| **Accumulated depreciation** | | | | | |
| Opening balance | 1,298,579 | 2,494,718 | 899,012 | 578,759 | 5,271,068 |
| Charge for the year | 170,208 | 416,882 | 468,689 | 518,799 | 1,574,578 |
| Disposals | - | (27,229) | (486,268) | (905,218) | (1,418,715) |
| | 1,468,787 | 2,884,371 | 881,433 | 192,340 | 5,426,931 |
| Written down value as at 31 December 2019 | 6,701,522 | 2,117,730 | 1,300,251 | 452,813 | 10,572,316 |

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## 24 PROPERTY AND EQUIPMENT (Continued)

The fair value movement for the year ended 31 December 2019 was nil (2018: (K 1,278,307)).

Net book value (at cost) of land and buildings as at 31 December 2019 was K2,935,524 (2018: K3,025,052).

Right of Use Asset: With the adoption of IFRS 16, the Company recognised the right of use asset on its leases for the head office and branch offices in Kokopo, Mt. Hagen and Goroka. At 31 December 2019, the net carrying amount of right of use asset was K 452,813 (2018: K 1,446,897).

**CONSOLIDATED**
**2018**

| | Land and Buildings (revalued) | Plant, Equipment and Furniture (at cost) | Motor Vehicles (at cost) | Right of Use Asset (at cost) | Total |
|---|---|---|---|---|---|
| | K | K | K | K | K |
| Opening balance | 9,405,102 | 4,058,076 | 2,134,133 | - | 15,597,311 |
| Revaluations | (1,278,307) | - | - | - | (1,278,307) |
| Additions | 99,820 | 310,155 | 913,967 | 2,025,656 | 3,349,598 |
| Disposals - cost | - | (8,752) | (667,446) | - | (676,198) |
| | 8,226,615 | 4,359,479 | 2,380,654 | 2,025,656 | 16,992,404 |
| **Accumulated depreciation** | | | | | |
| Opening balance | 1,138,321 | 2,178,132 | 924,267 | - | 4,240,720 |
| Charge for the year | 171,074 | 389,171 | 381,246 | 578,759 | 1,520,250 |
| Disposals | - | (4,595) | (337,788) | - | (342,383) |
| | 1,309,395 | 2,562,708 | 967,725 | 578,759 | 5,418,587 |
| Written down value as at 31 December 2018 | 6,917,220 | 1,796,771 | 1,412,929 | 1,446,897 | 11,573,817 |

**COMPANY**
**2018**

| | Land and Buildings (revalued) | Plant, Equipment and Furniture (at cost) | Motor Vehicles (at cost) | Right of Use Asset (at cost) | Total |
|---|---|---|---|---|---|
| | K | K | K | K | K |
| Opening balance | 9,314,024 | 3,941,546 | 2,037,143 | - | 15,292,713 |
| Revaluations | (1,278,307) | - | - | - | (1,278,307) |
| Additions | 99,820 | 308,893 | 913,967 | 2,025,656 | 3,348,336 |
| Disposals - cost | - | (8,752) | (667,446) | - | (676,198) |
| | 8,135,537 | 4,241,687 | 2,283,664 | 2,025,656 | 16,686,544 |
| **Accumulated depreciation** | | | | | |
| Opening balance | 1,131,287 | 2,127,182 | 867,673 | - | 4,126,142 |
| Charge for the year | 167,292 | 372,131 | 369,127 | 578,759 | 1,487,309 |
| Disposals | - | (4,595) | (337,788) | - | (342,383) |
| | 1,298,579 | 2,494,718 | 899,012 | 578,759 | 5,271,068 |
| Written down value as at 31 December 2018 | 6,836,958 | 1,746,969 | 1,384,652 | 1,446,897 | 11,415,476 |

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| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | K | K | K | K |
| **25 TAXATION** | | | | |
| **Income tax expense** | | | | |
| Current tax expense | 14,122,376 | 14,690,339 | 13,471,978 | 14,874,973 |
| Dividend rebate | (616,730) | - | (616,730) | - |
| Under/(over) provision in prior year | (167,049) | 512,302 | (167,049) | 512,302 |
| Deferred tax expense | 1,993,283 | 774,597.00 | 1,993,283 | (4,350,073) |
| IFRS 9 opening balance adjustment | - | - | - | 4,940,036 |
| Adjustments to prior years timing differences | 876,805 | - | 1,527,203 | - |
| | 16,208,685 | 15,977,238 | 16,208,685 | 15,977,238 |

The Group's applicable tax rate represents the statutory corporate income tax rate of 30% (2018: 30%). The following is a recalculation of income tax calculated at the applicable tax rate with income tax expense:

| | | | | |
|---|---|---|---|---|
| Profit before tax | 50,542,099 | 52,565,591 | 50,542,099 | 53,181,037 |
| Computed tax using the applicable corporate tax rate | 15,162,630 | 15,769,677 | 15,162,630 | 15,954,311 |
| Dividend rebate | (616,730) | (557,465) | (616,730) | (557,465) |
| Non deductible expenses | 302,631 | 69,086 | 302,631 | 68,090 |
| Under/(over) provision in prior year | (167,049) | 512,302 | (167,049) | 512,302 |
| Adjustments to prior years timing differences | 1,527,203 | 183,638 | 1,527,203 | - |
| | 16,208,685 | 15,977,238 | 16,208,685 | 15,977,238 |
| **Provision for taxation** | | | | |
| Taxation payable at 1 January | 2,349,268 | 2,594,276 | 3,016,091 | 3,073,371 |
| Taxation charge for the year | 14,122,376 | 14,690,340 | 13,471,978 | 14,874,973 |
| Dividend rebate | (616,730) | - | (616,730) | - |
| Under/(over) provision in prior year | (167,049) | 512,302 | (167,049) | 512,302 |
| Taxation paid during the year | (18,736,471) | (15,447,650) | (18,733,601) | (15,444,555) |
| Taxation payable at 31 December | (3,048,606) | 2,349,268 | (3,029,311) | 3,016,091 |
| **Deferred taxation** | | | | |
| Timing differences with respect to: | | | | |
| - employee benefits provision | 2,802,238 | 2,487,953 | 2,802,238 | 2,487,953 |
| - bad debts provision | 17,517,237 | 24,415,631 | 17,517,237 | 24,415,631 |
| - impairment provision | - | - | - | 2,167,994 |
| - prepaid insurance | (192,983) | - | (192,983) | - |
| - unearned fees | 1,076,904 | - | 1,076,904 | - |
| ~~- difference in book and tax depreciation~~ | ~~(3,918,322)~~ | ~~-~~ | ~~(3,918,322)~~ | ~~-~~ |
| - leases in accordance with IFRS 16 | 51,550 | - | 51,550 | - |
| | 17,336,624 | 26,903,584 | 17,336,624 | 29,071,578 |
| Deferred tax at 30% | 5,200,987 | 8,071,075 | 5,200,987 | 8,721,473 |
| **26 PROVISION FOR EMPLOYEE BENEFITS** | | | | |
| **Current** | | | | |
| Provision for airfares | 151,244 | 155,599 | 151,244 | 155,599 |
| Provision for annual leave | 793,201 | 687,144 | 793,201 | 687,144 |
| | 944,445 | 842,743 | 944,445 | 842,743 |
| **Non current** | | | | |
| Provision for long service leave | 1,857,793 | 1,645,210 | 1,857,793 | 1,645,210 |
| | 2,802,238 | 2,487,953 | 2,802,238 | 2,487,953 |

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| | CONSOLIDATED | | COMPANY | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | K | K | K | K |

## 27 TERM DEPOSITS

| | | | | |
|---|---|---|---|---|
| Term deposits | 111,811,466 | 114,912,564 | 112,245,408 | 115,271,086 |

## 28 LEASE LIABILITIES

| | | | | |
|---|---|---|---|---|
| **As at 1 January** | 1,522,727 | - | 1,522,727 | - |
| Additions | 1,077,848 | 2,025,656 | 808,293 | 2,025,656 |
| Accretion of interest | 207,210 | 258,271 | 181,010 | 258,271 |
| Termination of lease | (1,283,577) | - | (1,283,577) | - |
| Payments | (838,386) | (761,200) | (746,344) | (761,200) |
| **As at 31 December** | 685,822 | 1,522,727 | 482,109 | 1,522,727 |
| Lease Liability - Short-term | 278,737 | 567,052 | 192,746 | 567,052 |
| Lease Liability - Long-term | 407,085 | 955,675 | 289,363 | 955,675 |

Upon adoption of IFRS 16, the Group's lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the Group's incremental borrowing rate of 12.75%. In June 2019, the lease for Head Office was terminated since the Company opted not to renew the lease which resulted to the decrease in the lease liability by K1,239,199.

## 29 CAPITAL RISK MANAGEMNT

In accordance with the requirements of the Banks and Financial Institutions Act 2000, the following information is disclosed with respect to Finance Corporation Limited:

| | 2019 | 2018 |
|---|---|---|
| | K | K |
| Core compliance ('000) | 124,789 | 72,347 |
| Supplementary capital ('000) | 42,062 | 58,877 |
| Risk weighted assets ('000) | 216,562 | 201,846 |
| ~~Tier 1 capital adequacy ratio~~ | ~~57.62%~~ | ~~35.84%~~ |
| Minimum required tier 1 capital adequacy ratio | 8.00% | 8.00% |
| Total capital adequacy ratio | 69.17% | 60.00% |
| Minimum required total capital adequacy ratio | 12.00% | 12.00% |
| Leverage capital ratio | 43.70% | 27.20% |
| Minimum required leverage capital ratio | 6.00% | 6.00% |

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## 30 LIQUIDITY RISK

| CONSOLIDATED<br>As at 31 December 2019 | Due in 12 months or less<br>K | Due after 12 months to 2 years<br>K | Due after 2 years<br>K | Total<br>K |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash on hand and at bank | 17,486,066 | - | - | 17,486,066 |
| Due from other banks (BPNG) | 37,732,440 | - | - | 37,732,440 |
| Commercial leases | 792,705 | 526,340 | - | 1,319,045 |
| Loans | 70,383,197 | 42,392,038 | 57,082,393 | 169,857,628 |
| Other receivables | 444,517 | - | - | 444,517 |
| Financial assets measured at FVOCI | - | - | 17,085,956 | 17,085,956 |
| Total monetary assets | 126,838,925 | 42,918,378 | 74,168,349 | 243,925,652 |
| **Liabilities** | | | | |
| Deposits held | 109,980,653 | 1,830,813 | - | 111,811,466 |
| Payables | 9,783,699 | 1,857,793 | - | 11,641,492 |
| Bonds held | - | - | 401,500 | 401,500 |
| Total monetary liabilities | 119,764,352 | 3,688,606 | 401,500 | 123,854,458 |

| COMPANY<br>As at 31 December 2019 | Due in 12 months or less<br>K | Due after 12 months to 2 years<br>K | Due after 2 years<br>K | Total<br>K |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash on hand and at bank | 16,835,289 | - | - | 16,835,289 |
| Due from other banks (BPNG) | 37,732,440 | - | - | 37,732,440 |
| Commecial leases | 792,705 | 526,340 | - | 1,319,045 |
| Loans | 70,383,197 | 42,392,038 | 57,082,393 | 169,857,628 |
| ~~Other receivables~~ | ~~417,155~~ | ~~-~~ | ~~-~~ | ~~417,155~~ |
| Financial assets measured at FVOCI | - | - | 17,085,956 | 17,085,956 |
| Total monetary assets | 126,160,786 | 42,918,378 | 74,168,349 | 243,247,513 |
| **Liabilities** | | | | |
| Deposits held | 110,414,595 | 1,830,813 | - | 112,245,408 |
| Other payables | 9,079,383 | 1,857,793 | - | 10,937,176 |
| Bonds held | - | - | 401,500 | 401,500 |
| Total monetary liabilities | 119,493,978 | 3,688,606 | 401,500 | 123,584,084 |

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## 30 LIQUIDITY RISK (Continued)

| **CONSOLIDATED**<br>**As at 31 December 2018** | **Due in 12 months or less**<br>**K** | **Due after 12 months to 2 years**<br>**K** | **Due after 2 years**<br>**K** | **Total**<br>**K** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash on hand and at bank | 43,001,893 | - | - | 43,001,893 |
| Due from other banks (BPNG) | 14,749,400 | - | - | 14,749,400 |
| Commercial leases | 1,222,756 | 382,980 | - | 1,605,736 |
| Loans | 71,502,368 | 28,352,305 | 47,397,529 | 147,252,202 |
| Other receivables | 2,685,835 | - | - | 2,685,835 |
| Financial assets measured at FVOCI | - | - | 14,755,507 | 14,755,507 |
| Total monetary assets | 133,162,252 | 28,735,285 | 62,153,036 | 224,050,573 |
| **Liabilities** | | | | |
| Deposits held | 110,276,743 | 4,635,821 | - | 114,912,564 |
| Payables | 6,923,165 | 1,645,210 | - | 8,568,375 |
| Bonds held | - | - | 401,500 | 401,500 |
| Total monetary liabilities | 117,199,908 | 6,281,031 | 401,500 | 123,882,439 |

| **COMPANY**<br>**As at 31 December 2018** | **Due in 12 months or less**<br>**K** | **Due after 12 months to 2 years**<br>**K** | **Due after 2 years**<br>**K** | **Total**<br>**K** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash on hand and at bank | 42,533,004 | - | - | 42,533,004 |
| Due from other banks (BPNG) | 14,749,400 | - | - | 14,749,400 |
| Commercial leases | 1,222,756 | 382,980 | - | 1,605,736 |
| Loans | 71,502,368 | 28,352,305 | 47,397,529 | 147,252,202 |
| Other receivables | 2,664,314 | - | - | 2,664,314 |
| Financial assets measured at FVOCI | - | - | 14,755,507 | 14,755,507 |
| Total monetary assets | 132,671,842 | 28,735,285 | 62,153,036 | 223,560,163 |
| **Liabilities** | | | | |
| Deposits held | 110,635,265 | 4,635,821 | - | 115,271,086 |
| Other payables | 5,630,276 | 1,645,210 | - | 7,275,486 |
| Bonds held | - | - | 401,500 | 401,500 |
| Total monetary liabilities | 116,265,541 | 6,281,031 | 401,500 | 122,948,072 |

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## 30 LIQUIDITY RISK (Continued)

**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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | K | K | K | K |
| Financial assets measured at FVOCI | 54,818,396 | 29,504,907 | 54,818,396 | 29,504,907 |
| Loans | 171,176,673 | 148,857,938 | 171,176,673 | 148,857,938 |
| Other receivables | 1,196,131 | 4,451,678 | 799,118 | 3,325,381 |
| Cash and cash equivalents | 17,486,066 | 43,001,893 | 16,835,289 | 42,533,004 |
| | 244,677,266 | 225,816,416 | 243,629,476 | 224,221,230 |

The aging of loans (net of unearned charges and provisions) at the reporting date was:

| | | | | |
|---|---|---|---|---|
| Not past due | 114,885,388 | 73,497,441 | 114,885,388 | 73,497,441 |
| Past due 1-30 days | 33,155,366 | 28,904,788 | 33,155,366 | 28,904,788 |
| Past due 31-180 days | 9,409,668 | 37,795,800 | 9,409,668 | 37,795,800 |
| Past due 181-360 days | 8,151,010 | 8,072,076 | 8,151,010 | 8,072,076 |
| Past due more than 1 year | 5,575,241 | 587,833 | 5,575,241 | 587,833 |
| | 171,176,673 | 148,857,938 | 171,176,673 | 148,857,938 |

The quality of those not past due is considered to be recoverable based on a specific and portfolio approach to reviewing recoverability.

## 31 RELATED PARTY TRANSACTIONS

Transactions between the Company and the related parties occurred during the ordinary course of business and were in accordance with the company's usual commercial terms and conditions.

**(a) Transactions with Directors and key management personnel**

**i. Shareholdings of Directors and interested parties in Finance Corporation Limited**

As of 31 December 2019, no Directors of the Company held shares with Finance Corporation Limited.

**ii. Remuneration of Directors**

| | 2019 | 2018 |
|---|---|---|
| | K | K |
| Sir Nagora Bogan | 151,382 | 89,300 |
| David Guinn | 180,899 | 186,945 |
| Noel Colin Mobiha | 155,375 | 148,457 |
| Judith Meara Day | - | 27,632 |
| Goiye Gileng | 155,679 | 136,537 |
| Rosa Teria | 174,822 | 14,748 |
| | 818,157 | 603,619 |

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## 31 RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with executive management:

Key management personnel compensation are as follows:

| | Note | Transaction value for the year ended 31 December 2019 2019 | 2018 |
|---|---|---|---|
| | | K | K |
| Short Term benefits | i | 4,156,544 | 4,184,510 |
| Long term benefits | ii | 178,805 | 124,725 |
| | | 4,335,349 | 4,309,235 |

i. Short-term employee benefits includes 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 premiums, housing, cars and free or subsidised goods or services) for current employees;

ii. Long-term employee benefits include long-service leave. Provision for long service leave only applies after three year service as per the Employment Act of PNG (1978).

### (c) Transactions during the year:

| | 2019 | 2018 |
|---|---|---|
| Payments made on behalf of Sunrise Assurance Brokers Limited | 48,202 | 70,580 |
| Payments received from Sunrise Assurance Brokers Limited | 55,295 | 88,537 |
| Payments made on behalf of Grand Columbia Limited | 548,878 | 417,775 |
| Payments received from Grand Columbia Limited | 539,895 | 705,208 |
| Payments made on behalf of GC Constructions Limited | 804,151 | 950,061 |
| Payments received from GC Constructions Limited | 658,144 | 949,583 |

i. Payments made on behalf of Sunrise Assurance Brokers Limited include newspaper advertisements, motor vehicle repairs, staff medical care and TV advertisements.
ii. Payments made on behalf of Grand Columbia Limited include insurance, fuel, telephone, newspaper advertisements, motor vehicle repairs and staff medical care.
iii. Payments made on behalf of GC Constructions Limited include salaries for expatriate staff, insurance, fuel, telephone, newspaper advertisements, motor vehicle repairs and staff medical care.

| | CONSOLIDATED 2019 | 2018 | COMPANY 2019 | 2018 |
|---|---|---|---|---|
| | K | K | K | K |
| **(d) Due from related entities:** | | | | |
| Grand Columbia Limited | 11,467 | 2,484 | 11,467 | 2,484 |
| GC Construction Limited | 146,484 | 477 | 146,484 | 477 |
| Sunrise Assurance Brokers Limited | - | - | (3,514) | 3,579 |
| | 157,951 | 2,961 | 154,437 | 6,540 |

Included in loans to customers (refer note 15) are loans to Grand Columbia Limited amounting to K4,879,476 (2018: 5,521,845). The loans are secured for terms ranging from 10 to 15 years at interest rate ranging from 12.75% to 13.85%.

**FINANCE CORPORATION LIMITED**
**AND ITS SUBSIDIARY COMPANY**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## 32 CONTINGENT LIABILITIES

At the date of this report, the Directors are not aware of any contingent liabilities which are in existence and would materially affect these financial statements.

## 33 SEGMENT INFORMATION

**Business segment**

The Finance Corporation Limited Group operates in the business segments of:

- Financial Services
- Insurance Broker

**Geographical segment**

The Finance Corporation Limited Group operates exclusively in Papua New Guinea.

## 34 HOLDING COMPANY

Finance Corporation Limited is a wholly owned subsidiary of Grand Columbia Limited, a company incorporated in Papua New Guinea.

## 35 EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are of the opinion that 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 to affect significantly the operations of the Group, the results of the operations, or the state of affairs of the Group, in subsequent financial years.

## FINANCE CORPORATION LIMITED

### DETAILED INCOME STATEMENT
### FOR THE YEAR ENDED 31 DECEMBER 2019

| | 2019 | 2018 |
|---|---|---|
| | K | K |
| **INCOME** | | |
| Income from lending | 85,958,207 | 80,039,973 |
| Default fees | 1,543,405 | 2,164,197 |
| Fees | 1,084,357 | 1,272,209 |
| | 88,585,969 | 83,476,379 |
| **COST OF FUNDS** | | |
| Interest | 5,274,636 | 5,036,548 |
| Stamp duty | 11,140 | 2,316 |
| | 5,285,776 | 5,038,864 |
| **GROSS PROFIT FROM FINANCE ACTIVITIES** | 83,300,193 | 78,437,515 |
| **OTHER INCOME/(EXPENSES)** | | |
| Interest from financial institutions | 990,892 | 585,387 |
| Rent | 2,982,911 | 4,009,114 |
| Sundry income | 73,892 | 200,409 |
| Dividend income from shares | 2,055,766 | 1,858,216 |
| Asset revaluation | - | 166,851 |
| | 6,103,461 | 6,819,977 |
| | 89,403,654 | 85,257,492 |
| **EXPENSES** | 38,861,555 | 32,076,455 |
| **OPERATING PROFIT FOR THE YEAR** | **50,542,099** | **53,181,037** |

**FINANCE CORPORATION LIMITED**

**DETAILED INCOME STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | 2019 | 2018 |
|---|---|---|
| | K | K |
| **EXPENSES** | | |
| Accounting fees | 7,342 | 17,663 |
| Audit fees | 27,743 | 535,042 |
| Advertising and promotion | 1,629,072 | 1,945,473 |
| Amortisation | 54,810 | 78,297 |
| Bank charges | 45,098 | 50,296 |
| Clothing | 227,121 | 67,835 |
| Collection | 3,799,355 | 3,679,446 |
| Consultants | 1,234,254 | 1,684,887 |
| Depreciation | 1,055,779 | 908,550 |
| Directors' fees | 818,157 | 603,619 |
| Donations | 18,979 | 47,813 |
| Doubtful debts | 12,410,245 | 6,452,962 |
| Education | 71,766 | 63,913 |
| Electricity and water | 317,526 | 200,254 |
| Employee benefits | 314,285 | (458) |
| Entertainment | 31,697 | 14,327 |
| Fees and registrations | 101,377 | 88,805 |
| Impairment of investment | 907,339 | 615,446 |
| Insurance | 222,419 | 215,794 |
| Leave fares | 134,374 | 195,913 |
| Legal | 241,178 | 97,821 |
| Loss on disposal of fixed assets | 26,142 | 31,497 |
| Motor vehicle | 290,831 | 347,418 |
| Postage, freight and courier | 31,935 | 42,094 |
| Printing and stationery | 986,935 | 854,555 |
| Property maintenance | 205,493 | 125,836 |
| Rates | 46,631 | 53,111 |
| Recruitment | 43,941 | 88,125 |
| Rent | 1,449,909 | 1,150,414 |
| Amortisation of ROU | 518,799 | 578,759 |
| Interest on lease liability | 181,010 | 258,271 |
| Repairs and maintenance | 35,818 | 33,743 |
| Salaries and wages | 9,332,525 | 9,234,799 |
| Security | 482,850 | 489,351 |
| Staff housing allowance | 23,024 | 33,801 |
| Staff training | 145,914 | 86,907 |
| Staff welfare | 276,879 | 205,875 |
| Subscriptions | 25,250 | 19,751 |
| Superannuation - NPF | 322,490 | 302,338 |
| Telephone, facsimile and internet | 347,553 | 331,885 |
| Travel | 417,710 | 244,227 |
| **TOTAL EXPENSES** | **38,861,555** | **32,076,455** |