ANNUAL REPORT 2012

Banking for the people

NATIONWIDE MICROBANK
GROW WITH US

Contents

Our Vision

To be the most innovative micro bank in Papua New Guinea and the Pacific region.

Our Mission

To enable access to banking services for the un-banked and small business; offering superior customer service by delivering innovative banking solutions, and providing long term shareholder value through an inspired team.

Our Slogan

Grow with us

Chairman's Report

I am pleased to report that 2012 was again a very satisfactory year for Nationwide Microbank Limited and further consolidated our position as being the largest MFI in the Pacific region.

Mr Ray Clark

I am pleased to report that 2012 was again a very satisfactory year for Nationwide Microbank Limited and further consolidated our position as being the largest MFI in the Pacific region.

We recorded a modest profit of K488,823, that, whilst below target, represented a substantial increase on the K60,392 achieved in 2011.The lower than budget result was somewhat affected by the Board's decision to take a more prudent approach to loan provisioning and over the year this has been increased from K305,000 to K725,000 with the intention of further increasing it by a further K1m over the next 12 months. This level of provisioning is seen to be essential in the light of our continuing resolve to provide increased and extended financial services to SMEs and grass roots entrepreneurs throughout Papua New Guinea.

By the end of 2012 the loan book had increased by a further 22% and stood at approximately K26m with further substantial increases in the first quarter of 2013. This has been very largely due to the introduction of the very successful vehicle loan product that has now been extended to Lae. Associated with the Vehicle Loan product is Microbank Insurance that is conducted under an agreement with Pacific MMI Insurance.

During 2012 this product produced earnings of over K.25m during the year.

The level of portfolio at risk also improved with a reduction from 11.3% to 9.2%, most of the doubtful debts now being those on loans taken out more than 3 years ago.

NMB's mobile phone banking MiCash that was launched towards the end of 2011 has grown from strength to strength throughout the year, since the Central Bank, satisfied with the pilot project, gave approval for the product to be rolled out nationally. The model deployed by NMB has attracted considerable global interest and it is of particular interest to note that conversion transactions of the product mix and the average value of cash-in transactions is considerably higher than the global averages, as expressed in the GSMA '2012 Global Mobile Money Adoption Survey'.

Another interesting aspect of the MiCash launch is its popularity with women and women's groups. Approximately 35% of MiCash accounts are held by women and this will continue to grow.

To spearhead our recognition of the importance of providing financial services to PNG's female population, in February 2012, the Bank formed its Women's Banking Unit and this has been most ably driven by Ms. Gima Kepi. Under sponsorship of the Pacific Financial Inclusion Project and MasterCard, Ms. Kepi was able to attend the 18th annual Boulder Microfinance Training Program in Turin, Italy and one of the key outputs of this training has been to target the Unit with achieving an outreach of 10,000 women by the end of 2014.

The many facets of the Bank's drive to improve financial inclusion throughout Papua New Guinea, particularly through MiCash, was recognised by the PNG Institute of Directors in 2012 when at its Annual Awards ceremony it awarded Nationwide Microbank Ltd. with 'PNG's Most Innovative Company Award'.

On a sad note, in the early part of the year, the Board lost the services of Founder Director Mr. Brian Komun who passed away suddenly in March 2012. The late Brian had been a staunch supporter of the original Wau Microbank and joined the Board on incorporation of the Company in 2007.

It is pleasing to note that Dame Carol Kidu has now joined the Board and she will be a great influence on the Banks continual drive for financial inclusion throughout PNG and the achievement of our non-financial bottom line goals.

After two years of negotiation the Board unfortunately was unable to reach satisfactory agreement with the Asian Development Bank over its interest in taking a minor shareholding in NMB. The Board considered that it could not recommend to shareholders an arrangement whereby ADB insisted on having power of veto over a number of constitutional matters. Notwithstanding this, our long standing relationship with ADB continues.

Conscious of the Company's need for additional capital, the Board has continued and is continuing to negotiate with a number of other institutions who have expressed shareholding interests and we are confident of reaching a satisfactory resolution in 2013.

On behalf of the Board I express sincere thanks to Managing Director Tony Westaway, his management team and all staff for their sterling efforts throughout the year and my personal thanks to my fellow directors for their valuable contribution and support.

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

Mr Ray Clark
Chairman

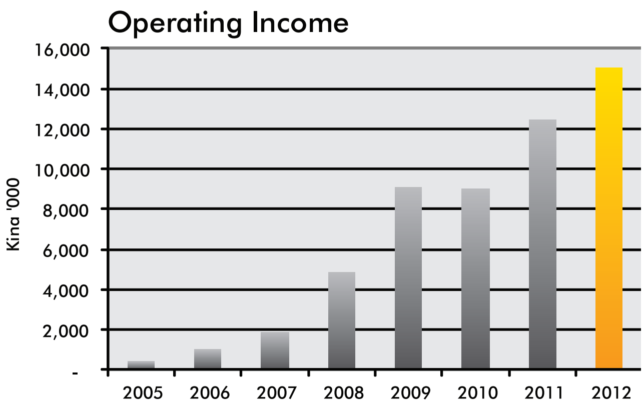
Managing Directors Report

I am pleased to report that in 2012 Nationwide Microbank Limited (NMB) recorded a net profit before tax of K488,823 compared to K60,392 for the previous year.

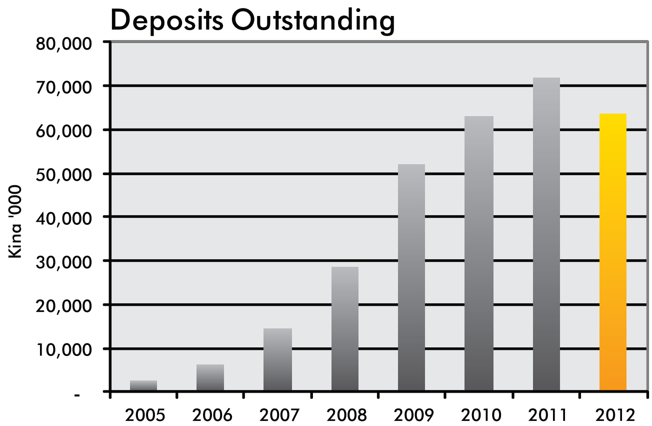
Mr Tony Westaway

In 2012 NMB continued to build on the foundations laid in the earlier restructuring of the business model, as a result of the difficulties encountered in 2010. In 2010 the Portfolio at Risk had reached unsustainable levels, but by the end of 2012 this has been brought back to a single digit figure.

During the year NMB further enhanced growth in its lending which is a core profit driver of the business. Much of this growth was driven by ongoing success of the Microbank Vehicle Loan Product. This has enabled NMB to facilitate other activities directed at banking the un-banked, providing women's banking and developing financial literacy programs.



Disappointingly deposits fell during 2012. This was driven mainly by the withdrawal of a number of credit guarantee schemes funded by District Support Grants. Some of these schemes were cancelled in order that funds could be applied elsewhere during an election year. Others were withdrawn with the consent of NMB as they were not working. Borrowers under the schemes aware that their loans were 'guaranteed' by a credit fund, lacked incentive to repay.

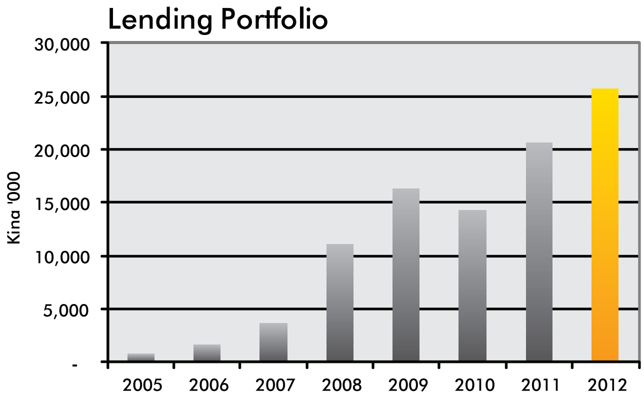


In May of 2012 the Governor of Bank of Papua New Guinea, Mr. Loi Bakani, issued Nationwide Microbank a 'Letter of no objection' enabling the Bank to extend it's Mobile Money service called MiCash, beyond the pilot location of West New Britain. As a result teams of Mobile Channel Officers led by Head of Sales & Customer Service Trudi Egi have traveled to many parts of PNG, promoting the product to both un-banked citizens and potential agents.

We have continued to work with Oceanic Communications Limited in relation to Agent management and key staff of NMB have been able to participate in development of Agent training programs facilitated by MicroSave, in an engagement supported by ADB's Private Sector Development Initiative.

At the same time our Women's Banking Unit led by Ms. Gima Kepi has been active in lifting the gender ratio of women bank account holders, particularly through the MiCash initiative. The innovative MiCash product, is seen by women to provide more confidentiality, safety and security and is therefore very suitable to meet their banking needs.

During 2012 further product development was undertaken in the area of micro insurance. This development was supported by Pacific Financial Inclusion Program. As a result NMB is to launch a micro insurance pilot on Lihir Island in 2013, in conjunction with our existing Insurance partner in Pacific MMI Insurance Limited. This product to be called MiLife, is a term life cover for both the insured and their spouse, designed to assist in taking away the financial stress that ordinary Papua New Guineans suffer in meeting funeral costs.

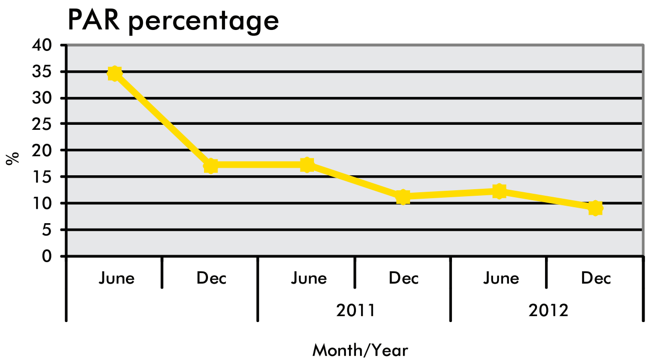


Training and development of our people continues to receive focus. Every opportunity is given for selective staff to receive training overseas. In 2012 our Manager Women's Banking attended both microfinance training in Turin Italy and leadership training in Auckland New Zealand. In addition our entire Executive Management Team was very fortunate to participate in World Class Leadership training provided by Women's World Banking. Our longtime association with the PNG Institute of Banking & Business Management (IBBM) continues and 139 training days were availed of at the Institute in 2012, where NMB is a corporate member.

NMB is also a key stakeholder in the PNG Microfinance Expansion Project. Following a Rapid Institutional Assessment, NMB has been selected as a Partnering Financial Institution for this Project. This will entitle NMB to access a number of key interventions from the Project including access to a new Risk Sharing Facility, MIS support, Mobile Money and Micro insurance support amongst others.

NMB's Disaster Recovery Plans were improved upon in 2012 which now includes data replication through to an offsite secure Data Centre hosted by Remington at Hohola. This back up data and restoration service provides effective data protection in time of disaster.

During to 2013 NMB will look to further extend its outreach utilising MiCash Mobile Money. The company



sees mobile as the cornerstone of its future delivery. Already development has occurred in facilitating loan initiation and disbursement from the mobile phone together with micro insurance payment and disbursement.

Most of our customers are rural dwellers and many of them never had a bank account before opening an account with NMB. We thank our customers for their business and we will continue to develop products to meet their needs. I also thank our development partners for their continued support and confidence in NMB.

Finally, in 2012 NMB received recognition by the PNG Institute of Directors who awarded NMB with the 2012 Innovative Company of the Year. This award recognises the teamwork, dedication, and commitment of the staff of NMB who worked tirelessly in developing and implementing the first bank led deployment of a Mobile Wallet in the South Pacific.

Tony Westaway
Managing Director

In 2012 Nationwide Microbank created an Agent network for its Mobile Phone Banking service known as MiCash

MiCash

If you've got a mobile - you've got a bank!

Corporate Governance

Corporate Governance is an important issue for Nationwide Microbank Limited and the Board is committed to achieving the highest standards of Corporate Governance.

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

Board Composition

The Board has a maximum of seven members in terms of its constitution. During the greater part of 2012 there were five Directors (Director Brian Komun deceased on 8 March 2012) of which four were non-executive Directors. In 2013 Dame Carol Kidu will join the NMB Board as the sixth Director.

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.

Douglas Anayabere	3/4
Ray Clark (Chairman)	4/4
Anthony Smare	4/4
Garry Tunstall	4/4
Tony Westaway (Managing Director)	4/4

Committees

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

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

Membership of Board Committees as at 31 December 2012

	Appointments & Remuneration Committee	Audit & Risk Committee	Credit Committee
Douglas Anayabere	4/4	3/3	
Ray Clark	4/4	3/3	
Garry Tunstall			2/2
Tony Westaway	4/4	3/3	2/2

Risk Management

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

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

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

Board of Directors

Mr Ray Clark Chairman

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

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

Mr Anthony Smare Director

Anthony has a Bachelor of Law and Bachelor of Applied Science (Geology) from the Queensland University of Technology. He is Lawyer with expertise in corporate finance and natural resources law and practiced law in Australia and PNG. Formerly a partner in the Port Moresby office of Australian law firm Allens Arthur Robinson, he is currently General Manager Corporate & Legal for Barrick Gold (PNG) Limited, owners of the Porgera Gold Mine. He is also a Director on the Boards of Nambawan Super Limited, City Pharmacy Limited, Scope Media Limited and the Kumul Foundation Limited. He is also Executive Trustee of disaster fund Halvim Wantok Disaster Fund and a director of the |Kumul Foundation. 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 2012

The Directors of NATIONWIDE MICROBANK LIMITED have pleasure in presenting the annual report of the company for the year ended 31st December 2012.

ACTIVITIES

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

RESULTS

The operating profit for the year before taxation amounted to K488,823 (2011 – a profit before taxation of K60,392).

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 12.

FURTHER DISCLOSURES

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

Signed at

For and on behalf of the Board of Directors

This 26th day of March 2013
Port Moresby

DIRECTOR

DIRECTOR

STATEMENT BY THE DIRECTORS

FOR THE YEAR ENDED 31ST DECEMBER 2012

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 2012,

   (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 2012,

   (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 2012,

   (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 2012,

   (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

For and on behalf of the Board of Directors

This 26th day of March 2013
Port Moresby

DIRECTOR

DIRECTOR

Deloitte.

Deloitte Touche Tohmatsu

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

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

We have audited the accompanying financial statements of Nationwide Microbank Limited, which comprise the statement of financial position as at December 31, 2012, and 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 information.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nationwide Microbank Limited as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The financial report of Nationwide Microbank limited is in accordance with the Companies Act 1997 and proper accounting records have been kept by the Company.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Theron

Suzaan Theron
Registered under the Accountants Act 1996
Partner

Port Moresby, 28th March 2013

STATEMENT OF COMPREHENSIVE INCOME

OR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 K	2011 K
Revenue from principal operations		15,047,579	12,464,878
Finance expenses			
Interest and charges		1,016,648	947,484
		14,030,931	11,517,394
Operating expenses			
Depreciation		1,209,839	1,128,737
Staff costs		5,964,033	5,257,754
Other operating expenses		6,593,899	5,439,376
		13,767,771	11,825,867
Profit/(Loss) before other income		263,160	(308,473)
Other income		225,663	368,865
Profit before taxation	3	488,823	60,392
Taxation	12		
Current period		-	-
Deferred taxation		(104,282)	78,106
Profit after taxation		384,541	138,498
Other Comprehensive Income		-	-
Total comprehensive income for the year after taxation		384,541	138,498

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

OR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 K	2011 K
SHAREHOLDERS' EQUITY			
Issued share capital	4	9,518,506	9,518,506
Reserves		(3,656,988)	(4,041,529)
SHAREHOLDERS' EQUITY		5,861,518	5,476,977
Represented by:			
ASSETS			
CURRENT ASSETS			
Cash and equivalents	14	26,451,433	40,736,830
Consumer loans	7	9,286,203	7,985,670
Receivables	8	1,524,430	805,883
		37,262,066	49,528,383
NON CURRENT ASSETS			
Consumer loans	7	16,411,755	12,631,647
Deferred tax	12	2,278,167	2,382,449
Investments	13	12,489,287	11,854,242
Goodwill on acquisition	10	98,421	122,371
Property, Plant and Equipment	15	2,435,961	3,214,555
		33,713,591	30,205,264
TOTAL ASSETS		70,975,657	79,733,647
LIABILITIES			
CURRENT LIABILITIES			
Payables	5	931,280	1,580,862
Deposits	6	63,727,832	71,992,068
Provision for employee benefits	9	135,867	127,277
Provision for cash theft	11	(8,259)	140,000
Provision for taxation	12	148,440	229,477
		64,935,160	74,069,684
NON CURRENT LIABILITIES			
Provision for employee benefits	9	178,979	186,986
		178,979	186,986
TOTAL LIABILITIES		65,114,139	74,256,670
NET ASSETS		5,861,518	5,476,977

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
OR THE YEAR ENDED 31ST DECEMBER 2012

	SHARE CAPITAL K	ACCUMULATED RESERVES K	TOTAL K
Balance at 01.01.2011	8,150,202	(4,180,027)	3,970,175
Total comprehensive loss for the year after taxation	-	138,498	138,498
Share application pending issue	1,368,304		1,368,304
Balance at 31.12.2011	9,518,506	(4,041,529)	5,476,977
Total comprehensive income for the year after taxation	-	384,541	384,541
Balance at 31.12.2012	9,518,506	(3,656,988)	5,861,518

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
OR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 K	2011 K
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		488,823	60,392
Depreciation		1,209,839	1,128,737
Gain on property, plant and equipment disposal, net		(5,532)	(8,606)
Amortisation of goodwill		19,959	23,950
Provision for cash theft		120,000	140,000
Provision for doubtful debts		725,000	305,009
Bad debts		172,269	733,687
Provision for employee benefits		73,973	138,602
Taxation paid		159,150	-
Write off of ledger differences		-	13,418
		2,963,481	2,535,189
Movements in working capital			
- Increase in receivables		(718,547)	(316,341)
- Consumer loan advances - net		(5,080,640)	(7,826,203)
- (Decrease)/Increase in payables		(2,205,829)	63,990
		(8,005,016)	(8,078,554)
Net cash utilised by operating activities		(5,041,535)	(5,543,365)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(446,138)	(897,886)
Sale of property, plant and equipment		101,557	74,997
Investment at BSP Capital		(635,045)	(2,331,794)
Net cash utilised by investing activities		(979,626)	(3,154,683)
CASH FLOW FROM FINANCING ACTIVITIES			
(Decrease)/Increase in deposits		(8,264,236)	10,371,382
Net cash utilised by financing activities		(8,264,236)	10,371,382
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(14,285,397)	1,673,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		40,736,830	39,063,495
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	26,451,433	40,736,830

The accompanying notes form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) 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 financial statements have been prepared on a going concern basis.

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

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

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at its respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(c) Expense Recognition

All expenses are recognised in the statement of comprehensive income on an accrual basis

(d) Unearned Income

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

(e) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Company and that the revenue can be reliably measured. The principal sources of revenue are Interest Income, Fees and Commissions.

Interest Income and Expense

Financial assets are classified in the manner described in Note 1 (l). Some are measured by reference to amortised cost, others by reference to fair value.

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.

For financial assets measured at fair value, interest income or expense is recognised on an accrual basis, either daily or on a yield to maturity basis.

(e) Revenue Recognition *continued*

Fees and Commission Income

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.

(f) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(g) Property, plant and equipment

Property, plant and equipment is 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 diminishing value method so as to write off the net costs of the various classes of fixed assets during their effective working lives.

The principal annual rates in use are: -

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(h) 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.

(i) 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.

(j) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Goods and services tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of thearrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, 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.

(k) Leases *continued*

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

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

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

(l) 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 provisions 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 investments

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.

(m) Impairment

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 of 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.

(m) Impairment *continued*

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

A 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 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 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.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Companies of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued when the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or Company of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

(n) Provisions

Provisions are recognised when the company has a legal or constructive obligations, 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.

(o) Segment Reporting

Operating Segments

Operating Segments

An operating segment is a component of the Company which may earn revenue and incur expenses and the operating results are regularly reviewed by the Company's chief decision maker to make decisions about resources to be allocated to the segments and assess its performance. The Company only operates in the banking and finance segments.

Geographic Segments

A geographical segment constitutes the provision of products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Company operates predominantly in Papua new Guinea. On this basis, geographical segment reporting is not applicable.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(i) Allowance for Impairment on Loans and Advances

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

(ii) Fair Value Estimates

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

Cash and Balances with banks

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

Loans and Advances

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

Deposits from Customers and Other Liabilities

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

		2012	2011
		K	K
3	**PROFIT BEFORE TAXATION**		
	The profit before taxation is arrived at after charging and crediting the following: -		
	After charging:-		
	Auditor's remuneration		
	- Audit	95,009	30,000
	- Other services	-	10,000
	Amortisation - goodwill	23,950	23,950
	Depreciation	1,209,839	1,129,737
	Directors' fees	212,477	175,572
	Interest and charges	1,016,648	947,484
	Loss on disposal of property, plant and equipment	-	6,955
	Provisions		
	- doubtful debts	725,000	305,009
	- employee benefits	73,973	138,602
	- cash theft	120,000	140,000
	And crediting:-		
	Interest from lending	7,602,753	4,991,996
	Interest from deposits	1,640,384	1,895,015
	Proceeds from grants	220,132	353,305
	Proceeds from membership and loan fees	5,804,442	5,577,867
	Profit on disposal of property, plant and equipment	5,532	15,561
4	**SHARE CAPITAL**		
	Issued and fully paid		
	9,518,506 ordinary shares of K1.00 per share	9,518,506	8,150,202
	Share application funds received	-	1,368,304
		9,518,506	9,518,506
5	**PAYABLES**		
	Accruals and sundry creditors	784,117	496,156
	Guarantee funds	147,163	1,084,706
		931,280	1,580,862
6	**DEPOSITS**		
	Deposit liabilities	63,727,832	71,962,068
	Interbranch transactions	-	30,000
		63,727,832	71,992,068
7	**CONSUMER LOANS**		
	Loans to customers	26,353,738	21,280,005
	Less: Provision for doubtful debts	(655,780)	(662,688)
		25,697,958	20,617,317
	Comprised of:		
	Current	9,286,203	7,985,670
	Non current	16,411,755	12,631,647
		25,697,958	20,617,317

		2012	2011
		K	K
8	**RECEIVABLES**		
	Staff advances	14,753	13,744
	Rental deposits	229,703	234,657
	Interest withholding tax	273,594	273,594
	Interest receivable on loan	-	33,999
	Prepayments	328,102	214,342
	Reimbursement branch costs	-	5,084
	Due from tellers	98,771	26,771
	Digcel Cellmoni Wallet	21,623	-
	Sundry debtors	557,884	3,692
		1,524,430	805,883
9	**PROVISION FOR EMPLOYEE BENEFITS**		
	Provision for annual leave	135,867	127,277
	Provision for long service leave	178,979	186,986
		314,846	314,263
10	**GOODWILL**		
	Goodwill	239,496	239,496
	Accumulated amortisation	(141,075)	(117,125)
		98,421	122,371
11	**PROVISION FOR CASH THEFT**		
	Cash theft	(8,259)	140,000
12	**TAXATION**		
	Income account charge		
	Prima facie tax on accounting profit	146,647	18,118
	Tax effect - permanent difference	9,836	(96,225)
	Tax effect - temporary differences	46,375	42,000
	Transfer to taxation loss	(202,858)	36,107
		-	-
	Provision for taxation		
	Taxation payable at 1.1.11	229,477	229,477
	Taxation charge for the year	78,113	-
	Taxation paid during the year	(159,150)	-
	Taxation payable at 31.12.12	148,440	229,477
	Deferred taxation		
	Timing differences with respect to:		
	- taxation loss	6,631,524	6,824,546
	- employee benefits provisions	314,846	314,263
	- bad debts provision	655,780	662,688
	- cash theft provision	(8,259)	140,000
		7,593,891	7,941,497
	Deferred tax asset at 30%	2,278,167	2,382,449
13	**INVESTMENTS**		
	BSP Capital notes, maturing on 9th June 2019	5,000,000	5,000,000
	BPNG Inscribed stock, maturing on 15th February 2013	679,215	4,281,320
	BPNG Inscribed stock, maturing on 15th February 2014	6,044,467	2,442,362
	BPNG Inscribed stock, maturing on 15th February 2017	517,168	-
	Accrued interest	248,437	130,560
		12,489,287	11,854,242

	2012	2011
	K	K
14 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	837,989	800,182
Cash at bank	3,691,421	5,808,317
Deposits with bank - Bank of PNG	21,922,023	33,821,816
Interest accrued on IBD	-	306,515
Cash and equivalents	26,451,433	40,736,830

15 FIXED ASSETS

	Cost	Additions	Disposals	Total
	K	K	K	K
2012				
Furniture and fittings	255,007	24,192	-	279,199
Motor vehicles	1,470,031	160,080	101,557	1,528,554
Plant and equipment	2,748,846	256,976		3,005,822
Leasehold improvements	1,598,937	4,890		1,603,827
	6,072,821	446,138	101,557	6,417,402
	Accum. Deprec.	**Deprec.**	**Disposals**	**Total**
Depreciation:	**K**	**K**	**K**	**K**
Furniture and fittings	125,283	44,021	-	169,304
Motor vehicles	862,163	297,157	86,666	1,072,654
Plant and equipment	1,022,775	555,355		1,578,130
Leasehold improvements	848,045	313,308		1,161,353
	2,858,266	1,209,841	86,666	3,981,441
Written down value 31st December 2012				**2,435,961**
2011				
Furniture and fittings	181,556	73,451		255,007
Motor vehicles	1,663,290	89,771	283,030	1,470,031
Plant and equipment	2,022,563	726,283		2,748,846
Leasehold improvements	1,598,705	8,381	8,149	1,598,937
	5,466,114	897,886	291,179	6,072,821
Depreciation:				
Furniture and fittings	83,381	41,902		125,283
Motor vehicles	697,067	340,788	175,692	862,163
Plant and equipment	596,096	426,679		1,022,775
Leasehold improvements	532,888	319,368	4,211	848,045
	1,909,432	1,128,737	179,903	2,858,266
Written down value 31st December 2011				**3,214,555**

	2012	2011
	K	K
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.		
Core capital (K'000)	2,996	6,371
Supplementary capital (K'000)	488	(4,532)
Risk weighted assets (K'000)	35,645	25,545
Tier 1 capital adequacy ratio	8.40%	0.00%
Total capital adequacy ratio	9.80%	7.20%
Required tier 1 capital adequacy ratio minimum	8.00%	8.00%
Required total capital adequacy ratio minimum	12.00%	12.00%

17 MATURITY ANALYSIS OF MONETARY ASSETS AND LIABILITIES

	Due in 12 Months or less K	Due after 12 Months to 2 years K	Due after 2 years K	Total K
As at 31st December 2012				
Assets				
Cash on hand and at bank	4,529,410	-	-	4,529,410
Due from financial institutions	21,922,023	-	-	21,922,023
Consumer loans	9,286,203	11,380,383	5,031,372	25,697,958
Investments	-	6,972,119	5,517,168	12,489,287
Receivables	1,250,836	273,594	-	1,524,430
Total Monetary Assets	36,988,472	18,626,096	10,548,540	66,163,108
Liabilities				
Deposits held	63,727,832	-	-	63,727,832
Payables	931,280	-	-	931,280
Total Monetary Liabilities	64,659,112	-	-	64,659,112
As at 31st December 2011				
Assets				
Cash on hand and at bank	6,608,499	-	-	6,608,499
Due from financial institutions	34,128,331	-	-	34,128,331
Consumer loans	7,985,670	11,380,383	1,251,264	20,617,317
Investments	-	6,854,242	5,000,000	11,854,242
Receivables	532,289	273,594		805,883
Total Monetary Assets	49,254,789	18,508,219	6,251,264	74,014,272
Liabilities				
Deposits held	71,992,068	-	-	71,992,068
Payables	496,156	1,084,706	-	1,580,862
Total Monetary Liabilities	72,488,224	1,084,706	-	73,572,930

18 STATUTORY COMPLIANCE

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.

19 CONTINGENT LIABILITIES

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

20 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.

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

22 EMPLOYEES

The average number of employees in 2012 was 172 (2011: 149).

23 RISK MANAGEMENT POLICIES

Introduction

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 Risk Committee (Operational risk);

Implementation of risk management strategy and the day to day management of risk is the responsibility of the Managing Director, supported by the executives of the Bank and the following management committees.

- Asset and Liability Committee (ALCO)
- Executive Management Committee (EXCO)

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 Credit risk.

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 by the Internal audit function.

Market Risk

Market risk is the potential for change in the value of on and off Balance Sheet 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. This Bank is not exposed to diverse financial instruments and foreign currencies and transacts in physical instruments in the form of government securities.

Market risk includes Liquidity, Funding, Price, and Interest Rate risks, which are explained as follows:

Liquidity Risk

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

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

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

Funding Risk

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

Price Risk

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

Interest Rate Risk

Interest rate risk is the potential for a change in interest rates to change net interest earnings, in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics 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.

Overall strategic direction is provided by the Asset and Liability Management Committee ("ALCO") which meets bimonthly.

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 internal audit programme is in place for reporting back to the Board Audit and Risk 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 meets 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 Banks 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 operate;
- 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.

DETAILED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2012

	2012 K	2011 K
INCOME		
Interest on members loans	7,602,753	4,991,996
Interest on investments	1,640,384	1,895,015
Membership and loan fees	5,804,442	5,577,867
	15,047,579	12,464,878
COST OF FUNDS		
Interest	663,085	581,955
GROSS PROFIT FROM FINANCE ACTIVITIES	14,384,494	11,882,923
OTHER INCOME		
Grants	220,131	353,304
Profit on disposal of property, plant and equipment	5,532	15,561
Sundry	-	-
	14,610,157	12,251,788
EXPENSES		
Accountancy and audit	95,009	40,000
Advertising and promotion	295,585	201,311
Amortisation of goodwill	23,950	23,950
Bank charges	353,563	365,529
Cleaning	6,282	7,622
Consultants	12,242	236,645
Depreciation	1,209,839	1,128,737
Directors fees	212,477	175,572
Electricity and water	238,371	217,966
Fees and registrations	67,222	46,339
Insurance	212,075	168,212
Legal	47,782	83,079
Loss on disposal of property, plant and equipment	-	6,955
Motor vehicles	307,005	237,094
Office	172,022	179,049
Postage, freight and courier	87,180	115,730
Printing and stationery	73,245	48,706
Provision for cash theft	120,000	140,000
Provision for doubtful debts	725,000	305,009
Provision for employee benefits	73,973	138,602
Recruitment	25,934	48,680
Rent	1,545,502	1,474,612
Repairs and maintenance	44,500	73,653
Salaries and wages	5,107,001	4,499,996
Security	556,510	526,831
Staff training	167,726	136,752
Staff welfare	40,213	36,583
Subscriptions	26,582	25,872
Telephone, facsimile and internet	1,846,912	1,157,228
Theft	64,989	61,415
Travel and accomodation	362,643	270,249
Write off of difference in sub-ledger	-	13,418
TOTAL EXPENSES	14,121,334	12,191,396
OPERATING PROFIT FOR THE YEAR	488,823	60,392

Corporate directory

Registered Office

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

Head Office

ToRobert Training Centre
Vanama Crescent
Konedobu, NCD

Postal Address

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Directors

Anthony Raymond Clark
Anthony Mark Smare
Douglas Anayabere
Anthony Michael Westaway
Garry Royden Tunstall

Auditor

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