MiBank
GROW WITH US

ANNUAL REPORT 2014

NATIONWIDE MICROBANK LIMITED

contents

our vision

To be a commercially sustainable Bank that contributes to financial inclusion.

our mission

A trusted banking institution, with strong commercial focus, that delivers innovative and affordable financial services, to meet the needs of its customers.

our slogan

Grow with us

chairman's report

2014 saw the re-branding of the Bank and a change of its trading name from the verbose Nationwide Microbank to the succinct MiBank.

Mr Ray Clark

This was a logical progression from our product nomenclature MiLoan, MiCash, MiPei, MiLife etc. and clearly distinguishes the Bank from other MFIs. Signage, uniforms and stationery have gradually been changed to reflect the new image and this will be finalised in 2015.

I'm pleased to report that 2014 was another profitable year for the Bank, albeit again below target due to a number of factors that are elaborated upon in the Managing Director's report. Nevertheless it is commendable as it reflects the fourth consecutive year of profitability and most importantly the provision for delinquent debts has been increased from K1.08 in 2013 to the more acceptable level of K2.1m. Further increase in provisioning will continue throughout 2015.

The Bank's Capital position improved with a K1.5m shareholding by Melanesian Trustee Services Limited (MTSL) equating to 13.6% of the total shareholding. MTSL is particularly welcome as a shareholder as it provides opportunity for MiBank to provide financial services to the unit holders of the Pacific Balanced Fund. The Board continues to seek additional shareholder capital in order to be able to continue to expand the growth of financial services to SMEs and the grassroots people of Papua New Guinea.

April 2014 brought the tenth anniversary of the Bank that first opened its doors in Wau in 2004 as the Wau Microbank, a microfinance pilot scheme under the auspices of the PNG-ADB Microfinance Project. Whilst proud of its origins, it produced a legacy that undoubtedly retarded the development of MiBank both financially and operationally due largely to a management information system that was designed for a stand-alone Microbank and was totally unsuitable for multi branch management and control. It took the Bank until 2010 to write off the liabilities of its early years and place it on a sound financial footing.

But the past is the past and MiBank now continues to grow from strength to strength. The past year has seen the expansion of MiBank's product range with the introduction of MiPikinini, to encourage children to save and Mifx, a simple method for customers to effect foreign exchange transactions. The number of MiCash clients grew steadily reaching a little under 27,000 by year end(a 35% increase on 2013). The establishment of an Agency network of some 150 Agents will help continue this growth of MiCash. Considerable efforts continued during the year to develop financial literacy throughout the Country and to encourage more and more women to obtain financial services for the development of their enterprises. In this regard thanks are due to the ADB and the Pacific Financial Inclusion Project for their continued support for these activities.

Undoubtedly a highlight of the year was the opening of the new NCD Branch at Waigani Central in December by the Governor BPNG. This is a state of the art banking facility that we are justly proud of and over a period of time it is to be hoped that all Branches can be developed to the same standard.

Early in the year we formally welcomed two new Directors to the Board – Allan Marlin, a seasoned banker, who for several years was the Managing Director of ANZ Bank in PNG, and James Gore a CPA who has developed and manages a successful accounting practice in PNG. Allan is now Chairman of the Credit Committee and James is Chairman of the Audit and Risk committee. These two have added considerable strength and expertise to the Board. I take this opportunity of thanking all Directors for their sustained input and valuable contribution to the ongoing success of the Bank.

The success of any venture depends upon strong leadership, individual talent and expertise and the synergy produced through cohesive team play. MiBank is blessed with an excellent Board, a strong management structure and a devoted staff. I express my personal thanks to Managing Director Tony Westaway for developing and strengthening our management team and staff and indeed my thanks extend to each and every employee for their efforts.

Finally I would like to record our thanks to the Bank of Papua New Guinea for its continued support, advice and assistance towards the achievement of our goals.

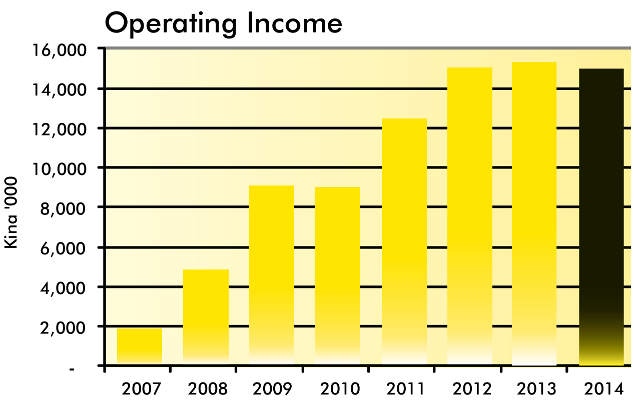
Mr Ray Clark
Chairman

managing directors report

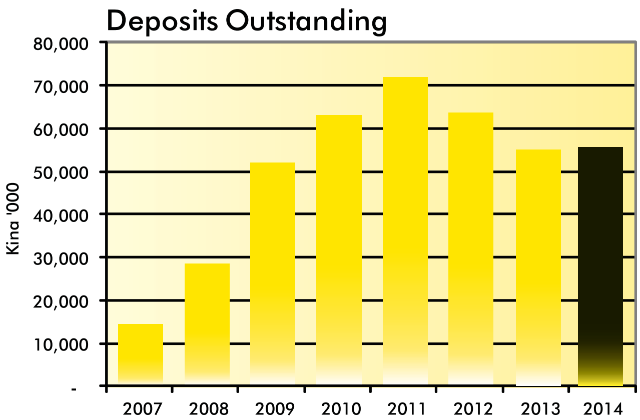
A modest net profit before tax of K106,243 was recorded for the year ending 31 December 2014.

Mr Tony Westaway

Results were dampened by limited capital and earlier in the year Management prudently tempered lending in order to maintain compliance requirements. However in the last quarter of 2014, the Bank was able to attract a new Shareholder in Melanesian Trustee Services Limited (MTSL), trustee for the Pacific Balanced Fund. This investment followed a robust due diligence process undertaken by KPMG, on behalf of MTSL. MTSL acquired 13.6% shareholding in MiBank and as a result lending re commenced in earnest in December of 2014. During 2015 we look forward to opening accounts for the unit holders of the Pacific Balanced Fund and assist them in meeting their needs for financial services.



Despite the constrained lending environment in 2014, MiBank took the opportunity to continue to raise provisions for lending losses in order to further strengthen the Balance Sheet. At the end of 2014, MiBank's Portfolio at Risk (PAR) was recorded at 8%. PAR is the universal measurement used by the microfinance industry to measure potentially impaired loans.

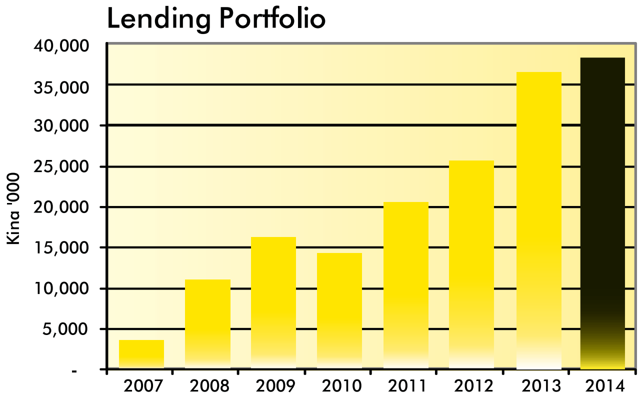


Product development

Facilitated by the Microfinance Expansion Project, MiBank entered in to discussions with the National Fisheries Authority, and subsequently executed an agreement with the NFA to provide financing for fishing activities. Finance is available in the form of specially tailored loans for the fishing industry catering for both inland and sea fishing providing finance from freezers and fishing equipment through to dinghies, motors and plant for export market.

Early 2014 saw the introduction of Fixed Term Deposits which has proven popular with both existing and new customers to MiBank. Competitive interest rates are offered on deposits under and over K100,000 with flexible terms of up to 360 days.

MiBank joined the Bank of Papua New Guinea with its efforts to promote financial inclusion in schools with the Young Minds Savings Campaign. This campaign saw MiBank staff visit schools across PNG, in conjunction with BPNG, to provide financial literacy training and open bank



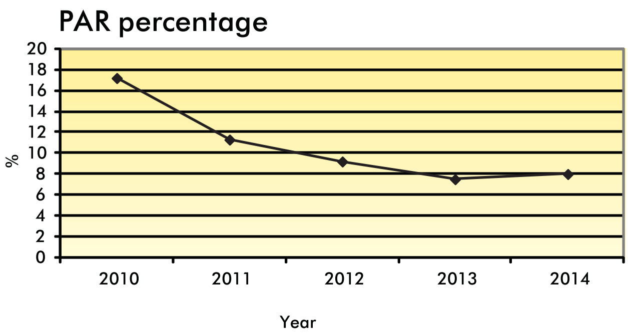
accounts. MiBank developed a product specifically designed for school age children between 5 and 18, called MiPikinini Account. The key feature of this account is that there are no fees whatsoever and a market interest rate is earned on deposits.

During 2014 the Bank also continued to drive account acquisition to the broader unbanked community with financial inclusion at the forefront of its activities and account numbers now exceed 150,000 individuals. The combined MiCash Mobile wallet and Bank account remains the core product used to reach the unbanked rural dwellers. In excess of 150 Mobile Money Agents support MiBank in reaching out to these people, providing cash in and cash out services at all of our Agents throughout PNG.

Women's Banking

In 2014 our Women's Banking Unit continued to deliver training to women under an agreement with the United Church in Papua New Guinea. At MiBank there is strong focus on extending outreach to women and MiBank holds memberships with the Business Coalition for Women, the PNG Women's Chamber of Commerce & Industry and the Women in Mining & Petroleum to name a few.

It is through our financial literacy training, that women gain the ability to use credit responsibly, the confidence to manage their money and financial risks, and receive the understanding of the long term benefits of savings. Women who attended these financial literacy training programs, have the opportunity to open a MiCash Mobile wallet, which often marks the woman's first step to becoming financially independent and empowered to confidently manager her family and business finances.



Mobile Money and Safe Cities Program with UN Women & NCDC

During 2014 MiBank continued its work with UN Women and the National Capital District Commission (NCDC); to provide Mobile Money and Bill Payment services to produce market vendors in Port Moresby.

Our work with UN Women and the NCDC consists of using our Mobile Money and Bill Payment system which aims to assist in reducing some of the security and violence problems that market vendors have experienced, and allow for a more transparent and efficient management of the fees being collected. A better management of the fees enables the NCDC to provide increased maintenance and development in the markets. Providing access to financial services such as Mobile Money will have a positive effect on the levels of savings and control over financial resources that the women market vendors have.

Mifx

MiBank has introduced an online foreign currency payment service in strategic partnership with Heduru Moni Limited (trading as MoniPlus). This service provides foreign currency exchange at an affordable price with great exchange rates. Payments can be made either inbound from Papua New Guineans living overseas or outbound transactions to enable family maintenance or to pay for imports to PNG. Our product has been particularly welcomed by PNG students living overseas.

Waigani Central

On 9 December 2014 the new Waigani Central Branch was officially opened by the Governor of the Bank of Papua New Guinea, Mr. Loi Bakani. The Bank also celebrated its 10th anniversary on this occasion.

The Banks former branch at Garden City Boroko was relocated to the Waigani Central site. The staff numbers were doubled and additional lending and foreign currency services are now provided at the new branch. This branch is the 'flagship' branch of MiBank and whilst it has many modern features enhanced by the use of technology, our customers will continue to receive the personal service and courtesy they are used to from our smaller branches.

MiBank is a key stakeholder in the Microfinance Expansion Project and the Centre for Excellence in Financial Inclusion (CEFI). We contribute to national working groups on financial literacy and mobile banking and will continue to work with these bodies in 2015 to support their efforts in extending financial inclusion throughout PNG.

In conclusion I would like to thank our staff for their ongoing efforts in 2014 and I thank our customers for their ongoing support of MiBank, may they continue to 'grow with us'.

Tony Westaway

Managing Director


business
Looking to buy a dinghy and motor?
How about freezers and fishing equipment?
Please talk
to apply for
equipment


GROW WITH US
MiLife
takes the
burdens
MiBank

corporate governance

Corporate Governance is an important issue for MiBank The Board is committed to achieving the highest standards of Corporate Governance, and it exerts strong control on all aspects of compliance.

The Board sets the strategic direction for the Bank and meets quarterly or as required. Matters discussed include but are not limited to, the financial and social performance of the Bank, the achievement of objectives, and the management of risks.

Board Composition

The Board has a maximum of seven members in terms of its constitution.

During the greater part of the year there were six Directors. James Gore and Allan Marlin joined the Board in 2014.

Directors retire each year and are eligible for re-election. The members of the Board seek to ensure that the Board maintains a blend of experience and skills appropriate to the Bank. Board attendance is detailed in table below.

Board Meetings	Attendance
Ray Clark	4/4
James Gore	3/3
Dame Carol Kidu	4/4
Allan Marlin	4/4
Anthony Smare	2/4
Tony Westaway	4/4

Committees

The board has established three committees whose functions and powers are governed by their respective charters. These Committees are the Appointments & Remuneration Committee, the Audit & Risk Committee, and the Credit Committee.

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. Membership of these committees and a record of attendance at Committee meetings during the year is detailed in table below.

Membership of Board Committees as at 31 December 2014

	Appointments & Remuneration	Audit & Risk	Credit
Ray Clark	1/1	3/3	1/2
James Gore	1/1	3/3	2/2
Dame Carol Kidu	-	-	-
Allan Marlin	-	3/3	2/2
Anthony Smare	1/1	1/3	0/2
Tony Westaway	1/1	3/3	2/2

Risk Management

The Board accepts the responsibility for ensuring it has an appropriate risk management framework in place, and has a clear understanding of the types of risks inherent with the Bank's activities. These risks include but are not limited to, Credit Risk, Market Risk, Liquidity Risk, Interest Risk, and Operational Risk. The Board reviews the Risk Registers provided by Management, and has endorsed a Risk appetite statement and Risk tolerance limits.

The Executive Management through the Asset & Liability Committee (ALCO) monitors Market Risk, Interest Risk, and Liquidity Risk and reports through the Managing Director, to the Board. The Credit Risk is monitored by the Board Credit Committee and Operational Risk is monitored by the Board Audit & Risk Committee.

The Executive Committee (EXCO) which is chaired by the Managing Director comprises the senior management of the Bank. This Committee ensures compliance of all regulations and laws. It meets at least once per fortnight to review operations and make operational decisions.

The Internal Audit function of the Bank provides independent assurance that the design and operation of the risk and control framework across the Bank is effective. Its operations are guided by an Internal Audit Manual. The team reports direct to the Board's Audit & Risk Committee with a dotted reporting line to the Managing Director for administrative purposes. This ensures independence of the Internal Audit team.

board of directors

Mr Ray Clark Chairman

Ray Clark was associated with the establishment and development of the PNG-ADB Microfinance Project at its inception in 2002. This Project led to the opening of the Wau Microbank in 2004, which subsequently became Nationwide Microbank Limited. In addition to an in-depth knowledge and understanding of the financial services industry, over a lengthy career he has gained diverse business experience in airlines, mining, stock broking, telecommunications and public utilities. He was formerly the Executive Director of the PNG Institute of Banking and Business Management (IBBM) from 1995 to 2011, has served on a number of Boards, is a Fellow of the Australian Institute of Company Directors and is a Founding Member of the PNG Institute of Directors.

Mr Anthony Smare Director

Anthony has a Bachelor of Law and Bachelor of Applied Science (Geology) from the Queensland University of Technology. He is Lawyer with expertise in corporate finance and natural resources law and practiced law in Australia and PNG. Formerly a partner in the Port Moresby office of Australian law firm Allens Arthur Robinson, he is currently General Manager Corporate & Legal for Barrick Gold (PNG) Limited, owners of the Porgera Gold Mine. He is also a Director on the Boards of Nambawan Super Limited, City Pharmacy Limited, Scope Media Limited and the Kumul Foundation Limited.
He is also Executive Trustee of disaster fund Halvim Wantok Disaster Fund and a director of the Kumul Foundation.

Mr Tony Westaway Managing Director

Tony Westaway is a long term resident of Papua New Guinea and has been involved in PNG's Banking sector for over 20 years. In 2002 Tony led the merger exercise of BSP and the former PNGBC. Tony is a Fellow of the Financial Services Institute of Australasia; a Director of the PNG Institute of Banking & Business Management, a member of the Project Steering Committee for the PNG Microfinance Expansion Project, a Board member of the Centre for Excellence in Financial Inclusion, and Chairman for the Microfinance Pasifika Network. Tony has participated in many community interests in PNG.

Dame Carol Kidu DBE Dr (Hons) Director

Dame Carol served three terms as a member of the PNG National Parliament. During her time in Parliament Dame Carol was a Minister, Leader of the Opposition, and Chair of a number of Parliamentary Committees. Dame Carol has received many awards recognising her commitment to improving the rights of marginalised groups such as the disabled, children, women, HIV positive people and indigenous minorities. Dame Carol currently provides consulting services and strategic advice in various aspects of community development.

Mr Allan Marlin Director

Allan Marlin is a seasoned career Banker and was previously in Papua New Guinea as Managing Director of ANZ. He also has extensive experience in emerging markets in Cambodia, China, Fiji, Laos, Timor Leste and Vietnam. Allan has a postgraduate MBA and is Chairman of the Credit Committee.

James Gore Director

James Gore is a Certified Practicing Accountant (CPA) and is Principal of Gore Accountants & Business Advisors. He is also a Director of a number of companies and was previously a 'Trainee Director' on the NASFUND Board. In 2011 Mr. Gore received the prestigious PNG Institute of Directors 'Young Director of the Year' award. James is Chairman of the Audit & Risk Committee.

report of the directors

FOR THE YEAR ENDED 31ST DECEMBER 2014

The Directors of NATIONWIDE MICROBANK LIMITED have pleasure in presenting the annual report of the company for the year ended 31st December 2014.

ACTIVITIES

The principal activity was the provision of banking services including credit and savings to the general public of Papua New Guinea. During the year the company continued to expand its banking network within Papua New Guinea.

RESULTS

The operating profit for the year before taxation amounted to K106, 243 (2013 – a profit before taxation of K171, 913).

DIVIDEND

No dividend was paid or declared during the year.

AUDITOR

The financial statements for the company have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the Independent Audit Report as set out on pages 12.

FURTHER DISCLOSURES

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

Signed at Port Moresby
For and on behalf of the Board of Directors

This 30 day of March 2015
Port Moresby

DIRECTOR

DIRECTOR

statement by the directors

FOR THE YEAR ENDED 31ST DECEMBER 2014

In the opinion of the Directors of NATIONWIDE MICROBANK 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 company for the year ended 31st December 2014,
   (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 company as at 31st December 2014,
   (c) the statement of cash flows is drawn up to exhibit a true and fair view of the movements in cash of the company for the year ended 31st December 2014,
   (d) the statement of changes in equity is drawn up to exhibit a true and fair view of the changes in equity for the financial year ended 31st December 2014,
   (e) at the date of this statement there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.

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

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

Signed at Port Moresby
For and on behalf of the Board of Directors

This 30 day of March 2015
Port Moresby

DIRECTOR

DIRECTOR

Deloitte.

Deloitte Touche Tohmatsu

Deloitte Tower, Level 12
Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com/pg

Independent Auditor's Report to the members of Nationwide Microbank Limited

Report on the Financial Report

We have audited the accompanying financial report of Nationwide Microbank Limited, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Report

The directors of the Nationwide Microbank Limited 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Nationwide Microbank Limited as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The financial report of Nationwide Microbank Limited is in accordance with the Companies Act 1997 and proper accounting records have been kept. Nationwide Microbank Limited is in compliance with the Banking and Financial Institutions Act 2000 and other applicable acts and regulations.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Suzaan Theron
Registered under the Accountants Act 1996
Partner

Port Moresby, 30 March 2015

statement of financial position

OR THE YEAR ENDED 31ST DECEMBER 2014

	Note	2014 K	2013 K
CURRENT ASSETS			
Cash and cash equivalents	7	16,075,308	9,483,963
Consumer loans	8	12,149,078	16,773,410
Investments	9	112,104	5,978,949
Receivables	10	1,138,343	1,370,218
Total current assets		29,474,833	33,606,540
Consumer loans	8	25,868,754	20,448,974
Deferred tax	6	2,614,798	2,521,884
Investments	9	5,700,000	6,100,000
Property, plant and Equipment	11	2,643,938	1,930,878
Total non-current assets		36,827,490	31,001,736
Total assets		66,302,323	64,608,276
CURRENT LIABILITIES			
Trade and other payables	12	1,976,907	1,699,287
Deposits	13	55,732,166	55,586,062
Provision for employee benefits	14	93,043	115,256
Provision for taxation	6	148,440	148,440
Total current liabilities		57,950,556	57,549,045
Non-Current Liabilities			
Provision for employee benefits	14	175,462	182,083
Total non-current liabilities		175,462	182,083
Total liabilities		58,126,017	57,731,128
NET ASSETS		8,176,305	6,877,148
EQUITY			
Share capital	15	11,018,506	9,518,506
Reserves		-	-
Retained earnings		(2,842,201)	(2,641,358)
Total equity		8,176,305	6,877,148
TOTAL EQUITY AND LIABILITIES		66,302,322	64,608,276

Director

Date 30th March 2015

Director

Date 30th March 2015

For and on behalf of the board of directors

The notes on pages 17 to 30 are an integral part of these consolidated financial statements.

statement of profit or loss and other comprehensive income

OR THE YEAR ENDED 31ST DECEMBER 2014

	Note	2014 K	2013 K
Interest on loans		9,933,999	9,505,729
Interest on investments		754,724	847,028
Fees		4,131,237	5,011,946
Interest and fee expense		(972,007)	(624,498)
Net interest income and fees		13,847,953	14,740,205
Other revenue		212,415	146,732
Staff costs	5	(5,933,461)	(5,931,385)
Depreciation	11	(964,200)	(1,154,954)
Other operating expenses	5	(7,056,464)	(7,628,685)
Profit before tax from operating income	6	106,243	171,913
Income tax benefit / (expense)	6	92,914	243,717
Profit for the year		199,157	415,630
Other comprehensive income		-	-
Total comprehensive income for the year net of tax		199,157	415,630

The notes on pages 17 to 30 are an integral part of these consolidated financial statements.

statement of changes in equity

OR THE YEAR ENDED 31ST DECEMBER 2014

	SHARE CAPITAL	RETAINED EARNINGS	OTHER RESERVES	TOTAL
	K	K	K	K
Balance at 1 January 2012	9,518,506	(3,656,988)	-	5,861,518
Total comprehensive income		415,630	-	415,630
Other comprehensive income		600,000	-	600,000
Balance at 31 December 2013	9,518,506	(2,641,358)	-	6,877,148
Issue of share capital	1,500,000	-	-	1,500,000
Total comprehensive income		199,157	-	199,157
Other comprehensive income		(400,000)	-	(400,000)
Balance at 31 December 2014	11,018,506	(2,842,201)	-	8,176,305

The notes on pages 17 to 30 are an integral part of these consolidated financial statements.

statement of cash flows

OR THE YEAR ENDED 31ST DECEMBER 2014

	Note	2014 K	2013 K
Cash flows from operating activities			
Profit before tax		106,243	171,913
Adjustments for:			
Depreciation of property, plant and equipment		964,200	1,154,954
Impairment of goodwill		-	98,421
Loss/(Gain) on sale of property, plant and equipment		(148,212)	(73,758)
Provision for non-lending		-	103,642
Allowance for doubtful debts		1,100,000	1,433,308
Bad debts		88,037	116,863
Movements in working capital			
Decrease (Increase) in receivables		1,078,711	(936,341)
Decrease in Consumer loans		(2,742,284)	(10,677,589)
Increase in payables		277,620	768,007
Provision for employee benefits		28,835	94,768
Increase/(Decrease) in deposits		146,104	(8,141,770)
Net cash provided by operating activities		899,254	(15,887,582)
Cash flows from investing activities			
Sale/(Purchase) of property, plant and equipment		(1,720,142)	(673,739)
Disposal of property, plant and equipment		45,389	-
Decrease/(Increase) in investments		5,866,845	(406,148)
Net cash (used) in investing activities		4,192,092	(1,079,887)
Cash flows from financing activities			
Capital contribution		1,500,000	
Net cash provided by financing activities		1,500,000	-
Net increase/(decrease) in cash and cash equivalents		6,591,345	(16,967,469)
Cash and cash equivalents at beginning of year		9,483,963	26,451,432
Cash and cash equivalents at end of year	13	16,075,308	9,483,963

The notes on pages 17 to 30 are an integral part of these consolidated financial statements.

1. GENERAL

Nationwide Microbank Ltd (the "Bank") is a company incorporated in Papua New Guinea. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activity of the bank is to provide financial services to the unbanked people of Papua New Guinea.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

2.1 Amendments to IFRS and the new Interpretation that are mandatorily effective for the current year

In the current year, the Bank has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

The following amendments to IFRSs and IFRIC have been adopted but are currently not applicable to the entity and will be considered as and when the Bank has transactions that warrant application of these standards.

- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- IAS 36 Recoverable Amount Disclosure for Non-Financial Assets
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies

2.2 New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments (5)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements as the Bank is not party complex arrangements.
IFRS 15	Revenue from Contracts with Customers (4)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements as the Bank is not party complex arrangements.
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (3)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements as the Bank is not party to joint arrangements.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (3)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements.
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants (3)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements as the Bank is not engaged in agricultural activities
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions (1)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements.
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle (2)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements.
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle (1)	The directors of the Bank do not anticipate that the application of these amendments will have a material impact of the Bank's financial statements.

(1) Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

(2) Effective for annual periods beginning on or after 1 July 2014, with limited exception. Earlier application permitted.

(1) Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(1) Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

(1) Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These financial statements are presented in accordance with the Papua New Guinea Companies Act 1997 and comply with applicable financial reporting standards to the extent IFRS complies with Bank of PNG prudential standards, and other mandatory professional reporting requirements approved for use in Papua New Guinea by the Accounting Standards Board (ASB). The ASB has adopted International Financial Reporting Standards (IFRS) and interpretations issued by the Standing Interpretations Committee as the applicable financial reporting framework.

The financial statements have been prepared primarily on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period as, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using the market approach, the cost approach or the income approach valuation techniques as appropriate. In estimating the fair value of an asset or liability, the Agency takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at measurement date.

The above approach to fair value measurement does not apply to leasing transactions within the scope of AASB 117 Leases or measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 Inventories or value in use in AASB 136 Impairment of Assets.

The principal accounting policies are set out below.

b) Functional currency

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

c) Revenue recognition

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

Interest and similar income and expense

For financial assets measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in the statement of comprehensive income. Interest income is suspended when the collection of a loan becomes doubtful, such as when overdue by more than 90 days, or when the borrower or securities issuer defaults, if earlier than 90 days. Such income is excluded from interest income until received.

Fees and commission income and expense

Fees and Commissions are generally recognised on an accrual basis when the service has been provided. All fees relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised in the period in which they are levied.

d) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

e) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Depreciation is calculated on the straight line method so as to write off the net costs of the various classes of fixed assets during their effective useful lives. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The depreciation rates in use are:

Furniture and fittings	20%
Motor vehicles	20%
Plant and equipment	20%
Leasehold improvements	20%

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised.

The residual values and useful lives of property, plant and equipment are reviewed at each financial year end.

f) Financial instruments

Financial assets and liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

Financial assets are classified into the following specified categories; financial assets 'at fair value through profit or loss' FVTPL, 'held-to-maturity investments, 'available-for-sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade basis. Regular way purchases or sales are purchased or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(ii) Effective interest method

The effective interest method (EIR) is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iii) Financial assets at FVTPL

Financial assets at FVTPL are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTLP.

A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term, or on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit making or it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at their fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

(iv) Held-to-maturity Investments

Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR less impairment.

(v) Loans and receivables

Loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, amounts due from loans and advances to customers are subsequently measured at amortised cost using the EIR, less allowance for impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

(vi) Available-for-sale financial assets

Available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions. The Bank has not designated any loans or receivables as available-for-sale.

Due to there not being an observable market for the BSP Notes, the bank has valued these instruments at recent comparable transaction prices.

(vii) Impairment of financial assets

Financial assets, other than those at FVPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the future cash flows of the investment have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES *continued...*

(vii) Impairment of financial assets

Available for sale

For financial assets, other than AFS equity investments, objective evidence of impairment is could include;

- significant financial difficulty of the issuer/ counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy of financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Loans

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

A provision is established if there is sufficient evidence as determined by management that the company will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount.

Impaired loans are loans where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. This includes exposures where contractual payments are 90 or more consecutive days in arrears where security is insufficient to ensure repayment.

When a loan is uncollectible, it is written off against the related provision for loan impairment in the year in which the debt is recognised as being irrecoverable. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequently recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

Provisions for doubtful debts comprise a provision for identified doubtful debts and in line with Bank of Papua New Guinea prudential standards, to cover unidentified risks inherent in the overall loan portfolio which experience has indicated could emerge in the future. Provisioning is raised against the income account as and when appraisals of all outstanding advances determine that recovery is doubtful with subsequent favourable appraisals being re-credited to the income account. The provision is raised periodically through the year based upon average bad debts experience and growth in the overall level of loans and advances. Management undertakes this process on a monthly basis and the provisions are charged to income statement

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

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

Where not previously provided, bad debts are written off directly against the income account. Debts previously written off and subsequently recovered are written back to the income account in the year in which they are recovered.

(viii) Derecognition of 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 asset have expired or when the Bank has transferred its rights to receive cash flows from the asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank 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 Bank 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 that the Bank could be required to repay

(ix) Financial liabilities and equity instruments

Debt and equity instruments issued by the bank are classified as either liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The bank has not issued any equity instruments.

(x) Financial liabilities

Other financial liabilities

Other financial liabilities (including deposits, borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(xi) Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

g) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

h) Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *continued...*

i) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Bank are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

k) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably. The expense relating to any provision is presented in the income statement net of any reimbursement.

l) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year-end exchange rates are recognised in net income or loss in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences, if any, relating to investments at fair value through profit or loss are included in net realised gain/loss or change in net unrealised gain/loss on investments in securities in net income or loss in the statement of comprehensive income. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are recognised in net income or loss in the statement of comprehensive income.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make adjustments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

(i) Allowance for Impairment on Loans and Advances

The Company reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair Value Estimates

For financial instruments presented in the Company's statement of financial position at historical cost, their cost equates to fair value as described below:

Cash and Balances with banks

These assets are short term in nature and the related carrying value is equivalent to their fair value.

Loans and Advances

For Loans and Advances, the carrying amount in the statement of financial position is considered a reasonable estimate of their fair value after making allowances for the fair value of non-accrual and potential problem loans.

Deposits from Customers and Other Liabilities

For Deposits from Customers and Other Liabilities, the carrying amounts in the statement of financial position are a reasonable estimate of their fair value.

(iii) Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

(iv) Impairment of Investments

An impairment exists when carrying value of the asset exceeds its recoverable amount which is higher of fair value less costs to sell and its value in use. Management review impairment by using fair value based on the market quoted price of the investments at year end. Due to there not being an active observable market for the BSP Notes, the bank has valued these instruments at recent comparable transaction prices.

		2014	2013
		K	K
5	**PROFIT BEFORE TAXATION**		
	The profit before taxation is arrived at after charging and crediting the following		
	Depreciation	964,200	1,154,954
	Interest and charges	972,007	624,498
	Staff Cost		
	Provision employee benefits	28,497	94,768
	Directors fees	233,199	220,234
	Salaries and wages	5,322,964	5,163,535
	Staff training	142,860	131,491
	Staff welfare	38,719	42,108
	Travel and accommodation	167,222	279,249
	Total staff cost	5,933,461	5,931,385
	Other operating expenses		
	Audit fees	97,314	88,000
	Impairment – goodwill	-	98,421
	Light and water	242,990	266,934
	Provision – doubtful loans	1,100,000	1,433,308
	- Non lending recovery	-	103,642
	Insurance	282,431	286,717
	Advertising and promotions	228,003	174,936
	Legal	61,714	85,483
	Motor vehicle	340,997	338,211
	Office supplies	158,359	155,292
	Recruitment	63,527	5,543
	Freight, postage and courier	172,526	107,586
	Thief	88,037	116,863
	Security	560,503	507,564
	Telephone and internet	1,545,490	1,870,492
	Office Rental	1,805,042	1,698,415
	Fees and registrations	80,096	76,576
	Cleaning	12,065	7,992
	Printing and stationery	136,732	85,320
	Subscriptions	42,014	31,585
	Repairs and maintenance	35,269	62,426
	Consultants	3355	27,379
	Total Other operating expenses	7,056,464	7,628,685
		9,933,999	9,505,729
	And crediting;- Interest from lending		
	Interest from deposits	754,724	847,028
	Proceeds from grants	64,203	72,975
	Proceeds from fees	4,131,237	5,011,946
	Profit on disposal of property, plant and equipment	148,212	73,758

		2014	2013
		K	K
6	**INCOME TAX**		
(a)	**Income tax expense**		
	Current tax expense	-	-
	- Current year		
	- Adjustments to prior year	-	-
	Change in deferred taxes		
	- Deferred tax expense / (income) relating to the origination and reversal of temporary differences	92,914	243,717
	Income tax expense / (benefit)	92,914	243,717
	The prima facie tax charge on the profit for the year is reconciled to the tax expense as follows:		
	Accounting profit before tax	106,243	171,913
	Tax on the profit for the year at 30%	31,873	51,573
	Tax effect – permanent difference	12,556	13,161
	Tax effect – temporary difference	(92,914)	(17,508)
	Transfer to taxation loss	48,485	(47,227)
		-	-
(b)	**Provision for income taxes payable**		
	At 1 January	148,440	148,440
	Income tax expense for the year	-	-
	Income taxes paid during the year	-	-
	At 31 December	148,440	148,440
(c)	**Timing differences with respect to:**		
	- taxation loss	6,299,010	6,344,651
	- employee benefits provisions	268,504	297,339
	- bad debts provisions	1,465,170	1,080,981
	- provision against revenue interest	683,308	683,308
		8,715,992	8,406,279
	Deferred tax asset at 30%	148,440	148,440

7 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash includes cash on hand and in banks. Cash and cash equivalents in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2014	2013
Cash on hand	843,701	919,286
Cash at bank	9,217,049	5,560,507
Deposits with the Bank of PNG	6,000,000	3,000,000
Accrued interest on Central Bank Bills	14,558	4,170
	16,075,308	9,483,963

8 CONSUMER LOANS

	2014	2013
Loans to customers	40,166,310	38,303,365
Less: Allowance for impairment losses	(2,148,478)	(1,080,981)
	38,017,832	37,222,384
Comprised of:		
Current	12,149,078	16,773,410
Non-Current	25,868,754	20,448,974
	38,017,832	37,222,384
A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:		
Balance at the beginning of the year	1,080,981	655,780
Impairment losses recognised on loans	1,100,000	750,000
Amounts written off	(715,811)	(324,799)
Interest accrued on impaired loans provided for	683,308	-
Balance at end of year	2,148,478	1,080,981

		2014	2013
		K	K
9	**INVESTMENTS**		
	Held-to-maturity investments carried at amortised cost		
	- BPNG Inscribed stock, maturing 15 March 2017 (i)	612,104	768,949
	- BPNG Inscribed stock, maturing 15 February 2014	-	2,210,000
	- BPNG Inscribed stock, maturing 15 August 2014	-	3,500,000
	Available for sale carried at fair value		
	- BSP Capital notes, maturing 9 June 2019 (ii)	5,200,000	5,600,000
		5,812,104	12,078,949
	Comprised of:		
	Current	112,104	5,978,949
	Non-Current	5,700,000	6,100,000
		5,812,104	12,078,949

i) The Bank holds inscribed stock for 5 years at 8.2% per annum. None of these assets had been past due or impaired at the end of the reporting date

ii) The bank holds 200 BSP Capital notes for 10 years at 11% per annum. None of these assets had been past due or impaired at the end of the reporting date

		2014	2013
10	**OTHER RECEIVABLES**		
	Staff advances	8,102	8,272
	Rental deposits	254,372	252,271
	Interest withholding tax	273,594	273,594
	Prepayments	300,029	227,986
	Reimbursement costs	-	26,153
	Due from teller losses	53,660	57,305
	Digicel Cellmoni Wallet	20,218	20,888
	Sundry debtors	228,367	503,749
		1,138,342	1,370,218

		2014	2013
11	**PROPERTY, PLANT AND EQUIPMENT**		
	Carrying amounts of:		
	Furniture and fittings	42,430	76,178
	Motor vehicles	1,059,580	614,185
	Plant and equipment	699,764	1,074,439
	Leasehold improvement	17,562	166,076
	Capital work in progress	824,602	-
		2,643,938	1,930,878

	Leasehold Improvements	Furniture and fittings	Motor vehicles	Plant and Equipment	WIP	Total
2014	K	K	K	K	K	K
Cost						
At 1 January	1,603,827	286,889	1,566,691	3,221,688		6,679,095
Additions		36,307	776,910	82,323	824,602	1,720,142
Disposal			(653,697)			(653,697)
At 31 December	1,603,827	323,196	1,689,904	3,304,011	824,602	7,745,540
Depreciation and impairment losses						
At 1 January	(1,437,750)	(210,711)	(952,504)	(2,147,247)	-	(4,748,212)
Charge for the year	(148,515)	(33,748)	(288,651)	(493,286)	-	(964,200)
Disposals			610,810		-	610,810
At 31 December	(1,586,265)	(244,459)	(630,345)	(2,640,533)	-	(5,101,602)
Carrying Amount	17,562	78,737	1,059,559	663,478	824,602	2,643,938

11 PROPERTY, PLANT AND EQUIPMENT *continued...*

2013	Leasehold Improvements K	Furniture and fittings K	Motor vehicles K	Plant and Equipment K	Total K
Cost					
At 1 January	1,603,827	279,199	1,528,554	3,005,693	6,417,273
Additions		7,690	450,056	215,993	673,739
Disposal			(411,919)		(411,919)
At 31 December	1,603,827	286,889	1,566,691	3,221,686	6,679,093
Depreciation and impairment losses					
At 1 January	(1,161,353)	(169,304)	(1,072,654)	(1,578,130)	(3,981,441)
Charge for the year	(276,398)	(41,407)	(268,029)	(569,117)	(1,154,951)
Disposals			388,177		388,177
At 31 December	(1,437,751)	(210,711)	(952,506)	(2,147,247)	(4,748,215)
Carrying Amount	166,076	76,178	614,185	1,074,439	1,930,878

The Bank's property, plant and equipment are carried at cost less accumulated depreciation and impairment. There has been no impairment recognised in the financial period. (2013: nil).

	2014 K	2013 K
12 PAYABLES		
Accruals and sundry creditors	913,443	1,552,124
Funds guaranteed on behalf of others	1,063,464	147,163
	1,976,907	1,699,287

There is no interest charged on payables. The Bank has financial risk management policies in place to ensure that all payables are paid within pre-agreed credit terms.

	2014 K	2013 K
13 CUSTOMER DEPOSITS		
Term deposits current	11,193,907	4,574,528
Demand deposits	44,538,259	51,011,534
	55,732,166	55,586,062
14 PROVISIONS FOR EMPLOYEES BENEFITS		
Current		
Provision for annual leave	93,043	115,256
Non-Current		
Provision for long service leave	175,462	182,083
	268,505	297,339
15 SHARE CAPITAL		
Share capital	11,018,506	9,518,506

Issued capital comprises 11,018,506 fully paid ordinary shares of K1.00 per share (2013: 9,518,508)

16 STATUTORY COMPLIANCE

In accordance with the requirements of the Banks and Financial Institutions Act 2000, the following information is disclosed with respect to Nationwide Microbank Limited.

	2014	2013
Core capital (K'000)	5,548	3,687
Supplementary capital (K'000)	106	116
Risk weighted assets (K'000)	49,463	46,185
Tier 1 capital adequacy ratio	11.20%	8.00%
Total capital adequacy ratio	11.40%	8.20%
Required tier 1 capital adequacy ratio minimum	8.00%	8.00%
Required total capital adequacy ratio minimum	12.00%	12.00%

17 CAPITAL MANAGEMENT

The Bank is committed to the management of risk to achieve sustainability of service to its customers, employment of its staff and profits to its shareholders and therefore, takes on controlled amounts of risk when considered appropriate. The primary risks are those of credit, market and operational risk.

The Bank's risk management strategy is set by the Board of Directors through the following sub-committees:

- Credit Risk Committee (Credit risk);
- Board Audit and Committee (Operational risk);
- Implementation of risk management strategy and the day to day management of risk is the responsibility

The Bank has separated risk initiation and monitoring tasks where feasible Periodic reviews of risk management systems are undertaken by internal audit.

The following sections describe the risk management framework components.

Credit Risk

Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations. Credit risk principally arises within the Bank from its core business in providing lending facilities. The Bank is selective in targeting credit risk exposures and avoids exposures to any high risk area. The Bank has a comprehensive, clearly defined credit policy for the approval and management of all Bank risk. Given the nature of the bank's lending policies there are no significant individual exposures relative to the bank's capital base.

Lending standards and criteria are clearly defined into different business sectors for all Company products. The Bank relies primarily on the integrity of the debtor or counterparty and their ability to meet the obligations to the Bank Credit risk is strongly monitored and reviewed, with regular independent inspections being undertaken.

Market Risk

Market risk is the potential for change in the value of on positions caused by a change in the value, volatility or relationship between market rates and prices.

Market risk arises from the mismatch between assets and liabilities, both on and off Balance Sheet exposed to diverse financial instruments and foreign currencies and transacts in physical instruments.

Market risk includes Liquidity, Funding, Price, Interest Rate risks, which are explained as follows: The bank does not have any off balance sheet positions

Liquidity Risk

Management of Liquidity risk is designed to ensure that the Company has the ability to meet financial obligations as they fall due.

The objectives of the Company's funding and liquidity policies are to:

- ensure all financial obligations are met when due;
- provide adequate protection, even under crisis scenarios, at lowest cost; and
- achieve sustainable, lowest cost funding within the limitations of funding diversification requirements.

Funding Risk

Funding risk is the risk of over reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds.

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments of a specific type traded in the market

Interest Rate Risk

Interest rate risk is the potential for a change in interest rates to change net interest earnings, in the current reporting period and in future years. Interest rate risk arises from the structure and characteristic of the Bank's assets, liabilities and capital, and in the mismatch in repricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

Operational Risk

The Bank's operational risk management framework supports the achievement of the Bank's financial and business goals. Operational risk is defined as the risk of economic gain or loss resulting from:

- inadequate or failed internal processes and methodologies;
- people;
- systems; or
- external events.

A formal reporting structure and policy approved by the Board of Directors for the management of operational risk is in place. Under this policy, processes and practices for the identification, monitoring, measurement and day to day management of operational risks have been established.

A formal program is in place for reporting back to the Board Audit and Committee

Internal Audit

The Bank maintains an independent Internal Audit function which is ultimately accountable to the Board of Directors through the Board Audit and Risk Committee. Operational audits of all areas of the Bank's operations are reviewed based on an assessment of risk.

The Board Audit and Risk Committee meet on a regular basis to consider the Bank's financial reporting, internal control and corporate governance issues. It reviews the annual Financial Statements, the activities of the internal and external auditors and monitors the relationship between management and the external auditors.

Capital Management

The Company's objectives when managing capital are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operates;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

		2014	2013
		K	K
18	**FINANCIAL INSTRUMENTS**		
18.1	***Categories of financial instruments***		
	Financial assets		
	Cash and bank balances	16,075,308	9,483,963
	Held-to-maturity investments	612,104	6,478,949
	Loans and receivables	38,017,832	36,375,548
	Available-for-sale financial assets	5,200,000	5,600,000
	Financial liabilities		
	Deposits Held	55,732,166	55,586,062
	Payables	1,976,907	1,699,287

18.2 Maturity analysis of monetary assets and liabilities

The following table details the Bank's expected maturity for its non-derivative financial assets and liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

	Weighted average effective interest rate	Less than 12 months	1-2 years	2+ years	Total
		K	K	K	K
Cash on hand and at bank	1.75%	16,075,308			16,075,308
Customer loans	22%	12,149,078	11,380,383	14,488,371	38,017,832
Investments	5.7%	112,104		5,700,000	5,812,104
Receivables		1,138,342			1,138,342
Total Monetary Assets		29,201,238	11,653,977	20,188,371	61,043,586
Deposits Held	1.5%	55,732,166			55,732,166
Payables		1,976,907			1,976,907
Total Monetary Liabilities		57,709,907			57,709,073

		2014	2013
		K	K
19	**RELATED PARTIES**		
19.1	***Loans to related parties***		
	The bank has provided several of its key management personnel with short-term loans at rates comparable to the average commercial rate of interest.		
	The loans to key management personnel are not secured.	124,526	132,606
19.2	***Compensation of key management personnel***		
	TThe remuneration of directors and other members of key management personnel during the year was as follows:		
	Short-term benefits	2,195,364	1,869,435
	Other long-term benefits	247,854	235,839
	The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.	2,443,218	2,105,274

20 OPERATING LEASE ARRANGEMENTS

20.1 Leasing arrangements

Operating leases relate to property with lease terms between 5 and 10 years. All operating leases over 5 years contain clauses for 5 yearly market reviews. The Bank does not have an option to purchase leased buildings at the expiry of the lease.

		2014	2013
20.2	***Payments recognised as an expense***		
	Minimum lease payments	1,313,646	1,145,494
	Contingent rentals	491,396	552,921
	Sub-lease payments received	-	-

21 EMPLOYEES

The average number of employees in 2014 was 170 (2013: 170).

22 CONTINGENT LIABILITIES

At the date of this report, the directors were not aware of any contingent liabilities wwhich would materially affect these financial statements.

23 COMMITMENTS

At the date of this report, there are no capital commitments.

24 EVENTS AFTER THE REPORTING PERIOD

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 company, the results of the operations, or the state of affairs of the company in subsequent financial years.

25 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue by the Board of Directors on 20th March 2015.

unaudited detailed income statement

FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014	2013
	K	K
INCOME		
Interest on members loans	9,933,999	9,505,729
Interest on investments	754,724	847,028
Membership and loan fees	4,131,237	5,011,946
	14,819,960	15,364,703
COST OF FUNDS		
Interest	616,064	263,732
GROSS PROFIT FROM FINANCE ACTIVITIES	14,203,896	15,100,971
OTHER INCOME		
Grants	64,203	72,974
Profit on disposal of property, plant and equipment	148,212	73,758
	14,416,311	15,247,703
EXPENSES		
Accountancy and audit	97,314	88,000
Advertising and promotion	228,003	174,936
Impairment of goodwill	-	98,421
Bank charges	355,943	360,766
Cleaning	12,065	7,992
Consultants	3,355	27,379
Depreciation	964,200	1,154,954
Directors fees	233,199	220,234
Electricity and water	242,990	266,934
Fees and registrations	80,096	76,576
Insurance	282,431	286,717
Legal	61,714	85,483
Motor vehicles	340,997	338,211
Office	158,359	155,292
Postage, freight and courier	172,526	107,586
Printing and stationery	136,732	85,320
Provision for non lending loans	-	103,642
Provision for doubtful debts	1,100,000	1,433,308
Provision for employee benefits	28,497	94,768
Recruitment	63,527	5,543
Rent	1,805,042	1,698,415
Repairs and maintenance	35,269	62,426
Salaries and wages	5,322,964	5,163,535
Security	560,503	507,564
Staff training	142,860	131,491
Staff welfare	38,719	42,108
Subscriptions	42,014	31,585
Telephone, facsimile and internet	1,545,490	1,870,492
Theft	88,037	116,863
Travel and accomodation	167,222	279,249
TOTAL EXPENSES	14,310,068	15,075,790
OPERATING PROFIT FOR THE YEAR	**106,243**	**171,913**

corporate directory

registered office

1st Floor, Wilson Kamit Building
PNG Institute of Banking & Business Management
ToRobert Training Centre, Vanama Crescent
Konedobu, NCD

head office

ToRobert Training Centre
Vanama Crescent
Konedobu, NCD

postal address

MiBank
PO Box 179
Port Moresby, NCD

directors

Ray Clark
Anthony Smare
Tony Westaway
Dame Carol Kidu
Allan Marlin
James Gore

auditor

Deloitte Touche Tohmatsu
Deloitte Tower
PO Box 1275, Port Moresby, NCD

bankers

Bank South Pacific
ANZ PNG Limited
Westpac PNG Limited

MiBank

GROW WITH US

www.microbank.com.pg