MiBank
GROW WITH US

Grow with us

2015
ANNUAL REPORT

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

I am pleased to report an operating profit of K169,990 for the year ending 31 December 2015.

Mr Ray Clark

This is the fifth successive year of profitability demonstrating a consistent record of success and sustainability. Whilst these profits are relatively low in terms of ROE they are commendable for a microfinance institution in its establishment and development years.

By nature of their mission, MFIs have a triple 'bottom line' having additional prime responsibilities of providing affordable financial services to the community and 'grassroots people'.

A prime example of this is that a K5,000 MiLoan from MiBank allows a borrower to have a fortnightly take-home pay that is over K50 more than if the same loan was accessed from one of the many privately owned, high profit financial institutions. If MiBank was to apply the interest rates charged by the commercial finance providers ROE would obviously be very much higher - but MiBank would be failing in its mission provide affordable services.

MiBank, as we now prefer to be called, opened its doors to the public in April 2004 as Wau Microbank. Its first year of operation showed Total Assets of K1.6m and at 30 June 2006 it had 2,700 customers receiving savings and loan services.

At the end of 2015 our Total Assets were close to K70m and 162,000 customers were receiving financial services - savings, a wide range of loan options, mobile phone banking, direct employee pay transfer, insurance, forex and most recently the convenience of ATM access through BSP terminals by use of the MiBank issued MiCard. (Further information on the exciting MiCard initiative is provided in the MD's Report.) Many of these products and services were ground breaking innovations for the financial industry.

Apart from Mifx, that has been hindered by limited access to foreign currency, all other products (MiCash, MiLoan, MiLife, MiPei and MiPikinini) have proved to be extremely successful and widely used by customers including an ever increasing number of women, due to the continuing effort and success of our Women's Banking unit.

It is pleasing to note that the contemporary flagship branch that we opened at Waigani Central in December 2014 continues to flourish setting a new standard of facilities and services for the microfinance industry in PNG and the South Pacific region.

The Board has continued to provide clear direction for the future of MiBank, demonstrated by the revised Corporate Plan that was the outcome of an intensive workshop held early in 2015. My sincere appreciation goes to my fellow Directors who have shown dedication and commitment to MiBank through attendance at Board and Committee Meetings.

Due to the provisions of the Central Bank's Prudential Standard BPS 300 on Corporate Governance, changes to the board are imminent, as both Anthony Smare and I have served the maximum of 9 years as Directors on the MiBank Board. We will both stand down at the AGM.

Anthony has been replaced by Robert Bradshaw of Bradshaw Lawyers; at the time of preparing this Report, we have yet to finalise my replacement as Chairman.

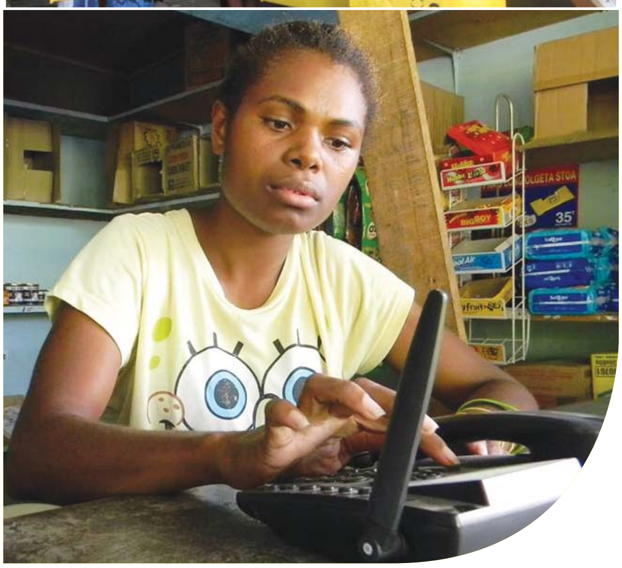
As I have emphasised in past reports, the success of any enterprise depends upon the synergy created by the combined efforts of dedicated directors, managers and staff and again I thank and congratulate Tony Westaway on successfully developing the latter two elements.

In our efforts to spread financial inclusion to the still many unbanked people of Papua New Guinea, we are continually supported by programs made available through United Nations, AusAID, ADB and the European Union and record our thanks for the partnerships that they are able to offer. The support and advice that we have received from the Bank of PNG is also acknowledged and very much appreciated.

As this is the final Chairman's Report that I shall be presenting to Shareholders, I would like to record my appreciation for being able to be part of the MiBank story since the concept was conceived over fifteen years ago. I am proud to have been part of the team at all stages and to have experienced the constant challenges that we have encountered. I am confident that I leave MiBank in an extremely healthy situation, primed for ever continuing success and growth over the years ahead.

Personally, without any doubt I can say that I have 'grown with MiBank'.

Mr Ray Clark
Chairman



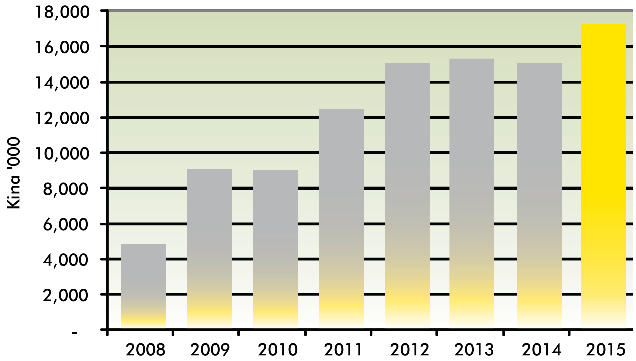
managing directors report

Despite challenging economic conditions a net operating profit before tax of K169,990 was recorded for the year ending 31 December 2015.

Mr Tony Westaway

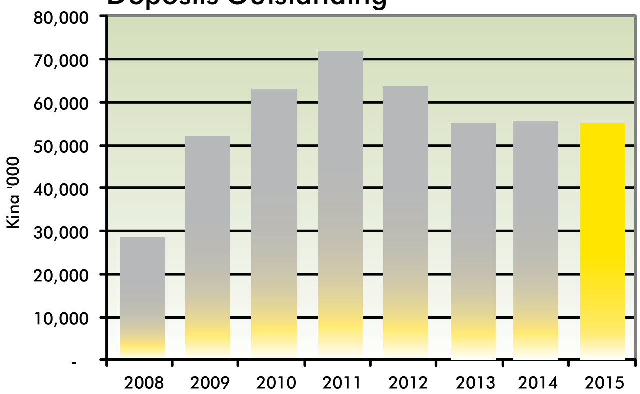
2015 began with the Board and Executive Management team re-visiting the Strategic Plan for 2015 - 2019. As a result our Vision and Mission were revisited and refined. Whilst our target market segment has not changed there is an increased emphasis on commercial focus to ensure sustainability, at the same time an ongoing desire to capture more of the current un-banked market. The new Vision Statement is "to be a commercially sustainable Bank that contributes to financial inclusion"

Operating Income



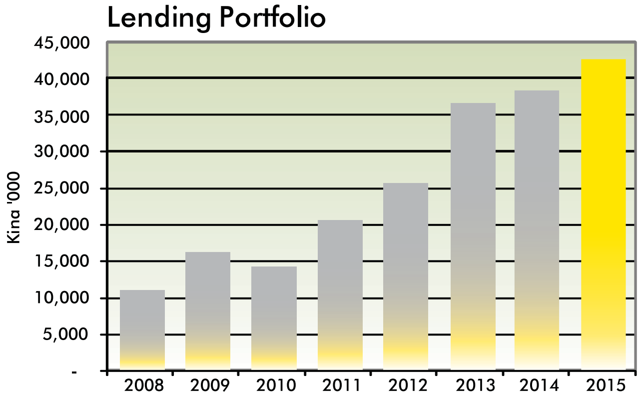
Our strategic planning exercise identified the need to diversify our loan book to include new products that are designed to make consumer finance more affordable, particularly for salaried employees, in both the private and public sectors. The Bank had identified that many employees in this sector have had little option but to borrow from finance companies, many of which are unlicensed and unregulated, and sometimes with significantly high borrowing rates. MiBank's entry in to this

Deposits Outstanding



market provides affordability to the borrower at same time enabling MiBank to offer a suite of financial services, beyond just providing credit, such as insurance, savings, mobile banking and foreign exchange payments.

It is fortuitous that MiBank took this step, as demand for credit more generally had slowed during 2015. Notwithstanding the reduced demand, MiBank forged ahead with new partnerships, and launched programs with the Central Province Provincial



Government, Gumine District Administration, Esa 'ala District Administration, and National Fisheries Authority to name a few, establishing schemes designed to provide access to credit and financial literacy programs provided by MiBank.

Women's Banking & Financial Education

In 2015 our Women's Banking Unit continued to deliver integrated financial literacy training under agreements with two major partners; the United Church of Papua New Guinea (UCPNG) and Niugini Strategic Services Limited (NSSL) of Morobe Province. UCPNG has an ambitious target to reach out to over 300,000 women throughout its network nationwide, whilst NSSL has within its network two of PNG's largest coffee and cocoa producing farming co-operatives in the Nawae & Huon Districts of Morobe Province.

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.

MiBank is also working with ADB on 'Women in Fishing' project whereby MiBank provides financial literacy skills and mentoring to women to enable them engage in business. In doing so we are endeavouring to alleviate the barriers women face in engaging with the private sector.

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 attend these financial literacy 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.

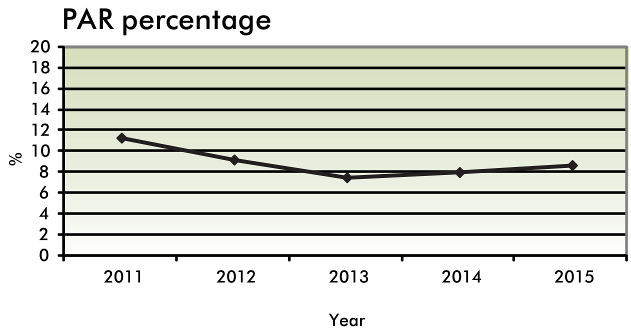
Waigani Central

During 2015 we consolidated our new footprint in Port Moresby, by an ever increasing customer base visiting our Waigani Central Branch, which was officially opened by the Governor of the Bank of Papua New Guinea, Mr. Loi Bakani, in December 2014. Our customers have enjoyed the open space and modern features of the new branch and our business has continued to grow as a result.

MiCard

In December of 2015 MiBank launched a new ATM & EFTPOS Card called MiCard. This card has been developed in conjunction with a new savings product, MiSaver, which is an account that allows people to save and earn interest, at the same time providing a Debit Card for customers to access their money via ATMs, or purchase goods and services using EFTPoS.

MiCards will also be issued to all customers who currently hold a MiCash mobile wallet. This will provide maximum flexibility for our many rural customers who can use their mobile phone for banking in the village, but when they travel to urban areas they can elect to switch to using the MiCard, to access their account.



MiBank has an agreement with BSP, for MiCards to be accepted throughout BSP's extensive ATM and EFTPoS network throughout PNG. Our ability to develop an interface with BSP, speaks highly of our resident technical skills within MiBank and the adaptability of our information technology platform, which incidentally has processed more than one hundred million kina in MiCash mobile money transactions.

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 2016 to support their efforts in extending financial inclusion throughout PNG. In addition MiBank contributes to the PNG APEC Business Advisory Council's Working Group on Micro, Small & Medium Enterprises for 2018 APEC.

In 2015 the training and development of our staff continued to receive strong focus. We consistently exceed 200 training days per annum at the Institute of Banking & Business Management and a number of our staff will graduate this year with either a Diploma of Management or Certificate in Frontline Management. During the year we also appointed a Manager Training who will be tasked to develop a number of in-house training programs, with emphasis on credit.

In conclusion I would like to thank our staff for their ongoing efforts in 2015 and I thank our customers for their ongoing support of MiBank, may they continue to 'grow with us'.

Tony Westaway

Managing Director


MiCard
MiBank


ASK HERE ABOUT A MICROBANK VEHICLE LOAN...
...AND THESE WHEELS CAN BE YOURS SOONER

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.

A strategic planning workshop, facilitated by KPMG, was held over the weekend of 21-22 February 2015.
The Board together with senior members of the Executive Management team, finalised the Bank's Strategic Plan for the five years, between 2015 and 2018 (inclusive).

Board Composition

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

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	4/4
Dame Carol Kidu	3/4
Allan Marlin	4/4
Anthony Smare	4/4
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 the table that follows.

Membership of Board Committees as at 31 December 2015

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

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 has been associated with the banking industry in PNG for more than 20 years. Currently the Managing Director of MiBank; Tony is also the Chairman of Microfinance Pasifika Network, a Director of the Centre of Excellence for Financial Inclusion, a Director and Honorary Fellow of the PNG Institute of Banking & Business Management, and a Fellow of the Financial Services Institute of Australasia. Tony holds an MBA from Torrens University Australia.

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.

financial statements

FOR THE YEAR ENDED 31 DECEMBER 2015

directors' report

FOR THE YEAR ENDED 31ST DECEMBER 2015

The Directors of NATIONWIDE MICROBANK LIMITED have pleasure in presenting the annual report of the company for the year ended 31st December 2015.

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 profit for the year before taxation amounted to K169,990 (2014: K106,243).

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 page 13.

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 10th day of March 2016
Port Moresby

DIRECTOR

DIRECTOR

statement by the directors

FOR THE YEAR ENDED 31ST DECEMBER 2015

In the opinion of the Directors of NATIONWIDE MICROBANK LIMITED:-

1. (a) the statement of profit or loss and other 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 2015,

   (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 2015,

   (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 2015,

   (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 2015,

   (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 10th day of March 2016
Port Moresby

DIRECTOR

DIRECTOR

independent audit report

FOR THE YEAR ENDED 31ST DECEMBER 2015

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 2015, 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 International 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 31 December 2015, 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 by the Company. We have not performed any other services for Nationwide Microbank Limited during the year ended 31 December 2015.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Theron

Suzaan Theron
Registered under the Accountants Act 1996
Partner
Port Moresby, 17 March 2016

statement of financial position

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 K	2014 K
Assets			
Cash and balances with central banks	7	5,936,597	6,918,656
Due from banks	7	9,051,070	9,156,652
Loans and advances to customers	8	42,980,533	38,017,832
Financial Investments			
– Available for sale	9	5,100,000	5,200,000
– Held to maturity	9	517,172	612,104
Other assets	10	1,263,585	1,138,343
Property, plant and equipment	14	3,085,889	2,643,938
Deferred tax assets	6	2,548,910	2,614,798
Total assets		70,483,759	66,302,323
Liabilities			
Due to customers	12	55,021,685	55,732,166
Current tax liabilities	6	148,440	148,440
Other liabilities	11	6,857,144	1,976,907
Provisions	13	316,808	268,505
Total liabilities		62,344,077	58,126,017
EQUITY			
Issued capital	15	11,018,506	11,018,506
Reserves		100,000	200,000
Retained earnings		(2,978,827)	(3,042,201)
Total equity		8,139,682	8,176,305
Total Equity And Liabilities		70,483,759	66,302,322

Director
Date 10th March 2015

Director
Date 10th March 2015

For and on behalf of the board of directors

The notes on pages 18 to 31 are an integral part of these consolidated financial statements.

statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 K	2014 K
Interest income		9,999,321	9,933,999
Interest expense	5(a)	(795,204)	(972,007)
Net interest income		9,204,117	8,961,992
Fees and commission income		4,674,224	4,131,237
Investment revenue		811,929	754,724
Other operating income		20,050	212,415
Net operating income		14,710,320	14,060,368
Personnel expenses	5(b)	(6,345,622)	(5,933,461)
Operating expenses	5(c)	(7,346,724)	(7,056,464)
Depreciation of property and equipment	14	(847,984)	(964,200)
Profit before tax from operating income	6	169,990	106,243
Income tax (expense)/benefit	6	(106,616)	92,914
Profit for the year		63,374	199,157
Other comprehensive income			
Available-for-sale financial assets			
- Net fair value loss during the year		(100,000)	(400,000)
Total comprehensive (loss) for the year net of tax		(36,626)	(200,843)

The notes on pages 18 to 31 are an integral part of these consolidated financial statements.

statement of changes in equity

FOR THE YEAR ENDED 31ST DECEMBER 2015

	SHARE CAPITAL	RETAINED EARNINGS	OTHER RESERVES	TOTAL EQUITY
	K	K	K	K
Balance at 31 December 2013	9,518,506	(3,241,358)	600,000	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	(3,042,201)	200,000	8,176,305
Issue of share capital	-	-	-	-
Total comprehensive income	-	63,374	-	104,102
Prior years adjustments				(40,725)
Other comprehensive income	-	-	(100,000)	(100,000)
Balance at 31 December 2015	11,018,506	(2,978,827)	100,000	8,139,682

The notes on pages 18 to 31 are an integral part of these consolidated financial statements.

statement of cash flows

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 K	2014 K
Cash flows from operating activities			
Profit before tax		169,990	106,243
Adjustments for:			
Depreciation of property, plant and equipment		847,984	964,200
Impairment of goodwill		-	-
Loss/(Gain) on sale of property, plant and equipment		(20,050)	(148,212)
Provision for non-lending		-	-
Allowance for doubtful debts		475,000	1,100,000
Bad debts		172,371	88,037
Movements in working capital			
Decrease (Increase) in receivables		(125,242)	1,078,711
Increase in loans		(5,937,454)	(2,742,284)
Increase in payables		4,880,237	277,620
Increase in employee benefits		48,303	28,835
Increase/(Decrease) in deposits		(710,481)	146,104
Net cash provided by operating activities		(199,342	899,254
Cash flows from investing activities			
Sale/(Purchase) of property, plant and equipment		(1,457,276)	(1,720,142)
Disposal of property, plant and equipment		374,045	45,389
Decrease/(Increase) in investments		194,932	5,866,845
Net cash (used) in investing activities		(889,299)	4,192,092
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		(1,087,641)	6,591,345
Cash and cash equivalents at beginning of year		16,075,308	9,483,963
Cash and cash equivalents at end of year	7	14,987,667	16,075,308

The notes on pages 18 to 31 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 IFRSs that are mandatorily effective for the current year

In the current year, the Bank has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

The Bank has applied the amendments to IFRSs included in the Annual improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle for the first time in the current year. The application of these amendments has had no impact on the disclosures or amounts recognised in the Bank's financial statements.

2.2 New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[2]	The directors of the Bank anticipate that the application of IFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Bank's financial statements. However it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Bank performs a detailed review.
IFRS 15	Revenue from Contracts with Customers[2]	The directors of the Bank anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Bank's financial statements. However it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Bank performs a detailed review.
Amendments to IAS 1	Disclosure Initiative[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 as the Bank is not party to joint arrangements.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[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 2012-2014 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 January 2016 with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

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.

3.2 Basis of preparation

The financial statements have been prepared 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 IAS 17 Leases or measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3.3 Functional currency

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

3.4 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.

3.5 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

3.6 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.

3.7Financial 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 Government Inscribed Stock, 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.

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 Bank 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 Bank 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 Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES *continued..*

(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 (including deposits 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.

3.8 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.

3.9 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.

3.10 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 Bank in respect of services provided by employees up to reporting date

3.11 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.

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 Bank 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.

3.12 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.

3.13 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.

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 Bank 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 Bank 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 Bank'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 Other financial assets

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 Government Inscribed Stock, the bank has valued these instruments at recent comparable transaction prices.

	2015	2014
	K	K
5 PROFIT BEFORE TAXATION		
The profit before taxation is arrived at after charging and crediting the following		
(a) Personnel Expenses		
Salaries and wages	5,634,624	5,351,461
Directors fees	284,207	233,199
Staff training	197,179	142,860
Travel and accommodation	200,122	167,222
Other	29,490	38,719
	6,345,622	5,933,461
(b) Operating expenses		
Professional fees	168,609	162,383
Occupancy costs	2,669,035	2,060,097
Provision for credit losses	766,453	1,100,000
Insurance	250,413	282,431
Advertising and promotions	249,691	228,003
Repairs and maintenance	275,288	376,266
Office expenses	411,789	467,617
Recruitment	-	63,527
Other expenses	172,372	88,037
Security	669,860	560,503
Telephone and internet	1,316,479	1,545,490
Fees and registrations	349,024	80,096
Subscriptions	47,712	42,014
	7,346,724	7,056,464

	2015	2014
6 INCOME TAX		
(a) Income tax recognised in profit or loss		
In respect of the current year	106,616	-
(b) Deferred tax		
In respect of the current year	65,888	92,914
Other	40,728	-
	106,616	92,914
Total income tax expense recognised in the current year relating to continuing operations	106,616	92,914
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax	169,990	106,243
Income tax expense calculated at 30% (2014:30%)	50,997	31,873
Tax effect – permanent difference	-	12,556
Effect of expenses that are not deductible in determining taxable profit	14,891	-
Other	40,728	48,485
Income tax expense recognised in profit or loss	106,616	92,914

The tax rate used for the 2015 and 2014 reconciliations above is the corporate tax rate of 30% payable by corporate entities in Papua New Guinea on taxable profits under tax law in that jurisdiction.

		2015 K	2014 K
6	**INCOME TAX**		
(c)	**Current tax liabilities**		
	Income tax payable	148,440	148,440
	At 31 December	148,440	148,440
(d)	Deferred tax balances		
	The following is the analysis of deferred tax assets/(liabilities) presented in the statement of financial position		
	Deferred tax assets	2,548,910	2,614,798
(e)	**Deferred tax balances in relation to**		
	Provision for impairment losses	636,912	644,543
	Employee benefit provisions	95,042	190,297
	Other provisions	29,660	-
	Prepayments	(105,346)	(90,297)
	Tax losses	1,892,642	1,870,255
		2,548,910	2,614,798

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:

	2015 K	2014 K
Cash on hand	936,597	918,656
Deposits with the Bank of PNG	5,000,000	6,000,000
	5,936,597	6,918,656
Cash at bank	8,848,095	9,156,652
Other short-term deposits	202,975	-
	9,051,070	9,156,652
	14,987,667	16,075,308

8 LOANS AND ADVANCES TO CUSTOMERS

	2015 K	2014 K
Loans to customers	45,103,573	40,166,310
Less: Allowance for impairment losses	(2,123,040)	(2,148,478)
	42,980,533	38,017,832

Impairment allowance for loans and advances to customers
A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:

	2015 K	2014 K
Balance at the beginning of the year	2,148,478	1,080,981
Impairment losses recognised on loans	475,000	1,100,000
Amounts written off	(791,893)	(715,811)
Interest accrued on impaired loans provided for	291,453	683,308
Balance at end of year	2,123,038	2,148,478

9 INVESTMENTS

	2015 K	2014 K
Held-to-maturity investments carried at amortised cost		
- BPNG Inscribed stock, maturing 15 March 2017 (i)	517,172	612,104
Available for sale carried at fair value		
- BSP Capital notes, maturing 9 June 2019 (ii)	5,100,000	5,200,000
	5,617,172	5,812,104

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

		2015	2014
		K	K
10	**OTHER ASSETS**		
	Prepayments	351,152	300,029
	Rental deposits	299,957	254,372
	Interest withholding tax	273,594	273,594
	Interest receivable	82,851	14,558
	Staff advances	59,987	61,762
	Digicel Cellmoni Wallet	21,340	20,218
	Sundry debtors	174,704	229,052
		1,263,585	1,138,343

		2015	2014
11	**OTHER LIABILITIES**		
	Withholding tax payable	270,776	223,113
	Accrued interest	530,593	354,501
	Accrued expenses	553,995	281,298
	Sundry payables[2]	317,967	63,531
		1,673,331	913,443
	Funds guaranteed on behalf of others[1]	4,185,000	1,063,464
	Unallocated deposits	998,813	-
		6,857,144	1,976,907

[1]Funds guaranteed on behalf of others represent funds held as collateral for loans disbursed under arrangements with various statutory bodies and district councils. As at 31 December 2015, loans disbursed against these funds totalled K584,753.

[2]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.

		2015	2014
12	**CUSTOMER DEPOSITS**		
	Term deposits current	14,270,140	11,193,907
	Demand deposits	40,751,545	44,538,259
		55,021,685	55,732,166

		2015	2014
13	**PROVISIONS FOR EMPLOYEES BENEFITS**		
	Provision for annual leave	79,252	93,043
	Provision for long service leave	237,556	175,462
		316,808	268,505

The provision for employee benefits represents annual leave and vested long service leave entitlements accrued by employees. The increase in the carrying amount of the provision for the current year results from the change in the number of employees as well as regular increase in entitlements.

		2015	2014
14	**PROPERTY, PLANT AND EQUIPMENT**		
	Carrying amounts of:		
	Furniture and fittings	73,825	42,430
	Motor vehicles	949,047	1,059,580
	Plant and equipment	549,666	699,764
	Leasehold improvement	794,048	17,562
	Capital work in progress	719,303	824,602
		3,085,889	2,643,938

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

2015	Leasehold Improvements K	Furniture and fittings K	Motor vehicles K	Plant and Equipment K	WIP K	Total K
Cost						
At 1 January	1,603,827	286,889	1,689,904	3,340,318	824,602	7,745,540
Additions	313,472	9,180	325,384	77,806	684,134	1,457,276
Disposal	-	-	(381,765)	-	-	(381,765)
Transfers In/(Out)	630,296	57,027	-	134,559	(821,882)	-
At 31 December	2,547,594	353,097	1,633,523	3,552,683	719,303	8,806,200
Depreciation and impairment losses						
At 1 January	(1,586,265)	(244,459)	(630,345)	(2,640,533)	-	(5,101,602)
Charge for the year	(167,281)	(34,813)	(283,407)	(362,484)	-	(847,985)
Disposals	-	-	229,276	-	-	229,276
At 31 December	(1,753,546)	(279,272)	(684,476)	(3,003,017)	-	(5,720,311)
Carrying Amount	794,048	73,825	949,047	549,666	719,303	3,085,889

2014	Leasehold Improvements K	Furniture and fittings K	Motor vehicles K	Plant and Equipment K	WIP K	Total K
Cost						
At 1 January	1,603,827	286,889	1,566,691	3,221,688		6,679,095
Additions			776,910	118,630	824,602	1,720,142
Disposal			(653,697)			(653,697)
At 31 December	1,603,827	286,889	1,689,904	3,340,318	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	42,430	1,059,559	699,785	824,602	2,643,938

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. (2014: nil).

	2015 K	2014 K
15 ISSUED CAPITAL		
Issued capital	11,018,506	11,018,506

Issued capital comprises 11,018,506 fully paid ordinary shares of K1.00 per share (2014: 11,018,506)

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.

	2015	2014
Core capital (K'000)	5,412	5,548
Supplementary capital (K'000)	169	106
Risk weighted assets (K'000)	54,356	49,463
Tier 1 capital adequacy ratio	9.90%	11.20%
Total capital adequacy ratio	10.20%	11.40%
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 Bank 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 Bank has the ability to meet financial obligations as they fall due.

The objectives of the Bank'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:

- The Bank'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.

		2015	2014
		K	K
18	**FINANCIAL INSTRUMENTS**		
18.1	***Categories of financial instruments***		
	Financial assets		
	Cash and bank balances	14,987,667	16,075,308
	Held-to-maturity investments	517,172	612,104
	Loans and receivables	42,980,533	38,017,832
	Available-for-sale financial assets	5,100,000	5,200,000
	Financial liabilities		
	Deposits Held	55,021,685	55,732,166
	Payables	6,857,144	1,976,907

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%	14,987,667			14,987,667
Loans and advances	22%	7,341,672	14,874,465	20,764,396	42,980,533
Investments	5.7%	17,172	-	5,600,000	5,617,172
Receivables		1,263,585	-	-	1,263,585
Total Monetary Assets		23,610,096	14,874,465	26,364,396	64,848,957
Deposits Held	1.5%	55,021,685	-	-	55,021,685
Payables		6,857,144	-	-	6,857,144
Total Monetary Liabilities		61,878,829	-	-	61,878,829

		2015	2014
		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.	618,022	124,526
19.2	***Compensation of key management personnel***		
	The remuneration of directors and other members of key management personnel during the year was as follows:		
	Short-term benefits	2,604,413	2,195,364
	Other long-term benefits	208,353	247,854
	The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.	2,812,766	2,443,218

		2015	2014
		K	K
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.		
	20.2 Payments recognised as an expense		
	Minimum lease payments	2,453,497	1,313,646
	Contingent rentals	-	491,396
	Sub-lease payments received	-	-
	All leases are for all 12 branches including the Head Office		

21 CONTINGENT LIABILITIES

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

22 COMMITMENTS

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

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

24 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been authorised for issue by the Board of Directors on 8st of March 2016.

detailed income statement

FOR THE YEAR ENDED 31ST DECEMBER 2015

	2015	2014
	K	K
INCOME		
Interest on members loans	9,999,323	9,933,999
Interest on investments	811,929	754,724
Membership and loan fees	4,674,226	4,131,237
	15,485,478	14,819,960
COST OF FUNDS		
Interest	521,228	616,064
GROSS PROFIT FROM FINANCE ACTIVITIES	14,964,249	14,203,896
OTHER INCOME		
Grants	-	64,203
Profit on disposal of property, plant and equipment	20,050	148,212
	14,984,299	14,416,311
EXPENSES		
Accountancy and audit	98,866	97,314
Advertising and promotion	249,691	228,003
Impairment of goodwill	-	-
Bank charges	273,979	355,943
Cleaning	16,255	12,065
Consultants	10,532	3,355
Depreciation	847,984	964,200
Directors fees	284,207	233,199
Electricity and water	199,283	242,990
Fees and registrations	349,024	80,096
Insurance	250,413	282,431
Legal	59,211	61,714
Motor vehicles	253,761	340,997
Office	163,362	158,359
Postage, freight and courier	158,670	172,526
Printing and stationery	89,757	136,732
Provision for doubtful debts	766,453	1,100,000
Provision for employee benefits	83,296	28,497
Recruitment	-	63,527
Rent	2,453,497	1,805,042
Repairs and maintenance	21,527	35,269
Salaries and wages	5,551,328	5,322,964
Security	669,860	560,503
Staff training	197,179	142,860
Staff welfare	29,490	38,719
Subscriptions	47,712	42,014
Telephone, facsimile and internet	1,316,479	1,545,490
Theft	172,371	88,037
Travel and accomodation	200,122	167,222
TOTAL EXPENSES	14,814,309	14,310,068
OPERATING PROFIT FOR THE YEAR	**169,990**	**106,243**

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