



*Empowering the
Women of PNG*

ANNUAL REPORT 2018

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our vision

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

our mission

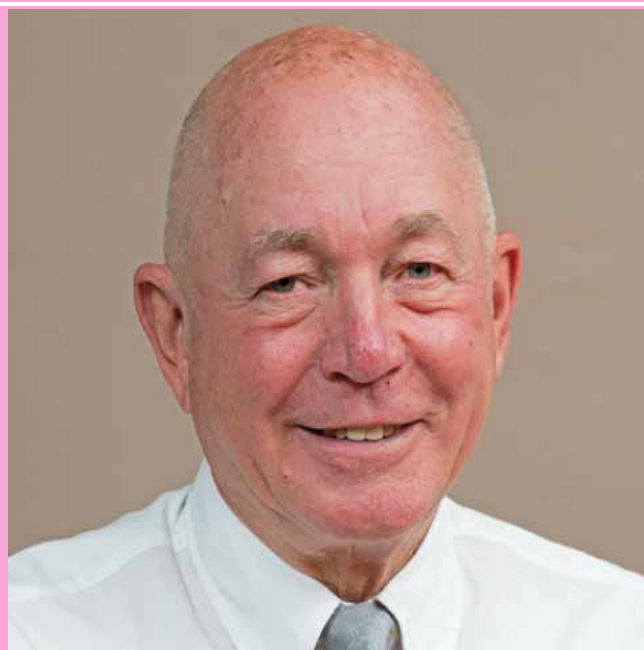
A trusted banking institution, with strong commercial and social focus, that delivers innovative, accessible and affordable financial services, to meet the needs of its customers.

our slogan

Grow with us

chairman's report

The Directors were pleased to travel to Kokopo for the first Board meeting of 2018. At the same time, the Governor of the Bank of Papua New Guinea, Mr. Loi Bakani officiated at the opening of the new Kokopo branch.



Mr Allan Marlin

Extending the branch network to East New Britain has proven to be very positive for our operations, both in terms of deposit gathering and lending. It has also become an important hub used to support our Agent network throughout the region.

Due to the constantly changing external environment and a number of new Directors on the Board it was felt timely to undertake a strategic planning exercise and design a new strategic plan to take MiBank through to 2021.

The Board was pleased that Troy Stubbings was able to assist by facilitating a Board workshop in September of 2018. A number of key observations were made about MiBank's business. For example MiBank is a key account opening champion for PNG's financial services sector. On data available it is evident MiBank has stewardship over the third largest customer base in the industry including Commercial Banks and Savings & Loans Societies.

Another key observation is that MiBank is digitally aware; it has core competencies in using digital financial services to extend its outreach. For example, MiBank uses tablets for on boarding of customers whether it be in our branches and agents, or in remote villages, and uses mobile technology in particular, for core transaction banking.

Understanding these core competencies enables the Board to support and set strategy that leverages off MiBank's technology platforms and resources in order to grow its business.

In relation to the 2019 financial statements the Board made a decision not to adopt IFRS 9 for 2018. Rather Directors elected to seek guidance in writing from the regulator, BPNG, as to whether the requirement in its current form is mandatory for the microfinance sector. At the time of writing MiBank is awaiting direction from the Central Bank.

MiBank has not lost sight of its vision and mission. Its target market segment continues to be those low income people at the bottom of the economic pyramid. Whether they be farmers, women, or those operating in the informal sector. MiBank work with various development partners including ADB, CEFI, PFIP, UNDP, supported by donors such as the Australian and New Zealand governments, and the European Union. We thank these partners and appreciate their ongoing support.

In closing I join with my other Directors, Dame Carol Kidu, Lesieli Taviri, Jason McIlvena and Paul Nindipa in thanking our CEO Tony Westaway and his team for their efforts in 2018.

Allan Marlin

Chairman

March 2019



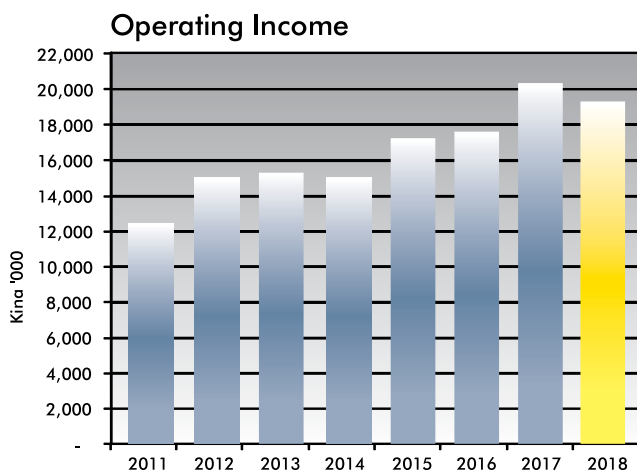
chief executive officers report

Against the backdrop of APEC and some challenging economic conditions a modest net profit before tax of K339,779 was recorded for the year ending 31 December 2018.

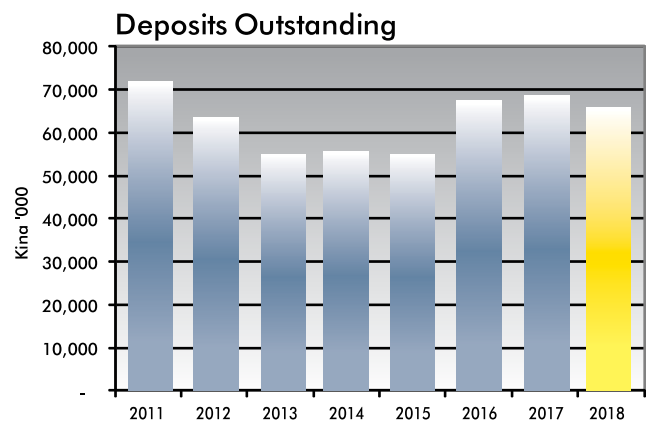


Mr Tony Westaway

MiBank is compliant with the key total capital adequacy ratio of 17.2% against the benchmark of 12% required by the Central Bank, whilst the Tier 1 capital adequacy ratio is 15.1% against the benchmark of 8.0%.



At year end MiBank's loan book was approximately K53 million and depositors funds totalled K66 million. Importantly our active account numbers continue to grow and transaction volumes are ever increasing, predominately through digital channels. Today MiBank has more than 125,000 active clients serviced from a network of 12 branches, more than 85 MiCash Agents and numerous ATMs and POS terminals through third party networks. 2018 began with the Management focussed on upgrading the core banking application to a net based solution known as BR.Net. The upgrade occurred on 26 April 2018 and brought with it a number of new features. In particular the platform provides new functionality that enables

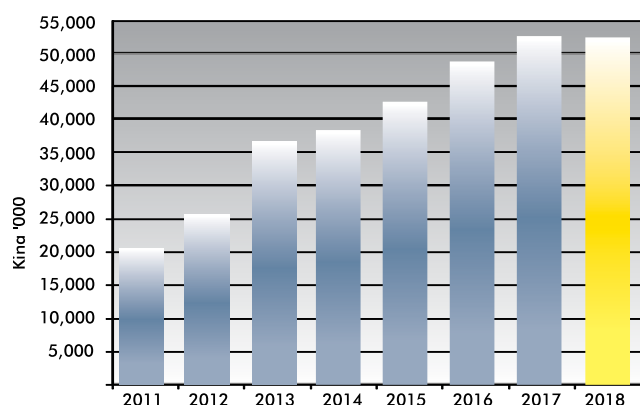


MiBank to be compliant with IFRS requirements in terms of interest accrual on loans and BPNG requirements relating to interest suspension for non-performing loans.

But apart from addressing these compliance matters the upgrade to a web based solution, provides for centralised operations, utilising low bandwidth and gives MiBank an advanced technological platform for further growth.



Lending Portfolio



Better 'user driven' reporting is being obtained and the application has the ability to manage third party electronic banking channels.

The new platform is highly functional and is more sophisticated than what MiBank previously used. It is very much tailored for institutions that embrace digital financial services and financial inclusion.

An outcome of the upgrade was the creation of the Project Management Office (PMO). The PMO has enabled the institution to commit dedicated resources, who have an excellent knowledge of the new platform and project management methodology, to support the many initiatives that MiBank undertakes to extend its outreach.

In 2018 MiBank continued to focus on Gender inclusivity. The Hibiscus Card, a debit card specifically designed for women in PNG, was launched in October 2018 at an event at the Crowne Plaza in Port Moresby.

According to available data, in PNG women are not proportionally represented in the customer base of the Banking and financial services sector. MiBank recognises the barriers to access for women, and makes no apologies for positively discriminating in favour of women, in order to bring them in to the formal financial sector. MiBank understands the multiplier effect of investing in women with improved household outcomes in health and education.

As a result of the challenges for women, MiBank designed the Hibiscus Card, through which women will be able to access a broad range of services at little or no cost, with a higher interest rate than normal on savings, with dedicated support which includes access to financial education.

MiBank continued to develop the value proposition of its Mobile Wallet and digital bank account called MiCash.

Through a partnership with Nambawan Super MiBank now collects micro-pensions via its digital network and passes the payments through to Nambawan Super.

In relation to lending, a new agriculture linked loan product has been developed with the assistance of Asian Development Bank (ADB). MiBank has initiated a pilot with PNG Agriculture Company (PNGAC) to pilot value chain loans for Cocoa farmers in East New Britain.

MiBank, like many PNG companies, became engaged with APEC in 2018. As CEO of MiBank I chaired a forum of Senior Finance Officials meeting in Madang, which addressed financial inclusion and digital financial services.

In addition MiBank shared its experiences in other workshops focussing on improving digital financial literacy in PNG. MiBank also sponsored the Award for Digital Innovator – Micro enterprise category for the MSME Digital Innovation Awards hosted during APEC.

MiBank is a key stakeholder in the Microfinance Expansion Project and the Centre for Excellence in Financial Inclusion (CEFI). With CEFI we have participation at Board level and contribute to a number of working groups under the second national financial inclusion strategy, including those of digital financial services and financial literacy. We will continue to work with these bodies support their efforts in extending financial inclusion throughout PNG.

The training and development of our staff continued to receive a strong focus. MiBank consistently exceeds 200 training days per annum at the Institute of Banking & Business Management (IBBM) and a number of our staff graduated during the year, including the Financial Controller, Paul Wama, with an MBA from Torrens University.

In conclusion I would like to thank our staff for their efforts in 2018 and I thank our customers for their ongoing support of MiBank, may they continue to 'grow with us'.

Tony Westaway

Chief Executive Officer

March 2019



Chief Executive Officers report_{continued}





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

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

In 2018 The Board together with senior members of the Executive Management team, finalised the Bank's Strategic Plan for the five years, between 2019 and 2021 (inclusive).

Board Composition

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

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

Board Meetings	Attendance
Dame Carol Kidu	4/4
Jason McIlvena	4/4
Paul Nindipa	4/4
Allan Marlin	4/4
Lesieli Taviri	4/4
Tony Westaway (resigned 1 January 2018) *	

* Tony Westaway resigned as a Director to comply with new Corporate Governance standard issued by BPNG BPS300, however remains as CEO.

Committees

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

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

Membership of Board Committees as at 31 December 2018

	Appointments & Remuneration	Audit & Risk	Credit
Dame Carol Kidu	2/2		
Jason McIlvena	2/2	4/4	2/3
Paul Nindipa		4/4	2/3
Allan Marlin		4/4	3/3
Lesieli Taviri	2/2		

Risk Management

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

The Executive Management through the Asset & Liability Committee (ALCO) monitors Market Risk, Interest Risk, and Liquidity Risk and reports through the Chief Executive Officer, 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 Chief Executive Officer 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 Tony Westaway Chief Executive Officer



Tony Westaway is CEO of MiBank and has been associated with the PNG Banking Sector for nearly 30 years. Tony is also a Director and Honorary Fellow of the PNG Institute of Banking & Business Management; a Director of the Centre for Excellence in Financial Inclusion; a Fellow of the Financial Services Institute of Australasia; a member of Microfinance Pasifika Executive Committee; and a member of the National Payments Council. Tony holds an MBA from Torrens University and is currently undertaking a Master In Leadership & Development Finance through Frankfurt Business School

Mr Allan Marlin Chairman



Allan Marlin is a seasoned career Banker and was previously in Papua New Guinea as Managing Director of ANZ. He also has extensive experience in emerging markets in Cambodia, China, Fiji, Laos, Timor Leste and Vietnam. Allan is an Honorary Fellow of the PNG Institute of Banking and Business Management, a Member of the AICD, and holds an MBA from Charles Sturt University.

Dame Carol Kidu DBE Dr (Hons) Director



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

Ms Lesieli Taviri Director



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

Mr Jason McIlvena Director



Jason is the General Manager and Company Secretary of Kwila Insurance Corporation. Jason holds a Bachelor of Commerce majoring in Accounting, Law and Economics from Deakin University. Jason has had many years of experience in the Asia Pacific region including American Samoa, Fiji, Laos, New Zealand and the Solomon Islands. Jason is an FCPA and a member of the ANZIIF. Jason is also a member of the Audit & Risk and Credit Committees of the Board.

Mr Paul Nindipa Director



Paul is a Partner with the firm NKA Chartered Accountants. A former President of the Badili Club and past Treasurer of Transparency International, Paul holds a number of Board positions including Comrade Trustee Services limited and National Roads Authority. Paul is also a Council member of CPA Papua New Guinea and also member of both the PNG Institute of Directors and the Australian Institute of Company Directors.

financial statements

FOR THE YEAR ENDED 31 DECEMBER 2018

directors' report

FOR THE YEAR ENDED 31ST DECEMBER 2018

The Directors have pleasure in presenting their report together with the financial statements of Nationwide Microbank Limited (MiBank) for the year ended 31 December 2018 and the auditor's report thereon.

ACTIVITIES

The principal activities of MiBank during the financial year comprised the provision of banking services including credit and savings to the general public of Papua New Guinea. During the year the company continued to expand its banking network within Papua New Guinea.

RESULTS

The profit for the year before taxation amounted to K339,779 (2017: K1,198,643).

DIVIDEND

No dividend was paid or declared during the year.

AUDITOR

The financial statements for the company have been audited by KPMG (PNG) and should be read in conjunction with the Independent Audit Report as set out on page 13.

FURTHER DISCLOSURES

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

Signed at Port Moresby

For and on behalf of the Board of Directors

This 29 day of March 2019

Port Moresby



DIRECTOR



DIRECTOR

statement by the directors

FOR THE YEAR ENDED 31ST DECEMBER 2018

In the opinion of the Directors of NATIONWIDE MICROBANK LIMITED:

1. (a) the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the business of the company for the year ended 31 December 2018,
(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 31 December 2018,
(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 31 December 2018,
(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 31 December 2018,
(e) at the date of this statement there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.
2. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in Papua New Guinea and the Companies Act 1997 of Papua New Guinea.
3. The key risks facing the company are identified on a continuous ongoing basis. Systems have been established to monitor and manage risks including setting and adhering to a series of prudential limits and by adequate and regular reporting. These risk management systems are operating effectively and are adequate having regard to the risks they are designed to control.

Signed at Port Moresby

For and on behalf of the Board of Directors

This 29 day of March 2019

Port Moresby

DIRECTOR

DIRECTOR



To the shareholders of Nationwide Microbank Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial statements of Nationwide Microbank Limited ('the Company').

In our opinion, except for the possible effects of the matter described under the Basis for Qualified Opinion, the accompanying financial statements of the Company are in accordance with the Companies Act 1997, including

- giving a true and fair view of the Company's financial position as at 31 December 2018 and of its financial performance for the year ended on that date;
- complying with the International Financial Reporting Standards;
- proper accounting records have been kept by the Company as far as it appears from our examination of those records.

The financial comprise the:

- statement of financial position as at 31 December 2018;
- statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and
- notes including a summary of significant accounting policies.

Basis for Qualified Opinion

We are unable to satisfy ourselves as to the completeness and accuracy of the allowance for loan losses balance of K2,236,773 as at 31 December 2018 and the accuracy of the interest income recorded in the statement of comprehensive income for the year ended 31 December 2018.

IFRS 9 Financial Instruments (IFRS9) is effective for annual financial reporting periods ending on or after 1 January 2018. As disclosed in note 3.1, the Directors have not adopted the impairment measurement criteria of IFRS 9 for the year ended 31 December 2018.

The Company's financial assets are carried at amortised cost. IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on a financial asset that is measured at amortised cost. The Company has not performed an assessment of the expected credit losses on the loan and advances balance of K53,000,381 as at 31 December 2018. In addition, interest income should be recorded on financial assets after consideration of expected credit losses for stage 3 assets (assets where there is objective evidence of impairment).

In the absence of an assessment of the expected credit losses, we are unable to ascertain the extent of the misstatement relating to the allowance for loan losses of K2,236,773 as at 31 December 2018 and interest income of K15,022,570 for the year ended 31 December 2018. Consequently, we were unable to determine what adjustments are required to the statement of financial position as at 31 December 2018, and the statement of comprehensive income and statement of changes in equity for the year ended 31 December 2018.

We conducted our audit in accordance with the International Standards on Auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the financial statements section of our report.

We are independent of the Company in accordance with the Companies Act 1997 and the relevant ethical requirements of CPA Papua New Guinea. We do not provide any other services to the Company. We have fulfilled our other ethical responsibilities in accordance with the ethical requirements of CPA Papua New Guinea.

We confirm that we have remained independent as required by the Companies Act 1997, during the time of our audit to the date of this Auditor's Report.

Other Information

Other Information is financial and non-financial information in the Company's annual reporting which is provided in addition to the financial statements and the Auditor's Report. This includes, the Company Information and Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.



Responsibilities of Directors for the Financial Statements

The Directors are responsible for:

- preparing financial statements that give a true and fair view in accordance with the International Financial Reporting Standards and the Companies Act 1997;
- implementing necessary internal control to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Chartered Accountants

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related
- disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion proper books of account have been kept by the Company, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Companies Act 1997, in the manner so required.

Suzaan Theron
Partner

Registered under the Accountants Act 1996

Port Moresby

Date: 29 March 2019

statement of financial position

FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	2018 K	2017 K
Assets			
Cash and balances with central banks	7	15,773,654	11,997,791
Due from banks	7	5,728,314	9,149,127
Loans and advances to customers	8	50,763,608	54,035,108
Financial investment held to maturity	9	5,000,000	5,000,000
Other assets	10	1,640,002	1,519,801
Property, plant and equipment	14	3,895,833	3,478,533
Deferred tax assets	6 (c)	1,026,185	1,172,544
Total assets		83,827,596	86,352,904
Liabilities			
Due to customers	12	66,294,073	69,048,997
Other liabilities	11	5,984,962	5,934,842
Provisions	13	407,686	421,609
Total liabilities		72,686,721	62,344,077
Net assets		11,140,875	10,947,456
Shareholders' equity			
Issued capital	15	12,688,506	12,688,506
Reserves		-	-
Retained earnings		(1,547,631)	(1,741,050)
Total shareholder' equity		11,140,875	10,947,456



Director

Date: 29 March 2019



Director

Date: 29 March 2019

For and on behalf of the board of directors

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

statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	2018 K	2017 K
Interest income		15,022,570	15,255,235
Interest expense		(1,451,233)	(1,313,453)
Net interest income		13,571,337	13,941,782
Fees and commission income		5,117,858	5,010,831
Investment revenue		930,396	1,362,724
Other operating income		34,857	198,766
Net operating income		19,654,448	20,514,103
Personnel expenses	5 (a)	(7,348,337)	(7,442,955)
Operating expenses	5 (b)	(10,686,464)	(10,816,48)
Depreciation of property and equipment	14	(1,279,868)	(1,056,020)
Profit before tax from operating income	6	339,779	1,198,643
Income tax expense	6	(146,359)	(1,014,658)
Profit for the year		193,420	183,985
Other comprehensive income			
Available-for-sale financial assets			
- Net fair value gain/(loss) during the year			
Total comprehensive (loss)/profit for the year net of tax		-	(300,000)
Total comprehensive profit for the year net of tax		193,420	(116,015)

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

statement of changes in equity

FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	SHARE CAPITAL K	RETAINED EARNINGS K	OTHER RESERVES K	TOTAL EQUITY K
Balance at 1 January 2017		12,688,506	(1,925,036)	300,000	11,063,470
Profit for the year		-	183,985	-	183,985
Other comprehensive income		-	-	(300,000)	(300,000)
Balance at 31 December 2017		12,688,506	(1,741,051)	-	10,947,455
Profit for the year		-	193,420	-	193,420
Other comprehensive income		-	-	-	-
Balance at 31 December 2018		12,688,506	1,547,631	-	11,140,875

statement of cash flows

FOR THE YEAR ENDED 31ST DECEMBER 2018

	Note	2018 K	2017 K
Cash flows from operating activities			
Profit before tax		339,779	1,198,420
Adjustments for:			
Depreciation of property, plant and equipment (Note 14)		1,279,868	1,056,020
Loss/(gain) on sale of property, plant and equipment		(25,000)	20,161
Allowance for doubtful debts (Note 5b)		1,440,000	1,400,000
Movements in working capital			
Increase in receivables		(120,200)	(228,953)
Decrease/(increase) in loans and advances		1,831,498	(5,252,030)
(Increase)/decrease in payables		50,120	(1,630,446)
(Increase)/decrease in employee benefits		(13,923)	57,284
(Increase)/decrease in deposits		(2,754,923)	20,306
Net cash (used in) / provided by operating activities		2,027,219	(3,359,238)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,697,168)	(1,409,198)
Proceeds from disposal of property, plant and equipment		25,000	-
Decrease in investments held at maturity		-	517,172
Net cash used in investing activities		(1,672,168)	(892,026)
Cash flows from financing activities			
Capital contribution		-	-
Net cash provided by financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		355,051	(4,251,265)
Cash and cash equivalents at beginning of year		21,146,917	25,398,182
Cash and cash equivalents at end of year	7	21,501,968	21,146,917

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

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

1. General

Nationwide Microbank Limited (MiBank or the Company) is a company incorporated in Papua New Guinea. The addresses of its registered office and principal place of business are disclosed in the introduction to the financial report. The principal activity of the Company is to provide financial services to the unbanked people of Papua New Guinea.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1. Standards, amendments and interpretations effective in the year ended 31 December 2018

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

IFRS 15, Revenue from contracts with customers, replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The entity now adopts a new 5-step process for the recognition of revenue:

- identify contracts with customers
- identify the separate performance obligations
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

The Company has implemented IFRS 15 and assessed the impact of the new standard on its financial statements, including the presentation of certain revenue and expense items, the timing and measurement of revenue recognition, as well as additional qualitative and quantitative disclosures. The implementation of IFRS 15 has not resulted in a significant impact to the bank's operation and policies.

Annual improvements 2014 – 2016 makes minor changes to IFRS 1 on first-time adoption of IFRS and IAS 28 regarding measuring an associate or joint venture at fair value.

IFRS 9, Financial Instruments standard is effective however the board of directors opted to defer the implementation. Refer to note 3.1 for further details of the impact of IFRS 9 on the Company's accounting policies and 2018 financial statements.

2.2 Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2018 or adopted early

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

IFRS 16	Leases, effective beginning on or after 1 January 2019
IFRS 17	Insurance Contracts, effective beginning on or after 1 January 2021
Amendments to IFRS 9	Prepayment Features with Negative Compensation, effective beginning on or after 1 January 2019
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures, effective beginning on or after 1 January 2019
Annual Improvements to IFRS Standards 2015 –2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs, effective beginning on or after 1 January 2019
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement, effective beginning on or after 1 January 2019
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, the effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.
IFRIC 23	Uncertainty over Income Tax Treatments, effective beginning on or after 1 January 2019.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 16, Leases, effective beginning 1 January 2019, replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company is currently assessing the new standard to reliably estimate the impact on the financial statements.

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

2. Application of new and revised International Financial Reporting Standards (IFRSs) *continued*

2.3 Statement of compliance

These financial statements are presented in accordance with the Papua New Guinea Companies Act 1997 and comply with applicable financial reporting standards to the extent IFRS complies with Bank of PNG prudential standards and other mandatory professional reporting requirements approved for use in Papua New Guinea.

2.4 Basis of accounting

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

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

3. Significant accounting policies

The Company has consistently applied the following accounting policies to all period presented in the financial statements.

3.1 Deferment of IFRS 9

The Directors are awaiting implementation instructions from the Regulator, Bank of Papua New Guinea, and therefore, decided to defer the adoption of IFRS 9 Financial Instruments in the financial report to the 31 December 2019 financial period.

For the current financial period, the entity has continued to use an incurred provisioning model on the loan balance in accordance with IAS 39.

3.2 Revenue recognition

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

Interest and similar income and expense

For financial assets measured at amortised cost, the effective interest method (EIR) 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 180 days, or when the borrower or securities issuer defaults, if earlier than 180 days. Such income is excluded from interest income until received.

Fees and commission income and expense

Fees and Commissions are generally recognised on an accrual basis when the service has been provided. All fees relating to loan origination, financing or

restructuring and to loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised in the period in which they are levied.

3.3 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Bank of Papua New Guinea and balances due to and from other banks with original maturities of less than three months.

3.4 Property, plant and equipment

Property, plant and equipment is measured on the cost basis less depreciation and impairment losses. The cost of improvements to leasehold premises is capitalised and amortised over the estimated useful life of the improvement concerned.

Depreciation is calculated on a straight line basis from the date of acquisition at rates appropriate to the estimated useful lives as follows:

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

Gains or losses on disposal (being the difference between the carrying amount at the time of sale or disposal and the proceeds of disposal) are taken to income in the year.

3.5 Financial instruments

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

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

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The Company's financial assets at fair value through profit or loss comprise certain equity securities included under other financial assets in the Statement of Financial Position.

Held-to-maturity Investments

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

Loans and receivables

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

Available sale financial assets

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

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

3.6 Impairment of financial assets

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

Available for sale

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

- significant financial difficulty of the issuer/ counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy of financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Loans

At each balance sheet date, the Company assesses whether there is any objective evidence of impairment of its loan portfolio. An impairment charge is recognised if there is objective evidence that principal or interest repayments may not be recoverable and when the financial impact of the non-recoverable loan can be reliably measured.

Objective evidence of impairment could include a breach of contract with the Bank such as default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults.

The impairment charge is measured as the difference between the loan's current carrying amount and the present value of its estimated future cash flows. The estimated future cash flows exclude any expected future credit losses which have not yet occurred and are discounted to the present value using the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate.

The impairment charge is recognised in the income statement with a corresponding reduction of the carrying value of the loan through an offsetting provision account.

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. Objective evidence could include a borrower's credit rating or financial circumstance improving. The impairment charge is reversed in the income statement of that future period and the related provision for impairment is reduced.

Uncollectable loans

A loan may become uncollectable in full or part if, after following the Company's loan recovery procedures, the Company remains unable to collect that loan's contractual repayments. Uncollectable amounts are written off against their related provision for impairment, after all possible repayments have been received.

The Company may subsequently be able to recover cash flows from loans written off. In the period which these recoveries are made, they are recognised in the income statement.

Financial liabilities and equity instruments

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

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

Financial liabilities

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

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

3.7 Impairment of non-financial assets

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

3.8 Income tax

Income tax expense on the profit for the year comprises current tax and the movement in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the financial year using tax rates that have been enacted or substantively enacted for each jurisdiction at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or other intangible assets with indefinite expected life, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit (other than in a business combination), or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted for each jurisdiction at the balance sheet date that are expected to apply when the liability is settled or the asset is realised.

Current and deferred taxes attributable to amounts recognised in other comprehensive income are also recognised in other comprehensive income.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

3.9 Employee benefits

Employee provisions comprise liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits have maturities of both less than one year and greater than one year and have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Superannuation contributions are made by the Company to defined contribution superannuation funds and are charged as expenses when incurred.

3.10 Leasing

All leases entered into by the Company are operating leases. Total payments made are charged to the Statement of Comprehensive Income using the straight line method.

3.11 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions payable later than one year have been measured at the present value by discounting the expected future cash outflows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as financing costs.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Company's accounting policies management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates has been applied to the following areas. Refer to the respective notes for additional details.

- Estimation of fair value of financial assets and liabilities
- Estimation of fair value of non-financial assets.

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

	2018 K	2017 K
5. Profit before Taxation		
Profit before taxation is arrived at after charging and crediting the following:		
(a) Personnel Expenses		
Salaries and wages	6,568,792	6,637,810
Directors fees	360,683	198,288
Staff training	171,853	177,352
Travel and accommodation	213,890	394,470
Other	33,119	35,035
	7,348,337	7,442,955
(b) Operating expenses		
Professional fees	1,045,219	763,821
Occupancy costs	2,784,634	2,625,651
Provision for credit losses (Note 8)	1,440,000	2,526,506
Insurance	234,780	235,480
Advertising and promotions	294,943	371,490
Repairs and maintenance	357,399	305,648
Office expenses	862,602	807,422
Other expenses	528,189	764,964
Security	860,258	530,054
Telephone and internet	1,873,113	1,508,142
Fees and registrations	405,327	377,307
	10,686,464	10,816,485
6. Income tax		
(a) The major components of the tax expense comprise:		
Current tax	-	-
Deferred tax	146,359	1,014,658
Income tax expense	146,359	1,014,658
(b) Reconciliation of income tax to accounting profit:		
Profit before tax	339,779	1,198,420
Income tax expense calculated at 30% (2017:30%)	101,933	359,526
Permanent difference	6,003	655,132
Prior year adjustment for deferred tax	(69,514)	-
Deferred taxes current year	194,862	-
Tax losses not recognised	(86,925)	-
Income tax expense recognised in profit or loss	146,359	1,014,658
(c) Deferred tax		
The following is the analysis of deferred tax assets and liability presented in the statement of financial position		
Net deferred tax assets	1,026,185	1,172,544
Deferred tax balances are in relation to:		
Provision for impairment losses	671,032	283,086
Employee benefit provisions	122,306	421,609
Other provisions	29,520	163,230
Prepayments	(45,134)	163,509
Fixed assets	161,536	-
Tax losses	86,925	141,110
Net Deferred tax assets	1,026,185	1,172,544

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

	2018 K	2017 K
7. Cash and cash equivalents		
Cash on hand	773,654	997,791
Deposits with the Bank of PNG	15,000,000	11,000,000
	15,773,654	11,997,791
Cash at bank	5,214,708	8,636,544
Other short-term deposits	513,606	512,583
	5,728,314	9,149,127
Total cash and cash equivalents	21,501,968	21,146,918
8. Loans and advances to customers		
Loans to customers	53,000,381	57,215,122
Less: Allowance for impairment losses	(2,236,773)	(3,180,014)
	50,763,608	54,035,108
a) Impairment allowance for loans and advances to customers		
A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:		
Movement in the provision for impairment losses		
Balance at the beginning of the year	3,180,014	2,171,465
Provisions for losses on loans (Note 5)	1,440,000	1,400,000
Amounts written off	(2,383,241)	(1,517,957)
Provisions for losses on accrued interest (Note 5)	-	1,126,506
Balance at end of year	2,236,773	3,180,014
The overdue balance as at 31 December 2018 is K53,000,381 (2017: K57,215,122). The ageing of the overdue balances is as follows:		
Current	40,534,878	49,191,359
30 to 90 days	422,847	536,219
91 to 180 days	691,421	503,487
> 180 days	7,362,489	2,995,309
Total loans and advances	49,011,634	53,226,375
Accrued interest receivable	3,988,747	3,988,747
Impaired loans	(2,236,773)	(3,180,014)
	50,763,608	54,035,108
9. Financial investments		
Investment carried at amortised costs (Held to maturity)		
BSP debt notes(i)	5,000,000	5,000,000
	5,000,000	5,000,000
(i) The Bank holds 200 Bank of South Pacific Limited debt notes with a maturity date of 9 June 2019. The notes pay interest semi-annually at 11% per annum. None of these assets had been past due or impaired below face value at the end of the reporting date.		

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

	2018 K	2017 K
10. Other assets		
Prepayments	343,747	163,509
Rental deposits	295,738	298,967
Interest withholding tax	273,594	273,594
Interest receivable	474,809	125,751
Staff advances	16,497	13,559
Digicel Cellmoni Wallet	209,863	66,475
Sundry debtors	25,754	577,946
	1,640,002	1,519,801
11. Other liabilities		
Withholding tax payable	593,441	448,842
Accrued interest	916,239	1,034,359
Accrued expenses	828,710	278,663
Sundry payables(i)	779,878	1,107,651
Funds guaranteed on behalf of others(ii)	2,149,175	2,339,294
Unallocated deposits	717,519	726,033
	5,984,962	5,934,842
<p>(i) There is no interest charged on payables. The Bank has financial risk management policies in place to ensure that all payables are paid within pre-agreed credit terms.</p> <p>(ii) Funds guaranteed on behalf of others represent funds held as collateral for loans disbursed under arrangements with various statutory bodies and district councils. As at 31 December 2018, loans disbursed against these funds totalled K2,078,008 (2017: K646,576).</p>		
12. Customer Deposits		
Term deposits current	30,847,821	32,203,120
Demand deposits	35,446,252	36,845,877
	66,294,073	69,048,997
13. Provisions		
Provision for annual leave	31,652	60,039
Provision for long service leave	376,034	361,570
	407,686	421,609
14. Property, plant and equipment		
Furniture and fittings	143,909	182,474
Motor vehicles	642,382	880,216
Plant and equipment	2,254,778	1,586,484
Leasehold improvement	730,075	738,007
Capital work in progress	124,689	91,352
	3,895,833	3,478,533

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

14. Property, plant and equipment continued...

	Leasehold Improvements	Furniture and fittings	Motor vehicles	Plant and Equipment	Capital work in progress	Total
2018	K	K	K	K	K	K
Cost						
At 1 January 2018	2,906,801	548,556	1,969,174	5,459,515	91,352	10,975,398
Additions	291,950	15,289	115,739	1,241,472	32,718	1,697,168
Disposal	-	-	(92,000)	-	-	(92,000)
At 31 December	3,198,751	563,845	1,992,913	6,700,987	124,070	12,580,566
Accumulated depreciation						
At 1 January	(2,168,794)	(366,082)	(1,088,958)	(3,873,031)	-	(7,496,865)
Charge for the year	(299,882)	(55,150)	(352,096)	(572,740)	-	(1,279,868)
Disposals	-	-	92,000	-	-	92,000
At 31 December	(2,468,676)	(421,232)	(1,349,054)	(4,445,771)	-	(8,684,733)
Carrying Amount	730,075	142,613	643,859	2,255,216	124,070	3,895,833

	Leasehold Improvements	Furniture and fittings	Motor vehicles	Plant and Equipment	Capital work in progress	Total
2017	K	K	K	K	K	K
Cost						
At 1 January 2017	2,603,840	431,846	1,798,366	4,916,728	461,469	10,212,249
Additions	302,961	116,710	425,290	564,237	-	1,409,198
Disposal	-	-	(254,482)	(21,450)	-	(275,932)
Transfers In/(Out)	-	-	-	-	(370,117)	(370,117)
At 31 December	2,906,801	548,556	1,969,174	5,459,515	91,352	10,975,398
Depreciation and impairment losses						
At 1 January	(1,947,446)	(317,310)	(962,847)	(3,438,388)	-	(6,665,991)
Charge for the year	(221,348)	(48,772)	(351,257)	(434,643)	-	(1,056,020)
Disposals	-	-	225,146	-	-	225,146
At 31 December	(2,168,794)	(366,082)	(1,088,958)	(3,873,031)	-	(7,496,865)
Carrying Amount	738,007	182,474	880,216	1,586,484	91,352	3,478,533

	2018	2017
	K	K
15. Issued Capital		
Issued capital	12,688,506	12,688,506
Issued capital comprises 12,688,506 fully paid ordinary shares of K1.00 per share (2017: 12,688,506)		

16. Capital Adequacy

The Company is required to comply with prudential standard 1/2003 – Capital Adequacy issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The prudential standard 1/2003 – Capital Adequacy is intended to ensure that each bank maintains a level of capital which (i) is adequate to protect the interests of depositors and creditors, (ii) is commensurate with the risk profile and activities of the bank, and (iii) promotes public confidence in the bank and the overall banking system. Prudential standard 1/2003 - Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. The minimum capital adequacy requirements as prescribed under the standard are (i) tier 1 risk-based capital ratio of 8%, (ii) total risk-based capital ratio of 12% and a leverage capital ratio of 6%.

The Company's capital adequacy as at the balance sheet date is as follows:

Core capital (K'000)	9,775	8,576
Supplementary capital (K'000)	1,130	2,026
Risk weighted assets (K'000)	63,219	66,224
Tier 1 capital adequacy ratio	15.5%	13.00%
Total capital adequacy ratio	17.20%	16.00%
Required tier 1 capital adequacy ratio minimum	8.00%	8.00%
Required total capital adequacy ratio minimum	12.00%	12.00%

notes to and forming part of the financial statements

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17. Financial Risk Management

The Company 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, liquidity, interest and operational risk.

17.1 Credit Risk

Credit risk is the risk of loss arising from failure of a counterparty to meet their contractual obligations.

Credit risk principally arises within the Company from its core business in providing lending facilities. The Company is selective in targeting credit risk exposures and avoids exposures to any high risk area. The Company has a comprehensive, clearly defined credit policy for the approval and management of all Company risks. Given the nature of the Company's lending policies there are no significant individual exposures relative to the Company's capital base.

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

17.2 Market Risk

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

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

Liquidity Risk

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

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

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

Funding Risk

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

Price Risk

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

Interest Rate Risk

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

17.3 Operational Risk

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

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

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

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FOR THE YEAR ENDED 31ST DECEMBER 2018

	2018 K	2017 K
18. Financial Instruments		
18.1 Categories of financial instruments		
Financial assets		
Cash and bank balances	21,501,968	21,146,918
Loans and receivables	50,763,609	54,035,108
Investment held to maturity	5,000,000	5,000,000
Financial liabilities		
Deposits Held	66,294,073	69,048,997
Payables	5,984,962	5,934,842

18.2 Maturity analysis of monetary assets and liabilities

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

	Weighted average effective interest rate	Less than 12 months K	1-2 years K	2+ years K	Total K
Cash on hand and at bank	1.25%	21,501,968	-	-	21,501,968
Loans and advances	25%	16,515,205	13,173,772	21,074,631	50,763,608
Investments	11%	5,000,000	-	-	5,000,000
Receivables		1,741,484	-	-	1,741,484
Total Monetary Assets		44,758,657	13,173,772	21,074,631	79,007,060
Deposits Held	1.5%	66,294,073	-	-	66,294,073
Payables		5,984,962	-	-	5,984,962
Total Monetary Liabilities		72,279,035	-	-	72,279,035

19. Related parties

19.1. Related party register

The following details are recorded in the interest register:

Name	Nature of interest	Company
Allan Marlin	Chairman	-
Jason Mcilvena	Director	AON Master Trust Limited
Paul Nindipa	Director	NKA Accountants
		Comrade Trustee Service Limited
Dame Carol Kidu	Director	Bougainville Copper Limited
Lesieli Taviri	Director	Nambawan Super Limited

	2018 K	2017 K
19.2 Directors remuneration		
Allan Marlin	60,000	58,000
Jason Mcilvena	42,500	40,000
Paul Nindipa	42,000	-
Lady Carol Kidu	40,500	40,000
Lesieli Taviri	40,500	39,000

notes to and forming part of the financial statements

FOR THE YEAR ENDED 31ST DECEMBER 2018

	2018 K	2017 K
19.3 Loans to related parties	1,159,025	928,481

The bank has provided several of its key management personnel with short-term loans at rates comparable to the average commercial rate of interest.

19.4 Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

Short-term benefits	2,399,866	2,535,635
Other long-term benefits	-	-
	2,399,866	2,535,635

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

20. Operating lease arrangements

20.1 Leasing arrangements

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

	2018 K	2017 K
20.2 Payments recognised as an expense		
Minimum lease payments	2,784,634	2,625,651

All leases are for all 12 branches including the Head Office.

21. Contingent liabilities

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

22. Capital Expenditure Commitments

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

23. Events after the reporting period

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

detailed income statement

FOR THE YEAR ENDED 31ST DECEMBER 2018

	2018 K	2017 K
INCOME		
Interest on Members loans	15,022,570	15,255,235
Interest on Investments	930,396	1,362,724
Membership and loan fees	5,127,715	5,189,436
	21,080,681	21,807,395
COST OF FUNDS		
Interest	-1,451,233	-1,313,453
GROSS PROFIT FROM FINANCE ACTIVITIES	19,629,448	20,493,942
OTHER INCOME		
Profit on disposal of property, plant and equipment	25,000	20,161
	19,654,448	20,514,103
EXPENSES		
Accountancy and audit	121,709	98,400
Advertising and promotion	294,943	371,490
Bank charges	84,494	112,422
Cleaning	109,308	96,187
Consultants	923,510	665,421
Depreciation	1,279,868	1,056,020
Directors fees	360,683	198,288
Electricity and water	299,234	330,537
Fees and registrations	164,010	161,856
Insurance	234,780	235,480
Legal	156,823	103,028
Motor vehicle	318,725	256,206
Office	339,441	263,779
Postage, freight and courier	298,697	285,114
Printing and stationery	113,435	116,324
Provisions for doubtful debts	1,440,000	2,526,506
Provision for employee benefits	274,575	140,439
Recruitment	5,489	658
Rent	2,784,634	2,625,651
Repairs and maintenance	38,674	49,442
Salaries and wages	6,294,217	6,505,239
Security	860,258	530,054
Staff training	171,853	177,352
Staff welfare	40,623	35,035
Subscriptions	48,771	62,786
Telephone, facsimile and internet	1,874,297	1,508,142
Theft	167,727	409,134
Travel and accommodation	213,890	394,470
TOTAL EXPENSES	19,314,669	19,315,460
OPERATING PROFIT FOR THE YEAR	339,779	1,198,643

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corporate directory

registered office

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

head office

ToRobert Training Centre
Vanama Crescent
Konedobu, NCD

postal address

MiBank
PO Box 179
Port Moresby, NCD

directors

Allan Marlin
Paul Nindipa
Tony Westaway (ceased, 1 January 2018)
Dame Carol Kidu
Jason Mcilvena
Lesieli Taviri

chief executive officer

Tony Westaway

auditor

KPMG
Level 3, Credit House, Cuthbertson Street
Port Moresby, NCD

bankers

Bank South Pacific
ANZ PNG Limited
Westpac PNG Limited



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