National Development Bank Limited
and its subsidiaries

CONSOLIDATED ANNUAL FINANCIAL REPORT

for the Year ended 31 December 2018

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DIRECTORS' REPORT

The directors of National Development Bank Limited and its subsidiaries referred to as the "Group" submit herewith the annual financial report of the Group for the financial year ended 31 December 2018. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

The names and particulars of the directors and office holders of the Group during or since the end of the financial year are:

Directors

Name	Executive / Non-Executive Director
Mr. Michael Mell	Non-executive Director (Chairman) – Appointed 13.12.2018
Mr. Darrell Seeto	Non-executive Director (Deputy Chairman) – Appointed 13.12.2018
Mr. William Lamur	Non-executive Director (Acting Chairman) – Term expired 13.12.2018
Dr. Ken Ngangan	Non-executive Director (Deputy Chairman) – Term expired 13.12.2018
Mr. Gavin Ross	Non-executive Director (Ceased in April 2018)
Mr. Graham A King	Non-executive Director
Mr. Tauvasa Tanuvasa	Non-executive Director
Mr. Phillip Isu	Non-executive Director – Appointed 13.12.2018
Mr. Robert Karato Leo	Non-executive Director – Appointed 13.12.2018
Mr. Moses Liu	Managing Director

Company Secretary

Suzanne Unumba was the Company Secretary throughout the financial year.

Review of operations

The Group reported a consolidated profit after income tax for the year of K10,069,571 (2017: loss of (K11,486,369). The Company reported a profit after income tax for the year of K7,271,967 (2017: loss of (K10,401,831).

Changes in state of affairs

The Group's principal activities are as follows:

- To provide financing to persons for purposes of primary production, for the establishment, development or acquisition of industrial or commercial undertakings and for housing.
- To provide advice and assistance with a view to promoting the efficient organization and conduct of primary production.
- In the case of industrial or commercial undertakings, to act as an agent for the Government in relation to any matter within the functions of the Group.
- To serve the rural population via the provision of rural credit.
- To build and maintain the total quality of lending assets and investment properties.
- Retailing of merchandise goods to general public.
- To provide banking products to general public.

During the financial year, there was no significant change in the principal activities or state of affairs of the Group other than that referred to in the consolidated financial statements or notes thereto.

Changes in accounting policies

Changes in accounting policies during the financial year.

IFRS 9 and IFRS 15

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are effective for the first time for entities with an annual reporting period beginning on or after 1 January 2018. The impact of these two new standards is reflected in these financial statements.

Entries in the interest register

The following are transactions recorded in the interest register:

Name	Nature of interest	Organization
Michael Mell	Chairman- Recent apointment	National Development Bank Limited
	Chairman	Small to Medium Enterprise Corporation
	Managing Director	Mell & Research Marketing Consultants Ltd
Darrell Seeto	Deputy Chairman – Recent appointment	National Development Bank Limited
William Lamur	Acting Chairman – Outgoing	National Development Bank Ltd
	Managing Director & CEO	East New Britain Development Corporation Group of Companies
	Chairman	Mainland Holdings Ltd
	Chairman	Pacific Assurance Group
	Chairman	East New Britain Agri-Business
	Chairman	ENB Port Services Ltd
	Director/Shareholder	Witherlam Investments Limited
	Director	Nasfund Contributors Savings & Loans Society Ltd (NCSL)
	Director	Andersons Foodland Limited
	Director	CloudAps
	Director	ENB Supermarkets Ltd
	Director	Pacific Aviation Energy Australia Ltd
	Director	Grand Pacific Hotel – Fiji
	Director	NasAviation Ltd
	Director	Loloata Island Resort
	Director	Rapopo Land Development Ltd
	Director	Tobar Investment Limited (Community Based Company)
Dr. Ken Ngangan	Director - outgoing	National Development Bank Limited
	Chairman	Motor Vehicles Insurance Ltd
	Chairman	National Teachers Insurance Limited
Gavin Ross	Director - outgoing	National Development Bank Limited
	Director	HLB Niugini Lae
	Member	Certified Practicing Accountants of PNG
Graham A. King	Director	National Development Bank Limited
	General Manager	Hargy Oil Palms Ltd
	Director	Hargy Oil Palms Ltd
Tauvasa Tanuvasa	Director	National Development Bank Limited
Phillip Isu	Director – Recent appointment	National Development Bank Limited
Robert Karato Leo	Director – Recent appointment	National Development Bank Limited
	Director	Pu'u Management Consultants Limited
Moses Liu	Managing Director	National Development Bank Ltd
	Chairman/Director	NDB Investments Limited
	Director/Shareholder	Kare Investments Limited
	Director	PNG Institute of Banking and Business Management Inc.

Directors' and specified executives' remuneration

Directors' and specified executives' remuneration in aggregate are disclosed in Note 20(b) of the consolidated financial statements.

Remuneration above K100, 000 per annum

The number of employees or former employees, not being directors of the Group, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K10,000 band of income are as follows:

	2018	2017
K100,000 – K170,000	7	8
K170,001 – K180,000	-	-
K180,001 – K210,000	-	1
K210,001 – K220,000	-	-
K220,001 – K480,000	4	3
K480,001 – K490,000	-	-
K490,001 – K760,000	1	1
K760,001 – K770,000	-	-
K770,001 – K1,100,000	1	1

Donations

The Group made donations in the amount of K71,793 (2017: K35,074).

Independent auditor's report

The consolidated financial statements have been audited by KPMG PNG and should be read in conjunction with the independent auditor's report on pages 5 to 7. As at year end, a total fee of K254,546 (GST exclusive) was incurred for audit services, and no amount was paid or payable to the audit firm for non-audit services.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the consolidated financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Dividends

The Directors declared K2,000,000 dividends in 2018 (2017: Knil).

Company information

Solicitors

In 2018, the Group engaged Ashurst Limited as its solicitor.

Registered Office

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Somare Crescent
WAIGANI, NCD

Postal Address

P O Box 686
WAIGANI
Papua New Guinea
Telephone: 7090 8200   Facsimile: 325 9817

Signed in accordance with a resolution of the Directors.

On behalf of the Directors.

Michael Mell
Chairman
Port Moresby, 18 June 2019

Phillip Isu
Chairman – Board Audit and Risk Committee
Port Moresby, 18 June 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders of National Development Bank Limited (the "Company") and its subsidiaries (the "Group")

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Company and the Group.

In our opinion the accompanying financial statements of the Company and the Group are in accordance with the Companies Act 1997, including

- giving a true and fair view of the Company's and the Group'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 and the Group as far as it appears from our examination of those records.

The financial statements comprise the:

- statement of financial position as at 31 December 2018;
- statement of profit or loss and other 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.

The Group consists of National Development Bank Limited and the entities it controlled at the year end and from time to time during the financial year.

Basis for Opinion

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 and the Group 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 and the Group. 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.

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Emphasis of matter – restatement of comparative balances

We draw attention to Note 25 to the financial statements, which states that amounts reported in the previously issued 31 December 2017 financial statements have been restated and disclosed as comparatives in this financial report. Our opinion is not modified in respect of this matter.

The financial statements of the Company and the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on that financial report on 30 May 2018.

Other Information

Other Information is financial and non-financial information in the Company's and the Group's annual reporting which is provided in addition to the financial statements and the Auditor's Report. This includes, the Company and Group 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 and the Group'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 and the Group 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 skepticism 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.
- 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 and the Group'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 and the Group'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 and the Group 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 and the Group, 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

19 June 2019

DIRECTORS' DECLARATION

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(b) in the Directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with International Financial Reporting Standards ("IFRSs") and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Michael Mell
Chairman
Port Moresby, 18 June 2019

Phillip Isu
Chairman – Board Audit and Risk Committee
Port Moresby, 18 June 2019

	Notes	Consolidated		Parent Entity	
		2018 K	2017 K	2018 K	2017 K
Interest income	2	26,219,891	24,910,307	14,675,817	14,421,738
Fees and other income	3	16,818,600	16,892,330	13,182,769	13,047,184
Change in fair value of investment properties	10	3,669,725	1,732,086	1,673,637	883,846
Total operating income		46,708,216	43,534,723	29,532,223	28,352,768
Operating expenses	4	(39,901,731)	(37,790,702)	(28,246,096)	(26,507,863)
Profit before recovery and allowance for losses		6,806,485	5,744,021	1,286,127	1,844,905
Loan impairment recovery/(expense)	7	3,571,370	(16,415,013)	5,843,516	(11,486,709)
Profit / (Loss) before income tax		10,377,855	(10,670,992)	7,129,643	(9,641,804)
Income tax (expense) / benefit	5a	(308,284)	(815,377)	142,324	(760,027)
Profit / (Loss) for the year		**10,069,571**	**(11,486,369)**	**7,271,967**	**(10,401,831)**
Other comprehensive income					
Items that will not be classified to profit and loss					
Revaluation of property net of tax		**32,355,798**	-	**32,281,023**	-
Total other comprehensive income		**32,355,798**	-	**32,281,023**	-
Total comprehensive income/ (loss) for the year		**42,425,369**	**(11,486,369)**	**39,552,990**	**(10,401,831)**

Notes to the financial statements are included on pages 42 to 69.

	Notes	Consolidated			Parent		
		2018 K	2017 Restated* K	2016 Restated* K	2018 K	2017 Restated* K	2016 Restated* K
Assets							
Cash and cash equivalents	18(a)	89,486,321	62,396,745	49,481,356	92,484,230	62,457,960	52,960,776
Investment in short term securities	22	64,293,608	47,014,551	43,693,877	-	-	-
Inventory		712,170	713,689	998,362	-	-	-
Loans and advances	7	291,458,489	296,567,038	294,243,741	249,484,243	253,792,551	255,758,444
Trade and other receivables	6	10,782,006	8,396,455	5,778,905	12,285,075	10,168,872	5,760,657
Income tax receivable	5(d)	-	-	3,657	57,831	3,657	3,657
Investment properties	10	38,956,712	35,560,192	34,070,239	22,728,952	21,330,631	20,724,038
Property and equipment	9	210,636,487	156,064,738	149,702,083	182,720,684	150,485,293	147,560,401
Investment in subsidiaries	8	-	-	-	91,254,043	59,181,057	46,834,312
Net deferred tax assets	5(b)	418,984	9,370,505	10,130,532	-	9,370,505	10,130,532
Total assets		**706,744,777**	**616,083,913**	**588,102,752**	**651,015,058**	**566,790,526**	**539,732,817**
Liabilities							
Trade and other payables	11	5,871,623	3,310,800	4,823,627	3,744,931	1,897,831	4,025,398
Customer deposits	12	68,425,118	65,725,172	65,026,455	15,966,448	15,920,676	16,473,966
Employee provisions	13	2,555,696	2,323,698	1,799,713	1,933,087	1,790,235	1,444,932
Provision for income tax	5(d)	1,164,873	55,350	-	-	-	-
Deferred fees		3,985,351	2,691,047	1,629,155	2,616,092	1,530,124	576,914
Net deferred tax liabilities	5(b)	-	-	201,461	-	-	-
Total liabilities		**82,002,661**	**74,106,067**	**73,480,411**	**24,260,558**	**21,138,866**	**22,521,200**
Net assets		**624,742,116**	**541,977,846**	**514,622,341**	**626,754,500**	**545,651,660**	**517,211,617**
Equity							
Share capital	14	119,995,375	119,995,375	119,995,375	119,995,375	119,995,375	119,995,375
Grants and reserves	15	633,269,671	541,843,597	503,001,719	631,268,614	539,917,315	501,075,441
Accumulated losses		(128,522,930)	(119,861,126)	(108,374,753)	(124,509,489)	(114,261,030)	(103,859,199)
Total equity		**624,742,116**	**541,977,846**	**514,622,341**	**626,754,500**	**545,651,660**	**517,211,617**

*See Note 25 for details of the Restatement

Notes to the financial statements are included on pages 42 to 69.

PARENT ENTITY	Share capital K	Government grants K	Asset revaluation reserve K	Accumulated losses (Restated*) K	Total K
Balance at 1 January 2017 - Reported	**119,995,375**	**434,230,647**	**66,844,794**	**(95,342,621)**	**525,728,195**
Due diligence adjustment	-	-	-	(8,516,578)	(8,516,578)
Balance at 1 January 2017 - Restated	**119,995,375**	**434,230,647**	**66,844,794**	**(103,859,199)**	**517,211,617**
Government grants	-	38,841,874	-	-	38,841,874
Loss for the year	-	-	-	(10,401,831)	(10,401,831)
Balance at 31 December 2017-restated	**119,995,375**	**473,072,521**	**66,844,794**	**(114,261,030)**	**545,651,660**
Opening adjustment on loan provisions for initial application of IFRS 9	-	-	-	(15,230,266)	(15,230,266)
Restated total equity at 1 January 2018	**119,995,375**	**473,072,521**	**66,844,794**	**(129,491,296)**	**530,421,394**
Grants	-	59,070,276	-	-	59,070,276
Dividend paid	-	-	-	(2,000,000)	(2,000,000)
Profit for the year	-	-	-	7,271,967	7,271,967
Adjustments	-	-	-	(290,160)	(290,160)
Revaluation surplus	-	-	32,281,023	-	32,281,023
Balance at 31 December 2018	**119,995,375**	**532,142,796**	**99,125,817**	**(124,509,489)**	**626,754,500**

CONSOLIDATED	Share capital K	Government grants K	Asset revaluation reserve K	Accumulated losses (Restated) K	Total K
Balance at 1 Janaury 2017 - Reported	**119,995,375**	**434,230,652**	**68,771,071**	**(99,858,179)**	**523,138,919**
Due diligence adjustment	**-**	**-**	**-**	**(8,516,578)**	**(8,516,578)**
Balance at 1 January 2017 - Restated	**119,995,375**	**434,230,652**	**68,771,071**	**(108,374,757)**	**514,622,341**
Government grants	-	38,841,874	-	-	38,841,874
Dividends paid	-	-	-	-	-
Loss for the year	-	-	-	(11,486,369)	(11,486,369)
Balance at 31 December 2017-Restated	**119,995,375**	**473,072,526**	**68,771,071**	**(119,861,126)**	**541,977,846**
Opening adjustment on loan provisions for initial application of IFRS 9	-	-	-	(16,441,214)	(16,441,214)
Restated total equity at 1 January 2018	**119,995,375**	**473,072,526**	**68,771,071**	**(136,302,340)**	**525,536,632**
Grants	-	59,070,276	-	-	59,070,276
Dividend paid	-	-	-	(2,000,000)	(2,000,000)
Pofit for the year	-	-	-	10,069,571	10,069,571
Adjustments	-	-	-	(290,161)	(290,161)
Revaluation surplus	-	-	32,355,798	-	32,355,798
Balance at 31 December 2018	**119,995,375**	**532,142,802**	**101,126,869**	**(128,522,930)**	**624,742,116**

*See Note 25 for details of the Restatement

Notes to the financial statements are included on pages 42 to 69.

	Notes	Consolidated		Parent Entity	
		2018 K	2017 K	2018 K	2017 K
Cash flows from operating activities					
Interest received		21,182,013	21,306,672	14,141,598	13,969,393
Interest on deposits		5,000,283	3,882,466	42,519	277,711
Commissions and other income received		13,310,353	13,122,489	9,397,660	9,166,731
Rent received		5,091,940	4,775,856	3,785,108	3,880,452
Security deposits received		3,857,403	2,103,784	(45,772)	553,290
Payments to suppliers and employees		(58,904,068)	(59,317,976)	(46,307,557)	(49,049,293)
Loan repayments		102,669,384	96,178,651	76,020,448	71,475,926
Loans funded (net)		(102,248,945)	(100,064,529)	(74,488,596)	(67,892,850)
Net cash used in operating activities	18(b)	**(10,041,637)**	**(18,012,587)**	**(17,454,592)**	**(17,618,640)**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		256,821	255,589	256,819	255,589
Purchase of property, plant and equipment	18(c)	(11,489,303)	(16,154,681)	(10,846,233)	(11,981,639)
Net (increase)/decrease in investment in short-term securities		(9,706,581)	7,985,193	-	-
Net cash used in investing activities		**(20,939,063)**	**(7,913,898)**	**(10,589,414)**	**(11,726,050)**
Cash flows from financing activities					
Proceeds from grants		59,070,276	38,841,874	59,070,276	38,841,874
Dividends paid		(1,000,000)	-	(1,000,000)	-
Net cash from financing activities		**58,070276**	**38,841,874**	**58,070,276**	**38,841,874**
Net increase in cash and cash equivalents		**27,089,576**	**12,915,389**	**30,026,270**	**9,497,184**
Cash and cash equivalents at the beginning of the financial year		**62,396,745**	**49,481,356**	**62,457,960**	**52,960,776**
Cash and cash equivalents at the end of the financial year	18(a)	**89,486,321**	**62,396,745**	**92,484,230**	**62,457,960**

Notes to the financial statements are included on pages 42 to 69.

1. Summary of Accounting Policies

Statement of compliance

These are the financial statements of National Development Bank Limited (the "Company") and its controlled entities (together the "Group"). The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

This is the first set of the Group's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with Customers* have been applied. Changes to significant accounting policies are described in Note r.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and building. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Papua New Guinea kina, unless otherwise stated.

The financial statements comprise of the profit or loss and statement of comprehensive income as showing as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes. The historical cost method has been followed except for the land and buildings which are measured at fair value.

The Group classifies its expenses by the nature of expenses method.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods if affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following note:

Note D - Loan provisioning

Going concern - State guarantee

Pursuant to Section 29 of the National Development Bank Act 2007 provides that the Government of PNG (the "State") may guarantee or indemnify (including any overdraft or other financial accommodation) the bank for in respect of any asset or liability. However, any specific guarantees has not been provided. The State supports the Group and the Company through its annual budgetary allocation of grants and the grant allocated in the 2018 budget for the Group is K120 million. Out of this amount K61 million was received in 2018.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Revenue Recognition

(i) Interest income

Interest income is brought to account on an accruals basis using the effective interest method. Interest, including premiums and investment securities, is brought to account using the effective interest rate method. IFRS 9 prescribes that interest income should continue to be recognised for loans that are in 90 days and above past due but now calculated based on the amortised cost amount and not the gross amount.

(ii) Fees and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

When the group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the group.

(iii) Rental income

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted cash balance and demand deposits. Demand deposits are short term (mature within 3 months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contribution plans
Contributions to superannuation plans are expensed when incurred.

(d) Impairment of financial assets at amortized cost

Policy applicable from 1 January 2018
The group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9.

Expected credit loss impairment model

The group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

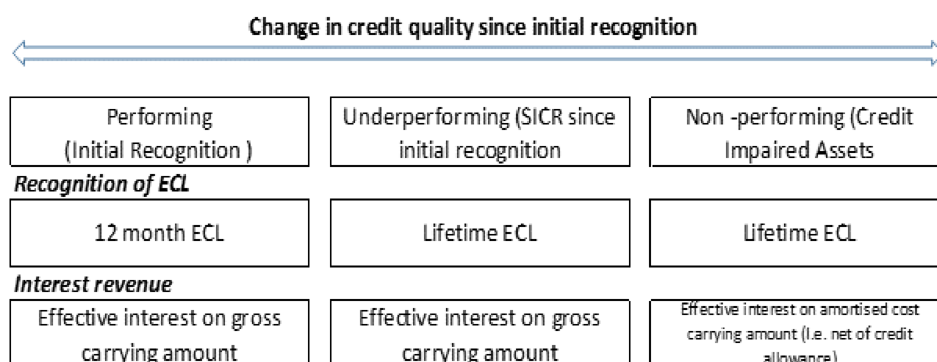
This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.

Stage 2 – When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Credit loss allowances are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

The diagram below shows the impairment approach under IFRS 9.



Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of key statistical parameters/inputs are as follows:

• **PD** – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

• **EAD** – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

• **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgment.

Macroeconomic factors

In its models, the Bank relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, interest rates, and house-price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

Multiple forward-looking scenarios

The Group determines its allowance for credit losses using three probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information and data in order to achieve an unbiased projections and forecasts.

The weightings assigned to each economic scenario at 31 December 2018 were as follows:

Scenario	Base	Upturn	Downturn
Weighting	80%	10%	10%

The 'base case' represents the most likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

Assessment of significant increase in credit risk (SICR)

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Expected life

When measuring expected credit loss, the group considers the maximum contractual period over which the group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options. For revolving credit facilities, the expected life is estimated based on the period over which the group is exposed to credit risk and how the credit losses are mitigated by management actions.

Presentation of allowance for credit losses in the Statement of Financial Position

• Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;

• Off-balance sheet credit risks which include undrawn lending commitments: as a provision in other liabilities.

Definition of default

The Group considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

• significant financial difficulty of the borrower;

• default or delinquency in interest or principal payments;

• high probability of the borrower entering a phase of bankruptcy or a financial reorganization;

• measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Group considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

Write-off policy

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the impairment loss on finance receivables line in the Statement of Comprehensive Income.

Policy applicable before 1 January 2018

Loans are originated by providing funds directly to the borrower and are recognised when cash is advanced to borrowers.

All loans and advances receivable are subject to continuous management review. A specific provision for loan impairment is established if there is objective evidence that the group will not be able to collect all amounts due under the terms of loans. The amount of the provision approximates the difference between the carrying amount and the recoverable amount, which is the current best estimate of the present value of expected future cash flows arising from the asset. All bad debts are written off against the specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries are credited to the provision for loan losses in the statement of profit and loss.

General provisions for impairment are maintained to cover incurred losses unidentified at balance date in the overall portfolio of loans and advances. The provisions are determined having regard to the level of risk weighted assets, economic conditions, general risk profile of the credit portfolio and a range of other criteria. The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the statement of profit and loss.

The adequacy of the allowance for loan losses is determined by applying defined percentages to the unpaid balances using the following aging categories:

Loans status based on the aging of arrears	Provision (percentage) applied against the total outstanding loan balance
30 days less than 90 days	5%
90 days less than 180 days	25%
180 days less than 360 days	50%
Greater than 360 days	100%

Loan losses (write-offs) are charged against the allowances for loan losses when management believes that the principal is unlikely to be collected or where the loan has been overdue for more than one year.

The advances to shop operators under the Stret Pasin Business Scheme will be converted to loans as and when the business set up process for each shop is completed for normal operations. Accordingly, these investments are treated as loans and advances. Where they are unsuccessful, the cumulative balance is provided for indicating non recoverability.

(e) Financial instruments

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial asset carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit and loss and other comprehensive income. Financial assets are derecognised when the rights to receive cash flows from investment are have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Trade receivables, Loans and other receivables are subsequently carried at amortised cost using the effective interest method less impairment (refer Note (d)).

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss' category are presented in the statement of profit and loss and other comprehensive income within "Other (losses) / gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit and loss and other comprehensive income as part of the other income when Group's right to payments is established.

The Group currently has loans and receivables.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. 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.

(f) Foreign currency

The consolidated financial statements of the Group are presented in the currency of the primary economic environment in which the Group operates (the functional currency). For the purpose of these consolidated financial statements, the results and financial position of the Group are expressed in Papua New Guinea kina ("K"), which is the Group's functional and presentation currency.

In preparing the consolidated financial statements, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(g) Consolidation of subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies.

All intra-company assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

(h) Government grants

Government grants are recognised in equity based on the following key criteria:

- The government grants are financing device and should be dealt with as such in the statement of financial position rather than be recognised in profit or loss to offset the items of expense that they finance.
- Government grants are received from the ultimate shareholder of the Company. The shareholder is Government of Papua New Guinea.

National Government funding

Funding received by the Group is from individual Government Agencies and that coming direct from the National Government Budget support. The parent entity was previously known as the Rural Development Bank and historically (30-40 years ago) received some funding that was for specific projects (purpose) mainly for rural development and for specific agriculture initiatives. Presently under National Development Bank Limited, these funds are now received directly from National Government specifically for lending to both Agriculture and SME related projects and businesses. The Group deems that original intentions under the funding arrangements were that none of the remitted funds would be returned either partially or in full to both National Government and the Government Agencies and therefore these are currently classified as additional paid in capital within equity until they are converted to shares. The National Government remains as the sole shareholder.

Underspecific arrangements where grants are placed as guarantee with intention to return to remitting Government Agencies upon non fulfilment or partial fulfilment of a specific purpose or objective they are deemed as liability and classed accordingly.

(i) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the Cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Income Tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the consolidated balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank and its controlled entities expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank and its controlled entities intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the statement of profit and loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity through other comprehensive income.

(k) Property, plant and equipment

Land and buildings comprise residential and commercial buildings, head office and branch office buildings and vacant land. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit and loss and other comprehensive income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to deferred tax liability and revaluation reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the statement of profit and loss and other comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of profit and loss and other comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserve to accumulated losses.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 2% p.a. on cost or valuation
- Office Equipment 25% p.a. on cost
- Motor Vehicles 25% p.a. on cost
- Items below K2,000 100% in year of purchase

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note i). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gain – net, in the statement of profit and loss and other comprehensive income. When revalued assets are sold, the amounts included in revaluation reserves are transferred to accumulated losses.

(l) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. The measurements of fair values are done by several independent professional valuers. They use comparable sales method, summation method and capitalization method to value the investment properties and valuations are conducted annually on all investment properties. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss account in the period in which they arise and not recognised in comprehensive income as a balance sheet approach.

(m) Classification and measurement of financial instruments

Policy applicable from 1 January 2018

Financial assets and liabilities

Recognition and initial measurement

The Group recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the Bank becomes party to the contractual provisions of the instrument. Except for trade receivables that do not have a significant financing component, at initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Trade receivables that do not have a significant financing component are measured at their transaction price at initial recognition.

Classification and measurement

Classification and subsequent measurement of financial assets

The Group classifies financial assets into one of the following measurement categories:

- Amortised cost,
- Fair value through other comprehensive income (FVTOCI),
- Fair value through profit or loss (FVTPL).

Financial assets include both debt and equity instruments.

i) Debt instruments

Debt instruments include loans and debt securities and are classified into either amortised costs or measured at FVTPL measurement categories.

Debt instruments measured at amortised cost - debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash, flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognized in interest income using the effective interest rate method.

Debts instruments measured at FVTPL - debt instruments are measured at FVTPL if assets:

i) are held for trading purposes;
ii) are held as part of a portfolio managed on a fair value basis; or
iii) whose cash flows do not represent payments that are solely payments of principal and interest.

The group did not have any debts instruments measured at FVTPL in 2018.

The classification of debt instruments is determined based on:

a) the business model under which the asset is held; and

b) the contractual cash flow characteristics of the instrument.

Business model assessment: Business model assessment involves determining how financial assets are managed in order to generate cash flows. The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model. The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs, and a profit margin.

If the Bank identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

ii) Equity instruments

Equity instruments are classified into fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI). Equity instruments are measured at FVTPL, unless an election is made to designate them at FVTOCI upon purchase.

At initial recognition, the Bank measures equity instruments at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition the changes in fair value are recognized as part of fair value (loss)/gain on financial assets line in the profit or loss for FVTPL or in other comprehensive income for FVTOCI.

Classification and subsequent measurement of financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortised cost. Deposits are accounted for at amortized cost. Interest on deposits, calculated using the effective interest rate method, is recognized as interest expense. Interest on borrowings is recognized using the effective interest rate method as interest expense.

Determination of fair value

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Bank has access at the measurement date.

The Bank values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments represent a Level 1 valuation. When quoted market prices are not available, the Bank maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

iii) Derecognition of financial assets and financial liabilities

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Bank transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Bank has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Bank has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Bank derecognises the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Bank retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value. The difference in the
respective carrying amount of the existing liability and the new liability is recognized as a gain/loss in the profit or loss.

Policy applicable before 1 January 2018

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Bank currently has loans and receivables and held-to-maturity investments.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. The Bank's held-to-maturity investments comprise of investments and short-term securities.

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently re-measured.

Financial liabilities
Financial liabilities are classified as other financial liabilities. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. 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.

(n) Leases

Group is lessee

All leases entered into by the Group are operating leases. Total payments made are charged to the statement of profit and loss and other comprehensive income on a straight line basis over the term of lease reflecting the pattern of benefits derived from the leased assets.

Group is lessor

Assets subject to operating leases are separately disclosed in the statement of financial position, according to the nature of the asset. These assets are stated at cost less accumulated depreciation. The assets are depreciated on a straight line basis over the life of the assets. Rental income is recognised on a straight line basis over the term of the lease.

(o) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as cash flows from operating activities.

(p) Inventories

Raw materials, stores, work-in-progress and finished goods are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure incurred in acquiring the goods and bringing them to their existing condition and location.

(q) Comparative amounts

Where necessary, comparative figures have been adjusted to conform to current disclosure and reclassification of balances. See Note 28 for details of the reclassification.

(r) Release of New and Revised International Financial Reporting Standards

Changes in significant accounting policies

A. IFRS 9 Financial instruments

IFRS 9, published in July 2014, replaces the existing in guidance in IAS 39 Financial Instruments: Recognition and measurements. IFRS 9 includes revised guidance on the classification and measurements of financial instruments, including a new expected credit loss model for calculating impairment in financial assets and the new general hedge accounting requirements. It also carries forwards guidance in recognition and derecognition of financial instruments from IAS 39. The Bank adopted IFRS 9 with initial application at 1 January 2018.

i. Classification and measurement of financial assets and financial liabilities.

Under IFRS 9, the Group classified and measured the following financial assets:

Financial Instruments	Original Classification under IAS 39	New Classification under IFRS 9
Investment securities - Central/Treasury Bills	Loans and receivables	Amortised cost
Loans to customers	Loans and receivables	Amortised cost
Term deposits	Amortised cost	Amortised cost

ii. The business model assessment and transition

The Group made an assessment to determine the business model within which each financial asset is held. Based on the Group's credit loss model for loans to customers, opening adjustments of K19,889,506 and K19,619,369 for the Group and Company respectively were charged to provisions and corresponding amount charged to retained earnings net of tax.

B. IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether and how much revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

The timing or amount of the Company's fee and commission income from contracts with customers had minimal impact by the adoption of IFRS 15.

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

C. IFRS 16 Leases

IFRS 16, 'Leases' (effective 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 entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The details of the impact on the entities financial statements are currently being assessed by management.

In addition to the above there are other standards amendments and interpretation that have been issued and are not expected to have any impact on the financial statements of the Bank.

2. Interest income

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Loans and advances	21,617,299	21,555,098	14,141,598	14,029,393
Cash and short term funds	4,602,592	3,355,209	534,219	392,345
	26,219,891	**24,910,307**	**14,675,817**	**14,421,738**

3. Fees and other income

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Rental income	4,667,429	4,147,705	3,785,109	3,880,452
Application fee	793,937	585,681	579,212	410,881
Ledger maintenance fee	8,113,655	8,062,219	6,780,984	6,867,796
Commission	1,082,725	897,491	1,072,705	880,554
Gain on sale of assets	256,820	255,589	256,820	255,589
Tender fees	75,577	52,150	75,577	52,150
Other income	1,828,457	2,891,495	632,362	699,762
	16,818,600	**16,892,330**	**13,182,769**	**13,047,184**

4. Operating expenses

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Staff costs	20,866,745	22,467,349	15,625,016	17,230,588
Administrative and overhead expenses	12,894,556	8,656,339	7,861,920	3,607,462
Marketing expenses	520,141	700,669	400,719	657,482
Directors' fees and other board expenses	682,737	709,311	416,297	455,213
Depreciation expense	4,937,552	5,257,034	3,942,144	4,557,118
	39,901,731	**37,790,702**	**28,246,096**	**26,507,863**

5. Income taxes

a) Income tax expense

The prima facie income tax expense on pre-tax accounting (loss) / profit from operations reconciles to the income tax expenses in the financial statements as follows:

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Profit/ (Loss) from before income tax	10,377,855	(10,670,992)	7,129,643	(9,641,804)
Income tax expense calculated at 30% (2017: 30%)	3,113,356	(3,201,298)	2,138,892	(2,892,541)
Non-deductible expenses	62,614	133,085	34,514	20,944
Non- taxable income	(1,284,661)	(519,626)	(502,091)	(265,154)
Deferred tax assets not recognised	(2,199,593)	2,772,462	(1,528,991)	3,896,778
Income tax benefit / (expense)	**(308,284)**	**(815,377)**	**142,324**	**(760,027)**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Papua New Guinea corporate entities on taxable profits under Papua New Guinea tax law. There has been no change in the corporate tax rate when compared with the previous financial year.

Income tax expense comprises:

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Deferred tax	(142,324)	760,027	142,324	760,027
Current tax	450,608	55,350	-	-
	308,284	**815,377**	**142,324**	**760,027**

b) Deferred taxes

2018 PARENT	Opening Balance	Recognised in profit or loss/ OCI	Closing Balance
Deferred tax assets			
Allowance for loan impairment (capped)	55,094,013	14,630,342	69,724,355
Allowance for loan impairement – IFRS 9 opening balance adjustment (capped)	14,630,342	(14,630,342)	-
Provisions for employee entitlements	1,790,235	142,853	1,933,087
Provision for audit fees	60,500	19,545	80,045
Other provisions	79,920	301,097	381,017
	71,655,010	**(463,495)**	**72,118,504**
Deferred tax liabilities			
Property and equipment	(25,117,274)	(46,419,690)	(71,536,964)
Rental debtors	(592,458)	10,918	(581,540)
	(25,709,732)	**(46,408,772)**	**(72,118,504)**
Net deferred tax assets	**45,945,278**	**(46,872,267)**	**-**
At 30%	**13,783,583**	**(14,061,680)**	**-**

2018 CONSOLIDATED	Opening Balance	Recognised in profit or loss	Closing Balance
Deferred tax assets			
Allowance for loan impairment (capped)	64,621,699	6,751,720	71,373,419
Allowance for loan impairement – IFRS 9 opening balance adjustment (capped)	14,630,342	(14,630,342)	-
Provisions for employee entitlements	2,049,118	506,578	2,555,696
Provision for audit fees	189,282	9,711	198,994
	81,490,441	**(7,362,333)**	**74,128,109**
Deferred tax liabilities			
Property and equipment	(25,797,707)	(45,420,258)	(71,217,965)
Rental debtors	(1,192,767)	(202,514)	(1,395,281)
Prepaid insurance	(118,030)	(220)	(118,250)
	(27,108,504)	**(45,622,992)**	**(72,731,496)**
Net deferred tax assets	**54,381,937**	**(52,985,324)**	**1,396,613**
At 30%	**16,314,581**	**(15,895,597)**	**418,984**

2017 PARENT	Opening Balance	Recognised in profit or loss	Closing Balance
Deferred tax assets			
Allowance for loan impairment	58,616,158	(3,522,145)	55,094,013
Provisions for employee entitlements	1,444,932	345,303	1,790,235
Provision for audit fees	142,834	(82,334)	60,500
	62,203,924	**(3,259,176)**	**56,944,748**
Deferred tax liabilities			
Property and equipment	(24,478,667)	(638,607)	(25,117,274)
Rental debtors	(243,948)	(348,510)	(592,458)
Prepaid insurance	(1,712,861)	1,712,861	-
	(26,435,476)	**725,745**	**(25,709,731)**
Net deferred tax assets	**33,768,440**	**(2,533,431)**	**31,235,016**
At 30%	**10,130,532**	**(760,027)**	**9,370,505**

2017 CONSOLIDATED	Opening Balance	Recognised in profit or loss	Closing Balance
Deferred tax assets			
Allowance for loan impairment	59,948,158	(3,843,037)	56,105,121
Provisions for employee entitlements	1,799,713	249,405	2,049,118
Provision for audit fees	190,000	(718)	189,282
Others	(953,658)	953,658	-
	60,984,213	**(2,640,692)**	**58,343,521**
Deferred tax liabilities			
Property and equipment	(24,682,737)	(1,114,970)	(25,797,707)
Rental debtors	(252,948)	(939,819)	(1,192,767)
Prepaid insurance	(2,166,792)	2,048,762	(118,030)
Others	(113,296)	113,296	-
	(27,215,773)	**107,270**	**(27,108,504)**
Net deferred tax assets	**33,768,440**	**(2,533,422)**	**31,235,017**
At 30%	**10,130,532**	**(760,027)**	**9,370,505**

c) Unrecognized deductible temporary differences

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Tax losses	(21,746,921)	27,675,719	(18,448,069)	20,001,701
Loan provisions	(45,927,277)	40,188,244	(40,423,396)	36,086,317
	(67,674,198)	**67,863,963**	**(58,871,465)**	**56,088,018**

d) Provision for Income Tax

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Add: Current Tax Expense	(1,222,704)	-	-	-
Less: payments made during the year	-	-	-	-
Less: Tax Credits authorised by IRC	-	-	-	-
Under/(Over) provision of tax in prior years	57,831	(55,350)	57,831	3,657
	(1,164,873)	**(55,350)**	**57,831**	**3,657**

6. Trade and other receivables

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Interest withholding tax	115,933	115,933	115,933	115,932
Trade receivables	1,747,500	1,049,775	581,540	592,458
Less: Allowance for rental debts	(531,130)	(160,200)	(52,011)	(52,011)
	1,332,303	**1,005,508**	**645,461**	**656,379**
Prepayments	3,673,393	3,590,782	3,078,915	3,222,164
Goods and Services Tax	1,158,818	1,339,214	1,158,818	1,339,214
Other receivables	4,617,492	2,460,951	7,401,880	4,951,115
	10,782,006	**8,396,455**	**12,285,075**	**10,168,872**

7. Loans and advances

	Consolidated		Parent Entity	
	2018 K	2017 restated K	2018 K	2017 restated K
Loans originated by the bank	413,817,995	400,938,773	362,098,909	351,426,507
Less: allowance for loan impairment	(122,359,506)	(104,371,735)	(112,614,666)	(97,633,956)
Net loans and advances	**291,458,489**	**296,567,038**	**249,484,243**	**253,792,551**

Movement in allowance for loan impairment as below:

	Consolidated		Parent Entity	
	2018 K	2017 restated K	2018 K	2017 restated K
Balance at 1 January	(104,371,735)	(82,578,275)	(97,633,956)	(80,660,610)
Adjustment – IFRS 9 implementation	(19,889,506)	-	(19,619,369)	-
Impairment during the year	3,571,370	(19,671,803)	4,002,684	(19,095,002)
Loan written offs / other adjustments	(1,669,635)	(2,121,657)	635,975	2,121,656
Balance at 31 December	**(122,359,506)**	**(104,371,735)**	**(112,614,666)**	**(97,633,956)**

Provision for impairment is represented by:

	Consolidated		Parent Entity	
	2018 K	2017 restated K	2018 K	2017 restated K
Individually assessed or specific provision	(103,943,296)	(89,309,954)	(98,376,936)	(94,705,357)
Collective provision	(18,416,210)	(15,061,781)	(14,237,730)	(2,928,602)
Balance at 31 December	**(122,359,506)**	**(104,371,735)**	**(112,614,666)**	**(97,633,956)**

Loan impairment (expense)/ recovery:

	Consolidated		Parent Entity	
	2018 K	2017 restated K	2018 K	2017 restated K
Total new and (increase) /decrease provisioning	2,601,370	(18,536,670)	4,002,684	(13,608,367)
Recoveries during the year	970,000	2,121,657	1,840,832	2,121,657
Total	**3,571,370**	**(16,415,013)**	**5,843,516**	**(11,486,710)**

8. Investment in subsidiaries

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Investments carried at cost:				
Non-current				
Investment in subsidiaries	-	-	91,254,043	59,181,057

Name of entity	Principal activity	Country of incorporation and operation	Ownership interest	
			2018 %	2017 %
NDB Investments Limited	Property rental & retail	PNG	100%	100%
Peoples Micro Bank Limited	Micro finance	PNG	100%	100%

9. Property and equipment

PARENT ENTITY

	Land and buildings at fair value K	Motor vehicles at cost K	Office equipment at cost K	Work in progress at cost K	Total K
Cost/valuation					
Balance as at 1 January 2017	**121,074,483**	**7,479,628**	**18,425,237**	**26,319,505**	**173,298,854**
Additions	-	-	-	11,981,639	11,981,639
Disposals	-	(1,146,671)	(103,492)	-	(1,250,163)
Transfer of WIP to other class of assets	2,121,226	1,018,857	1,507,515	(4,647,598)	-
Transfer to Subsidiary	-	-	-	(3,648,974)	(3,648,974)
Adjustment – Others (i)	121,982	-	(208,666)	(926,433)	(1,013,117)
Balance as at 31 December 2017	**123,317,691**	**7,351,814**	**19,620,594**	**29,078,139**	**179,368,239**
Additions	-	-	-	10,846,233	10,846,233
Disposals	-	(326,642)	(109,322)	-	(435,964)
Transfer of WIP to other class of assets	23,894	387,476	1,009,247	(1,420,617)	-
Transfer to Subsidiary	(22,553,486)	-	-	-	(22,553,486)
Revaluation increment	46,534,049	-	-	-	46,534,049
Balance as at 31 December 2018	**147,322,148**	**7,412,648**	**20,520,519**	**38,503,755**	**213,759,070**
Accumulated depreciation					
Balance as at 1 January 2017	**4,916,438**	**5,495,245**	**15,326,770**	**-**	**25,738,453**
Disposals	-	(1,146,671)	(103,492)	-	(1,250,163)
Depreciation expense	1,857,421	1,128,412	1,571,285	-	4,557,118
Others (ii)	(116,366)	104,137	(150,232)	-	(162,462)
Balance as at 31 December 2017	**6,657,493**	**5,581,124**	**16,644,331**	**-**	**28,882,946**
Disposals	-	(326,642)	(109,322)	-	(435,964)
Depreciation expense	1,536,859	950,429	1,454,856	-	3,942,144
Others (ii)	(1,203,023)	(1,786)	(145,931)	-	(1,350,740)
Balance as at 31 December 2018	**6,991,328**	**6,203,124**	**17,843,935**	**-**	**31,038,386**
Net book values					
As at 31 December 2018	**140,696,829**	**1,209,524**	**2,676,584**	**38,503,755**	**182,720,684**
As at 31 December 2017	**116,660,198**	**1,770,690**	**2,976,263**	**29,078,140**	**150,485,293**

CONSOLIDATED	Land and buildings at fair value K	Motor vehicles at cost K	Office equipment at cost K	Work in progress at cost K	Total K
Cost/valuation					
Balance as at 1 January 2017	**121,113,891**	**8,922,218**	**20,377,030**	**27,374,478**	**177,787,617**
Additions	3,877,944	170,188	124,910	11,981,639	16,154,681
Disposals	-	(1,146,671)	(103,492)	-	(1,250,163)
Transfers	3,061,963	1,018,857	1,507,515	(5,588,334)	-
Transfer to Subsidiary	-	-	-	(3,648,974)	(3,648,974)
adjustment – others (i)	(29,452)	(54,238)	(113,010)	(894,354)	(1,091,053)
Balance as at 31 December 2017	**128,024,346**	**8,910,355**	**21,792,953**	**29,224,455**	**187,952,108**
Additions	-	65,900	600,631	10,822,771	11,489,303
Disposals	-	(409,470)	(109,322)	(3,439)	(522,231)
Transfers	23,894	387,476	1,009,247	(1,420,617)	-
adjustment – others (i)	46,484,927	-	(892,145)	(26,900)	45,565,882
Balance as at 31 December 2018	**174,318,584**	**8,954,260**	**23,293,509**	**38,623,170**	**245,189,523**
Accumulated depreciation					
Balance as at 1 January 2017	**4,947,434**	**6,445,338**	**16,692,762**	**-**	**28,085,534**
Disposals	-	(1,146,671)	(103,492)	-	(1,250,163)
Depreciation expense	1,897,212	1,376,988	1,982,834	-	5,257,034
Others (i)	(116,367)	67,930	(156,599)	-	(205,035)
Balance as at 31 December 2017	**6,728,280**	**6,743,586**	**18,415,505**	**-**	**31,887,370**
Disposals	-	(409,469)	(109,322)	-	(518,791)
Depreciation expense	2,038,873	1,127,853	1,770,825	-	4,937,552
Others (i)	(1,611,621)	(4,310)	(137,164)	-	(1,753,095)
Balance as at 31 December 2018	**7,155,532**	**7,457,659**	**19,939,845**	**-**	**34,553,036**
Net book value					
As at 31 December 2018	**167,163,052**	**1,496,601**	**3,353,665**	**38,623,170**	**210,636,487**
As at 31 December 2017	**120,398,107**	**2,166,769**	**4,275,408**	**29,224,455**	**156,064,738**

The properties of the Company was revalued in 2018 and the carrying values adjusted based on these valuation. Subsequent additions to these properties are carried at cost.

Note:

(i) Reclassification of the portion of work in progress (completed) to property improvements and adjustment for prior year revaluation of investment properties.

(ii) Transferred accumulated depreciation for investment properties

10. Investment properties

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Balance at beginning of financial year – at fair value	35,560,192	34,070,239	21,330,631	20,724,038
Additions	2,112	35,120	-	-
Change in fair value	3,669,725	1,732,086	1,673,637	883,846
Transferred from property, plant and equipment – accumulated depreciation	(275,316)	(277,253)	(275,316)	(277,253)
Balance at end of financial year – at fair value	**38,956,712**	**35,560,192**	**22,728,952**	**21,330,631**

Revaluation of the Group's investment properties were performed in September 2018 by independent valuers, namely, The Professional Valuers of PNG Ltd,Prof Investments Limited and Sovereign Real Estate Limited. The direct comparable sales approach and the capitalisation of income methods were used in the valuation models.

11. Trade and other payables

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Trade and other payables	5,871,623	3,310,800	3,744,931	1,897,831
	5,871,623	**3,310,800**	**3,744,931**	**1,897,831**

12. Customer deposits

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Deposit liabilities	52,458,670	49,804,496	-	-
Security deposits	15,966,448	15,920,676	15,966,448	15,920,676
	68,425,118	**65,725,172**	**15,966,448**	**15,920,676**

Security deposits are monies received from the government for specific loan disbursements and are kept as security against these loans.

13. Employee provisions

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Annual leave	774,706	703,584	504,043	490,883
Long service leave	1,780,990	1,620,114	1,429,044	1,299,352
	2,555,696	**2,323,698**	**1,933,087**	**1,790,235**

14. Share capital

All budgetary grants received by the Group at the moment are taken up as Government grants as disclosed per Note 15. All grants received will be classed as share capital where shares are issued for the value of the grants received.

The two subsidiaries NDB Investments Limited (NDBIL) and People's Micro Bank Limited (PMBL) are 100% owned by the National Development Bank while the parent entity NDB is wholly (100%) owned by the National Government of PNG through Kumul Consolidated Holdings (KCH).

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Ordinary shares of 119,995,375 (2017: 119,995,375) @ K1.00 each	119,995,375	119,995,375	119,995,375	119,995,375
	119,995,375	**119,995,375**	**119,995,375**	**119,995,375**

15. Grants and reserves

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Government grants	532,142,802	473,072,526	532,142,796	473,072,521
Asset revaluation	101,126,869	68,771,071	99,125,818	66,844,794
	633,269,671	**541,843,597**	**631,268,614**	**539,917,315**

a) Government grants

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Balance at beginning of financial year	473,072,526	434,230,652	473,072,521	434,230,647
Grants received during the year	59,070,276	38,841,874	59,070,276	38,841,874
Balance at end of financial year	**532,142,802**	**473,072,526**	**532,142,796**	**473,072,521**

The government grants reserve represents the cumulative funds received from the government and other statutory organisations.

b) Asset revaluation reserve

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Balance at beginning and end of financial year	68,771,071	68,771,071	66,844,794	66,844,794
Increase/(decrease) arising from revaluation of properties	32,355,798	-	32,281,023	-
	101,126,869	**68,771,071**	**99,125,817**	**68,844,794**

The asset revaluation reserve arose on the revaluation of land and building. When revalued land and buildings are sold, the portion of the asset revaluation reserve that relates to that asset is effectively realised, is transferred directly to retained earnings.

16. Commitments for expenditure

(a) Capital expenditure commitments

The Group has total capital expenditure commitments of K9,906,399.02 as at 31 December 2018 (2017: K5,580,386).

(b) Loan commitments

The Group and the Company has the following loan commitments as at 31 December:

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Micro Finance	-	1,682,200	-	1,682,200
Agriculture	1,126,002	852,148	1,126,002	852,148
Commercial	4,993,608	48,817,490	4,993,608	48,817,490
Large Equipment Finance	2,050,800	-	2,050,800	-
Credit Schemes	56,500	2,964,969	56,500	2,964,969
Women in Business	3,386,982	9,532,227	3,386,982	9,532,227
Staff Loans	1,443,250	-	1,443,250	-
	13,057,142	**63,849,034**	**13,057,142**	**63,849,034**

(c) Lease commitments

There are no finance lease liabilities. Non-cancellable operating lease commitments as at 31 December 2018 amounts to Knil (2017: nil).

17. Contingent liabilities

Legal proceedings

There were outstanding legal proceedings against the Group as at 31 December 2018. The proceedings mainly relate to claims by/against defaulting customers for breach of loan agreement and/or contract for sale or mortgaged property and/or proceedings seeking to restrain the Group from dealing with or selling mortgaged properties. The outcome of the litigation are unknown as at the date the financial statements are finalised and are not expected to result in material liability to the Company. Accordingly, no provision has been made.

18. Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents 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:

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
BPNG Settlement Account	27,184	27,184	27,184	27,184
BSP Account	83,542,045	57,170,354	76,130,543	49,179,054
Cash on hand	3,906,269	4,717,406	37,677	39,571
ANZ Account	243,892	178,354	-	-
Interest bearing deposits	1,766,932	303,447	16,288,827	13,212,151
Total Cash	**89,486,321**	**62,396,745**	**92,484,230**	**62,457,960**

(b) Reconciliation of loss for the year to net cash flows from operating activities

	Note	Consolidated		Parent Entity	
		2018 K	2017 K	2018 K	2017 K
Profit (Loss) for the year after tax		10,069,571	(11,486,369)	7,271,967	(10,401,831)
Depreciation and amortisation	9	4,937,552	5,257,034	3,942,144	4,557,118
Change in fair value of investment property	10	(3,669,725)	1,732,086	(1,673,637)	883,846
Gain on disposal of fixed assets	3	(256,820)	(255,589)	(256,820)	(255,589)
Loan impairment recovery		(6,546,070)	-	(8,310,431)	-
Income tax expense/ benefit		308,284	-	(142,342)	-
(Increase) / Decrease in assets:					
Trade and other receivables		(2,385,551)	4,326,052	(2,170,377)	4,378,553
Loans and advances		(9,904,522)	(20,687,583)	(8,205,487)	(12,423,362)
Deferred taxes		8,951,521	5,321,898	9,370,505	5,084,669
Prior period provision		(8,516,578)	-	(8,516,578)	-
Increase/ (decrease) in liabilities:					
Trade and other payables		(4,572,254)	(17,883,963)	(7,998,313)	(25,099,750)
Provisions		(203,781)	(256,826)	(345,303)	(262,968)
Deferred Fees		(953,210)	-	(953,210)	-
Clients' trust funds		2,699,946	15,920,676	533,290	15,920,676
Net cash used in operating activities		**(10,041,637)**	**(18,012,587)**	**(17,454,592)**	**(17,618,640)**

(c) Purchase of property, plant and equipment per cash flows

	Note	Consolidated		Parent Entity	
		2018	2017	2018	2017
		K	K	K	K
Additions to property and equipment	9	(11,489,303)	(16,154,681)	(10,846,233)	(11,981,639)
Purchases of assets		**(11,489,303)**	**(16,154,681)**	**(10,846,233)**	**(11,981,639)**

19. Financial instruments

(a) Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The Board provides written principles for overall risk management, as well as written policies covering credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk and operational risk.

(b) Foreign currency risk management

The Bank undertakes few transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations is easily managed within approved policy parameters.

(c) Interest rate risk management

The Bank does not borrow funds, and therefore is exposed to interest rate risk from external parties only in relations to its' lending activities.

(d) Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk and sector risk.

i. Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions. 'Settlement risk' is the risk of loss due to the failure of an entity or an individual to honour its obligations to deliver cash, as contractually agreed. The Group engages in standing orders with banks to ensure the entities and individuals honor their obligation. Where general standing orders are not executed it increases the chances of loss through failure to deliver cash.

ii. Management of credit risk

The Board of Directors created the Group Credit Risk Committee for the oversight of credit risk. A separate Group Credit and Recoveries Department, reporting to the Group Credit Risk Committee, is responsible for managing the Group's credit risk, including the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, the Head of Group Credit, the Group Lending Committee and the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: Group Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances exposures).
- Developing and maintaining the Group's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 12 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Group Credit Risk Committee.

– Developing and maintaining the Group's processes for measuring Expected Credit Loss (ECL). This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.
– Reviewing compliance of business units with agreed exposure limits, including those for selected industries, regions risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
– Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk

(e) Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and provinces. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by geography are reviewed by management and the Lending Committee on a regular basis and approved by the Board. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The specific control and mitigation measure is through securing loans and advances via collateral. The principal collateral types of loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises inventory and accounts receivables
- Deed of assignment over cash deposit as security

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivables. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risks without taking account of the value of any collateral obtained.

(f) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to fulfil commitments to lend. The Group's liquidity management processes includes day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they are borrowed by customers. Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point of these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

(g) Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

(h) Maturity profile and interest rate risks of financial instruments

The maturity profile and interest rate risk of financial liabilities held by the Group are detailed as follows:

PARENT - 2018

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing		Non-interest bearing 1 year	Total
			Less than 1 year	Greater than 1 year		
	%	%	K	K	K	K
Financial Liabilities:						
Trade and other payables			-	-	3,812,235	3,812,235
Security deposits			-	-	15,966,448	15,966,448
			-	-	**19,778,683**	**19,778,683**

PARENT - 2017

	Average Industry variable interest rate	Average industry fixed interest rate	Interest bearing		Non-interest bearing 1 Year	Total
			Less than 1 year	Greater than 1Year		
	%	%	K	K	K	K
Financial Liabilities:						
Trade and other payables			-	-	1,897,831	1,897,831
Security deposits			-	-	15,920,676	15,920,676
			-	-	**17,818,507**	**17,818,507**

CONSOLIDATED - 2018

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing		Non-interest bearing 1 year	Total
			Less than 1 year	Greater than 1 year		
	%	%	K	K	K	K
Financial Liabilities:						
Trade and other payables			-	-	5,871,631	5,871,631
Deposit liabilities		9%	52,458,670	-	-	55,277,289
Security deposits		1%	-	15,966,448	-	15,966,448
			52,458,670	**15,966,448**	**5,871,629**	**77,115,368**

CONSOLIDATED - 2017

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing		Non-interest bearing 1 year	Total
			Less than 1 year	Greater than 1 year		
	%	%	K	K	K	K
Financial Liabilities:						
Trade and other payables			-	-	3,310,800	3,310,800
Deposit liabilities		9%	54,248,145	-	-	54,248,145
Security deposits		1%	-	15,920,676	-	15,920,676
			54,248,145	**15,920,676**	**3,310,800**	**73,479,621**

The Group places short term deposits at various financial institutions for period ranging from one month to 12 months at an average industry variable rate of 3.58% (2017: 3.58%). The short term placements are considered safe investment where periods are fixed but interest rates vary. NDB has short term deposits with the subsidiary People's Micro Bank Limited amounting to K14,543,266 million at rate of 3% per annum.

Sensitivity Analysis

If the interest rate has increased by 1% the Group's net interest income on short term placement would have increased by K877,194 (2017: K620,933). If there was a decrease in interest rate by 1% the net interest income would have decreased by K877,194 (2017: K620,935).

If the interest rate has increased by 1% on the loans and advances issued the Group's net interest income would have increased by K2,944,332 (2017 restated: K2,965,670). If the interest rate has decreased by 1% the Group's net interest come on loans would have decreased K2,944,332 (2017 restated: K2,965,670).

20. Related party transactions

Related parties are considered to be enterprises or individuals with whom the Group is especially related because either they or the group are in a position to significantly influence the outcome of transactions entered into the Group, by virtue of being able to control, dominate or participate in a fiduciary capacity, in decision-making functions or processes.

The Group conducted transactions with the following classes of related parties during the year.

- Directors and/or related parties in which the Director has significant influence;
- Key management personnel and other staff and/or parties in which the individual officer has significant influence.

Loan transactions with directors and/ or relates parties in which the directors have significant influence are carried out on standard commercial terms and market rates. For the year ended 31 December 2018, balances and transactions with related entities with directors interest were as follows:

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Balance at the beginning of the financial year	3,952,307	1,298,041	3,952,307	1,288,524
Interest	236,940	127,803	236,940	88,638
Additional loan	1,921,303	857,675	1,921,303	-
Charges	73,161	50,087	73,161	32,862
Loan repayments	(1,255,385)	(423,414)	(1,255,385)	(277,175)
Balance at the end of the financial year	**4,928,325**	**1,910,192**	**4,928,325**	**1,132,849**

The above related party loans include loans of K4.9 million at 31 December 2018 (31 December 2017: K3.1 million) from Kare Kare Investments Ltd, a wholly owned company of the managing director (Mr. Moses Liu). This loan is provided at an interest rate of 5% (2017: 5%) and is repayable over 12.5 years. Mr William Lamur is the director of East New Britain Development Corporation Ltd, who has a loan with NDB and had a balance of K0.4 million at 31 December 2018 (2017: K0.7 million). These loans are provided at the rate of 6.5% (2017: 6.5%) and is repayable over 8 to 10 years.

Loans provided to staff are incentive-based with marginal discounts on rates and fee concessions. As at 31 December 2018 staff account balances were as follows:

a. Loans to key management personnel

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Staff personal loan	15,381	64,939	15,381	64,939
Housing loan	4,508,093	3,201,067	4,508,093	3,201,067
Commercial loan	4,397,105	539,580	4,397,105	539,580
Large Equipment Loan	471,726	347,186	471,726	347,186
Doubtful debts loan	-	-	-	-
Total staff loan	**9,393,305**	**4,152,772**	**9,393,305**	**4,152,772**
Provisions	-	-	-	-
Staff loan - net	**9,393,305**	**4,152,772**	**9,393,305**	**4,152,772**

c. Key management personnel compensation

There were nine specified Directors of the Group during the year (2017: six) who were remunerated where details of the remuneration are disclosed below. Four being recently appointed, two being term recently expired and one deceased during the year. The remuneration of the Managing Director of the parent entity is excluded from the figures disclosed below.

Specified director's remuneration

	Primary			Post-employment			Equity		
	Fees	Bonus	Non-Monetary	Benefits Superannuation	Prescribed benefits	Other	Options	Other	Total
2018	K	K	K	K	K	K	K	K	K
Specified Directors	368,828	-	-	-	-	18,000	-	-	386,828
Total	**368,828**	**-**	**-**	**-**	**-**	**18,000**	**-**	**-**	**386,828**
2017	K	K	K	K	K	K	K	K	K
Specified Directors	391,085	-	-	-	-	17,350	-	-	408,435
Total	**391,085**	**-**	**-**	**-**	**-**	**17,350**	**-**	**-**	**408,435**

There were fourteen specified executives of National Development Bank Group during the year which included the Managing Director of the parent entity. The details of their remuneration are disclosed below.

Specified executive's remuneration

	Primary			Post-employment			Equity		
	Fees	Bonus	Non-Monetary	Benefits Superannuation	Prescribed benefits	Other	Options	Other	Total
2018	K	K	K	K	K	K	K	K	K
Specified Executives	3,375,871	256,056	-	208,184	-	-	-	-	3,840,111
Total	**3,375,871**	**256,056**	**-**	**208,184**	**-**	**-**	**-**	**-**	**3,840,111**
2017	K	K	K	K	K	K	K	K	K
Specified Executives	3,226,088	346,103	-	133,010	-	-	-	-	3,705,201
Total	**3,226,088**	**346,103**	**-**	**133,010**	**-**	**-**	**-**	**-**	**3,705,201**

c. Rent Free Arrangement

NDB Board passed resolutions to have subsidiary People's Micro Bank Limited ("PMBL") use office spaces provided free of charge from financial year 2013 to 2015. The subsidiary is now charged rent at market rate for all office spaces provided and will continue to be charged rental for future periods. There was also a resolution passed in 2016 to have new branches opened to operate rent free for the first year only. In the current year the buidlings have been transferred to PMBL.

The subsidiary NDB Investments Limited uses office space free of charge. In 2019 NDB Board will determine whether or not the subsidiary will be charged rent from 2019 onwards.

d. Intercompany Balance

Intercompany balances are eliminated on consolidation. NDB Investments Ltd, one of the subsidiaries of NDB, has arrangement with its own subsidiaries where there is intention to transfer businesses to the managers upon businesses becoming operationally sustainable therefore the intercompany balances with the subsidiaries have been classified as loans payable from the subsidiaries' perspective and loans receivable from NDB Investments Ltd's perspective.

21. Remuneration of auditors

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Audit of the financial report	254,546	202,500	145,091	135,000

The auditor of the Group is KPMG for the financial year 2018. PricewaterhouseCoopers PNG was the auditor for financial year 2017.

22. Investment in short-term securities

	Consolidated		Parent Entity	
	2018 K	2017 K	2018 K	2017 K
Short-term placements in Treasury Bills with the Bank of PNG.	64,293,608	47,014,551	-	-

23. Other information

Company information

The Group has 371 employees during the year (2017: 428).

24. Operating lease arrangements

The Group as lessor – leasing arrangements

The Group properties constructed and acquired through purchase with original intention to lease out to clients and those that are used for operation and staff residential and converted to for leasing are all classified as investment properties and separately disclosed.

Operating leases entered into with external parties are with lease terms of between 5 to 10 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental income earned by the Group from its investment properties and direct expenses arising on the investment properties for the year are set out in Notes 3 and 4.

25. Reconciliation of Restatement Relating to Provision for Impairment

In September 2018, the Group engaged an external consultant to perform a due diligence exercise on the loan book.

A specific provision amount for impaired loans (see Note 1(d)), recognisied as the difference between the amounts deemed recoverable based on the collateral placed and the loan amount. In light of the review performed, an additional provision of K8,516,578 was raised due to errors in some of the collateral values and outdated valuations. The additional provision related solely to the Company and no additional provision was raised for NDB Investments Limited and People's Micro Bank Limited. The Group has determined that the identified issues were in existence in previous years and as a result has recorded the additional provision as a prior period adjustment in the financial statements.

Below is the reconciliation of adjustments made on the loan loss provision as a result of due diligence exercise.

Restatement – 31 December 2017 (Parent Entity)

Statement of financial position	As reported	Adjustments for additional loan loss provisioning	As Restated
Loans and advances	262,309,129	(8,516,578)	253,792,551
Total assets	575,307,104	(8,516,578)	566,790,526
Net Assets	554,168,238	(8,516,578)	545,651,660
Accumulated losses	(105,744,452)	(8,516,578)	(114,261,030)
Total equity	554,168,238	(8,516,578)	545,651,660

Restatement – 31 December 2017 (Group)

Statement of financial position	As reported	Adjustments for additional loan loss provisioning	As Restated
Loans and advances	305,083,616	(8,516,578)	296,567,038
Total assets	624,600,491	(8,516,578)	616,083,913
Net Assets	550,494,424	(8,516,578)	541,977,846
Accumulated losses	(111,344,548)	(8,516,578)	(119,861,126)
Total equity	550,494,424	(8,516,578)	541,977,846

Restatement – 31 December 2016 (Parent Entity)

Statement of financial position	As reported	Adjustments for additional loan loss provisioning	As Restated
Loans and advances	264,275,022	(8,516,578)	255,758,444
Total assets	548,249,395	(8,516,578)	539,732,817
Net Assets	525,728,195	(8,516,578)	517,211,617
Accumulated losses	(95,342,621)	(8,516,578)	(91,073,239)
Total equity	525,728,195	(8,516,578)	517,211,617

Restatement – 31 December 2016 (Group)

Statement of financial position	As reported	Adjustments for additional loan loss provisioning	As Restated
Loans and advances	302,760,319	(8,516,578)	294,243,741
Total assets	596,287,791	(8,516,578)	587,771,213
Net assets	523,138,919	(8,516,578)	514,622,341
Accumulated losses	(99,858,179)	(8,516,578)	(108,374,757)
Total equity	523,138,919	(8,516,578)	514,622,341

26. Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group and the Company, the results of those operations, or the state of affairs of the Group and the Company in future financial years.