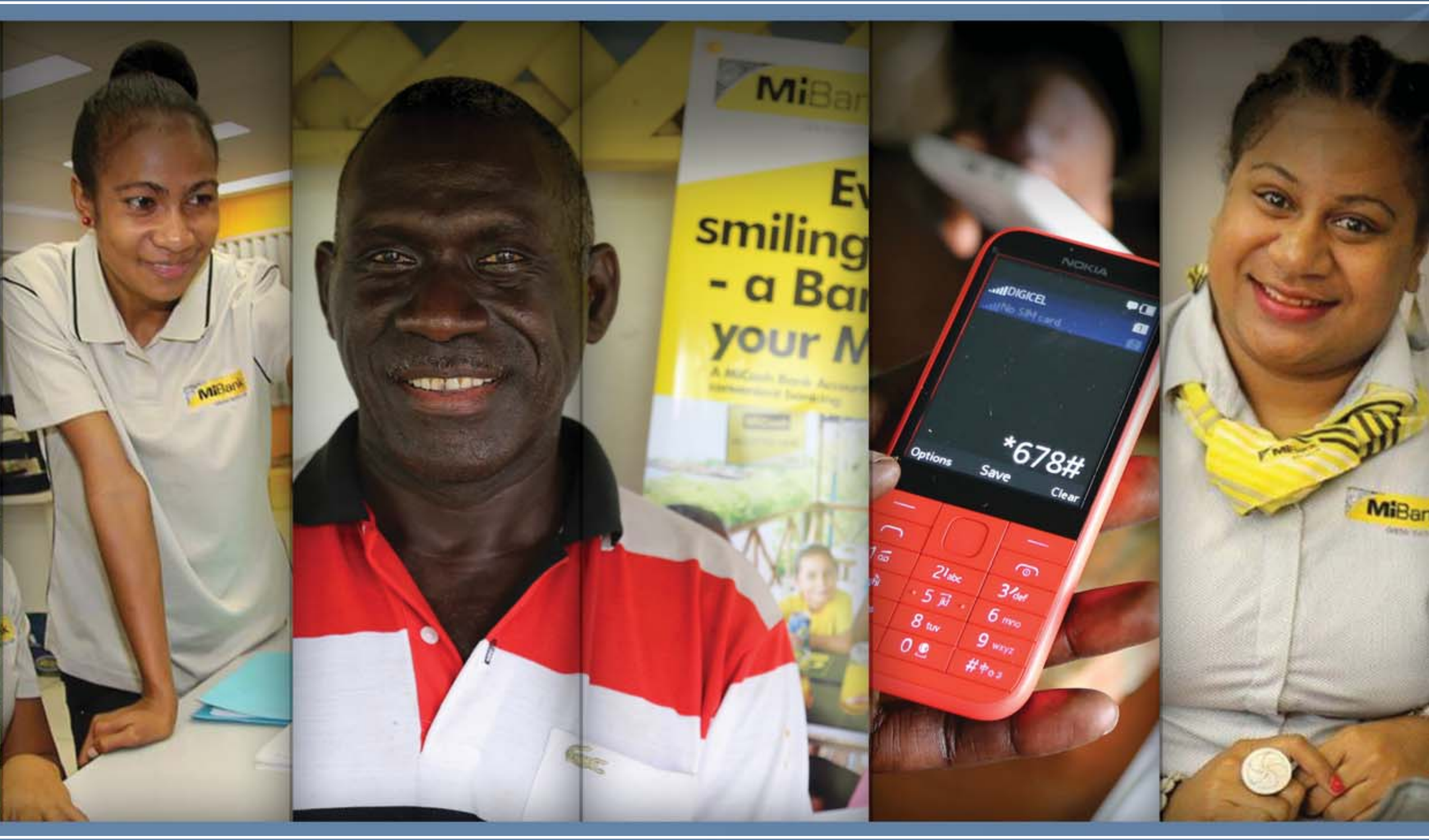
MiBank
GROW WITH US



2016
Annual Report

Nationwide Microbank Limited

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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


Mr Allan Marlin

MiBank has recorded a net operating profit before tax of K1,267,059 for 2016, a significant leap from the K169,990 recorded for 2015.

The Board is extremely pleased with the financial result for 2016. In challenging economic times, the Management and staff have provided a notable result that has exceeded expectations. During the year the Board was also able to write off long standing legacy debt. A conservative approach has also been taken by Management in the raising of future provisions. Despite this positive result for 2016, the Bank needs to remain vigilant in tackling loan arrears and maintaining credit quality in uncertain times. Tier 1 capital, Tier 2 Capital and leverage ratio's are now well in advance of Bank of Papua New Guinea regulations

This record result goes a long way to assisting the Bank attain its Vision to becoming a commercially sustainable Bank that contributes to financial inclusion. Consistent retained earnings will allow the bank to undertake the necessary expenditure to extend its outreach in a cost effective manner

The Board took the initiative to implement the Bank of Papua New Guinea's Prudential Standard BPS 300 on Corporate Governance at the commencement of 2016. As a result Directors Ray Clark and Anthony Smare resigned their Board positions, after having served the maximum 9 years as Directors on the MiBank Board. These Directors who had been with MiBank since inception and transition from a microfinance facility to a microbank were recognised at the AGM in 2016, for their contribution and clear direction given to MiBank, through its transition from a small microfinance institution to the leading micro bank in the South Pacific.

The Board was fortunate to gain the services of Wayne Dorgan who became the Chairman for the greater part of 2016. His knowledge of the PNG business environment and his commitment to task was commendable. The Board regrets the decision made to step down at the end of the year, due to change of residency status.

In 2016 a new Director was appointed to the Board in Lesieli Taviri, Country Head for Origin Energy in PNG. Lesieli wears a number of 'hat's including Chairperson for the Business Coalition for Women. We welcome her to the Board. Lesieli was nominated as a Director by our shareholder Melanesian Trustee Services Limited as Trustee for the Pacific Balanced Fund (MTSL).

Showing confidence in the direction of the Bank during 2016 MTSL saw fit to provide a second tranche of shareholders capital to MiBank, taking their shareholding to 24.98% of the issued capital. The Board acknowledges the continuing commitment and support of MTSL and notes the many synergies that can be achieved through the two organisations working together and we look forward to deepening the relationship in the foreseeable future.

The Board also welcomes the additional support by our other shareholder during the year, Lihir Sustainable Development Fund, through its co-operation in establishing a leverage loan system on Lihir Island for the benefit of the landowners.

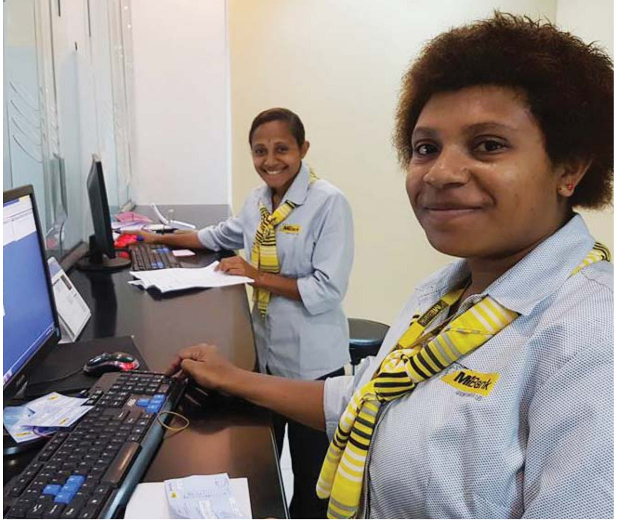
MiBank is continually supported by programs through Pacific Financial Inclusion Program (PFIP), Australian DFAT, European Union, UNCDF, and UNDP. The Bank also engages with ADB, particularly via their Private Sector Development Initiative. We thank these organisations for the partnerships they are able to offer.

The Board also appreciates the support, guidance and advice we receive from the regulator, Bank of Papua New Guinea.

In closing I wish to offer the Board' s appreciation to our Managing Director, Tony Westaway, for his leadership of MiBank and the outstanding result delivered by his team in 2016. I also thank the many customers of MiBank for placing their trust in our growing institution.

Allan Marlin

Acting Chairman
March 2017



managing directors report

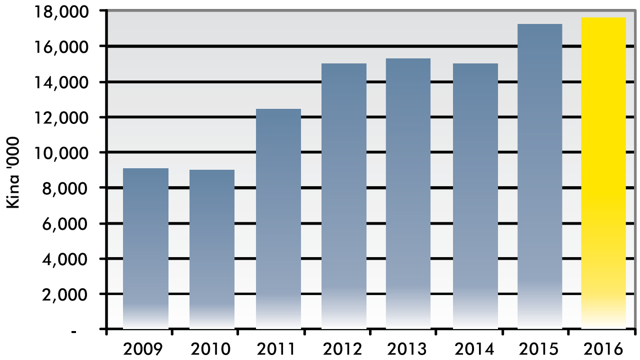
MiBank achieved a record operating profit of just over K1.2 million in 2016, a significant result in comparison to previous years, above budget and in keeping with our strategic plan.

Mr Tony Westaway

MiBank recorded a net operating profit before tax of K1,267,059 for the year ended 31 December 2016, compared to K169,990 in the previous 12 months. Cash earnings amounted to in excess of K3.3 million. The strong result was underpinned by increased interest income, from a growing and diverse loan portfolio.

MiBank's capital adequacy exceeds the minimum Bank of Papua New Guinea prudential requirement of 12%.

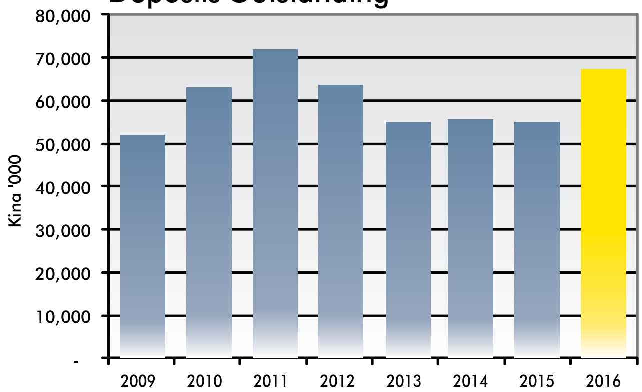
Operating Income



Key benchmarks include a gross loan portfolio of just under K50 million, deposits of nearly K70 million and total assets of K88 million (compared to K70 million at prior year end).

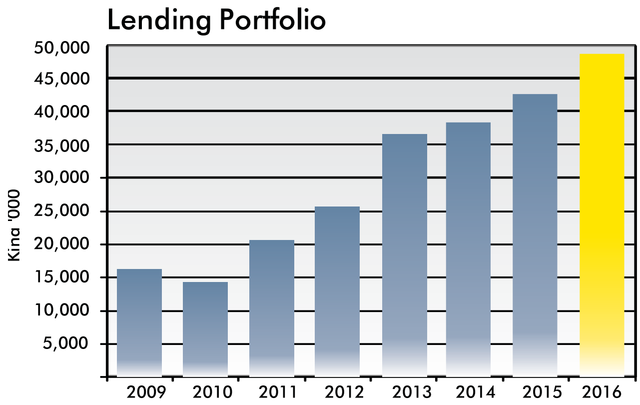
The Loan book is more industry diverse than previously, and we are enjoying loyal support from repeat customers. During 2016 we took the opportunity to extinguish legacy debt and raise additional provisioning of K1.1 million. Our Portfolio at Risk (PAR) is sitting at 7.9% at year end.

Deposits Outstanding



We have maintained our focus on serving those at the bottom of the economic pyramid and providing financial inclusion to the un-banked; however at the same time our customers now receive a broad range of products and services not too dissimilar to that of a commercial bank.

We have had a full 12 months now of enjoying an interchange with BSP, whereby our customers are able to undertake ATM and 'Point of Sale' transactions throughout the BSP network outside of their branches.



As a result the paradigm has shifted in relation to how our Branch network operates and efficiencies have been received. As a result our expense base is rather steady.

Meanwhile the MiCash Mobile wallet remains the core product offering for transaction banking. By the end of 2016 more than K126 million in value had been processed through our mobile wallets from more than 1.2 million transactions. Our customers, both women and men, are enjoying new additional services offered through this medium as we continue to deepen the value proposition of the MiCash wallet.

During 2016, teachers began to receive salaries paid through the wallet; onion farmers received payments from buyers and towards the end of 2016, people in remote villages began to acquire solar power kits and use the wallet for 'Pay as you Go' solar.

There are a number of key initiatives in place which will continue in 2017 to grow the use of the MiCash to enhance financial inclusion, create mobile money ecosystems and increase scale. These include our work with the Market Development Facility (MDF) and TSSP in the Autonomous Region of Bougainville.

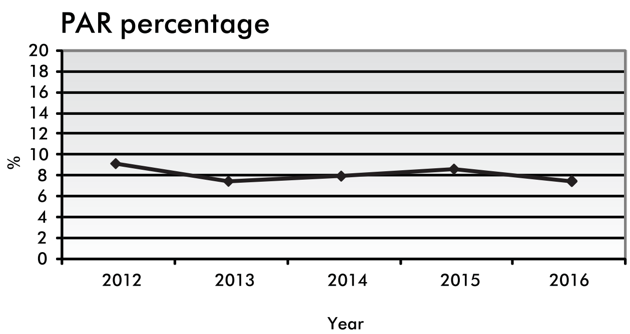
To further financial inclusion through Digital Financial Services, the industry more broadly could do more in relation to interoperability between financial institutions, whilst at the same time the central bank's plans to move to a national switch are to be applauded.

During 2016 MiBank changed the name of its Women's Banking Unit to that of Financial Inclusion Unit. This was done to reflect a growing focus on supporting the household and youth, influencing the behaviour of men to support their women. At the same time embracing gender equity and diversity remains a core MiBank value.

In 2016 MiBank continued to deliver financial education programs. MiBank's major partners in the delivery of integrated financial literacy training programs are the United Church of Papua New Guinea (UCPNG), Niugini Strategic Services Limited (NSSL) of Morobe Province, and Australian Centre for International Agricultural Research (ACIAR).

The Financial Inclusion Unit has also been working with the ADB Private Sector Development Initiative in relation to a pilot project titled "Empowering Women in Fishing Production by Strengthening the Supply Chain in Papua New Guinea." This project was set up to provide variety of skills training to women in fishing.

Our shareholders, Lihir Sustainable Development Program (LSDP) and Melanesian Trustee Services Limited, as Trustee for the Pacific Balanced Fund (PBF), have been very supportive during 2016. MiBank has executed an MOU with the LSDP umbrella company, LMALA, to support a leverage system on Lihir to provide landowners with access to credit, financial education, and other financial services. At the same time we have been working with PBF to develop the opportunity for PBF Unit Holders to have access to credit, leveraging off the Units held in PBF. MiBank has also provided its branch network to support the PBF road show during 2016.

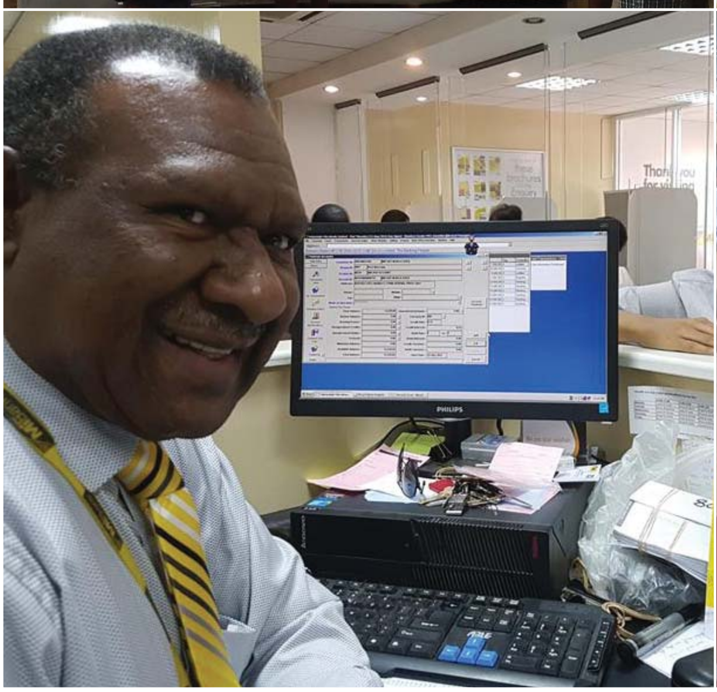


managing directors report continued

MiBank is a key stakeholder in the Centre for Excellence in Financial Inclusion. We have participation at Board level, and through various working groups we have been a keen supporter in the development the second National Financial Inclusion Strategy.

In conclusion I would like to thank our people for their enthusiasm and commitment. The management team and staff have taken MiBank to a new level in 2016. I thank our customers for their ongoing support of MiBank, may they continue to grow with us.

Tony Westaway
Managing Director
March 2017




MiBank
MiBank



MiCard
MiBank
4564 7170 1325 4576


MiCash
IF YOU'VE
GOT A

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.

In 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
Robert Bradshaw	2/4
Ray Clark (Resigned 22/3/16)	1/1
Wayne Dorgan (Appointed 31/03/16 - Resigned 31/12/16)	3/3
James Gore	3/4
Dame Carol Kidu	4/4
Allan Marlin	3/4
Anthony Smare (Resigned 22/03/16)	1/1
Lesieli Taviri (Appointed 16/08/16)	1/2
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 2016

	Appointments & Remuneration	Audit & Risk	Credit
Ray Clark		1/1	1/1
Wayne Dorgan		1/3	1/3
James Gore		3/3	2/3
Allan Marlin		2/3	3/3
Tony Westaway		3/3	3/3

*Due to number of Board changes during 2016, matters normally pertaining to the Appointments & Remuneration Committee were addressed by the full Board

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 Robert Bradshaw Director

Robert Bradshaw was appointed to the Board in December 2015. Robert is the Principal of Law firm Bradshaw Lawyers in Port Moresby, a Councilor with the PNG Law Society and a member of the PNG Institute of Directors. He has previously held a number of other Board appointments.

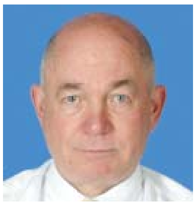
Mr Tony Westaway Managing Director

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.

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. Allan is also a Fellow of the Financial Services Institute of Australasia and a Graduate Member of the Australian Institute of Company Directors.

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.

Lesieli Taviri Director

Lesieli joined the Board in 2016 after being nominated by Shareholder MTSL as Trustee for the Pacific Balanced Fund. Lesieli is Country Manager for Origin Energy and is also Chairperson for the Business Coalition for Women. In 2014 Lesieli received the 2014 Westpac Outstanding Woman of the Year and in 2016 Lesieli graduated from the Advanced Management Program provided by Harvard University. Lesieli is also a non-executive Director of Nambawan Super Limited.

financial statements

FOR THE YEAR ENDED 31 DECEMBER 2016

directors' report

FOR THE YEAR ENDED 31ST DECEMBER 2016

The Directors of Nationwide Microbank Limited have pleasure in presenting the annual report of the company for the year ended 31st December 2016.

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 K1,267,059 (2015: K169,990).

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 14th day of March 2017
Port Moresby

DIRECTOR

DIRECTOR

statement by the directors

FOR THE YEAR ENDED 31ST DECEMBER 2016

IIn 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 2016,

   (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 2016,

   (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 2016,

   (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 2016,

   (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 14th day of March 2017
Port Moresby

DIRECTOR

DIRECTOR

Deloitte.

Deloitte Touche Tohmatsu

Level 9, Deloitte Haus
MacGregor Street
Port Moresby
PO Box 1275 Port Moresby
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Papua New Guinea

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www.deloitte.com/pg

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Nationwide Microbank Limited (the "Entity") which comprises the statement of financial position as at 31 December 2016, statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the declaration of Directors.

In our opinion, the accompanying financial report gives a true and fair view, the Entity's financial position as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

Responsibilities of the Director's for the Financial Report

The directors of the Entity 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 is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

Deloitte.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

The financial report of Nationwide Microbank Limited is in accordance with the Companies Act 1997 and proper accounting records have been kept by the Entity. We have not performed any other services for Nationwide Microbank Limited during the year ended 31 December 2016.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Benjamin Lee

Registered under the Accountants Act 1996
Partner

Port Moresby, 14 March 2017

statement of financial position

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 K	2015 K
Assets			
Cash and balances with central banks	7	16,134,844	5,936,597
Due from banks	7	9,263,338	9,051,070
Loans and advances to customers	8	49,782,111	42,980,533
Financial Investments			
– Available for sale	9	5,300,000	5,100,000
– Held to maturity	9	517,172	517,172
Other assets	10	1,290,848	1,263,585
Property, plant and equipment	14	3,546,258	3,085,889
Deferred tax assets	6	2,187,202	2,548,910
Total assets		88,021,773	70,483,756
Liabilities			
Due to customers	12	69,028,691	55,021,685
Current tax liabilities	6	-	148,440
Other liabilities	11	7,565,288	6,857,144
Provisions	13	364,325	316,808
Total liabilities		76,958,303	62,344,077
EQUITY			
Issued capital	15	12,688,506	11,018,506
Reserves		300,000	100,000
Retained earnings		(1,925,036)	(2,978,827)
Total equity		11,063,470	8,139,679
Total Equity And Liabilities		88,021,773	70,483,759

Director
Date: 14th day of March 2017

Director
Date: 14th day of March 2017

For and on behalf of the board of directors

The notes on pages 19 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 2016

	Note	2016 K	2015 K
Interest income		12,815,961	9,999,321
Interest expense		(957,034)	(795,204)
Net interest income		11,858,927	9,204,117
Fees and commission income		4,819,735	4,674,224
Investment revenue		965,048	811,929
Other operating income		84,726	20,050
Net operating income		17,728,436	14,710,320
Personnel expenses	5(a)	(6,645,343)	(6,345,622)
Operating expenses	5(b)	(8,855,020)	(7,346,724)
Depreciation of property and equipment	14	(961,014)	(847,984)
Profit before tax from operating income	6	1,267,059	169,990
Income tax (expense)/benefit	6	(361,708)	(106,616)
Profit for the year		905,351	63,374
Other comprehensive income			
Available-for-sale financial assets			
- Net fair value "gain/(loss)" during the year		200,000	(100,000)
Prior year adjustments	6 (c)	148,440	-
Total comprehensive profit for the year net of tax		1,253,791	(36,626)

The notes on pages 19 to 31 are an integral part of these consolidated financial statements.

statement of changes in equity

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	SHARE CAPITAL K	RETAINED EARNINGS K	OTHER RESERVES K	TOTAL EQUITY K
Balance at 01 January 2015		11,018,506	(3,042,201)	200,000	8,176,305
Issue of share capital		-	-	-	-
Total comprehensive income		-	63,374	-	63,374
Other comprehensive income		-	-	(100,000)	(100,000)
Balance at 31 December 2015		11,018,506	(2,978,827)	100,000	8,139,679
Issue of share capital		1,670,000	-	-	1,670,000
Total comprehensive income		-	905,351	-	905,351
Other comprehensive income		-	-	200,000	200,000
Prior year adjustments	**6 (c)**		148,440		148,440
Balance at 31 December 2016		12,688,506	(1,925,036)	300,000	11,063,470

The notes on pages 19 to 31 are an integral part of these consolidated financial statements.

statement of cash flows

FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 K	2015 K
Cash flows from operating activities			
Profit before tax		1,267,058	169,990
Adjustments for:			
Depreciation of property, plant and equipment		961,014	847,984
Loss/(Gain) on sale of property, plant and equipment		17,000	(20,050)
Allowance for doubtful debts		1,100,000	475,000
Bad debts		96,788	172,371
Movements in working capital			
(Increase)/ Decrease in receivables		(303,314)	(125,242)
Increase in loans		(6,801,578)	(5,937,454)
Increase in payables		708,299	4,880,237
Increase in employee benefits		47,517	48,303
(Decrease)/ Increase in deposits		14,007,006	(710,481)
Net cash provided by operating activities		11,099,790	(199,342)
Cash flows from investing activities			
Sale/(Purchase) of property, plant and equipment		(2,399,275)	(1,457,276)
Disposal of property, plant and equipment		40,000	374,045
Decrease/(Increase) in investments		-	194,932
Net cash (used) in investing activities		(2,359,275)	(889,299)
Cash flows from financing activities			
Capital contribution		1,670,000	-
Net cash provided by financing activities		1,670,000	-
Net increase/(decrease) in cash and cash equivalents		10,410,515	(1087,641)
Cash and cash equivalents at beginning of year		14,987,667	16,075,308
Cash and cash equivalents at end of year	7	25,398,182	14,987,667

The notes on pages 19 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 we are in progress of our assessment 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.

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 Bank 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%

3.6 Property, plant and equipment *continued..*

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.

3.7 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 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.

(viii) 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.

(ix) 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.

(x) 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.

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.

		2016 K	2015 K
5	**PROFIT BEFORE TAXATION**		
	The profit before taxation is arrived at after charging and crediting the following		
(a)	**Personnel Expenses**		
	Salaries and wages	5,821,054	5,634,624
	Directors fees	284,055	284,207
	Staff training	243,932	197,179
	Travel and accommodation	255,683	200,122
	Other	40,619	29,490
		6,645,343	6,345,622
(b)	**Operating expenses**		
	Professional fees	159,159	168,609
	Occupancy costs	2,450,090	2,669,035
	Provision for credit losses	1,895,660	766,453
	Insurance	241,548	250,413
	Advertising and promotions	398,167	249,691
	Repairs and maintenance	282,130	275,288
	Office expenses	1,134,283	411,789
	Recruitment	15,487	-
	Other expenses	113,788	172,372
	Security	522,913	669,860
	Telephone and internet	1,299,431	1,316,479
	Fees and registrations	429,893	349,024
	Subscriptions	54,714	47,712
		8,997,263	7,346,724

		2016 K	2015 K
6	**INCOME TAX**		
(a)	**Income tax recognised in profit or loss**		
	In respect of the current year	361,708	106,616
(b)	**Deferred tax**		
	In respect of the current year	361,708	65,888
	Other	-	40,728
		361,708	106,616
	Total income tax expense recognised in the current year relating to continuing operations	361,708	106,616
	The income tax expense for the year can be reconciled to the accounting profit as follows:		
	Profit before tax	1,267,059	169,990
	Income tax expense calculated at 30% (2015:30%)	380,118	50,997
	Tax effect – permanent difference	(18,410)	-
	Effect of expenses that are not deductible in determining taxable profit	-	14,891
	Other	-	40,728
	Income tax expense recognised in profit or loss	361,708	106,616

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.

		2016 K	2015 K
6	**INCOME TAX**		
(c)	**Current tax liabilities**		
	Income tax payable	-	148,440
	At 31 December 2016	-	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	2,187,202	2,548,910
(e)	**Deferred tax balances in relation to**		
	Provision for impairment losses	401,044	636,912
	Employee benefit provisions	161,871	95,042
	Other provisions	19,845	29,660
	Prepayments	177,976	(105,346)
	Tax losses	1,426,466	1,892,642
		2,187,202	2,548,910

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:		
	Cash on hand	956,121	936,597
	Deposits with the Bank of PNG	15,178,722	5,000,000
		16,134,843	5,936,597
	Cash at bank	8,755,541	8,848,095
	Other short-term deposits	507,798	202,975
		9,263,339	9,051,070
		25,398,122	14,987,667

8	**LOANS AND ADVANCES TO CUSTOMERS**		
	Loans to customers	51,953,575	45,103,573
	Less: Allowance for impairment losses	(2,171,465)	(2,123,040)
		49,782,110	42,980,533
	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:		
	Balance at the beginning of the year	2,123,038	2,148,478
	Impairment losses recognised on loans	1,100,000	475,000
	Amounts written off	(1,847,234)	(791,893)
	Interest accrued on impaired loans provided for	795,660	291,453
	Balance at end of year	2,171,465	2,123,038

9	**FINANCIAL INVESTMENTS**		
	Held-to-maturity investments carried at amortised cost		
	- BPNG Inscribed stock, maturing 15 March 2017 (i)	517,172	517,172
	Available for sale carried at fair value		
	- BSP Capital notes, maturing 9 June 2019 (ii)	5,300,000	5,100,000
		5,817,172	5,617,172

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.

		2016 K	2015 K
10	**OTHER ASSETS**		
	Prepayments	202,383	351,152
	Rental deposits	275,750	299,957
	Interest withholding tax	273,594	273,594
	Interest receivable	281,683	82,851
	Staff advances	56,755	59,987
	Digicel Cellmoni Wallet	25,283	21,340
	Sundry debtors	175,400	174,704
		1,290,848	1,263,585
11	**OTHER LIABILITIES**		
	Withholding tax payable	327,663	270,776
	Accrued interest	975,836	530,593
	Accrued expenses	599,864	553,995
	Sundry payables[2]	1,821,334	317,967
		3,724,697	1,673,331
	Funds guaranteed on behalf of others[1]	2,551,000	4,185,000
	Unallocated deposits	1,289,591	998,813
		7,565,288	6,857,144

[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 2016, 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.

		2016 K	2015 K
12	**CUSTOMER DEPOSITS**		
	Term deposits current	27,965,965	14,270,140
	Demand deposits	41,062,725	40,751,545
		69,028,690	55,021,685
13	**PROVISIONS FOR EMPLOYEES BENEFITS**		
	Provision for annual leave	84,515	79,252
	Provision for long service leave	279,809	237,556
		364,324	316,808

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.

		2016 K	2015 K
14	**PROPERTY, PLANT AND EQUIPMENT**		
	Carrying amounts of:		
	Furniture and fittings	114,536	73,824
	Motor vehicles	835,519	949,047
	Plant and equipment	1,478,340	549,666
	Leasehold improvement	656,394	794,050
	Capital work in progress	461,469	719,302
		3,546,258	3,085,889

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

2016	Leasehold Improvements K	Furniture and fittings K	Motor vehicles K	Plant and Equipment K	Capital work in progress K	Total K
Cost						
At 1 January	2,547,595	353,096	1,633,523	3,552,683	719,302	8,806,199
Additions	56,245	78,750	204,843	1,364,045	698,140	2,402,023
Disposal	-	-	(40,000)	-	-	(40,000)
Transfers In/(Out)			-		(955,973)	(955,973)
At 31 December	2,603,840	431,846	1,798,366	4,916,728	461,469	10,212,249
Depreciation and impairment losses						
At 1 January	(1,753,545)	(279,272)	(684,476)	(3,003,017)	-	(5,720,310)
Charge for the year	(193,901)	(38,038)	(293,704)	(435,371)	-	(961,014)
Disposals	-	-	15,333	-	-	15,333
At 31 December	(1,947,446)	(317,310)	(962,847)	(3,438,388)	-	(6,665,991)
Carrying Amount	656,394	114,536	835,519	1,478,340	461,469	3,546,258

2015	Leasehold Improvements K	Furniture and fittings K	Motor vehicles K	Plant and Equipment K	Capital work in progress 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	324,384	77,806	716,582	1,442,424
Disposal Transfer In/(Out)	630,296	57,027	(381,765)	134,559	(821,882)	(381,765)
At 31 December	2,547,595	353,096	1,633,523	3,552,683	719,302	8,806,199
Depreciation and impairment losses						
At 1 January	(1,586,265)	(244,459)	(630,345)	(2,640,533)	-	(5,101,602)
Charge for the year	(167,280)	(34,813)	(283,407)	(362,484)	-	(847,984)
Disposals			229,276		-	229,276
At 31 December	(1,753,545)	(279,272)	(684,476)	(3,003,017)	-	(5,720,310)
Carrying Amount	794,050	73,824	949,047	549,666	719,302	3,085,889

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. (2016: nil).

	2016 K	2015 K
15 ISSUED CAPITAL		
Issued capital	12,688,506	11,018,506

Issued capital comprises 12,688,506 fully paid ordinary shares of K1.00 per share (2015: 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.

	2016	2015
Core capital (K'000)	7,522	5,412
Supplementary capital (K'000)	1,267	169
Risk weighted assets (K'000)	60,496	54,356
Tier 1 capital adequacy ratio	12.40%	9.90%
Total capital adequacy ratio	14.50%	10.20%
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 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.

How Liquidity Risk Managed

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.

How Funding Risk Managed

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.

How Interest Rate Risk Managed

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 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.

	2016 K	2015 K
18 FINANCIAL INSTRUMENTS		
18.1 Categories of financial instruments		
Financial assets		
Cash and bank balances	25,879,460	14,987,667
Held-to-maturity investments	517,172	517,172
Loans and receivables	49,782,110	42,980,533
Available-for-sale financial assets	5,300,000	5,100,000
Financial liabilities		
Deposits Held	69,028,690	55,021,685
Payables	7,565,288	6,857,144

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 K	1-2 years K	2+ years K	Total K
Cash on hand and at bank	1.75%	25,879,460			25,879,460
Loans and advances	22%	12,513,945	16,113,463	21,154,702	49,782,110
Investments	5.7%	17,172	-	5,300,000	5,317,172
Receivables		1,290,848	-	-	1,290,848
Total Monetary Assets		39,701,425	16,113,463	26,454,702	82,269,590
Deposits Held	1.5%	69,028,691	-	-	69,028,691
Payables		7,565,288	-	-	7,565,288
Total Monetary Liabilities		76,593,979	-	-	76,593,979

	2016 K	2015 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.	824,806	618,022
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	3,151,595	2,604,413
Other long-term benefits	-	208,353
	3,151,595	2,812,766

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

		2016 K	2015 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	2,450,090	2,453,497
	Contingent rentals	-	491,396
	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 14th of March 2017.

detailed income statement

FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016 K	2015 K
INCOME		
Interest on members loans	12,815,961	9,999,323
Interest on investments	965,048	811,929
Membership and loan fees	4,904,461	4,674,225
	18,685,470	15,485,477
COST OF FUNDS		
Interest	957,034	521,228
GROSS PROFIT FROM FINANCE ACTIVITIES	17,728,436	14,964,249
OTHER INCOME		
Profit on disposal of property, plant and equipment	-	20,050
	17,728,436	14,984,299
EXPENSES		
Accountancy and audit	98,400	98,866
Advertising and promotion	398,167	249,691
Bank charges	157,758	273,979
Cleaning	35,044	16,255
Consultants	107,394	10,532
Depreciation	961,014	847,984
Directors fees	284,055	284,207
Electricity and water	341,652	199,283
Fees and registrations	322,499	349,024
Insurance	241,548	250,413
Legal	60,759	59,211
Motor vehicles	269,692	253,761
Office	174,714	163,362
Postage, freight and courier	176,656	158,670
Printing and stationery	106,217	89,757
Provision for doubtful debts	1,895,660	766,453
Provision for employee benefits	161,871	83,296
Recruitment	15,487	-
Rent	2,450,090	2,453,497
Repairs and maintenance	29,438	21,527
Salaries and wages	5,659,183	5,551,328
Security	522,912	669,860
Staff training	243,932	197,179
Staff welfare	40,619	29,490
Subscriptions	54,714	47,712
Telephone, facsimile and internet	1,299,431	1,316,479
Theft	96,788	172,371
Travel and accomodation	255,683	200,122
TOTAL EXPENSES	16,461,377	14,814,309
OPERATING PROFIT FOR THE YEAR	**1,267,059**	**169,990**

corporate directory

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Westpac PNG Limited

"We thank Sarah Wiles (photographer) and the Market Development Facility for allowing us to publish a number of photographic images for this Annual report"

MiBank

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