FINANCE CORPORATION LIMITED

AND ITS SUBSIDIARY COMPANY

CONSOLIDATED & SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCE CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANY

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FINANCE CORPORATION LIMITED AND ITS SUBSIDIARY COMPANY

CORPORATE DIRECTORY

REGISTERED OFFICE

FinCorp Gaden
Allotment 15, Section 54,
Varahe Road, Gordons,
N.C.D.
Papua New Guinea

PRINCIPAL BUSINESS ADDRESS

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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 2022.

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 K25,253,139 (2021 – K26,868,105). The Company's total comprehensive income after taxation amounted to K25,253,139 (2021 – K26,868,105).

DIVIDEND

Dividends of K13,419,000 and K4,970,000 were declared on 4 May 2022 and 5 December 2022, paid over two payments on 13 and 16 May 2022 and 16 December 2022, respectively. These dividends were at a rate of one kina eighty-nine toea (K1.89) 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 22nd day of March 2023

....

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 statement 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 2022,

   (b) the statement 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 2022,

   (c) the statement 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 2022,

   (d) the statement 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 2022,

   (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 an 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, 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 are no actual or potential conflicts of interest with respect to the 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 statement. 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 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 22nd day of March 2023

....

Director **Director**

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

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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 2022, 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 2022 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.

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 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.

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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

Building a better working world

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

M. Savage

Matthew Savage
Partner

Registered under the Accountants Act 1996
Port Moresby this 23rd day of March 2023

FINANCE CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANY

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	CONSOLIDATED		COMPANY	
		2022	2021	2022	2021
		K	K	K	K
Interest income	7	73,457,526	74,768,869	73,457,526	74,768,869
Interest expense	7	(6,401,420)	(4,427,178)	(6,399,220)	(4,427,770)
Net interest income		67,056,106	70,341,691	67,058,306	70,341,099
Fee and commission income	8	717,424	680,172	-	-
Finance charges	8	(15,823)	(18,666)	(15,228)	(18,136)
Net fee and commission income		701,601	661,506	(15,228)	(18,136)
Interest income from other financial instruments at amortised cost		3,163,582	1,459,249	3,163,582	1,459,249
Dividend income	9	2,491,646	2,232,767	2,491,646	2,232,767
Other income	10	2,723,247	5,430,503	2,723,247	5,424,034
Total Income		**76,136,182**	**80,125,716**	**75,421,553**	**79,439,013**
Impairment losses on investment in subsidiary		-	-	(67,595)	(22,161)
Impairment losses on loans to customers	13	(8,819,611)	(14,685,818)	(8,819,611)	(14,685,818)
Personnel expenses	11	(13,743,373)	(12,392,748)	(13,387,492)	(12,099,980)
Depreciation and amortisation	22, 24	(3,656,459)	(2,361,407)	(3,617,301)	(2,257,632)
Other expenses	12	(15,846,149)	(14,179,152)	(15,458,964)	(13,866,831)
Profit before taxation		**34,070,590**	**36,506,591**	**34,070,590**	**36,506,591**
Income tax expense	25	9,522,275	10,292,111	9,522,275	10,292,111
Profit for the period		**24,548,315**	**26,214,480**	**24,548,315**	**26,214,480**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Unrealised gain on equity investments at FVOCI		704,824	189,960	704,824	189,960
Gain on revaluation of land and buildings		-	463,665	-	463,665
Total comprehensive income		**K 25,253,139**	**K 26,868,105**	**K 25,253,139**	**K 26,868,105**
Basic and diluted earnings per share		**K 3.56**	**K 3.78**	**K 3.56**	**K 3.78**

The accompanying notes on pages 12 to 46 form part of these financial statements.

FINANCE CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANY

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	NOTES	CONSOLIDATED		COMPANY	
		2022	2021	2022	2021
		K	K	K	K
ASSETS					
Cash and cash equivalents	14	16,736,609	28,261,421	13,135,051	28,184,949
Investment securities	21	124,742,468	93,632,060	124,742,468	93,632,060
Loans to customers	15	136,736,676	138,330,132	136,736,676	138,330,132
Other assets	16	4,941,383	2,742,493	2,104,349	1,148,562
Investment in subsidiary	18	-	-	694,785	762,380
Investment properties	23	30,150,000	30,150,000	30,150,000	30,150,000
Property and equipment	24	17,965,666	12,698,370	17,880,356	12,581,792
Prepaid income tax	25	3,232,783	-	3,209,600	-
Deferred tax	25	7,749,836	7,727,784	7,749,836	7,727,784
Intangible assets	22	164,912	235,588	164,912	235,588
TOTAL ASSETS		342,420,333	313,777,848	336,568,033	312,753,247
LIABILITIES					
Payables	19	11,592,193	5,469,517	5,806,323	4,257,013
Term deposits	27	127,270,227	114,717,702	127,270,227	114,900,702
Provision for employee benefits	26	2,432,564	2,492,699	2,415,897	2,492,699
Provision for taxation	25	-	1,796,387	-	1,819,358
Rental bonds		401,500	401,500	401,500	401,500
Lease liabilities	28	6,850,920	1,891,253	6,801,157	1,873,185
TOTAL LIABILITIES		148,547,404	126,769,058	142,695,104	125,744,457
NET ASSETS		**193,872,929**	**K 187,008,790**	**K 193,872,929**	**K 187,008,790**
SHAREHOLDER'S EQUITY					
Issued share capital	20	7,100,000	7,100,000	7,100,000	7,100,000
Reserves	17	6,932,310	6,227,486	6,932,310	6,227,486
Retained earnings		179,840,619	173,681,304	179,840,619	173,681,304
EQUITY		**K 193,872,929**	**K 187,008,790**	**K 193,872,929**	**K 187,008,790**

The accompanying notes on pages 12 to 46 form part of these financial statements.

FINANCE CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

CONSOLIDATED	SHARE CAPITAL K	RESERVES K	RETAINED EARNINGS K	TOTAL K
Total equity at 01.01.2021	7,100,000	5,573,861	158,613,824	171,287,685
Total comprehensive income for the year after taxation	-	653,625	26,214,480	26,868,105
Dividend	-	-	(11,147,000)	(11,147,000)
Balance at 01.01.2022	7,100,000	6,227,486	173,681,304	187,008,790
Total comprehensive income for the year after taxation	-	704,824	24,548,315	25,253,139
Dividend	-	-	(18,389,000)	(18,389,000)
Balance at 31.12.2022	**K 7,100,000**	**K 6,932,310**	**K 179,840,619**	**K 193,872,929**

COMPANY	SHARE CAPITAL K	RESERVES K	RETAINED EARNINGS K	TOTAL K
Total equity at 01.01.2021	7,100,000	5,573,861	158,613,824	171,287,685
Total comprehensive income for the year after taxation	-	653,625	26,214,480	26,868,105
Dividend	-	-	(11,147,000)	(11,147,000)
Balance at 01.01.2022	7,100,000	6,227,486	173,681,304	187,008,790
Total comprehensive income for the year after taxation	-	704,824	24,548,315	25,253,139
Dividend	-	-	(18,389,000)	(18,389,000)
Balance at 31.12.2022	**K 7,100,000**	**K 6,932,310**	**K 179,840,619**	**K 193,872,929**

The accompanying notes on pages 12 to 46 form part of these financial statements.

FINANCE CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	CONSOLIDATED		COMPANY	
		2022	2021	2022	2021
		K	K	K	K
CASH FLOW FROM OPERATING ACTIVITIES					
Profit before taxation		34,070,590	36,506,591	34,070,590	36,506,591
Adjustments for:					
- Interest income		(73,457,526)	(74,768,869)	(73,457,526)	(74,768,869)
- Interest income from other financial instruments at amortised cost		(3,163,582)	(1,459,249)	(3,163,582)	(1,459,249)
- Rent income		(2,716,371)	(5,128,617)	(2,716,371)	(5,128,617)
- Dividend income		(2,491,646)	(2,232,767)	(2,491,646)	(2,232,767)
- Interest expense		6,401,420	4,427,178	6,399,220	4,427,770
- Depreciation & amortisation	22, 24	3,656,459	2,361,407	3,617,301	2,257,632
- Loss on disposal of fixed assets		344,989	134,985	273,222	134,985
- Impairment of loans at amortised cost		8,819,611	14,685,818	8,819,611	14,685,818
- Impairment of investment in subsidiary		-	-	67,595	22,161
		(28,536,056)	(25,723,523)	(28,581,586)	(25,804,545)
Movements in operating assets & liabilities:					
- Decrease/(increase) in other assets		(2,132,152)	(489,332)	(889,049)	732,697
- Increase in term deposits		11,848,557	18,906,816	11,665,557	18,615,816
- Increase/(decrease) in payables		6,122,676	50,249	1,549,310	(168,359)
- Increase/(decrease) in employee benefits		(60,135)	200,704	(76,802)	200,704
		15,778,946	18,668,437	12,249,016	19,380,858
- Taxation paid		(14,573,497)	(6,881,469)	(14,573,285)	(6,879,761)
- Interest & net loan repayment received		69,328,215	63,262,496	69,328,215	63,262,496
- Rent received		2,716,371	5,121,467	2,716,371	5,121,467
- Dividend received		2,491,646	2,232,767	2,491,646	2,232,767
- Interest paid		(5,697,452)	(4,397,947)	(5,695,252)	(4,398,539)
Cash flows from operating activities		41,508,173	52,282,228	37,935,125	52,914,743
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property & equipment	23,24	(2,223,770)	(1,873,290)	(2,207,535)	(1,873,290)
Purchase of intangible assets	22	-	(34,418)	-	(34,418)
Proceeds from sale of property & equipment		36,600	30,000	36,600	30,000
Acquisition of investment securities in T-bills & C-bills		(30,405,584)	(23,158,618)	(30,405,584)	(23,158,618)
Cash flows used in investing activities		(32,592,754)	(25,036,326)	(32,576,519)	(25,036,326)
CASH FLOW FROM FINANCING ACTIVITIES					
Loans to related parties		-	7,765	-	14,234
Dividend paid		(18,389,000)	(11,147,000)	(18,389,000)	(11,147,000)
Payment of principal portion of lease liabilities		(2,051,231)	(1,297,544)	(2,019,504)	(1,197,890)
Cash flows used in financing activities		(20,440,231)	(12,436,779)	(20,408,504)	(12,330,656)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(11,524,812)	14,809,123	(15,049,898)	15,547,761
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		28,261,421	13,452,298	28,184,949	12,637,188
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**K 16,736,609**	**K 28,261,421**	**K 13,135,051**	**K 28,184,949**

The accompanying notes on pages 12 to 46 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 2022

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 FinCorp Gaden, Allotment 15, Section 54, Varahe Road, Gordons, National Capital District, Papua New Guinea. The consolidated financial statements of the Company as at and for the year ended 31 December 2022 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 22nd of March 2023.

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:

- financial assets and liabilities held for trading, financial assets designated at fair value through profit or loss (FVPL), 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 and items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to the judgements/estimates involved.

(i) Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

FINANCE CORPORATION LIMITED
AND ITS SUBSIDIARY COMPANY

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2 BASIS OF PREPARATION (Continued)

Use of estimates and judgments (continued)

(i) Impairment losses on financial assets (continued)

Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- Development of ECL models, including various formulas and choice of inputs
- The segmentation of financial assets for the purpose of assessing and measuring ECL
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values and the effect on probability of default (PD), exposure at default (EAD) and loss given default (LGD).
- Selection of forward-looking macroeconomic scenarios and their probability weightings to derive the economic inputs into the ECL model.

It is the Group's policy to regularly review its model in the context of actual loss experience and adjust where necessary.

(ii) Revaluation of land and building and equipment and investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group carries its land and building classified under property, plant and equipment at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Land and buildings and investment properties were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. An independent valuation was performed on 18th and 19th August 2021 by Professionals NCD Limited. The valuation methods applied were capitalisation rate and direct sales method. The results of this valuation indicated that the fair values of land and buildings and investment properties have not changed materially.

(iii) Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(iv) Determining the incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group's 'would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

2 BASIS OF PREPARATION (Continued)

Use of estimates and judgments (continued)

(iv) Determining the incremental borrowing rate (IBR) (continued)

The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates. The Group has used its internal lending rate (ILR) as the IBR.

(v) Employee provisions

The Group estimates the provision for employment benefits using the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(vi) Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items.

(vii) Recognition of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets have been recognised in both periods as management believes that sufficient future taxable profits will be available against which the deductible temporary differences can be utilised.

(viii) Impairment assessment of investment in a subsidiary

The Group reviews its investment in subsidiary for impairment in value. Impairment is apparent when there is evidence of deterioration in the financial health of the investee company, significant underperformance relative to expected historical or projected future operations results and significant negative industry or economic trends. If such indications are present and where the carrying amount exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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.

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 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.

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, fair value gains and losses on financial assets at fair value through profit or loss and investment properties. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

(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.

(c) Provisions

Provisions are recognised when the Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial instruments - initial recognition

Date of recognition
Financial assets and liabilities are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans to customers are recognised when funds are transferred to the customers' accounts. The Group recognises term deposits from customers when funds are transferred to the Group.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 3(e). Financial instruments are initially measured at their fair value (as defined in Note 4), except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables, loans and advances are measured at amortised cost.

(ii) Measurement categories of financial assets and liabilities

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 contractuial cash flow characteristics.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

(e) Financial assets and liabilities

A financial asset is measured at amortised cost if it meets both of the following conditions and 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.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial assets and liabilities (continued)

Classification and measurement of financial assets and financial liabilities

Under IFRS 9, the Group classified and measured the following financial assets and liabilities:

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

The business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model unless the business model changes, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Solely Payments of Principal and Interest (SPPI) test

The Group assesses the contractual terms of the financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financial assets and liabilities (continued)

For BPNG Central and Treasury bills, under investment securities classification, the 12-month ECL for these financial instruments are not material as:

• 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 Group'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.

(f) Derecognition of financial assets and liabilities

Derecognition due to the substantial modification of terms and conditions

The Group derecognises a financial asset, such as loans to customers, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be puchased or originated credit impaired (POCI). When assessing whether or not to derecognise a loan to a member, amongst others, the Group considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Group considers a modification substantially based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Derecognition other than for substantial modification (continued)

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Group cannot sell or pledge the original asset other than as security or collateral to the eventual recipients.
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset, or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Financial Liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities 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, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original liability and the consideration paid is recognised in profit or loss.

(g) Impairment of financial assets

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 measured 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.

(i) Overview of the Expected Credit Loss (ECL) principles

The Group records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the Lifetime Expected Credit Loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) The calculation of ECLs

The Group calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR). A cash shortfall is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, an upturn, and a downturn). Each of these is associated with different PDs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Group recognises the LTECLs for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) The calculation of ECLs (continued)

In its ECL model, the Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past experience, current economic conditions but not forward looking information.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

(iii) Write-offs

Financial assets are written off either partially or in their entirety only when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment expense.

(h) 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 or 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% - 11%
Building improvements	4.5% - 15%
Plant, equipment and furniture	7.5% - 30%
Leasehold improvements	20%
Motor vehicles	30%

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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 or loss.

(j) 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.

(k) 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.

(l) 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 realised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Leases

Where the company is the lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of comprehensive income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as income in the period in which they are earned.

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.

(n) Non Financial Assets Impairment

The carrying amounts of the Group'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.

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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 categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Group has access to at the measurement date. The Group considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.

- **Level 2 financial instruments** – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs that are significant to the entire measurement, the Group will classify the instruments as Level 3.

- **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as a whole. The Group periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(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.

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4 DETERMINATION OF FAIR VALUES (Continued)

(a) Investment Property (continued)

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) 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.

(c) Cash and cash equivalents and Central Bills and Treasury Bills

The carrying values of 'Cash and cash equivalents' approximate their net fair value as they are short term in nature or are receivable on demand. The fair value of Central Bills and Treasury Bills is determined using discount cash flow analysis with terms to maturity that match, as closely as possible, to the estimated future cash flows.

(d) Loans and advances

The carrying value of customer loans is net of unearned income and both individual and collective provisions for impairment. The net fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

(d) Equity instruments

The majority of equity instruments are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1. Equity instruments in non-listed entities is valued based on a combination of the most recent market transactions, the net assets value per share and the net tangible asset value per share of the respective entity.

(e) Deposits

The fair value of term deposits are estimated using discounted cash flow analysis based on current market rates for equivalent term deposits.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied the standards and amendments, which were effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The Group does not expect the pronouncements to have significant impact on its financial statements, unless otherwise indicated.

Future Changes in Accounting Policies
There are pronouncements issued but not yet effective during the year and the Group does not expect these pronouncements to have significant impact on its financial statements. The Group intends to adopt these pronouncements when they become effective.

The Group continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2022 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.

(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 and commercial/corporate 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 that have a high credit standing. The Group has satisfactorily provided for bad debts at balance date.

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6 FINANCIAL INSTRUMENTS (Continued)

(iv) Interest rate risk

The Group has short-term deposits with various financial institutions and commercial banks as well as term deposits issued to customers at commercial fixed 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	
	2022	**2021**	**2022**	**2021**
	K	**K**	**K**	**K**
Fixed rate instruments				
Central and Treasury Bills	106,209,192	75,803,608	106,209,192	75,803,608
Term Deposits	(127,270,227)	(114,717,702)	(127,270,227)	(114,900,702)
	(21,061,035)	(38,914,094)	(21,061,035)	(39,097,094)
Variable rate instruments				
Loans and advances to customers	136,736,676	138,330,132	136,736,676	138,330,132
	136,736,676	138,330,132	136,736,676	138,330,132

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 (amounts are pre-tax). This analysis assumes that all other variables, remain constant. The analysis is performed on the same basis for 2021.

	100bp increase		100bp decrease	
	Profit or Loss (Pre-tax)	Equity (Pre-tax)	Profit or Loss (Pre-tax)	Equity (Pre-tax)
GROUP				
Variable rate instruments				
As at 31 December 2022	1,367,367	1,367,367	(1,367,367)	(1,367,367)
As at 31 December 2021	1,383,301	1,383,301	(1,383,301)	(1,383,301)
COMPANY				
Variable rate instruments				
As at 31 December 2022	1,367,367	1,367,367	(1,367,367)	(1,367,367)
As at 31 December 2021	1,383,301	1,383,301	(1,383,301)	(1,383,301)

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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 (refer to Note 30).

		CONSOLIDATED		COMPANY	
		2022	2021	2022	2021
		K	K	K	K
7	**INTEREST INCOME**				
	Interest from consumer loans	58,385,597	59,763,040	58,385,597	59,763,040
	Interest from commercial loans	13,782,383	13,497,931	13,782,383	13,497,931
	Default fees and interest	620,450	675,751	620,450	675,751
	Processing fees	469,236	507,634	469,236	507,634
	Documentation fees	199,860	324,513	199,860	324,513
		73,457,526	74,768,869	73,457,526	74,768,869
	INTEREST EXPENSE				
	Interest paid on term deposits	5,505,777	4,090,350	5,507,181	4,101,738
	Interest expense on lease liability	895,643	336,828	892,039	326,032
		6,401,420	4,427,178	6,399,220	4,427,770
	Net interest income	67,056,106	70,341,691	67,058,306	70,341,099
8	**FEES AND COMMISSION INCOME**				
	Brokerage and broker fees	717,424	680,172	-	-
		717,424	680,172	-	-
	FINANCE CHARGES				
	Bank charges	15,823	18,666	15,228	18,136
	Net fees and commission income	701,601	661,506	(15,228)	(18,136)
9	**DIVIDEND INCOME**				
	Share dividends on instruments at FVOCI	2,491,646	2,232,767	2,491,646	2,232,767
10	**OTHER INCOME**				
	Rent	2,716,371	5,128,617	2,716,371	5,128,617
	Gain on investment property revaluation	-	250,000	-	250,000
	Others	6,876	51,886	6,876	45,417
		2,723,247	5,430,503	2,723,247	5,424,034

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	CONSOLIDATED		COMPANY	
	2022	2021	2022	2021
	K	K	K	K
11 PERSONNEL EXPENSES				
Salaries and wages	12,363,579	11,237,307	12,058,108	10,966,871
Other	1,379,794	1,155,441	1,329,384	1,133,109
	13,743,373	12,392,748	13,387,492	12,099,980
EMPLOYEES				
Average number of employees	142	141	138	137
12 OTHER EXPENSES				
Accountancy and audit	296,963	250,941	280,603	235,241
Advertising and promotion	3,584,516	1,495,768	3,577,603	1,490,351
Consultants	898,229	2,200,451	894,591	2,193,211
Directors' fees	1,097,460	1,017,118	1,052,460	965,122
Donations	252,544	23,166	252,544	23,166
Electricity and water	347,421	293,824	344,192	281,985
Government 5% fee	3,537,072	3,686,961	3,537,072	3,686,961
Legal fees	533,492	491,160	533,492	489,855
Loss on disposal of fixed assets	344,989	133,245	273,222	133,245
Motor vehicles	363,739	301,145	356,481	296,135
Printing and stationery	320,606	388,864	308,241	373,494
Rent	1,075,428	2,076,269	1,040,235	1,990,469
Security	556,633	392,998	556,633	392,998
Telephone, facsimile and internet	1,159,569	1,094,703	1,139,314	1,072,889
Travel	321,319	117,982	321,094	115,847
Other	1,156,169	214,557	991,187	125,862
	15,846,149	14,179,152	15,458,964	13,866,831
13 IMPAIRMENT OF FINANCIAL ASSETS				
ECL Impairment on loans at amortised cost	8,819,611	14,685,818	8,819,611	14,685,818
14 CASH AND CASH EQUIVALENTS				
Cash on hand and at bank	16,736,609	28,261,421	13,135,051	28,184,949

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 0.05%.

15 LOANS TO CUSTOMERS				
Consumer loans	65,501,547	62,282,820	65,501,547	62,282,820
Commercial and corporate loans	98,022,219	102,338,727	98,022,219	102,338,727
Less: Impairment loss allowance	(26,787,090)	(26,291,415)	(26,787,090)	(26,291,415)
	136,736,676	138,330,132	136,736,676	138,330,132

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15 LOANS TO CUSTOMERS (continued)

(a) Ageing Analysis

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

	CONSOLIDATED		COMPANY	
	2022	2021	2022	2021
	K	K	K	K
Not past due	98,546,242	96,423,386	98,546,242	96,423,386
Past due 1-30 days	16,196,741	12,584,067	16,196,741	12,584,067
Past due 31-180 days	7,390,383	14,935,328	7,390,383	14,935,328
Past due 181-360 days	6,721,904	9,880,202	6,721,904	9,880,202
Past due more than 1 year	7,881,406	4,507,149	7,881,406	4,507,149
	136,736,676	**138,330,132**	**136,736,676**	**138,330,132**

(b) Security dissection

Secured by mortgage over real estate	64,951,910	75,482,861	64,951,910	75,482,861
Secured by mortgage over motor vehicles and other equipment	33,070,309	26,855,866	33,070,309	26,855,866
Wholly unsecured	65,501,547	62,282,820	65,501,547	62,282,820
	163,523,766	**164,621,547**	**163,523,766**	**164,621,547**

The Group accepts a number of methods for valuing the collateral supporting the loans. Real estate is valued by assessing the current market value using information provided by suitably qualified, independent accredited valuers. Motor vehicles are valued by reference to market indicators. For secured accounts under Stage 3, the Group use the estimated sales value of the collaterals.

(c) Impairment of loans and advances

(i) Impairment allowance for loans and advances

Beginning Balance	26,291,415	23,183,960	26,291,415	23,183,960
Provisions during the year	8,819,611	14,685,818	8,819,611	14,685,818
Write-offs	(8,323,936)	(11,578,363)	(8,323,936)	(11,578,363)
Ending Balance	**26,787,090**	**26,291,415**	**26,787,090**	**26,291,415**

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15 LOANS TO CUSTOMERS (continued)

(c) Impairment of loans and advances (continued)

(ii) Analysis of loans and advances

	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Balance as at 1 January 2022	115,876,052	15,109,590	33,635,905	164,621,547
Loans originated	90,761,992	-	-	90,761,992
Transferred to Stage 1	5,049,012	(3,393,071)	(1,655,941)	-
Transferred to Stage 2	(4,821,683)	4,993,597	(171,914)	-
Transferred to Stage 3	(18,935,737)	(1,585,112)	20,520,849	-
Loans repaid	(66,089,133)	(9,801,065)	(7,645,639)	(83,535,837)
Write-offs	-	-	(8,323,936)	(8,323,936)
Balance as at 31 December 2022	**121,840,503**	**5,323,939**	**36,359,324**	**163,523,766**

	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Balance as at 1 January 2021	120,430,161	15,455,093	27,667,416	163,552,670
Loans originated	90,254,224	-	-	90,254,224
Transferred to Stage 1	2,179,533	(1,299,614)	(879,919)	-
Transferred to Stage 2	(13,874,967)	14,159,022	(284,055)	-
Transferred to Stage 3	(20,016,730)	(6,708,998)	26,725,728	-
Loans repaid	(63,096,169)	(6,495,913)	(8,014,902)	(77,606,984)
Write-offs	-	-	(11,578,363)	(11,578,363)
Balance as at 31 December 2021	**115,876,052**	**15,109,590**	**33,635,905**	**164,621,547**

(iii) Impairment provision

	Stage 1 (12 month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
Balance as at 31 December 2022	7,217,955	1,590,008	17,979,127	**26,787,090**
Balance as at 31 December 2021	6,986,118	3,891,073	15,414,224	**26,291,415**

Impairment loss allowance

At 31st December 2022 the Group had provided K26,787,090 (2021:K26,291,415) 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 K8,819,611 (2021: K14,685,818) and wrote-off K8,323,936 (2021: K11,578,363) of receivables.

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	CONSOLIDATED		COMPANY	
	2022	2021	2022	2021
	K	K	K	K
16 OTHER ASSETS				
Trade receivables	2,837,034	1,555,256	-	-
Rental bonds	490,604	316,453	490,604	316,453
Rental receivable	-	7,150	-	7,150
Prepayments	605,792	305,919	605,792	300,675
Accrued interest	543,085	476,347	543,085	476,347
GST	127,962	68,535	127,962	35,104
Others	336,906	12,833	336,906	12,833
	4,941,383	2,742,493	2,104,349	1,148,562
17 RESERVES				
Asset revaluation reserve	4,290,365	4,290,365	4,290,365	4,290,365
Investment revaluation reserve	2,641,945	1,937,121	2,641,945	1,937,121
	6,932,310	6,227,486	6,932,310	6,227,486

The asset revaluation reserve arises on the revaluation of land and buildings. Where revalued land and buildings are sold that portion of the asset revaluation reserve that 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 that relates to that financial asset and is effectively realised, is recognised in equity.

18 INVESTMENT IN SUBSIDIARY

Sunrise Assurance Brokers Limited	-	-	4,000,000	4,000,000
Provision for impairment	-	-	(3,305,215)	(3,237,620)
	-	-	694,785	762,380

Details of the subsidiary are as follows:

Principal activity
The company operates as an insurance broker. As at 31 December 2022, the net assets was K694,785 (2021: K762,380).

Place of incorporation
Papua New Guinea

Ownership interest
100%

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	CONSOLIDATED		COMPANY	
	2022	2021	2022	2021
	K	K	K	K
19 PAYABLES				
Accrued expenses	1,290,572	1,546,799	868,729	1,389,664
Accrued interest payable	2,404,075	1,700,107	2,404,075	1,700,107
Insurance premiums payable	4,974,341	1,055,369	-	-
Others	2,923,205	1,167,242	2,533,519	1,167,242
	11,592,193	5,469,517	5,806,323	4,257,013

The above insurance premiums are payable to Alpha XO Risk & Partners, an overseas underwriter.

20 SHARE CAPITAL				
7,100,000 ordinary shares authorised and issued at K1.00 each (2021: 7,100,000)	7,100,000	7,100,000	7,100,000	7,100,000
Reserves	6,932,310	6,227,486	6,932,310	6,227,486

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 BSP Financial Group Limited Ordinary shares at an original cost of K6.09 per share (2022: 1,015,091 shares at market valuation of K12.41 per share)	6,182,600	6,182,600	6,182,600	6,182,600
Revaluation - life to date	6,414,679	6,252,265	6,414,679	6,252,265
	12,597,279	12,434,865	12,597,279	12,434,865
(b) 3,190,647 Credit Corporation (PNG) Limited Ordinary shares at an original cost of K3.03 per share (2022: 3,190,647 shares at market valuation of K1.85 per share)	9,675,432	9,675,432	9,675,432	9,675,432
Revaluation - life to date	(3,772,735)	(4,315,145)	(3,772,735)	(4,315,145)
	5,902,697	5,360,287	5,902,697	5,360,287
Total investments in listed companies at valuation	18,499,976	17,795,152	18,499,976	17,795,152
(ii) Investments in unlisted companies				
(a) 33,300 Credit & Data Bureau Limited Ordinary shares at K1.00 per share	33,300	33,300	33,300	33,300
Total investment in shares	18,533,276	17,828,452	18,533,276	17,828,452

During the year, the Group received a gross dividend of K1,705,353 (2021: K1,461,731) from BSP Financial Group Limited, a gross dividend of K752,993 (2021: K721,086) from Credit Corporation (PNG) Limited and a gross dividend of K33,300 (2021: K29,950) from Credit & Data Bureau Limited.

The movement in the market value of shares has led to a fair value gain of K704,824 (2021: gain K189,960), which has been recognised through other comprehensive income.

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21 INVESTMENT SECURITIES (Continued)

As at 31 December 2022 the market values of shares in the listed companies were as follows:

BSP Financial Group Limited	K12.41 per share (2021: K12.25)
Credit Corporation (PNG) Limited	K1.85 per share (2021: K1.68)

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, except for Credit and Data Bureau Limited (Level 3).

The Group's listed investments securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. At the reporting date, the exposure to listed investment securities at fair value was K18,499,976. The Group has determined that an increase/(decrease) of 10% on the market price could have an impact of approximately K1,849,998 increase/(decrease) on the income and equity attributable to the Group.

	2022 K	2021 K	2022 K	2021 K
B. Measured at Amortised Cost				
Central bills	68,742,163	33,978,069	68,742,163	33,978,069
Treasury bills	37,467,029	41,825,539	37,467,029	41,825,539
	106,209,192	75,803,608	106,209,192	75,803,608
Total investment securities	124,742,468	93,632,060	124,742,468	93,632,060

22 INTANGIBLE ASSETS

Balance as at 1 January	235,588	299,098	235,588	299,098
Additions	-	34,418	-	34,418
Amortisation for the year	(70,676)	(97,928)	(70,676)	(97,928)
Balance as at 31 December	164,912	235,588	164,912	235,588

23 INVESTMENT PROPERTIES

Balance as at 1 January	30,150,000	29,900,000	30,150,000	29,900,000
Revaluations	-	250,000		250,000
Balance as at 31 December	30,150,000	30,150,000	30,150,000	30,150,000

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 19th August 2021 by Professionals NCD Limited who valued the property at K28,000,000. 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.

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.

Valuation: An independent valuation was performed on 18th August 2021 by Professionals NCD Limited who valued the property at K2,150,000. The valuation was determined by sales of comparable properties within the area.

Fair Value hierarchy

The fair value measurement for investment properties of K30,150,000 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 11.5% and an estimated value per square metre of K2,200. 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	**2022**	**2021**
	K	**K**
Increase of 1% capitalisation rate	(2,239,384)	(2,239,384)
10% increase in rate per square metre	214,660	214,660

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 been depreciated.
• An independent registered valuer was contracted in August 2021 to provide a report on the market value of the investment property.

The following amounts were recognised in the statement of comprehensive income for Sambra Haus:
• Rent received from the investment property amounted to K2,699,516 (2021: K5,067,980)
• Operating expense such as repair and maintenance, insurance and security expenses amounted to K377,989 (2021: K338,936).

Since there is minimal change in the fair value of land and buildings and investment property based on the independent valuation done on 18th and 19th of August 2021, the results of valuation can be relied upon as at 31 December 2022.

24 PROPERTY AND EQUIPMENT

CONSOLIDATED

2022

	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	9,404,633	5,142,193	2,776,835	3,435,609	20,759,270
Additions	827,856	692,881	703,034	7,500,029	9,723,800
Disposals - cost	(752,161)	(127,606)	(115,820)	(654,311)	(1,649,898)
	9,480,328	5,707,468	3,364,049	10,281,327	28,833,172
Accumulated depreciation					
Opening balance	1,808,075	3,129,270	1,495,568	1,627,987	8,060,900
Charge for the year	243,331	522,196	501,318	2,318,869	3,585,714
Disposals	(414,872)	(97,860)	(84,624)	(181,752)	(779,108)
	1,636,534	3,553,606	1,912,262	3,765,104	10,867,506
Written down value as at 31 December 2022	7,843,794	2,153,862	1,451,787	6,516,223	17,965,666

COMPANY

2022

	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	9,313,555	5,025,229	2,679,845	3,166,054	20,184,683
Additions	827,856	682,743	696,937	7,436,675	9,644,211
Disposals - cost	(661,083)	(118,393)	(115,820)	(654,311)	(1,549,607)
	9,480,328	5,589,579	3,260,962	9,948,418	28,279,287
Accumulated depreciation					
Opening balance	1,786,904	3,034,303	1,408,277	1,373,407	7,602,891
Charge for the year	242,545	517,068	497,196	2,289,815	3,546,624
Disposals	(392,915)	(91,293)	(84,624)	(181,752)	(750,584)
	1,636,534	3,460,078	1,820,849	3,481,470	10,398,931
Written down value as at 31 December 2022	7,843,794	2,129,501	1,440,113	6,466,948	17,880,356

Valuation: An independent valuation was performed on 19th August 2021 by Professionals NCD Limited. The valuation method applied was capitalisation rate method. Land and buildings at fair value are categorised at Level 3 in the fair value hierarchy.

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24 PROPERTY AND EQUIPMENT (Continued)

The fair value movement for the year ended 31 December 2022 was nil (2021: K463,665).

Net book value (at cost) of land and buildings as at 31 December 2022 was K2,199,259 (2021: K2,209,631).

Right of Use Asset: The Company recognised the right of use asset on its leases for the branch offices in Kokopo, Mt. Hagen, Lae, Port Moresby and FinCorp Gaden and for the accommodations for the senior staff. At 31 December 2022, the net carrying amount of right of use asset was K6,466,948 (2021: K1,792,647).

CONSOLIDATED
2021

	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	8,260,545	5,121,558	2,419,402	3,081,634	18,883,139
Additions	680,423	718,445	474,423	1,704,190	3,577,481
Revaluation	463,665	-	-	-	463,665
Disposals - cost	-	(697,810)	(116,990)	(1,350,215)	(2,165,015)
	9,404,633	5,142,193	2,776,835	3,435,609	20,759,270
Accumulated depreciation					
Opening balance	1,649,283	3,291,311	1,175,877	905,457	7,021,928
Charge for the year	158,792	397,457	410,008	1,297,222	2,263,479
Disposals	-	(559,498)	(90,317)	(574,692)	(1,224,507)
	1,808,075	3,129,270	1,495,568	1,627,987	8,060,900
Written down value as at 31 December 2021	7,596,558	2,012,923	1,281,267	1,807,622	12,698,370

COMPANY
2021

	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	8,169,467	5,004,594	2,322,412	2,812,079	18,308,552
Additions	680,423	718,445	474,423	1,704,190	3,577,481
Revaluation	463,665	-	-	-	463,665
Disposals - cost	-	(697,810)	(116,990)	(1,350,215)	(2,165,015)
	9,313,555	5,025,229	2,679,845	3,166,054	20,184,683
Accumulated depreciation					
Opening balance	1,631,406	3,202,816	1,092,743	740,729	6,667,694
Charge for the year	155,498	390,985	405,851	1,207,370	2,159,704
Disposals	-	(559,498)	(90,317)	(574,692)	(1,224,507)
	1,786,904	3,034,303	1,408,277	1,373,407	7,602,891
Written down value as at 31 December 2021	7,526,651	1,990,926	1,271,568	1,792,647	12,581,792

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	CONSOLIDATED		COMPANY	
	2022	2021	2022	2021
	K	K	K	K
25 TAXATION				
Income tax expense				
Current tax expense	10,366,821	12,023,437	10,366,821	12,023,437
Dividend rebate	(747,494)	(669,830)	(747,494)	(669,830)
Over provision in prior year	(75,000)	(43,483)	(75,000)	(43,483)
Deferred tax expense	(37,767)	(1,037,818)	(37,767)	(1,037,818)
Adjustments to prior years timing differences	15,715	19,805	15,715	19,805
	9,522,275	10,292,111	9,522,275	10,292,111

The Group's applicable tax rate represents the statutory corporate income tax rate of 30% (2021: 30%). The following is a recalculation of income tax calculated at the applicable tax rate with income tax expense:

	CONSOLIDATED 2022	CONSOLIDATED 2021	COMPANY 2022	COMPANY 2021
Profit before tax	34,070,590	36,506,591	34,070,590	36,506,591
Computed tax using the applicable corporate tax rate	10,221,174	10,951,977	10,221,174	10,951,977
Dividend rebate	(747,494)	(669,830)	(747,494)	(669,830)
Non-deductible expenses	107,880	33,642	107,880	33,642
Over provision in prior year	(75,000)	(43,483)	(75,000)	(43,483)
Adjustments to prior years timing differences	15,715	19,805	15,715	19,805
	9,522,275	10,292,111	9,522,275	10,292,111
Provision for taxation				
Taxation payable at 1 January	1,796,387	(2,632,268)	1,819,358	(2,611,005)
Taxation charge for the year	10,366,821	12,023,437	10,366,821	12,023,437
Dividend rebate	(747,494)	(669,830)	(747,494)	(669,830)
Over provision in prior year	(75,000)	(43,483)	(75,000)	(43,483)
Taxation paid during the year	(14,573,497)	(6,881,469)	(14,573,285)	(6,879,761)
Taxation payable at 31 December	(3,232,783)	1,796,387	(3,209,600)	1,819,358
Deferred taxation				
Timing differences with respect to:				
- employee benefits provision	2,415,897	2,492,699	2,415,897	2,492,699
- expected credit loss provision	26,787,090	26,291,415	26,787,090	26,291,415
- prepaid insurance	(230,186)	-	(230,186)	-
- unearned fees	753,046	910,428	753,046	910,428
- difference in book and tax depreciation	(4,109,877)	(3,987,640)	(4,109,877)	(3,987,640)
- leases in accordance with IFRS 16	216,816	52,379	216,816	52,379
	25,832,786	25,759,281	25,832,786	25,759,281
Deferred tax at 30%	7,749,836	7,727,784	7,749,836	7,727,784
26 PROVISION FOR EMPLOYEE BENEFITS				
Current				
Provision for airfares	88,560	118,292	88,560	118,292
Provision for annual leave	861,335	885,169	854,801	885,169
	949,895	1,003,461	943,361	1,003,461
Non-current				
Provision for long service leave	1,482,669	1,489,238	1,472,536	1,489,238
	2,432,564	2,492,699	2,415,897	2,492,699

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	CONSOLIDATED		COMPANY	
	2022	2021	2022	2021
	K	K	K	K
27 TERM DEPOSITS				
Term deposits	127,270,227	114,717,702	127,270,227	114,900,702
(a) Maturity analysis				
Not longer than 12 months	122,275,925	112,446,515	122,275,925	112,629,515
Longer than 12 months	4,994,302	2,271,187	4,994,302	2,271,187
Total deposits	127,270,227	114,717,702	127,270,227	114,900,702
28 LEASE LIABILITIES				
As at 1 January	1,891,253	2,260,129	1,873,185	2,142,407
Additions	7,500,029	1,704,190	7,436,675	1,704,190
Accretion of interest	895,643	336,828	892,039	326,032
Termination of lease	(490,125)	(818,429)	(490,125)	(818,429)
Payments	(2,945,880)	(1,591,465)	(2,910,617)	(1,481,015)
As at 31 December	6,850,920	1,891,253	6,801,157	1,873,185
Lease Liability - Current	2,271,676	1,046,656	2,251,755	1,028,588
Lease Liability - Non-current	4,579,244	844,597	4,549,402	844,597

The Group had a total cash outflow for leases of K2,927,238 (2021: K1,591,465). The Company had a total cash outflow for leases of K2,891,975 (2021: K1,481,015). Other expenses include expenses relating to short-term leases amounting to K1,040,235 for 2022 (2021: K1,990,469).

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 2022, five new leases were added for the three office branches and accommodation of the two executive managers plus two leases for executive managers were renewed.

The undiscounted potential future rental payments for FinCorp Gaden relating to periods following the exercise date of extension that are not included in the lease term is K6,512,241.

29 CAPITAL RISK MANAGEMENT

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

	2022	2021
	K	K
Core compliance ('000)	154,478	146,603
Supplementary capital ('000)	33,877	34,807
Risk weighted assets ('000)	191,722	189,176
Tier 1 capital adequacy ratio	80.57%	77.50%
Minimum required tier 1 capital adequacy ratio	8.00%	8.00%
Total capital adequacy ratio	88.59%	86.49%
Minimum required total capital adequacy ratio	12.00%	12.00%
Leverage capital ratio	46.80%	47.90%
Minimum required leverage capital ratio	6.00%	6.00%

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30 LIQUIDITY RISK

CONSOLIDATED As at 31 December 2022	Due in 12 months or less K	Due after 12 months to 2 years K	Due after 2 years K	Total K
Assets				
Cash on hand and at bank	16,736,609	-	-	16,736,609
Due from other banks (BPNG)	106,209,192	-	-	106,209,192
Commercial leases	491,565	335,410	503,495	1,330,470
Loans	69,013,479	47,442,205	18,950,522	135,406,206
Other receivables	1,498,557	-	-	1,498,557
Total financial assets	193,949,402	47,777,615	19,454,017	261,181,034
Liabilities				
Term deposits held	122,275,925	4,994,302	-	127,270,227
Payables	11,172,570	-	-	11,172,570
Rental bonds	-	-	401,500	401,500
Lease liabilities	3,123,917	2,326,933	3,708,735	9,159,585
Total financial liabilities	136,572,412	7,321,235	4,110,235	148,003,882

COMPANY As at 31 December 2022	Due in 12 months or less K	Due after 12 months to 2 years K	Due after 2 years K	Total K
Assets				
Cash on hand and at bank	13,135,051	-	-	13,135,051
Due from other banks (BPNG)	106,209,192	-	-	106,209,192
Commecial leases	491,565	335,410	503,495	1,330,470
Loans	69,013,479	47,442,205	18,950,522	135,406,206
Other receivables	1,498,557	-	-	1,498,557
Total financial assets	190,347,844	47,777,615	19,454,017	257,579,476
Liabilities				
Term deposits held	122,275,925	4,994,302	-	127,270,227
Other payables	5,776,386	-	-	5,776,386
Rental bonds	-	-	401,500	401,500
Lease liabilities	3,103,996	2,297,091	3,708,735	9,109,822
Total financial liabilities	131,156,307	7,291,393	4,110,235	142,557,935

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30 LIQUIDITY RISK (Continued)

CONSOLIDATED As at 31 December 2021	Due in 12 months or less K	Due after 12 months to 2 years K	Due after 2 years K	Total K
Assets				
Cash on hand and at bank	28,261,421	-	-	28,261,421
Due from other banks (BPNG)	75,803,608	-	-	75,803,608
Commercial leases	1,977,104	729,711	-	2,706,815
Loans	67,471,648	50,337,826	17,813,843	135,623,317
Other receivables	868,485	-	-	868,485
Total financial assets	174,382,266	51,067,537	17,813,843	243,263,646
Liabilities				
Term deposits held	112,446,515	2,271,187	-	114,717,702
Payables	5,166,388	-	-	5,166,388
Rental bonds	-	-	401,500	401,500
Lease liabilities	1,282,743	725,144	324,757	2,332,644
Total financial liabilities	118,895,646	2,996,331	726,257	122,618,234

COMPANY As at 31 December 2021	Due in 12 months or less K	Due after 12 months to 2 years K	Due after 2 years K	Total K
Assets				
Cash on hand and at bank	28,184,949	-	-	28,184,949
Due from other banks (BPNG)	75,803,608	-	-	75,803,608
Commercial leases	1,977,104	729,711	-	2,706,815
Loans	67,471,648	50,337,826	17,813,843	135,623,317
Other receivables	835,054	-	-	835,054
Total financial assets	174,272,363	51,067,537	17,813,843	243,153,743
Liabilities				
Term deposits held	112,629,515	2,271,187	-	114,900,702
Other payables	3,953,884	-	-	3,953,884
Rental bonds	-	-	401,500	401,500
Lease liabilities	1,264,675	725,144	324,757	2,314,576
Total financial liabilities	117,848,074	2,996,331	726,257	121,570,662

31 CREDIT RISK

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

(i) Maximum exposure to 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	
	2022	2021	2022	2021
	K	K	K	K
Investment securities measured at amortised cost	106,209,192	75,803,608	106,209,192	75,803,608
Loans to customers	136,736,676	138,330,132	136,736,676	138,330,132
Other assets	4,941,383	2,742,493	2,104,349	1,148,562
Cash and cash equivalents	16,736,609	28,261,421	13,135,051	28,184,949
	264,623,860	245,137,654	258,185,268	243,467,251

(ii) Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the customer. Policies are in place with regards to the acceptability of types of collateral and valuation parameters. The type of collateral obtained is mortgages over a mix of commercial and residential properties and mortgages over motor vehicles and equipment. Management monitors the market value of properties by using the information and analytics services of an independent external valuer. It is the Group's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

(iii) Impairment assessment

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events would include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Group
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Group
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

31 CREDIT RISK (Continued)

(iv) Collectively assessed provision

Collective provisions are based on the forward-looking expected credit loss (ECL) approach that is required under IFRS 9, *Financial Instruments*. The ECL allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

(v) Significant increase in credit risk

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group considers an exposure to have significantly increased in credit risk based on a number of factors, such as moving a member or facility to a problem management account. In certain cases, the Group may also consider that events explained in Note 30 Credit Risk(iii) are a significant increase in credit risk as opposed to a default. If contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

(vi) Write-offs

Financial assets are written off either partially or in their entirety only when the Group has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment losses on loans to customers.

32 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

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

As of 31 December 2022, no Directors of the Group directly held shares with Finance Corporation Limited

ii. Remuneration of Directors

	2022	2021
	K	K
Sir Nagora Bogan	144,583	156,042
Dato' Andy Kuek	150,149	137,610
David Guinn	187,011	178,336
Noel Colin Mobiha	179,414	164,266
Goiye Gileng	197,257	150,532
Rosa Teria	194,046	178,336
	1,052,460	965,122

32 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with Key Management Personnel:

Key Management Personnel are comprised of the Executives and some of the Senior Leadership Team managers who occupy positions that are essential to the Company for making critical decisions for the business: Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Transformation Officer, Group Manager Human Resources & Administration, Head of Information Technology, Chief Asset Management Officer, Head of Finance Solutions Centre, Head of Transformation Design & Development, Head of Digital & Customer Experience and Senior Accountant.

Key Management Personnel compensation is as follows:

	Note	Transaction value for the year ended 31 December	
		2022	**2021**
		K	**K**
Short-term benefits	i	6,698,324	3,931,417
Long-term benefits	ii	338,575	235,277
		7,036,899	4,166,694

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).

	2022	**2021**
(c) Transactions during the year:	**K**	**K**
Transactions with the subsidiary		
Payments made on behalf of Sunrise Assurance Brokers Limited	54,190	5,663
Payments received from Sunrise Assurance Brokers Limited	54,190	12,132
Transactions with parent company		
Payments made on behalf of Grand Columbia Limited	-	20,967
Payments received from Grand Columbia Limited	-	24,886
Transactions with an affiliate		
Payments made on behalf of GC Constructions Limited	-	5,263
Payments received from GC Constructions Limited	-	9,109

i. Payments made on behalf of Sunrise Assurance Brokers Limited include motor vehicle repairs, registration and recruitment fees.

ii. Payments made on behalf of Grand Columbia Limited include insurance, fuel and telephone.

iii. Payments made on behalf of GC Constructions Limited include insurance, fuel and telephone.

Included in loans to customers (refer Note 15) is a loan to Grand Columbia Limited amounting to K3,812,390 (2021: K4,094,943). The loan is secured for 15 year term at 9% interest per annum. Provision recognised for these loans amounted to K142,377 in 2022 (2021: K208,411).

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33 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.

34 SEGMENT INFORMATION

Business segment

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

- Financial Services
- Insurance Broker

An analysis of the insurance broker segment's income statement, assets and liabilities are, as follows:

	2022	2021
	K	K
Revenue from operations	717,424	680,172
Operating expenses		
Depreciation	39,158	103,775
Staff costs	355,881	292,768
Other operating expenses	387,185	312,321
	782,224	708,864
Loss from operations	(64,800)	(28,692)
Other income		
Interest	1,404	11,388
Other income	-	6,469
	1,404	17,857
Finance expenses		
Bank charges	595	530
Interest on lease liability	3,604	10,796
	4,199	11,326
Net loss before tax	(67,595)	(22,161)
Tax expense	-	-
Total comprehensive income for the year	(67,595)	(22,161)
Total Assets	6,547,085	1,992,952
Total Liabilities	5,852,300	1,230,572

The financial services segment pertains to the operations of Finance Corporation Limited, the parent company, thus, the financial information is disclosed in the statement of financial position and statement of comprehensive income.

Geographical segment

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

35 HOLDING COMPANY

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

36 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.