2010 ANNUAL REPORT

NATIONWIDE MICROBANK
GROW WITH US

Contents

Our Vision

To be the paramount microfinance institution in Papua New Guinea and the Pacific Region.

Our Mission

To ensure that the people of Papua New Guinea at large have access to relevant and affordable financial services.

Our Slogan

Grow with us

Chairman's Report

Mr Ray Clark

Despite the many setbacks experienced throughout the year, I am confident that 2010 will ultimately be seen as a watershed year in the history of Nationwide Microbank's development.

With the realisation that the old management information system (MIS) had proven so unreliable, the Board had to take some tough decisions in order to steer safely out of troubled waters and set course for a bountiful future.

A K7.0M loss, being a negative 10% return on assets, doesn't look good in any Company's Financial Statements, let alone those of a developing Microbank. However if one looks behind the figures it can be seen that by accepting this loss the Board has provided Nationwide Microbank with the essential sound foundation and financial integrity for future development and prosperity.

The main elements of the deficit are a loan loss provision of K1.1m, increased depreciation of K1.05m and a suspense account write off of K3.01m. The balance is the actual operating loss brought about by the Board's firm decision in the early part of the year to suspend lending until such time as the Portfolio at Risk could be reduced to an acceptable level. This was achieved in the final quarter and lending re-commenced.

What brought about the situation to make it necessary for these major adjustments to be made is simply that the MIS that was in use prior to the introduction and migration to the BRmfo MIS was totally inadequate for the job and the integrity of the data and information that it produced was seriously flawed. It should be remembered that NMB inherited the system that was installed for the Wau Microbank, conceptually a single standalone MFI - not a multi -branch operation. The inaccuracies and severity of the portfolio at risk did not become apparent until after full migration of data to BRmfo had taken place and detailed reconciliations had been carried out. In any set of accounts there is only one set of accurate figures and the Board has now determined what these are and 'bitten the bullet' - albeit to the detriment of the 2010 result.

Having taken this positive stance we know that NMB stands on a secure concrete base - not shifting sands - and that we can confidently move forward and upwards.

And moving forward and upwards we are. To address the unfavourable trend in delinquency a central credit approval system was introduced and approval of loans at Branch level was withdrawn. Since the introduction of this system the PAR of new loans drawn has been below 1%. At the end of 2010 plans were securely in place to open a new branch in Goroka and our strategy of branchless banking encompassing the technology of mobile phone banking was well advanced.

It is important to note that NMB has been able to sustain the losses recorded in 2010 and maintain capital adequacy as a result of the bank's growth since it was established in 2004. Much of this growth was recorded during the period 2007 to 2010 under the stewardship of Lionel Somaratne who opted on completion of his 3 year contract as CEO in mid 2010 to return to his homeland of Sri Lanka. I take this opportunity of recording the appreciation of the Board for the dedication and hard work that Mr. Somaratne demonstrated throughout his term of office.

At the time when Mr. Somaratne advised that he would be departing, we were fortunate to have Tony Westaway on the Board and to have been able to attract him to the role of CEO as Managing Director. Tony's vast experience in commercial banking has proved invaluable in addressing the problems that beset us during the year. With Tony's move to executive, the Board recognised that to maintain balance it needed another experienced Banker as a non-executive Director. Once again we were delighted when Garry Tunstall agreed to join the Board. Not only has Garry a wealth of banking experience but his recent period as MD of ANZ in PNG has proved particularly valuable. The Board as a whole has worked extremely well and Douglas Anayabere and Brian Komun are to be commended for their work on the Audit and Risk Committee. With the added contribution of Director Anthony Smare with his vast legal and commercial background, I can confidently state that NMB has a well balanced, thoroughly experienced and totally dedicated team of Directors.

It is pleasing to note how our staff is moving from strength to strength and how well they have responded to the many challenges asked of them. On behalf of the Board I thank them for their loyalty and diligence throughout the year.

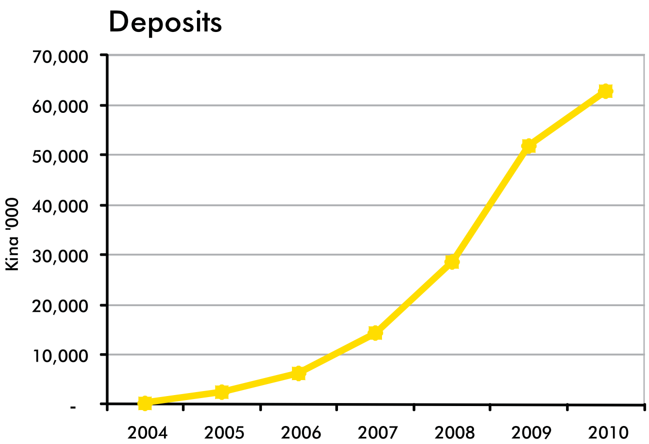
Having successfully overcome the trials and tribulations of the past year and knowing precisely where we stand financially, I look forward to the implementation of the many initiatives that NMB is taking and continue to urge the people of Papua New Guinea to grow with us.

Mr Ray Clark
Chairman

Managing Directors Report

2010 has been a challenging year for Nationwide Microbank Limited ("NMB"). In the early part of the year all branches finished migrating from the previous core retail platform known as *Loan Performer* to our new platform called *BRmfo*, provided by Craft Silicon.

The previous platform was 'stand alone' in each of the NMB branches, compared to the 'real time' system connected to Head Office, which we now enjoy. By default the prior platform posed many risks. It became evident that as NMB branches migrated that reconciliation differences appeared between control accounts in the old system and the new system. Prudently these differences were written off in the financial accounts for 2010.

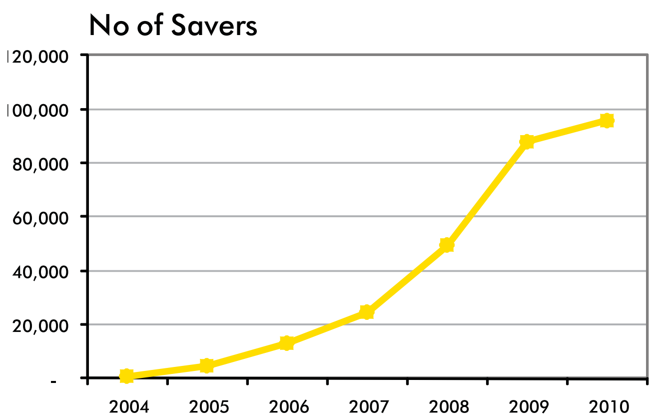


The migration to the new platform also exposed serious flaws in the calculation of Portfolio at Risk. As a result the entire Credit process came under intense scrutiny.

To redress the situation the Board instigated a freeze on Lending and Management introduced a new paradigm in response to the unacceptable PAR. Features of this new paradigm include:-

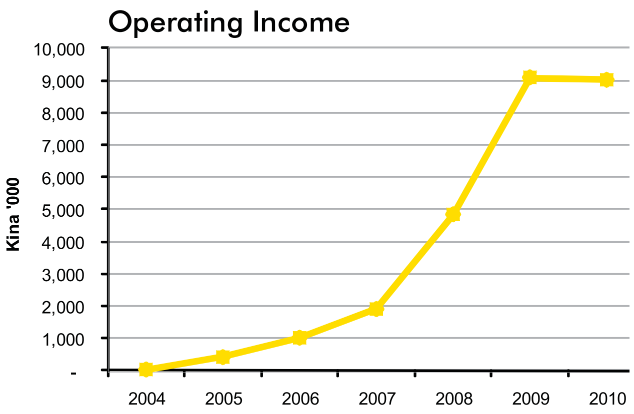
- A centralised Credit Administration Unit (CAU) was formed in Head Office to disburse all loans drawn by NMB. This Unit controls the registration of all security documentation; makes enquires with the Credit & Data Bureau on all prospective debtors, and disburses all loans drawn by NMB.
- Branch Management delegated authorities were withdrawn. Delegated authority for lending now rests with the Board, Managing Director, and Chief Operating Officer.
- A new Recoveries Unit was established headed up by a Senior Manager experienced in Asset Management.

By the end of 2010 (within six months), these measures had enabled the PAR to reduce by fifty per cent. Indeed as at year end the PAR relative to new lending from 1 July was just 0.2%. Management continues to critically focus on PAR reduction in 2011 as a key performance objective.

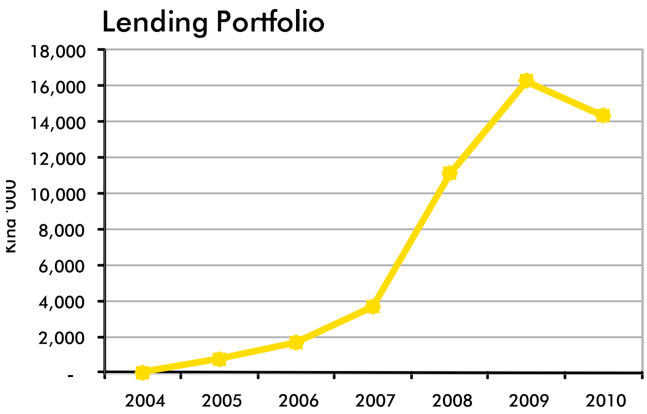


Operations

The Central Processing Unit (CPU) was formed in 2010. The rationale behind centralising back office operations was two fold. One to reduce operational risk and two, to gain efficiencies and reduce costs. Previously each branch had an Accountant and Accounts Assistant. These two positions have been removed and teams have been formed within the CPU to support the branches. As a result branch Managers can focus on Sales & Service. All branches are now connected online to a Server in the Bank's Head Office. This centralisation has significantly reduced incidence of fraud and back office errors have reduced considerably. Previous reconciliation issues have been eliminated. Additional controls and segregation of rights have been introduced to further reduce operational risk.



No new branches were added to the network in 2010; however the Bank closed Finschaffen branch due to a robbery. This branch had only opened in 2009 therefore it was disappointing that we were forced to close this branch following an updated risk assessment. We are now working with the local member and District Administration to explore the opportunity to develop a new secure purpose built Bank premises in Finschaffen.



Towards the end of 2010 the Bank also experienced a violent armed robbery at our Port Moresby branch, located at Garden City Boroko. As at time of writing two suspects have been charged and are awaiting trial.

It is disappointing to note that in some locations throughout the country our branch Managers continue to receive threats of physical violence. This is extremely discouraging as we are a grass roots Bank focused on serving the needs of ordinary Papua New Guineans. The law and order situation in many parts of the nation is an inhibitor in the extension of our branch network. Indeed the security measures we need to implement, add an additional burden to our overall operating costs.

Human Resources

NMB prides itself in being an *employer of choice*. In 2010, following the engagement of a HR Consultant who was funded by ADB, the Bank updated its policies and procedures in relation to Human Resources. The HR Manual was completely re-written and a new Staff Performance Appraisal system was designed. This new Appraisal system has since been introduced in 2011. A Whistleblower Policy was introduced which brings NMB to the forefront of best practice in HR.

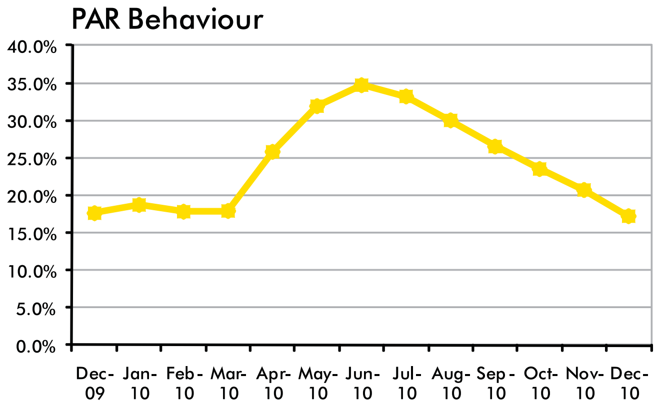
Training and development of our people continues to receive strong focus. A number of internal workshops covering Lending and Telling were held in both Port Moresby and Lae throughout 2010. NMB is a corporate member of the PNG Institute of Banking & Business Management. During the year 44 training days were undertaken at the Institute. In 2011 we are on target for the number of training days to grow to 325.

Information Technology

By the end of 2010 all NMB branches migrated to the new BRmfo platform supplied by Craft Silicon. This core banking application operates on a real time basis, which necessitates sustainable connectivity to all branches throughout the network. This has been a challenge. Whilst most branches operate on IPVPN links there are also a number operating on Vsat.

As part of the Bank's Disaster Recovery Plan (DRP), the Bank has engaged Remington Technologies to support all aspects of its managed back up and data replication services which includes data recovery, server rebuilds and DR hosting at both local and remote office locations.

Managing Directors Report



Product Development

Whilst 2010 was a period of consolidation, in 2011 we have begun to introduce new products on our new BRmfo system. The first of these being the *Microbank Vehicle Loans*. These Loans deviate from our normal Microbank lending in that we have shifted some focus towards the small and medium enterprise (SME) market. One of the strategies with this new product is to lengthen the maturity profile of our loan book. Up until end of 2010 our loans were repaid at an average of 12 months. This product also sees NMB moving in to providing loans with interest calculated on a reducing balance method, a move from the traditional microfinance approach.

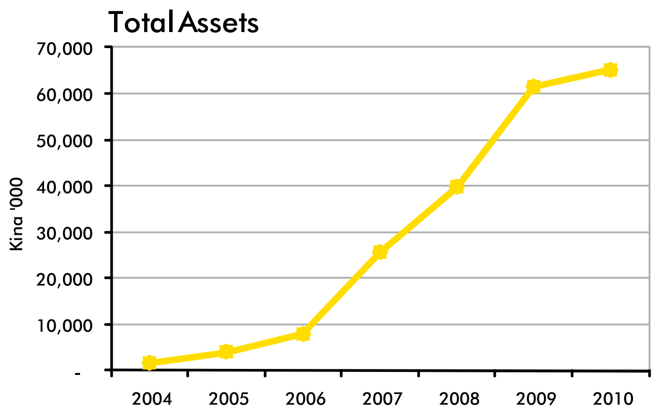
Further products are in development as at time of writing including Micro-insurance.

Mobile Money

One of the most exciting innovations extending throughout developing nations is the use of mobile phone technology to extend financial inclusion and *'Bank the unbanked'*. NMB has explored the use of this technology to extend its outreach. Through assistance provided by the Pacific Financial Inclusion Programme (PFIP), NMB has been working with consultants *MicroSave*, and Mobile network carriers, to develop a Mobile Money strategy. Further announcements in relation to the launch of Mobile Money services will be made in ensuing weeks.

Governance

Significant effort has been made in the latter part of 2010 to further develop our corporate governance and internal management strategies. As a result the Board has recently approved policies in relation to Liquidity, Provisioning, Whistle blowing and Customer Complaints. In addition the Board has endorsed Charters for a new Executive Committee (EXCO) and a new Asset & Liabilities Committee (ALCO).During 2010 the Board established an Appointments & Remuneration Committee, which is in addition to the existing Audit & Risk, and Credit Committees of the Board.



This year 2011, is an exciting one for NMB. The Bank has a new operating platform providing management with access to better reporting which provides for timely reconciliation. A new paradigm in relation to how the Bank manages its credit functions is in place. Training and development of our people is receiving more focus as is our Disaster Recover planning and product development. We are already experiencing managed growth in lending and profitable outcomes.

I thank the Asian Development Bank for their continued support of NMB. Their assistance together with that of the Management team and staff, since my appointment in July 2010, has been invaluable. And of course I thank our customers for their business; may they continue to *'grow with us'*.

Mr Tony Westaway
Managing Director

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 Douglas Anayabere Deputy Chairman

Douglas Anayabere commenced his career in October 1993 with Renison Gold field as a Financial Accountant based initially in Port Moresby and later in Sydney, Australia. In January 1996 Douglas joined Coopers & Lybrand as a Graduate Auditor and was promoted to Audit Supervisor, the position which he held up to the time of his resignation in October 1997. He also worked in leading private sector companies such as Remington Technologies Group and Kiddie & Associates. In 2002 Douglas established his own accounting practice as A&A Associates. Douglas holds an MBA in Accounting from Trinity University, Utah, USA, a Degree in Accounting from the PNG University of Technology and is an Associate Practicing Accountant (CPAPNG). He is the Chairman of the NMB Audit and Risk Committee.

Mr Tony Westaway Managing Director

Tony has been a career Banker for in excess of 33 years, 18 of those years connected to Papua New Guinea. Tony was instrumental in the early development of Electronic Banking in PNG. In 1996 he was appointed a Director of Banklink Ltd, formed to deliver EFTPOS Services for Bank of South Pacific Limited and Westpac (PNG). In 2001 Tony was a member of the BSP bid team formed for the successful acquisition of the state owned PNG Banking Corporation. Subsequently in 2002 as General Manager Integration & Delivery Systems, Tony led the merger exercise for the two Banks. In 2003 Tony was appointed General Manager Retail Bank for BSP. Tony was appointed Managing Director of NMB in July 2010. Tony's past interests have included Chair of the Board of Governors of the Ela Murray International School, Deputy Chair of the International Education Agency of PNG and Councilor for the Institute of National Affairs.

Mr Brian Komun Director

Brian is a founding director of the Nationwide Microbank. He started his relationship with the NMB as a foundation member of the Project Steering Committee under the BPNG/ADB Microfinance Employment Project in 2000 representing the Small Business Development Corporation (SBDC). Brian was involved in the Wau microfinance pilot project through the Project Steering Committee. He was the CEO of the SBDC for more than 6 years. He has also worked with a number of organizations in the public sector in a wide range of capacities. Brian is a graduate of the University of PNG with a Bachelor of Commerce Degree. He is a member of the NMB Audit & Risk Committee.

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 – Corporation & Legal for Barrick Gold (PNG) Limited, owners of the Pogera Gold Mine. He is the Chairman of the Board of Directors of PNG mobile phone company, beMobile Limited, and is on the board of Directors of Kalang FM Limited and PNG Mineral Resources Authority. He is also Executive Trustee of disaster fund Halvim Wantok Disaster Fund and a director of the Kumul Foundation. Anthony is a member of the Bank's Board Sub Committee on Credit.

Mr Garry Tunstall Director

Garry Tunstall is an experienced international Banker with 40 years involvement from Institutional Banking to Microfinance. Now based in Australia, Garry was a former Country Head for ANZ Group in both the Pacific region and the Middle East. His most recent position was that of CEO of North West Pacific for ANZ. Garry is a Fellow of the Financial Services Institute of Australasia and holds qualifications in Accounting and Banking. Garry is the Chairman of the Board's Credit Committee.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31ST DECEMBER 2010

The Directors of NATIONWIDE MICROBANK LIMITED have pleasure in presenting the annual report of the company for the year ended 31st December 2010.

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 loss for the year before taxation amounted to K7,005,056 (2009 – a profit before taxation of K636,056).

DIVIDEND

No dividend was paid or declared during the year.

AUDITOR

The financial statements for the company have been audited by Sinton Spence Chartered Accountants and should be read in conjunction with the Independent Audit Report set out on page 4.

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

This 3rd day of May 2011

For and on behalf of the Board of Directors

DIRECTOR

DIRECTOR

STATEMENT BY THE DIRECTORS

FOR THE YEAR ENDED 31ST DECEMBER 2010

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

1. (a) The statement of comprehensive income is drawn up so as to give a true and fair view of the results of the business of the company for the year ended 31st December 2010,

   (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 2010,

   (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 2010,

(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 2010,

(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 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

For and on behalf of the Board of Directors

This 3rd day of May 2011

DIRECTOR

DIRECTOR

INDEPENDENT AUDIT REPORT

FOR THE PERIOD 31 DECEMBER 2010

Report on the Financial Statements

We have audited the accompanying financial statements of NATIONWIDE MICROBANK LIMITED which comprise the statement of financial position as at 31st December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

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

Independence

As auditor, we are required to be independent of the company and free of interests that could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by Certified Practising Accountants Papua New Guinea.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of NATIONWIDE MICROBANK LIMITED as of 31st December, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Papua New Guinea Companies Act 1997.

Signed at Boroko

This 3rd day of May 2011

By J. S. SPENCE

(Registered under the Accountants Act - 1996)

SINTON SPENCE CHARTERED ACCOUNTANTS

2nd Floor Brian Bell Plaza, Turumu Street, Boroko, NCD

PO Box 6861, Boroko, NCD

Papua New Guinea

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER 2010

	NOTES	**2010** **K**	2009 K
Revenue from principal operations		8,585,318	9,086,194
Finance expenses			
Interest and charges		835,931	411,926
		7,749,387	8,674,268
Operating expenses			
Depreciation		1,007,667	688,207
Staff costs		5,175,524	3,798,845
Other operating expenses		8,821,623	4,019,094
		15,004,814	8,506,146
Loss before other income		(7,255,427)	168,122
Other income		250,371	467,934
Loss before taxation	2	(7,005,056)	636,056
Taxation	10		
Current period		-	172,409
Deferred taxation		(2,152,907)	(113,231)
		(2,152,907)	59,178
Total comprehensive income for the year after taxation		(4,852,149)	576,878

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31ST DECEMBER 2010

	NOTES	2010 K	2009 K
SHAREHOLDERS' EQUITY			
Issued share capital	3	8,150,202	8,350,203
Reserves		(4,180,027)	672,122
SURPLUS OF SHAREHOLDERS' EQUITY		3,970,175	9,022,325
Represented by:			
ASSETS			
CURRENT ASSETS			
Cash and equivalents	12	39,063,495	33,808,525
Consumer loans	6	10,498,192	12,947,659
Receivables	7	489,542	1,148,483
		50,051,229	47,904,667
NON CURRENT ASSETS			
Consumer loans	6	2,292,921	2,872,908
Deferred tax	10	2,304,343	151,436
Investments	11	9,522,448	6,808,904
Goodwill on acquisition	9	146,321	170,271
Fixed assets	13	3,556,682	3,688,053
		17,822,715	13,691,572
TOTAL ASSETS		67,873,944	61,596,239
LIABILITIES			
CURRENT LIABILITIES			
Payables	4	1,855,218	161,233
Deposits	5	61,620,686	52,105,612
Provision for employee benefits	8	78,405	39,102
Provision for taxation	10	229,477	267,967
		63,783,786	52,573,914
NON CURRENT LIABILITIES			
Provision for employee benefits	8	119,983	-
		119,983	-
TOTAL LIABILITIES		63,903,769	52,573,914
NET ASSETS		3,970,175	9,022,325

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER 2010

	SHARE CAPITAL K	ACCUMULATED LOSS K	TOTAL K
Balance at 31.12.2008	**8,350,203**	**95,244**	**8,445,447**
Profit for the year after taxation	-	576,878	576,878
Dividend	-	-	-
Balance at 31.12.2009	**8,350,203**	**672,122**	**9,022,325**
Loss for the year after taxation	-	(4,852,149)	(4,852,149)
Share application pending issue converted to grant	(200,001)	-	(200,001)
Dividend	-	-	-
Balance at 31.12.2010	**8,150,202**	**(4,180,027)**	**K3,970,175**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER 2010

	NOTES	**2010** **K**	2009 K
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation		(7,005,056)	636,056
Depreciation		1,007,667	634,218
Equity converted to grant		(200,001)	-
Gain on fixed asset disposal		(5,534)	(428)
Amortisation of set up costs		-	30,039
Amortisation of goodwill		23,950	23,950
Provision for doubtful debts		1,151,392	374,104
Bad debts		(525,710)	(161,006)
Provision for staff welfare		159,286	-
Taxation paid		(38,490)	-
		(5,432,496)	1,536,933
Movements in working capital			
- Decrease in receivables		658,941	(1,334,781)
- Increase in payables		11,209,059	25,571,266
		11,868,000	24,236,485
Net cash flow from operating activities		6,435,504	25,773,418
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(932,032)	(2,450,037)
Sale of fixed assets		61,270	76,053
Investment at BSP Capital		(2,713,544)	(6,500,000)
Net cash from investing activities		(3,584,306)	(8,873,984)
CASH FLOW USED IN FINANCING ACTIVITIES			
Loan collections - net		2,403,772	(4,940,984)
Net cash used in financing activities		2,403,772	(4,940,984)
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,254,970	11,958,450
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		33,808,525	21,850,075
CASH AND CASH EQUIVALENTS AT END OF YEAR	12	39,063,495	33,808,525

The accompanying notes form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

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

The fundamental accounting assumptions recognised as appropriate for the measurement and reporting of results, cashflows and the financial position have been followed in the preparation of these financial statements.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The accounts have been prepared on a going concern basis.

(a) Historical Cost Convention

The financial statements have been prepared under the historical cost convention and have not been adjusted to take account of the current costs of specific assets or their impact on the operating results, or changes in the general purchasing power of the kina.

(b) Foreign Currency

All amounts are expressed in Papua New Guinean currency unless otherwise stated.

All foreign currency monetary assets and liabilities are revalued at the rates of exchange ruling at balance date.

Unrealised profits and losses arising from these revaluations are recognised immediately in the income statement.

(c) Recognition of Revenue and Expenditure

All revenue and expenditure is taken to account in accordance with the principal of matching income and expenses.

(d) Unearned Income

Unearned income on instalment loans and leasing is brought to account progressively over the term of the contract.

(e) Fee and Commission Income

Fee and commission income are generally recognised when the service has been provided.

(f) Interest Income and Expenses

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bill and other discounted instruments. Interest income is suspended when the collection of the loans 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.

(g) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the recorded value of the identifiable net assets acquired. Goodwill is amortised over the anticipated period from which economic benefits are expected to be derived from the goodwill.

(h) Bad and Doubtful Debts

Provisions for doubtful debts comprise a specific provision for identified doubtful debts and general provisions, where necessary, to cover unidentified risks inherent in the overall loan portfolio which experience has indicated could emerge in the future.

Specific 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 general provision is raised periodically through the year based upon average bad debts experience and growth in the overall level of loans and advances.

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.

(i) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. The carrying amount of fixed assets is reviewed annually by the directors to ensure it is not in excess of the recoverable amount for those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employed and subsequent disposal.

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

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

The principal annual rates in use are: -

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

(j) Investments

Investments brought to account are at the lower of cost or net recoverable value. The carrying amount of investments is reviewed annually by the directors to ensure it is not in excess of the recoverable amount of the investments. The recoverable amount is assessed from the shares' current market value or the underlying net assets in the particular entity.

(k) Cash and Equivalents

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

(l) Employee Benefits

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

(m) Income Tax

The company has adopted tax effect accounting procedures whereby the income tax expense in the income account is matched with the accounting profit (after allowing for permanent differences). The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future tax benefit accounts at the rates which are expected to apply when those timing differences reverse. The current rates have been used for this purpose.

(n) Leases

Where the company is the lessor

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

Net lease rentals receivable after more than one year are shown as non-current assets.

Where the company is the lessee

The company recognises the asset and liability in the balance sheet at the amount equal to the fair value of the leased asset. The leased asset is depreciated over its useful life and the lease payments apportioned between the finance charge and the reduction of the outstanding liability.

(o) Financial Assets

The company classifies its financial assets in the following categories: loans and receivables and held to maturity investments. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money directly to a debtor with no intention of trading the receivable. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for provision for impairment losses and unearned income. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

(ii) Held to maturity

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Where the company is to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available for sale.

(p) Impairment of Financial Assets

The company assesses at balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the company about the following loss events:-

(i) Significant financial difficulty of the issuer or obligor;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) The disappearance of an active market for that financial asset because of financial difficulties; or

(vi) Observable data indicating that there is a measurable decrease in the estimate future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- Adverse changes in the payment status of borrowers in the group; or
- National or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

(q) Goods and Services Tax

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST incurred is not recoverable from the relevant taxation authority. In this case it is not recognized as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of the GST recoverable from or payable to, the taxation authority included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(r) Financial instruments

Nature of activities and management policies with respect to financial instruments.

(i) Financial risk management

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

(ii) Currency risk

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

(iii) Credit risk

In the normal course of its business the group incurs credit risk from trade debtors and financial institutions. The group performs credit evaluations of its group and there are no significant concentrations of credit risk except as noted elsewhere on the financial statements. The group maintains its cash and bank balances with financial institutions which have a high credit standing.

The group has satisfactorily provided for bad debts at balance sheet date.

(iv) Interest rate risk

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

(v) Liquidity risk

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

(vi) Fair value

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

(s) Provisions

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

NOTES TO AND FORMING PART OF THE FINANCIAL

FOR THE YEAR ENDED 31ST DECEMBER 2010

		2010 **K**	2009 K
2.	**LOSS BEFORE TAXATION**		
	The loss before taxation is arrived at after charging and crediting the following items:		
	After charging:-		
	Auditor's remuneration	30,000	30,000
	- Audit	53,995	57,275
	- Other services	-	30,039
	Amortisation - goodwill	23,950	23,950
	Depreciation	1,007,667	634,218
	Directors' fees	209,651	155,400
	Interest and charges	835,931	411,926
	Provisions		
	- doubtful debts	1,151,392	374,104
	- employee benefits	123,740	-
	And crediting:-		
	Interest from lending	5,179,935	4,994,921
	Interest from deposits	1,523,947	1,822,817
	Proceeds from grants	200,002	467,506
	Proceeds from membership and loan fees	1,881,436	2,268,456
	Profit on disposal of fixed assets	5,534	428
3.	**SHARE CAPITAL**		
	Issued and fully paid		
	8,150,202 ordinary shares of K1.00 per share	8,150,202	8,150,202
	Share application funds received	-	200,001
		8,150,202	8,350,203
4.	**PAYABLES**		
	Accruals and sundry creditors	255,218	161,233
	Guarantee funds	1,600,000	-
		1,855,218	161,233
5.	**DEPOSITS**		
	Deposit liabilities	61,644,258	52,656,743
	Interbranch transactions	(23,572)	(551,131)
		61,620,686	52,105,612
6.	**CONSUMER LOANS**		
	Loans to customers	13,882,479	16,286,251
	Less: Provision for doubtful debts	(1,091,366)	(465,684)
		12,791,113	15,820,567
	Comprised of:		
	Current	10,498,192	12,947,659
	Non current	2,292,921	2,872,908
		12,791,113	15,820,567

Provision for doubtful debts

At 31st December 2010, the company had provided K1,091,366 for doubtful debts.

NOTES TO AND FORMING PART OF THE FINANCIAL

FOR THE YEAR ENDED 31ST DECEMBER 2010

		2010 K	2009 K
7.	**RECEIVABLES**		
	Staff advances	51,245	60,067
	Rental deposits	187,575	164,673
	Passbook inventory	-	5,375
	Interest withholding tax and debit tax	-	45,794
	Interest receivable on loan	-	119,655
	Prepayments	203,297	365,926
	Reimbursement branch costs	(1,472)	108,296
	Due from tellers	48,897	108,697
	Due from managers	-	170,000
		489,542	1,148,483
8.	**PROVISION FOR EMPLOYEE BENEFITS**		
	Provision for annual leave	78,405	39,102
	Provision for long service leave	119,983	-
		198,388	39,102
9.	**GOODWILL ON ACQUISITION**		
	Goodwill	239,496	239,496
	Accumulated amortisation	(93,175)	(69,225)
		146,321	170,271
10.	**TAXATION**		
	Income account charge		
	Prima facie tax on accounting profit/(loss)	(2,101,517)	190,817
	Tax effect - permanent difference	(51,388)	(131,638)
	Tax effect - timing differences	235,490	113,230
	Transfer to taxation loss	1,917,415	-
		-	172,409
	Provision for taxation		
	Taxation payable at 1.1.10	267,967	95,558
	Taxation charge for the year	-	172,409
	Taxation paid during the year	(38,490)	-
	Taxation payable at 31.12.10	229,477	267,967
	Deferred taxation		
	Timing differences with respect to:		
	- taxation loss	6,391,390	-
	- employee benefits provisions	198,388	39,102
	- bad debts provision	1,091,366	465,684
		7,681,144	504,786
	Deferred tax at 30%	2,304,343	151,436
11.	**INVESTMENTS**		
	BSP Capital notes, maturing on 9th June 2012	5,000,000	5,000,000
	BSP Capital notes, maturing on 28th September 2014	-	1,500,000
	BSP Inscribed stock, maturing on 15th February 2013	4,281,320	-
	Accrued interest	241,128	308,904
		9,522,448	6,808,904

	2010 K	2009 K
12. RECONCILIATION OF CASH		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments.		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows: -		
Cash on hand	651,488	1,039,354
Cash at bank	3,730,790	3,308,638
Deposits with bank - First Investment Finance Limited	-	10,188,496
Deposits with bank - Bank of PNG	34,460,426	18,754,016
Interest accrued on IBD	220,791	518,021
Cash and equivalents	39,063,495	33,808,525

13. FIXED ASSETS

	Cost K	**Additions** K	**Disposals** K	**Total** K
Furniture and fittings	165,175	16,381	-	181,556
Motor vehicles	1,567,095	197,945	101,750	1,663,290
Plant and equipment	1,399,192	628,376	5,005	2,022,563
Leasehold improvements	1,514,312	89,330	4,937	1,598,705
	4,645,774	932,032	111,692	5,466,114

Depreciation:	**Accum. Deprec.** K	**Deprec.** K	**Disposals** K	**Total** K
Furniture and fittings	49,200	34,181	-	83,381
Motor vehicles	416,636	335,975	55,544	697,067
Plant and equipment	265,804	330,292	-	596,096
Leasehold improvements	226,081	307,219	412	532,888
	957,721	1,007,667	55,956	1,909,432
Written down value 31st December 2010				3,556,682
Written down value 31st December 2009				3,688,053

14. 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.

	2010	2009
Core capital (K'000)	6,371	8,445
Supplementary capital (K'000)	(4,532)	398
Risk weighted assets (K'000)	25,545	18,186
Tier 1 capital adequacy ratio	24.90%	46.40%
Total capital adequacy ratio	7.20%	48.60%
Required tier 1 capital adequacy ratio minimum	8.00%	8.00%
Required total capital adequacy ratio minimum	12.00%	12.00%

15. MATURITY ANALYSIS OF MONETARY ASSETS AND LIABILITIES

As at 31st December 2010	**Due in 12 Months or less** K	**Due after 12 Months to 2 years** K	**Due after 2 years** K	**Total** K
Assets				
Cash on hand and at bank	4,382,278	-	-	4,382,278
Due from financial institutions	-	34,681,217	-	34,681,217
Consumer loans	10,498,192	2,292,921	-	12,791,113
Investments	-	5,000,000	4,522,448	9,522,448
Receivables	301,967	187,575	-	489,542
Total Monetary Assets	15,182,437	42,161,713	4,522,448	61,866,598
Liabilities				
Deposits held	61,620,686	-	-	61,620,686
Payables	255,218	1,600,000	-	1,855,218
Total Monetary Liabilities	61,875,904	1,600,000	-	63,475,904

16. SEGMENT INFORMATION

Business segment Nationwide Microbank Limited operates in the business segment of banking and finance. Geographical segment Nationwide Microbank Limited operates exclusively in the geographical segment of Papua New Guinea.

17. CONTINGENT LIABILITIES

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

18. RELATED PARTIES

All transactions with related parties which occurred during the year were in the company's ordinary course of business and based on the company's normal terms and conditions.

19. EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are of the opinion that there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the company and group, the results of the operations, or the state of affairs of the company and group, in subsequent financial years.

20. EMPLOYEES

The average number of employees in 2010 was 128 (2009: 122).

DETAILED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2010

	2010 K	2009 K
INCOME		
Interest on members loans	5,179,935	4,994,921
Interest on investments	1,523,947	1,822,817
Membership and loan fees	1,881,436	2,268,456
	8,585,318	9,086,194
COST OF FUNDS		
Interest	544,617	227,323
GROSS PROFIT FROM FINANCE ACTIVITIES	8,040,701	8,858,871
OTHER INCOME		
Grants	200,001	467,506
Profit on disposal of fixed assets	5,534	428
Sundry	44,836	-
	8,291,072	9,326,805
EXPENSES		
Accountancy and audit	83,995	87,275
Advertising and promotion	155,979	100,333
Amortisation	-	30,039
Amortisation of goodwill	23,950	23,950
Bank charges	291,314	184,603
Cleaning	9,397	10,949
Commissions	5,176	-
Consultants	1,140	8,030
Depreciation	1,007,667	634,218
Directors fees	209,651	155,400
Donations	1,100	-
Electricity and water	177,581	125,741
Fees and registrations	66,359	55,197
Insurance	124,274	134,771
Legal	55,218	32,030
Motor vehicle	311,054	186,684
Office	127,477	187,720
Postage, freight and courier	127,964	155,434
Printing and stationery	147,495	160,115
Provision for doubtful debts	1,151,392	374,104
Provision for employee benefits	123,740	-
Recruitment	6,927	11,472
Rent	1,171,590	884,159
Repairs and maintenance	79,620	50,854
Salaries and wages	4,251,908	2,562,370
Security	421,339	212,590
Staff training	109,313	19,529
Staff welfare	31,188	703,598
Subscriptions	15,278	17,007
Telephone, facsimile and internet	1,166,327	801,180
Theft	505,837	423,449
Travel and accomodation	325,984	357,948
Write off of difference in sub-ledger	3,008,894	-
TOTAL EXPENSES	15,296,128	8,690,749
OPERATING LOSS FOR THE YEAR	(7,005,056)	636,056

Corporate directory

Registered Office

C/ Allens Arthur Robinson
Level 5, Pacific Place
Cnr. Musgrave Street and Champion Parade
Port Moresby, NCD

Head Office

ToRobert Centre
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Port Moresby, NCD

Postal Address

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PO Box 179
Port Moresby, NCD

Directors

Anthony Raymond Clark
Anthony Mark Smare
Brian Kiap Komun
Douglas Anayabere
Anthony Michael Westaway
Garry Royden Tunstall (appointed 28th April 2010)

Auditor

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