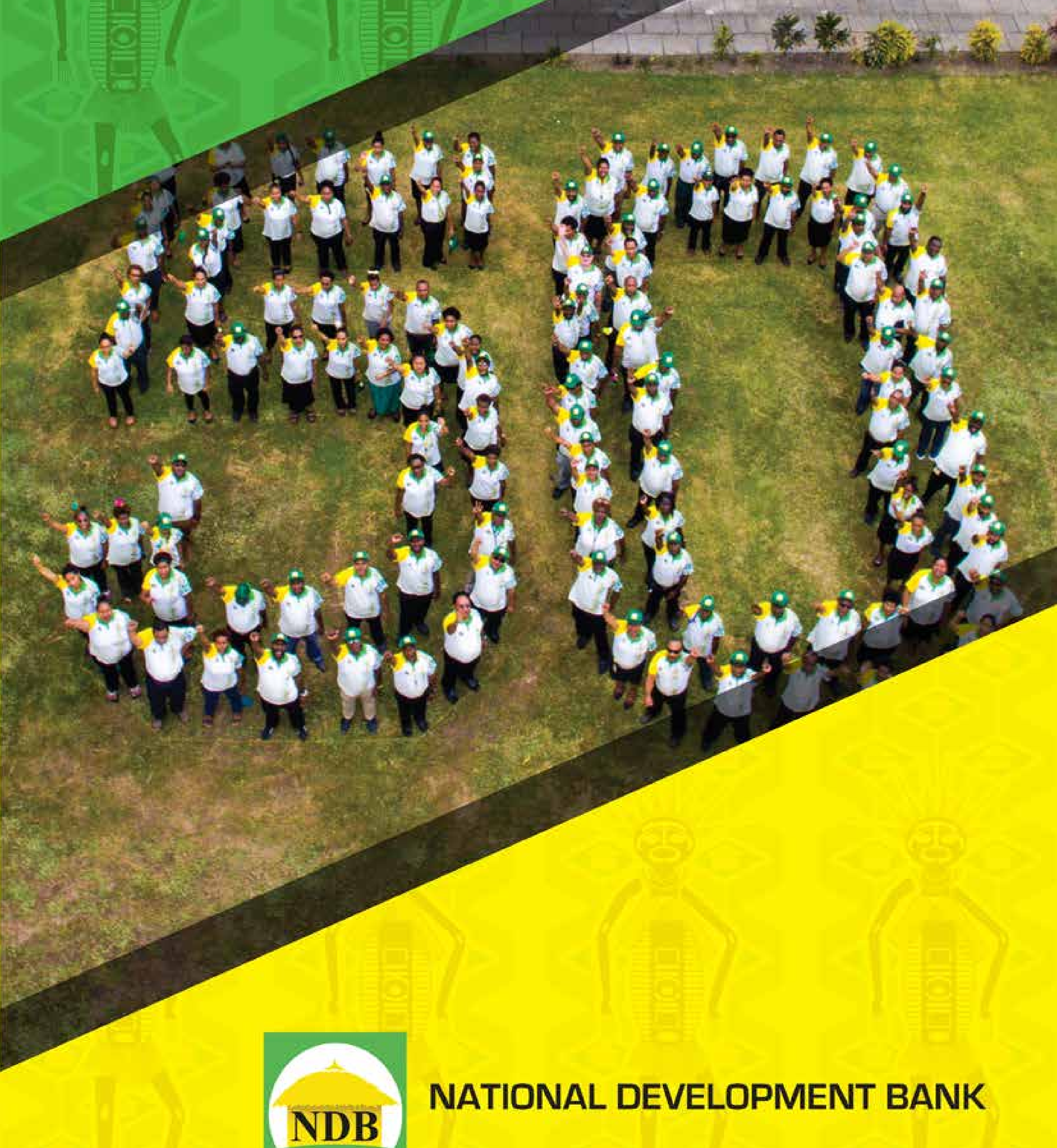
ANNUAL REPORT 2017



NDB

Haus Moni Bilong Yumi

NATIONAL DEVELOPMENT BANK

THE

NATIONAL DEVELOPMENT BANK

IS THE GOVERNMENT'S

VEHICLE TO

NDB

Haus Moni Bilong Yumi

CONTENTS

CORPORATE
PROFILE

NDB's successful rehabilitation and transformation has resulted in achieving exceptional outcomes that have never been achieved since its inception. The strong leadership of the Board and Management that took over its control in 2004 has turned NDB to stability and profitability. Now, NDB is an agile institution that continues to improve on its present, and moves with innovation and dynamism toward an even stronger future.

NDB's reputation as the people's bank remains as formidable as ever. Through consistent Government support, it builds up an increasing capacity to provide lending services that is affordable and accessible to a larger number of the indigenous business sector. It maintains its strategic focus on its principal markets, notably the agriculture sector, consisting of the indigenous companies and the small and medium-sized enterprises and the microfinance sector. Its expanding institutional strengths, customer driven mechanisms and value added products and services hold the key to its successful business relationships with customers. Through strategic partnerships with the National Government and Provincial Governments, NDB is positioning for further growth and strategic expansion.

By looking ahead to help the indigenous business sector get ahead and by continuous improvements in its strategic competence to better serve its principal markets, and providing increased value in its product and service offerings, NDB moves on from strength to greater strength.

VISION, MISSION & CORE VALUES

STATEMENT

OUR PURPOSE

The National Development Bank Limited exists to provide accessible banking and demand driven financial services with special emphasis on the rural sector in a viable and sustainable manner.

OUR VISION

To be the preferred Financial Services Provider for our people that stimulates wealth creation and delivers value to all stakeholders.

OUR MISSION

The Bank's renewed mission is to provide a sustainable supply of financial services including development credit that;

i. Stimulates the growth of existing businesses of the indigenous people to acquire foreign owned companies,
ii. Enable PNG owned companies to compete on a level playing field with foreign competition, and
iii. Improve the quality of life of our rural communities.

OUR CORE VALUES

1. Uphold Christian values
2. Professionalism & integrity
3. Innovation
4. Responsibility & responsiveness
5. Value-adding
6. Responsible Corporate Entity
7. Employer of choice
8. Meet or exceed customer expectations
9. Teamwork

ACTING CHAIRMAN'S
LETTER

9 July 2018

The Honourable William Duma, LLB, LLM, CMG, MP
Minister for Public Enterprises and State Investments
C/- Kumul Consolidated Holdings Limited
P O Box 320, Port Moresby
National Capital District

Dear Minister

In accordance with Section 33 (1) of the National Development Bank Act 2007, I have the honour to submit to you for presentation to the National Parliament of Papua New Guinea, the remarkable progress and marked achievements of the National Development Bank as contained in the 2017 Annual Report by the NDB Board together with the Financial Statements for the year ended 31 December 2017.

The Auditor's report as required in Section 33 (4) of the aforementioned Act is appended to the Financial Statements including the 2017 audited statements for NDB and its controlled entities.

Yours sincerely

William Lamur, OBE
Acting Chairman of the Board

MINISTER'S
FOREWORD

It gives me great pleasure to present the 2017 Annual Report of the National Development Bank Limited for the financial year ended 31 December 2017. The Annual Report includes the 2017 Audited Financial Statements for the National Development Bank (NDB) and its controlled entities.

NDB has successfully delivered a positive operating profit before tax in 2017 despite a challenging operating environment and the sluggish state of the economy. NDB has been consistently operating profitably over the last five years despite the fact that O'Neill-Dion Government directed NDB to reduce all interest rates to a standard 6.5% rate effective 1 January 2013. The NDB Group recorded an operating profit before tax of K5.744 million before declaring a tax loss of K11.486 million in 2017 after loan impairment provision of K36 million relating to prior years in compliance with international accounting standards. The Bank's overall profitability over the last nine years is indicative of robust and resilient strategies that the Board and Management have implemented to position the Bank for positive growth ensuring the prudent administration of its funds through Government grants.

The Balance Sheet indicates a 5% improvement in the Net Assets from K523 million restated in 2016 to K550 million in 2017.

NDB maintained a good loan book at K222 million. The Bank continued to manage and maintain the quality of its loan portfolio with loan arrears over 90 days within 2% of the Bank's active loan book. The NDB's collection efficiency is at par with the performance of commercial banks in the country. This performance is absolutely commendable.

It is also pleasing to note that NDB and its subsidiary, the People's Micro Bank Ltd reported a net profit after tax of K2.233 million for 2017 and NDB Investments Ltd reported a net loss after tax of K3.317 million for 2017.

Demand for loans to Women further increased by K9.3 million in 2017 indicative of increased participation by women in business ventures.

I thank and commend the Board, Management, and Staff of the NDB Group for their tireless and excellent efforts in the delivery of affordable financial services to our unbanked communities and indigenous businesses in a viable and sustainable manner. On behalf of the O'Neill Government, I can assure you that we will continue to support NDB by way of channeling more funds in its Annual Budget to broaden its impact and outreach in providing financial services to the vast majority of our people.

Honourable William Duma, LLB, LLM, CMG, MP
Minister for Public Enterprises & State Investments

ACTING CHAIRMAN'S
REPORT

NDB operated under tough macroeconomic conditions in 2017 due to the impact of low international commodity prices that affected government revenue and tight fiscal conditions slowing the local economy growth. These affected the agribusiness and other sectors of the economy.

NDB has produced profitable operating outcome in 2017 and over the previous four years on the back of a reduced interest rate of 6.5% p.a. effective 1 January 2013 in line with the O'Neill-Dion Government's directive to stimulate the growth of small to medium enterprises in the country. More small businesses have accessed the affordable credit facility to start and grow their businesses. Furthermore, it is pleasing to note that the 2017 Government appropriated funding of K35 million was received in full during the year enabling the funding of loans.

We thank the Prime Minister and his Government for the Budgetary Grant of K35 million for 2017 which assisted the achievement of the operational targets for the year. NDB and its subsidiaries delivered most of the Group's corporate objectives for 2017 including increased lending to our people.

2017 Key Performance Highlights:

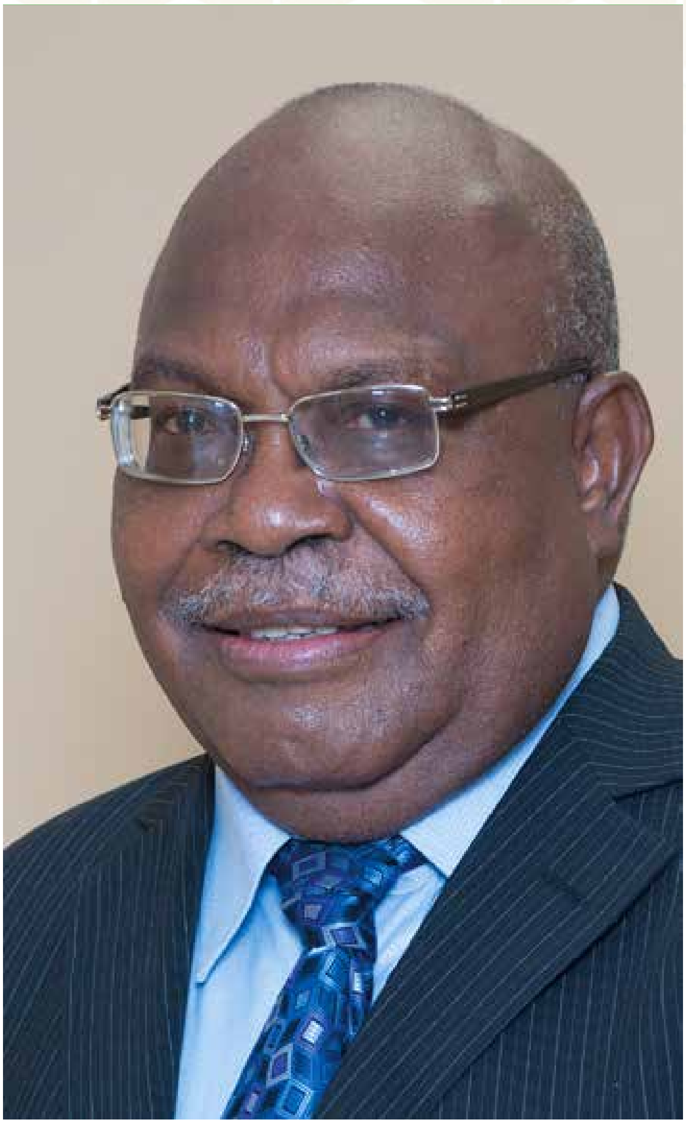
- Lent K75 million in 2017 at concessional rate of 6.5% p.a.
- Ensuring quality loan book by maintaining loan arrears over 90 days within 2%; a good performance compared to the commercial banks.
- Delivered net profit of K2.233 million for our subsidiary, People's Micro Bank (PMB) within four and half years since its inception in April 2013.
- Maintained our good loan book in 2017 at K222 million.
- Grew our net assets from K523 million restated in 2016 to K550 million; an increase of K27 million.
- Further increased our lending to women entrepreneurs under the NDB Women in Business Segment by K9.3 million.
- Increased savings accounts opened at People's Micro Bank by 17% to 89,000 in 2017 from 77, 000 in 2016, and K6.2 million lent as loans.
- Rolled out Stret Pasin Business Incubation Centers in Port Moresby and Goroka.
- Following the completion of the external audit for the NDB Group financial statements for year ended 31 December 2017, additional loan provision of K36 million relating to prior years were made in the accounts in accordance with the international accounting standards resulting in the tax loss of K11.486 million after NDB Group recorded an operating profit for the year of K5.744 million. This is a prudent action by the Management and Board to maintain a quality loan book. NDB Group has recorded net profits after tax for the previous eight consecutive years.
- NDB continued its strategy to improve its customer service for sustainable growth by pursuing the business process reengineering strategy to improve the Bank's operating systems creating value for our customers. We have set the foundation for operational and customer excellence with the limited resources entrusted to us by the Government. We resubmitted the proposal to the Government to commercialise the Bank in 2017 with the imperative to sustain the Bank's operations going forward. We will pursue the dialogue on the commercialisation strategy with the Government and other stake holders in 2018.

NDB opened the new Branch (NDB & PMB) in Mendi in May 2017. In 2018 NDB will roll out three new Micro Bank branches in Maprik, Kundiawa and Tari.

On behalf of my Board, the Managing Director and his management team, and staff and our subsidiaries, I want to place on record our sincere and heartfelt thank you to the O'Neil/Abel Government for the trust you have placed on the Board, Management and Staff of NDB to be entrusted with the stewardship of high level of funding in the 2017 Budget.

The following year will continue to present its challenges with a forecast of slow growth in the economy; NDB and its subsidiary will be focused and resilient in achieving its growth strategy for the year with the support of the Government and all its stakeholders to continue to deliver value to our people.

I wish to thank the Directors, the Management team and Staff for their tireless efforts in 2017. I also thank all NDB customers and suppliers who contributed towards the success in 2017 and look forward to your continued contributions in 2018.



WILLIAM LAMUR, OBE

Acting Chairman of the Board

MANAGING DIRECTOR'S
REPORT

The depressed economic conditions due to low commodity prices impacted on Government fiscal regime in 2017, adversely affecting the general business conditions in the country resulting in slow growth.

Despite this, the NDB Group continued to sustain the growth of the Small to Medium Enterprises (SMEs) sector in the country by lending K75 million. The Bank's operational strategy was to provide excellence in customer service throughout its branch network in the country.

Total lending to the SME sector has grown drastically by K603 million (K24m – K627m) over the last 9 years enabling a lot of ordinary Papua New Guineans to start up new or grow existing small businesses.

(Kmillion)	2017	2016	2015	2014	2013	2012	2011	2010	2009
Loans	75	73	78	98	95	78	56	50	24

2017 Performance

In 2017, NDB had a strong financial performance in terms of profit and revenue after receiving K35 million from the Government out of the K35 million national budget allocations or 100%.

NDB remained focused on funding the local SME sector despite the challenging business conditions for managing the credit risks. Customer demand for loan products increased by 20% and the challenge for the Bank was to efficiently deliver its products and services necessitated the introduction of modern delivery channels such as electronic banking services to provide excellence in customer service.

The Bank continued to deliver innovative products and improved business processes have assisted in the delivery of quality services to our customers which included the online payment system.

Positive results have been achieved through these interventions as the NDB Group lent over K75 million to grow more small businesses in 2017 resulting in the income generation opportunities and employment for more Papua New Guineans.

Profitability

NDB Group's performance in 2017 demonstrates resilience in cost containment and execution of growth strategy over the last nine years. The Group continues to operate in a sustainable manner by reporting an operating profit of K5.744 million and a net operating loss of K11.486 million after providing K36 million for loan impairments relating to prior years.

Balance Sheet

Net Assets have grown by 5% (K27 million) to K550 million mainly due to the capital injection by the National Government of K35 million.

Year of Excellence In Customer Service

In 2017 the NDB Group embraced the concept of excellence in customer service to deliver value and customer centric products and services to our customers. Focus on excellence in the manner in which we offered our services was necessary as the banking industry was offering competitive products to create value and experience for its customers.

2018 Key Challenges

We expect 2018 to be more challenging for the NDB Group as the economy is forecasted to grow by 2.7% as the global economic growth slowly picks up. The Government's fiscal and revenue stream is expected to be constrained or impacted by low commodity prices and the natural disasters such as the recent earthquake in Mendi.

Consequently managing credit risk exposure is going to be the key challenge for NDB Group as the customers in the SME sector will be affected under the slow business condition.

2018 Strategic Priorities

Continued costs containment strategy is going to be the focus for the NDB group under the current operating circumstances to achieve the strategies for the year.

NDB's Strategic priorities for the year will as follows:

- Commercialise NDB Group operations.
- Deliver on the Profit and Lending targets.
- Build better and accessible Banking Services for the rural people by providing new banking facilities at Maprik, Tari and Kundiawa.
- Roll out electronic banking products including Branchless Banking to facilitate inclusive banking & financial services.

I would like to thank the staff for their commitment and dedication in ensuring that NDB achieved these results in 2017 despite it being a very challenging year.

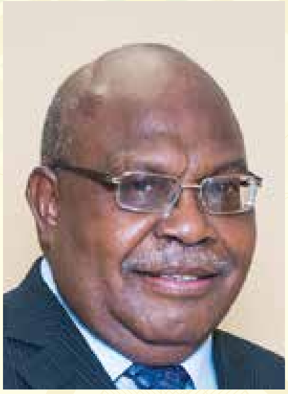
I would like to thank the O'Neil/Abel Government, the Board for their support and our customers and other stakeholders in your commitment in partnering NDB to facilitate the growth of the SME sector.

Finally, I thank and praise God for blessing the Bank exceeding our expectations in 2017 and am confident of His continued guidance in the effective execution of the our strategies in 2018.

MOSES LIU

Managing Director

BOARD OF DIRECTORS



MR. WILLIAM LAMUR

Acting Chairman, Non-Executive Director

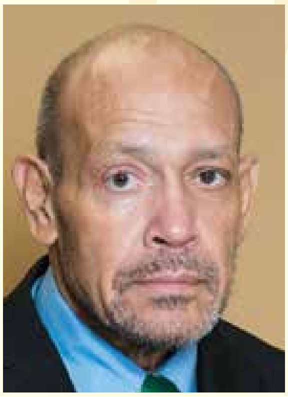
Mr. Lamur holds a Bachelor of Technology Degree in Business Studies from the Papua New Guinea University of Technology. He brings a wealth of experience from the Private Sector. Formerly, he was the General Manager and Director of Origin Energy (PNG) Limited as well as the Personnel & Corporate Affairs Manager at Shell (PNG) Limited and the first General Manager for Shell Pacific Islands Limited based in Honiara, Solomon Islands.
Mr. Lamur is currently the Managing Director & CEO of the East New Britain Development Corporation Group of Companies. He is associated with numerous organizations holding positions ranging from member, Director to Chairman. Organizations include PNG Business Council, NASFUND Board, Mainland Holdings, etc.

DR. KEN NGANGAN

PHD, CMA CPA

Deputy Chairman, Non-Executive Director

Dr. Ngangan was reappointed as director for a second term representing PNG Institute of Certified Practising Accountants. He is also the Chairman of the NDB Board Audit & Risk Committee. He brings to the Board broad expertise in the academic and practical field of Accounting and Finance. He has extensive contributions in the development of accounting professionals in PNG through teaching and convening Executive Programs for MBA CPA programs. He is an associate full member of the Chartered Institute of Management Accountants of Australia admitted in 2001. An Associate full member of CPA PNG admitted in 2003. A member of Indian Institute of Forensic Accountants admitted in 2004. He has had various academic contributions in the field of Accountancy and Finance as Tutor in Accounting and Finance at the University of Aberdeen.



MR. GAVIN ROSS

CPA-PNG

Non-Executive Director

Mr. Ross is a Certified Practicing Accountant since 1996. He brings to the Board vast experience and hands-on expertise in the various fields of accounting and audit through his work engagement and exposure in both commercial businesses and non-profit sector. He was the Treasurer of the Lae Chamber of Commerce (1991-2006) and was the President of CPA-PNG Lae Branch (1996-1998). He is the Treasurer of Lae Aviat Social Club. He is currently a partner of HLB Niugini Lae that provides audit and professional services to various large companies in PNG.

MR GRAHAM ARTHUR KING
Non-Executive Director

Mr. Graham A. King represents the Rural Industries Council on the Board as of the 09th June 2015. An Australian, Mr. King holds a Bachelor in Applied Science (Hort. Tech) University of Queensland – Gatton College, 1979). His specialized fields are; Plantation Management, Oil Palm Agronomy, Smallholder Agriculture and Food Crop Agronomy.
He is a career agriculturalist with 34 years experience, 30 years in Papua New Guinea working in the oil palm industry and rural development. Mr. King is currently the General Manager of Hargy Oil Palms Ltd and also serves as a director on the Board of Hargy Oil Palms. He is a member of the PNG Institute of Directors.

MR. TAUVASA TANUVASA
LL.B (HONS)(UPNG), LL.M (ANU), GCGPP (UQ), MPNGID

Non-Executive Director

Mr. Tanuvasa is a Lawyer by profession since 2005 & holds a Master of Laws (LLM), specialising in Government and Commercial Law from the Australian National University after receiving the Prime Minister's Pacific Australia Award.
He is an experienced Civil and Non-Criminal Court Room Lawyer. He is a Council Member of the PNG Law Society and the PNG Institute of Directors.

Mr. Tanuvasa is an Accredited Provisional Mediator and the Deputy Solicitor General at the Department of Justice & Attorney General.

MR. MOSES LIU
MBA, CPA AUSTRALIA & PNG

Managing Director

Appointed in April 2012 as Acting Managing Director and confirmed as Managing Director on 19th August 2014. He is professionally qualified and has a Masters in Business Administration (MBA) and is a Certified Practicing Accountant.

He posseses extensive experience in senior financial management roles in the private sector.

EXECUTIVE MANAGEMENT

MOSES LIU
Managing Director

Appointed in April 2012 as Acting Managing Director and confirmed as Managing Director on 19th August 2014. Professionally qualified with a Masters in Business Administration (MBA) and is a Certified Practicing Accountant.

He posseses extensive experience in senior financial management roles in the private sector.

TREVOR CAIN
Executive Manager Lending

Trevor Cain is from New Zealand and joined NDB in March 2012. He has over 27 years of banking experience working throughout Australia, New Zealand and the Pacific involved with lending operations.

Trevor has a passion for developing people into high performing roles. He brings energy and a high degree of commitment to his role and enjoys motivating people to succeed in all areas of life. Mr. Cain previously worked in PNG during 2010 and 2011 and wanted to return to this beautiful country he had come to love in such a short time.

MAX KAIRU
Executive Manager Accounting & Finance

From 1991 to 2004, Mr. Kairu worked with multinational companies serving in various accountancy roles before departing for Australia. From 2005 to 2013, he worked in Melbourne and Brisbane for local and multinational companies, non-listed and ASX listed public companies. The roles ranged from financial accounting, statutory reporting, management reporting, treasury, project management to taxation. He holds a Bachelor of Commerce Degree from the University of PNG and a Masters' Degree in Financial Management (part research) from the University of Queensland, Australia. He is a professional member of CPA PNG and CPA Australia. He was the 1998 Advanced Australian Corporations Law KPMG prize winner. He is a member of the PNG Institute of Directors.

SUZANNE UNUMBA
Company Secretary & Principal Legal Officer

Ms. Suzanne Unumba joined NDB in December 2010 as Senior Legal Officer. Prior to joining the Bank, she served 10 years with the Office of the Public Solicitor as a civil litigation lawyer.

Ms. Unumba was confirmed the Company Secretary for the NDB Group in June 2013 and is also the Manager of the Bank's Legal Department. She is a member of the PNG Law Society and a member of the PNG Institute of Directors.

FRANKIE HENRY
Manager Internal Audit

Mr. Henry has a Bachelor's Degree from the PNG University of Technology in Accounting and is a member of CPA PNG & IIA PNG Chapter. Mr. Henry also attained the Diploma in Economic Policy Analysis, NRI PNG.

He worked for 2 years with BSP prior to joining NDB as Senior Audit Officer in April, 2012. Mr Henry was appointed Acting Internal Audit Manager in January, 2013 and confirmed in June, 2013.

He has vast work experience with several organizations such as PNG IRC, Post PNG Ltd and Kina Group of Companies.

DES YANINEN
CEO - NDB Investments

Mr. Yaninen joined NDB in 2005. Prior to being appointed CEO of NDB Investments, he has held several managerial positions within the Bank. Mr. Yaninen is currently the Deputy Chairman of the SME Corporation Board. He has a Bachelor of Business with dual majors in Accounting & Management from the Pacific Adventist University in Port Moresby, a Diploma in Financial Services from the Kaplan Institute in Sydney, Australia and is completing a Master of Business Administration from the Herriot Watt University in Scotland, UK. He is a qualified Certified Practising Accountant of PNG and a member of the PNG Institute of Directors. With his extensive experience in all sectors of the bank and relevant qualifications, he brings a wealth of value and experience to the NDB Group.

ANTHONY DELA CRUZ
CEO - People's Micro Bank

Mr. Dela Cruz has over 20 years of experience at senior management level and extensive international experience in the various fields of Microenterprise Development, Microfinance and Grassroots Banking.

He joined NDB in 2006 as Executive Manager for the Microfinance Division. Mr. Dela Cruz holds a Bachelor's Degree in Business Administration majoring in Finance. He has led the growth of the People's Micro Bank since late 2012.

CORPORATE GOVERNANCE

OUR BUSINESS PHILOSOPHY

As a visionary and ambitious State Owned Enterprise, NDB believes that the key to long term success and sustainability is underpinned by having a solid reputation and a strong brand in the banking industry. It sets high standards of accountability, business ethics, transparency, and fairness in doing business. It strongly adheres to best practice of good governance to protect the interest of its shareholders, clients, employees, government and the general public.

At the forefront of the Board of Directors' efforts to think ahead in Corporate Governance are the various working Committees. Taking a proactive and long term view of the Bank's Corporate Governance, they ensure strict adherence to the corporate governance principles and compliance in performing their legal obligations and managing of financial reporting, operational and regulatory risks.

The NDB's Corporate Governance principles are set forth in charters that guide the Committees which then submit reports and feedback to the Board on matters relating to Governance practices in the operating units. Decisions and actions flowing from these discussions reinforce an active and day-to-day advocacy of financial responsibility, integrity and commitment to service in the Bank.

The Board of Directors are professionals and practitioners from various fields of expertise such as banking, legal, accounting, academic, government agencies, corporate institutions.

BOARD OF DIRECTORS

Acting Chairman: Mr William Lamur
Directors: Dr Ken Ngangan, Mr Gavin Ross, Mr. Graham King, Mr. Tauvasa Tanuvasa, Mr. Moses Liu
Secretary: Ms Suzanne Unumba

The Board of Directors is authorized to act on behalf of the National Development Bank Ltd and the shareholder on all matters affecting the management, administration and operations of the Bank, subject to legal limits and mandate imposed by the National Development Act 2007.

The Board now reports to the Minister for Public Enterprise & State Investments who represents the Bank in the National Executive Council (NEC).

MANAGEMENT COMMITTEE

Chairperson: Mr Moses Liu
Members: Mr Max Kairu, Mr Trevor Cain, Ms Suzanne Unumba, Mr Frankie Henry, Mr. Emmanuel Mabi, Miss Grace Andrew, Mr Yuanimba Yinanguie, Mr Allen Tom, Mr. Nathan Dingu, Mr. Anthony Dela Cruz, Mr. Desmond Yaninen

The Management Committee is authorized to act on behalf of the Board on all matters affecting the operations of the Bank, subject to legal limits and By-Laws of the Bank and such limitations and scope that may be imposed by the Board. It has the authority to approve within the set limits, technology-related projects or such other initiatives for enhancing the Bank's operating and service delivery capabilities; operating policies and/or manuals; and endorsed for approval of the Board the establishment of branches and/or extension offices. The Committee meets once a month or as often as necessary to resolve all matters referred to it. It is chaired by the Managing Director and members comprised of all Division and department heads of the Bank.

LENDING COMMITTEE

Chairperson: Mr Moses Liu
Members: Mr Trevor Cain, Mr Max Kairu, Mr Frankie Henry

The Lending Committee takes charge of the review and approval of the Bank's loans and investments as well as other credit related issues. It assesses the viability of credit and investment proposals (except those involving DOSRI or related party accounts), with specific attention to the appropriateness of the credit extension and risks involved. Proposals beyond its approving authority are endorsed to the Board. It also sees to regular credit reviews on a per account and portfolio basis, as well as assessments of credit policies and procedures, risk standard, and, when required, dissemination of credit manuals. The Lending Committee meets at least twice weekly or as often as necessary, and is composed of the Managing Director who acts as the Chair and members of senior management appointed/designated by the Board.

AUDIT AND RISK COMMITTEE

Chairperson: Dr Ken Ngangan
Members: Mr Moses Liu, Mr Max Kairu, Mr Trevor Cain, Ms Suzanne Unumba, Mr Frankie Henry

The Audit and Risk Committee acts on behalf of the Board and provides oversight of the Bank's financial reporting and control as well as internal and external audit functions. It reviews and assesses the Bank's annual audit plan, its system of internal controls and regular financial and audit reports. It further reviews strategic issues relating to plans and policies, financial and system controls, and methods of operation seeing to their adequacy and pinpointing possible improvements. The internal auditor and the independent external auditor report to the Committee. The Audit and Risk Committee meets at least quarterly, and is composed of a member of the Board who acts as the Chair, and members comprising the Managing Director, and senior management with accounting, auditing, lending and legal management expertise and experience.
The Audit and Risk Committee also is responsible for policy development and oversight over the Bank's credit, market and operating risk exposures. It oversees the system of limits of discretionary authority that the Board delegates to management, ensuring that these are observed and any breaches are immediately corrected. It establishes the framework for reporting risk to the Board including the assessment on the probability and potential impact of each identified risk exposure of the Bank. These reports include information on portfolio concentrations, value at risk measurements, and breaches on limits.

TENDER COMMITTEE

Chairman: Mr Max Kairu
Members: Mr Trevor Cain, Mr Yuanimba Yinanguie, Mr Frankie Henry, Ms Suzanne Unumba (Secretary)

The Tender Committee, acting within Board set limits is authorized to call for Tenders, to accept and close tender, review, select and recommend approval of Tender and to recommend the acquisition, investment, divestment and disposal of assets. It evaluates tender to determine legal and technical compliance of acquisition of assets and services, retaining or disposing of the tendered assets. Ensuring all tenders conform to the Bank's requirements. The Tender Committee meets as and when required and is Chaired by the Executive Manager Accounting & Finance, with members comprising of the Executive Manager Lending, the Internal Auditor, the Principal Legal Officer and the Manager for Property & Safety.

MIS STEERING COMMITTEE

Chairman: Mr Moses Liu
Members: Mr Emmanuel Mabi, Mr Trevor Cain, Mr Anthony Dela Cruz, Mr Winn Obaha, Mr Nathan Dingu, Mr Max Kairu.

The MIS Steering Committee acts on behalf of the Board in planning, managing and controlling the Bank's IT systems, processes and infrastructure. It is authorized to design, develop/or acquire after seeking approval by the Board the implementation of appropriate corporate IT systems, controls and infrastructure that will support and deliver the objectives of the National Development Bank. It monitors progress and status of prioritised or non prioritised IT projects, evaluates and makes recommendations regarding IT policies and strategies that meet the long-term needs of the Bank. The MIS steering committee meets at least once a month or as necessary depending on the issues at hand and the urgency of IT related matters. The Committee is comprised of the Managing Director, and senior managers from Accounting and Finance, Lending Division, the Internal Audit and MIS.

ACCOUNTING & FINANCE

MAX KAIRU
Executive Manager
Accounting & Finance

DEPARTMENTAL REPORTS

OBJECTIVES:

The objectives are several:

1. To release management reports that were accurate in most efficient and timely manner for effective decision making;
2. Manage price, foreign exchange, control and other risks confronted by the entity;
3. Assist in bringing in recoveries;
4. Ensure annual external group audit is managed well and group statutory accounts are delivered within the set deadline;
5. Deliver Annual Operating Plan and National Budget submission on set deadlines,
6. Modernise our payment processes and systems to best practice;
7. Ensure Trustee Shareholder and other stakeholders' expectations and requirements are met;
8. Provide oversight function on the financial operations of the two subsidiaries and RDB Savings and Loans Society;
9. Ensure all entities within the Group are compliant with relevant regulations and international financial reporting standards; and
10. Provide effective and efficient services to both internal and external customers.

SUMMARY

2017 was yet another very challenging year for the Accounting & Finance Division. The business faced National Government funding challenges where the team worked diligently to deliver three Project Steering committee meetings and three National Government's monitoring & evaluation program which triggered the full release of the National Grant allocation of K35 million. NDB Staff Home Ownership was formally registered with IRC where rental allowance will be tax free for the repayment of staff housing loans. GST Group Consolidation was registered with the same Institution and was implemented immediately.

The 2018 National Budget Group Submission was timely delivered in August 2017. The Accounting Manual was updated in July 2017 for review as planned. Doubtful debts accounts with Security values above K250, 000 were reviewed and income realised on uncovered value of securities held, which brought in K5.4 million in recoveries assisting the bottom line.

Efficient delivery of Payroll in 2017 and the 2017 Statement of Earning was delivered on 28th February 2018. Loan savings module and remaining BSP bank accounts were automated for the benefit of both internal and external customers and the suppliers. Closer watch on price risk and a proactive approach on cost control became areas of focus to achieve adjusted profit target of K3.49 million given the external liquidity dilemma. External audit finalisation for NDB and delivery of signed accounts on 31 January 2018 was delayed for four months due to loan debtor balances impairment work. It was finalised at the end of May 2018 with shareholder value write down of K36 million and issuing of unqualified audit opinion for the three entities within the NDB Group.

NDB Investments' subsidiaries namely Kafuku Limited, Bounty Limited, L&M Limited and Nadi Limited financial reports were re-constructed due to technical error which required massive effort from the team. A massive effort also went in to coordination of RDB Savings and Loans Society's financial reports for four years preparation, auditing and sign off of accounts, Board and several Committees set up and Annual General Meeting. The statutory accounts for each of the four years were issued with unqualified audit opinions which were by far the best consecutively compared to prior periods where qualified opinions were issued for the society.

Indeed it was tough and challenging but team focused in on achieving every project undertaken. In 2018 there is paradigm shift for smarter and effective approaches to maximising efficiency and reducing various business risks. In this year the team will also assist in realising some recoveries on the K36 million provided as additional doubtful debts and improving the credit management aspect of the business.

WHAT WE DO

- Produce monthly management accounts for the Company and profitability statements for each profit centre;
- Produce monthly consolidated financial statements for National Development (NDB) Group;
- Manage our liquidity through 3 months cash flow forecast and daily cash position;
- Monitor 3 months cash flow forecasts for the two subsidiaries People's Micro Bank and NDB Investments;
- Prepare Annual Operating Business Plan for the Group;
- Prepare Budget for the Group for the National Government Budget submission;
- Run Project Steering Committee meetings for the Group and National Government's Monitoring and Evaluation program on NDB Group programs;
- Managing the annual group external audit and organising the insurance tender process and securing the successful bidder;
- Provide support services to National Development Bank Investments, People's Microbank and all Divisions within NDB;
- Oversight of Budget for National Development Bank Investments
- Automating our systems and processes;
- Ensure monthly, quarterly and yearly statutory compliance requirements for the Group are met;
- Provide technical advice to NDB Group on financial reporting issues;
- Managing external stakeholders' requirements;
- Assisting RDB Savings & Loans Society on monthly, quarterly and yearly compliance reporting requirements and check their monthly operating results;
- Check NDB Investments monthly operating results for clearance for release to management;
- Ensure timely delivery of acquittal reports to the Department of Planning, Treasury & Finance;
- Ensure the Government's monitoring and evaluation program is delivered;
- Assist the Board on matters of operational and structural significance;
- Draft adjusted profit forecast and ensure its achievement.

Accounting & Finance Report Continued Next Page

Accounting & Finance Report Continued

WHAT WE ACHIEVED

- Delivered audited individual and consolidated annual financial reports for period 2017 for NDB Group with favourable audit opinions for all entities;
- Met all statutory compliance requirements;
- Delivered National Budget submission for the Group to Department of National Planning and Monitoring on time;
- Automated the remaining BSP bank accounts and Abacus Savings module;
- Reconstructed 2016 financial reports for NDBI Subsidiaries Nadi, L&M, Bounty, and Kafuku;
- Fully provided for Doubtful Debt accounts with security valuation over K250, 000 realised reversals which assisted the bottom line with K 5.4 million.
- Efficient payroll delivery and Statement of Earnings delivered by 28 February 2018
- RDB Savings & Loans accounts 2013, 2014, 2015 and 2016 all audited, Board and all Committees set up and Annual General Meeting of members held for the first time after 7 years of non-conduct of it;
- Introduced Salary Packaging to the staff within NDB Group; and
- Delivered 3/3 Project Steering Committee meeting and taken 3/3 required monitoring & evaluation trips, triggering the full release of K35 million to NDB Group

GOALS AND CHALLENGES FOR 2018

- Staff maximising efficiency and delivery to meet or exceed expectation;
- Staff skills gap development, delegation and empowerment to unleash potential;
- Strictly meeting internal and external deadlines;
- Monitor price, financial and operational risks closely;
- Improvement on internal controls for better service delivery to both internal and external customers;
- Ensure National Budget submission and NDB budget are delivered before due dates;
- Ensure audit tender process is managed well and Group audited accounts are delivered by 31 January 2019;
- Ensure Insurance Tender progress well and submission done in timely manner;
- Ensure our Group cash flow forecasts are closely monitored on daily basis;
- Ensure some of the K36 million are recovered and unaudited debtor balances are thoroughly reviewed and books adjusted to reflect recoverability;
- Secure new accounting software for 2019 implementation;
- Ensure Year 2017 audited account for RDB Savings & Loans Society is delivered in 2018;
- Secure the full release of National Government annual grant of K120 million for NDB Group for 2018 through the Project Steering Committee & Monitoring & Evaluation meeting processes;
- Ensure RDB Savings & Loan Society is fully compliant with Bank of PNG reporting requirements;
- Managing Trustee Shareholder and other stakeholder expectations;
- Assist the NDB Group commercialisation process; and
- Provide profit forecast on June 2018 YTD balance to management and NDB Board.

LENDING

DEPARTMENTAL REPORTS

2017 continued to face challenges with the economy contracting further and the attention diverted towards the National elections. This impacted on the SME sector already faced with difficulties on cash flow and therefore required a conservative approach to ensure loans funded were for viable businesses.

Despite these factors, new loans drawn for 2017 totalled K75 million across all regions slightly up from K73 million in 2016. Women in Business continued to grow with K9.3 million (K6.1m in 2016) drawn bringing the total over the past 7 years to over K86 million directly impacting women in PNG.

Arrears on current lending have been maintained within normal financial standards at 2.85% over 30 days due to maintaining a tight control on arrears. Many customers continue to wait on Government payments and have difficulty in making loan payments. We will continue to support customers facing problems with cash flow where possible.

In light of the depressed economy and tight cash flow all branches looked to reduce costs to achieve profitable branches. In 2018 a reduction in the some branches may be necessary to reduce operating expenses due to the high cost overheads. We will continue to reduce our carbon footprint in 2018 and reduce paper through electronic scanning and approvals.

2018 will see a renewed focus back to our roots as an agriculture bank with the increased national interest in farming and rehabilitation. The challenge in banking each proposal will be based on land tenure and viability.

TREVOR CAIN
Executive Manager
Lending

LEGAL

SUZANNE UNUMBA

Principal Legal Officer & Company Secretary

DEPARTMENTAL REPORTS

We strive to provide timely and quality legal service to the management and business units of NDB. This service is extended to the Company's two wholly owned subsidiaries, NDB Investments Ltd and People's Micro Bank Ltd. Legal service is required in the areas of banking & finance, commercial, company, conveyance, property related leases and building contracts, insurance, labour, general advice and litigation. As of mid 2017, the Bank resorted to having only one external law firm as a cost cutting measure. Below ten of the Company's litigation matters were handled by the firm while the majority of the Bank's litigation matters are handled by our two litigation lawyers. External independent legal advice is only sought when deemed necessary.

The Department through the Company Secretary's Office is also responsible for the administrative functions of the Boards of the NDB Group and other company requirements.

Our major challenge on annual basis was the enforcement aspect and realization of judgment debts of doubtful accounts subject of litigation. In 2017, we have seen an increase in the number of bad accounts referred by our Asset Management Unit to pursue debt recovery through the courts. Seven of the Bank's cases were completed including one payout to the successful litigant and two other out of court settlements. That resulted in our over the budget legal expenses compared to the 2016 savings.

We offset the over the budget legal expenses in 2017 by our contribution to the Company's bottom-line.

2018 CHALLENGES

- Deliver agreed percentage of Bad Debts.
- Contain legal expenses within Budget.
- Case management-complete 10% of pending litigation matters
- Deliver outstanding projects

INTERNAL AUDIT

DEPARTMENTAL REPORTS

OVERVIEW

Internal Audit Department was established as an independent appraisal function designed to add value and improve the organization's operations by bringing a systematic disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes. The IA Department adopts a risk based approach where the focus is on business risks and value drivers as well as current and upcoming issues affecting the business.

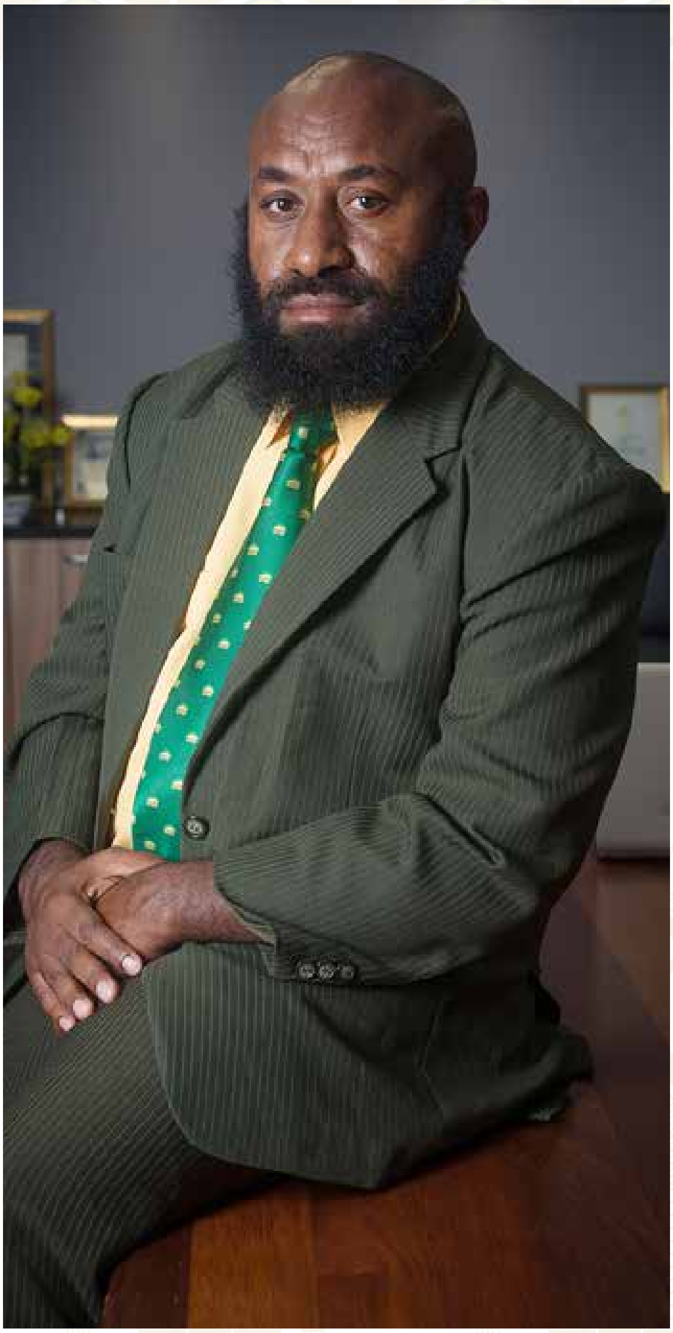
Our primary objective and responsibility is to deliver an independent audit that fulfils our obligations to the NDB Board and Management which includes reporting and communicating areas of risk and ensuring risks mitigation strategies are in place and functioning effectively.

2017 IN REVIEW

- Branch Audit focused on low performing Branches
- Head Office Risk based Audit completed as planned.
- ACL Data Analytics system shelved due to cost considerations.
- Manage associated Departmental cost within budget.
- Undertake added responsibilities within NDB group/subsidiaries (PMBL & NDBI)

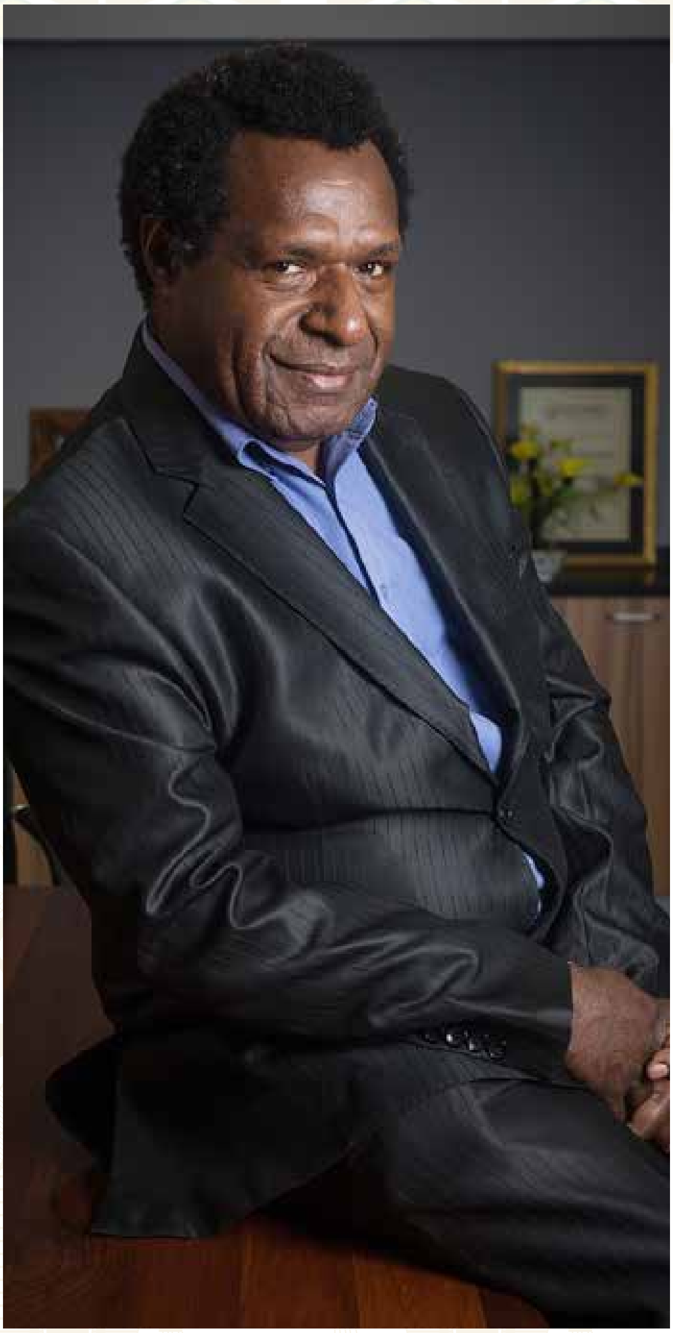
CHALLENGES AHEAD

- Managing costs
- Lack of appropriate policies and procedures within Business Units
- Audit issues not given the right attention by process owners.
- Emphasis multi tasking and skilling of staff to boost self esteem and performance outcome.
- Recruit and retain skilled and experienced staff



FRANKIE HENRY
Internal Audit Manager

PROPERTY & SAFETY



YUANIMBA YINANGUIE

Property & Safety Manager

DEPARTMENTAL REPORTS

PROPERTY & INFRASTRUCTURE DEVELOPMENT

The National Development Bank's existing branch network's upgrade and the People's Microbank (PMBL) branch expansion projects are ongoing. A new building to house the NDB Maprik Branch and new PMBL Maprik Branch is scheduled to be completed in January 2019. The second phase of a full modernization upgrade of the Head Office Building was completed in 2017 and work on the third phase which is the upgrade of the First Floor housing, the several sections including Accounting & Finance Department, Management Information Systems and Property, Safety & Security is currently in progress. Tenders for new buildings in Tari and Kundiawa have been awarded and work commenced as soon as possible. New buildings are planned for Lae and Wabag which designs will be commenced as soon as land titles for the respective sites are confirmed.

Remedial works for earthquake damage to the new PMBL Branch in Mendi and new offices for NDB Mendi Branch are in the planning stages with preliminary investigations already undertaken. Planning will continue into the later part of 2018.

A number of residential properties were upgraded in 2017 more particularly in NCD, Lae, Kimbe and Bialla. Refurbishment and upgrade work on the existing properties in need of this will continue in 2018 subject to funding.

Safety and Security measures in all locations are continuously being reviewed as circumstances dictate.

Projects to ensure business continuity are ongoing. Pilot projects for autonomous sites reliant on green-power as the primary power source are planned with site visits to be undertaken in early course.

HUMAN RESOURCE

DEPARTMENTAL REPORTS

BRIEF OVERALL REPORT

Human Resource Department provides services to other business units. Increase in business growth has seen an increase in number of employees.
Each year brings new challenges to us as we work towards meeting department goals hence contributing to the overall organizational goals.

2017 ACHIEVEMENTS

- Recruited & filled vacant/new positions
- Managed staff transfers/appointments
- Recruited 1 graduate trainee
- 6 graduate trainees completed the GTDP and now are permanent employees of the Bank
- Implemented the 2017 Training Plan
- Facilitated Pastoral Care/Employee Welfare Programs
- Facilitated Fundraising for CSR. Purchased and donated 9,000 litres Tuffa tank to Vadavada Community

GOALS FOR 2018

- Manage employees issues, concerns
- Manage staff appointments/transfers
- Implement the 2018 Training Plan
- Closely monitor training to ascertain value of every training that employees attend
- Review HR Policies and Procedures
- Facilitate Pastoral Care/Employee Welfare Programs
- Develop Succession Plan
- BPR
  1. Complete the Phase 2 CHRIS 21 of BPR Project
  2. Integrate BioPLUS and CHRIS Payroll

GRACE ANDREW
Human Resource Manager

EBANKING

NATHAN DINGU

eBanking
Manager

DEPARTMENTAL REPORTS

Electronic Banking for the National Development Group is continuing to grow from strength to strength. From our humble beginnings embarking on simple SMS Banking Services for our customers in 2013, today we boast a range of electronic banking products from SMS, Mobile Banking, Eftpos and ATM's and even Card Services. We continue to strive to provide services that shall make it convenient for our customers to make banking easy, safe and secure. We develop with a focus on our customers. The uptake or usage of our ebanking services by our customers is testament of our focus on customers to make banking as seamless as possible.

For SMS Banking it is mandatory for all loan customers to be registered with this service by which they are notified conveniently of deposits, withdrawals, due and overdue payments etc. Today we have more than 45,000 SMS Banking Customers.

Our product Mobile Banking Product also is seeing a consistent increase in numbers with over 15,000 registered users since its launching in 2014. Customers can securely do added banking functionalities at the comfort of their homes and offices without having to come to the bank.

The Bank is continuing to expand our ATM and Eftpos outreach. All People's Micro Bank have Eftpos services while we have ATM's in Port Moresby, Mt. Hagen, Mendi, Kimbe and currently doing installations in Wewak and Madang. This is to service our more than 23,000 Card holders who actually use our ATM and Eftpos Services.

A highlight of 2017 was the launching of the interchange between NDB and BSP. Today we are seeing more of our customers utilizing this network to access their funds.

With that we are looking forward to 2018 as we shall see launching of Branchless Banking and also embarking on new innovative projects as the NDB Group prepares itself for commercialization. New projects shall include internet banking, mobile apps, VISA/Mastercard Services and other innovative products.

MARKETING

DEPARTMENTAL REPORTS

BRIEF OVERALL REPORT

- **The Marketing Department key function is to formulate and implement annual Marketing Plans which are in line with overall Business objectives and strategies.**
- **Develop all marketing activities to be undertaken by the Bank, to effectively manage and carry out research, analyze market trends and implement the marketing plan.**
- **Develop and implement a competitive public relation's strategy of the Bank through an effective Corporate Social Responsibility program.**

Our initiatives were in line with the overall theme of customer service. 2017 was a challenging year for the bank, the marketing spends were prioritized in key areas to maximize the value in return for the NDB Group. We maintained focus on building brand awareness in key communication channels such as digital marketing, direct marketing initiatives via events and workshops and sponsorship platforms. We engaged customers through our website and social media by enabling them to communicate freely with us and providing adequate feedback in a timely manner.

OUR KEY DELIVERABLES FOR 2017:

- 50th Anniversary Campaign
- Social Media Campaign ***"Empowering local businesses since 1967"***
- Introduction and Implementation of Customer Enquiry Log (CEL)
- Redesigning of the NDB website
- NDB and People's Microbank Kimbe Branch Opening
- Continued strategic sponsorships for sports and community

ALLEN TOM
Marketing Manager

NDB INVESTMENTS

DES YANINEN

CEO
NDB Investment

SUBSIDIARIES REPORT

2017: YEAR IN REVIEW

NDBI focuses on the provision of business incubation products and services to Micro, Small and Medium Enterprises. Our activities include;

- ***Entrepreneur Start Up Loans:*** loan products which are flexible requirements to allow starting up and growing access SMEs to qualify for funding that wouldn't normally be accepted under normal terms.
- ***Young Enterprise Scheme:*** a youth in business program which provides training, funding and mentoring for our young entrepreneurs.
- ***Business Incubation Centres:*** retail business incubation centres consisting of small shops where SMEs can operate from and hone their skills and grow before moving on into bigger shops elsewhere.
- ***Mealz on Wheelz:*** mobile food vending shops which are caravans that can be towed behind a car and sold.
- ***Stret Pasin Store Scheme:*** this program has been converted to a normal retail/trade store loan under our Entrepreneur Start Up loans and standard requirements apply.

On the financial front, although NDBI made an operating profit in 2017, when consolidated with losses incurred by earlier Stret Pasin stores that were set up under the reintroduced program from 2014 to 2016 a loss of K3,317,536 was recorded for the year. With these businesses now fully expensed, NDBI is no longer carrying excess baggage and is poised to record healthy profits in 2018.

Operationally, in 2017 we funded exactly 40 business incubation loans totalling K3,002,792.06. Included within this is our first batch of youth entrepreneurs under the Young Enterprise Scheme(YES) who were fully funded, receiving K303,475.67. Total youth loans funded to date are 18 valued at K400,5900.63. Also in 2017, the first 5 young entrepreneurs paid off their first loans. We expect to launch batch 2 of YES in 2018. As of 31st December 2017, NDBI has funded 57 business incubation loans valued at K7,486,172.

Our Business Incubation Centres a total of 60 SMEs, with the largest being in Port Moresby where 56 SMEs operate, and Goroka with 4 small businesses. NDBI is particularly proud that we opened PNG's first purpose built retail incubation centre at Kunai Street, Hohola in 2017 – a first of it's kind for the country.

We currently have one Stret Pasin store under construction in Lae and expect it to be opened in May 2018.

Looking to 2018, NDBI will focus on quality and not quantity and not introduce any new products to the market. We will strive to ensure our business incubation programs enable our SMEs to successfully grow and contribute to the achievement of the SME Policy's targets of creating employment and contributing to PNG's GDP.

The Kunai Business Incubation Centre in Port Moresby (above) and some of the local SME businesses operating daily out the set up.

Mealz on Wheelz Food Vending Carts getting fitted out for distribution.

Stret Pasin Stoa at Waigani.

PEOPLE'S MICRO BANK

ANTHONY DELA CRUZ

CEO
People's Micro Bank

SUBSIDIARIES REPORT

FIRST 5 YEARS OF OPERATIONS 2013-2017

HIGHLIGHTS OF ACHIEVEMENTS

This section summarizes PMBL's milestone achievements in the following areas:

2013

- Received a Micro Banking License from BPNG
- Opened 1st branch in Boroko, Port Moresby
- Opened 2nd branch in Madang Town and
- 3rd branch in Wewak, East Sepik Province
- Mobilized over K19 million in deposits from over 13,000 bank customers
- Grew the loan book to K2.4 million to over 300 small borrowers
- Grew the bank's assets to over K31 million
- Received capital injection of K10.4 million
- Net Capital stood at K7 million plus at year end
- Capital ratios stood above regulation limits
- Viability stood at 15%, ROE stood at -47%.
- Finished the year with a net loss of K3 million
- Fully compliant to Prudential regulations

2014

- Opened 4th branch in Popondetta, Central Province
- Mobilized over K43 million in depos its from over 38,000 bank customers
- Grew loan book to over K15 million to over 1,700 small borrowers
- Grew the bank's assets to over K57 million
- Received capital injection of K8 million
- Net Capital stood at K13 million plus at year end
- Capital ratios stood above regulation limits
- Viability stood at 61%, ROE stood at -21%.
- Finished the year with a net loss of negative K2 million
- Fully compliant to Prudential regulations

2015

- Opened 5th branch in Mt Hagen, Highlands
- Introduced ebanking products in Boroko; ATM, eftpos, mobile banking
- Mobilized over K54 million in deposits from over 60,000 bank customers
- Grew loan book to over K21 million to over 2,500 small borrowers
- Grew the bank's assets to over K72 million
- Received capital injection of K2.3 million
- Net Capital stood at K16 million plus at year end
- Capital ratios stood above regulation limits
- Viability stood at 121%, ROE stood at 10%.
- Finished the year with a Net Profit of K1.4 million

2016

- Opened 6th branch in Kimbe, West New Britain
- Rolled out ATM machines in Mt Hagen and Kimbe branches
- Mobilized over K61 million in deposits from over 76,000 bank customers
- Grew loan book to over K32 million to over 2,300 small borrowers
- Grew the bank's assets to over K85 million
- Received capital injection of K5.1 million
- Net Capital stood at K21 million plus at year end
- Capital ratios stood above regulation limits
- Viability stood at 102%, ROE stood at 1.20%.
- Finished the year with a Net Profit of K0.222 million
- Fully compliant to Prudential regulations

2017

- Opened 7th branch in Mendi, Southern Highlands Province
- Rolled out ATM machines in Mendi branch
- Mobilized over K63 million in deposits from 90,000 bank customers
- Grew loan book to over K38 million to over 2,400 small borrowers
- Grew the bank's assets to over K100 million
- Received capital injection of K9.9 million
- Net Capital stood at over K33 million in 2017
- Capital ratios stood above regulation limits
- OSS is registered at 123%, ROE stood at 8%.
- Finished the year with a Net Profit of K2.3 million
- Fully compliant to Prudential regulations

CONSOLIDATED FINANCIAL REPORT

CONTENTS

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 2017. 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 Company during or since the end of the financial year are:

Directors

Name	Executive / Non-Executive Director
Mr. William Lamur	Non-executive Director (Acting Chairman)
Dr. Ken Ngangan	Non-executive Director (Deputy Chairman)
Mr. Gavin Ross	Non-executive Director (deceased April 2018)
Mr. Graham A King	Non-executive Director
Mr. Tauvasa Tanuvasa	Non-executive Director – Appointed 15.02.2017
Mr. Moses Liu	Managing Director

Company Secretary

Suzanne Unumba is the Company Secretary throughout the financial year.

Review of Operations

The Group reported a consolidated loss after income tax for the year of (K11,486,369) (2016 Restated: loss of (K446,422)). The Company reported a loss after income tax for the year of (K10,401,831) (2016 Restated: profit of K2,264,356).

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

There were no changes in accounting policies during the financial year.

Entries in the Interest Register

The following are transactions recorded in the interest register:

Name	Nature of interest	Organization
William Lamur	Acting Chairman	National Development Bank Ltd
	Managing Director & CEO	East New Britain Development 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	National Development Bank Limited
	Chairman	Motor Vehicles Insurance Ltd
	Chairman	National Teachers Insurance Limited
Gavin Ross	Director	National Development Bank Ltd
	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
Moses Liu	Managing Director	National Development Bank Ltd
	Chairman/Director	NDB Investments Limited
	Director/Shareholder	Kare 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:

	2017	2016
K100,000 – K170,000	8	8
K170,001 – K180,000	-	-
K180,001 – K210,000	1	1
K210,001 – K220,000	-	-
K220,001 – K480,000	3	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 K35,074 (2016: K89,000).

Independent Auditor's Report

The consolidated financial statements have been audited by PricewaterhouseCoopers and should be read in conjunction with the independent auditor's report on pages 4 to 6. At year end, an amount of K202,500 (GST exclusive) is payable to the audit firm for audit services, and no amount is 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 did not declare dividends in 2017 (2016: K1,000,000).

Company Information

Solicitors

In 2017, the Group engaged Ashurst Limited as its solicitor.

Registered Office

National Development Bank Building
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

William Lamur	**Tauvasa Tanuvasa**
Acting Chairman	Director
Port Moresby, 30 May 2018	Port Moresby, 30 May 2018

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Independent auditor's report

To the shareholders of National Development Bank Limited

Report on the audit of the financial statements of the Company and the Group

Our opinion

We have audited the financial statements of National Development Bank Limited (the Company), which comprise the statements of financial position as at 31 December 2017, and the statements of profit and loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2017 or from time to time during the financial year.

In our opinion, the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended.

Basis for opinion

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report which includes other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers
PwC Haus, Level 6, Harbour City, Konedobu. PO Box 484, PORT MORESBY, PAPUA NEW GUINEA
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, www.pwc.com.pg

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Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Company, for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practices in Papua New Guinea and the Companies Act 1997, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concerns and using the going concern basis of accounting unless the directors either intend to liquidate 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 objectives are 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditor's 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 auditor's report. However, future events or conditions may cause 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2017:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Who we report to

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers
PricewaterhouseCoopers

JC Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
30 May 2018

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 accounting standards 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

William Lamur
Acting Chairman
Port Moresby, 30 May 2018

Tauvasa Tanuvasa
Director
Port Moresby, 30 May 2018

STATEMENTS OF PROFIT AND LOSS OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Notes	Consolidated 2017 K	Consolidated 2016 Restated K	Parent Entity 2017 K	Parent Entity 2016 Restated K
Interest income	2	24,910,307	22,567,750	14,421,738	14,700,542
Fees and other income	3	16,892,330	17,076,778	13,047,184	15,004,962
Change in fair value of investment properties	10	1,732,086	1,370,003	883,846	1,370,003
Total operating income		43,534,723	41,014,531	28,352,768	31,075,507
Operating expenses	4	(37,790,702)	(43,069,377)	(26,507,863)	(31,979,231)
Profit / (Loss) before recovery and allowance for losses		5,744,021	(2,054,846)	1,844,905	(903,724)
Loan impairment (expense) / recovery	7 & 22	(16,415,013)	5,552,045	(11,486,709)	7,111,701
(Loss) / Profit before income tax		(10,670,992)	3,497,199	(9,641,804)	6,207,977
Income tax expense	5a	(815,377)	(3,943,621)	(760,027)	(3,943,621)
(Loss) / Profit for the year		**(11,486,369)**	**(446,422)**	**(10,401,831)**	**2,264,356**
Other comprehensive income					
Total other comprehensive income		-	-	-	-
Total comprehensive (loss) / income for the year		**(11,486,369)**	**(446,422)**	**(10,401,831)**	**2,264,356**

Notes to the financial statements are included on pages 42 to 65.

	Notes	Consolidated 2017 K	Consolidated 2016 Restated K	Consolidated 2015 Restated K	Parent Entity 2017 K	Parent Entity 2016 Restated K	Parent Entity 2015 Restated K
Assets							
Cash and cash equivalents	18(a)	62,396,745	49,481,356	84,215,669	62,457,960	52,960,776	77,901,253
Investment in short term securities	22	47,014,551	43,693,877	31,836,242	-	-	-
Inventory		713,690	998,362	177,018	-	-	-
Loans and advances	7	305,083,616	302,760,319	276,786,182	262,309,129	264,275,022	249,983,599
Trade and other receivables	6	8,396,455	5,778,905	6,023,045	10,168,872	5,760,657	3,665,215
Income tax receivable		-	3,657	8,159	3,657	3,657	3,657
Investment properties	10	35,560,192	34,070,239	32,847,218	21,330,631	20,724,038	19,501,017
Property, and equipment	9	156,064,737	149,702,083	137,614,774	150,485,293	147,560,401	135,803,161
Investment in subsidiaries	8	-	-	-	59,181,057	46,834,312	37,157,399
Net deferred tax assets	5(b)	9,370,505	10,130,532	14,074,154	9,370,505	10,130,532	14,074,153
Total assets		**624,600,491**	**596,619,330**	**583,582,461**	**575,307,104**	**548,249,395**	**538,089,454**
Liabilities							
Trade and other payables	11	3,310,800	4,823,627	5,338,032	1,897,831	4,025,391	4,526,865
Customer deposits	12	65,725,172	65,026,455	61,307,846	15,920,676	16,473,966	18,347,259
Employee provisions	13	2,323,698	1,799,713	1,450,537	1,790,235	1,444,932	1,223,155
Provision for income tax		55,350	-	-	-	-	-
Deferred fees		2,691,047	1,629,155	2,335,077	1,530,124	576,911	1,623,336
Net deferred tax liabilities	5(b)	-	201,461	660,628	-	-	-
Total liabilities		**74,106,067**	**73,480,411**	**71,092,120**	**21,138,866**	**22,521,200**	**25,720,615**
Net assets		**550,494,424**	**523,138,919**	**512,490,341**	**554,168,238**	**525,728,195**	**512,368,839**
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	541,843,597	503,001,723	490,906,723	539,917,315	501,075,441	488,980,441
Accumulated losses		(111,344,548)	(99,858,179)	(98,411,757)	(105,744,452)	(95,342,621)	(96,606,977)
Total equity		**550,494,424**	**523,138,919**	**512,490,341**	**554,168,238**	**525,728,195**	**512,368,839**

Notes to the financial statements are included on pages 42 to 65.

PARENT ENTITY	Share capital K	Government grants K	Asset revaluation reserve K	Accumulated losses (Restated) K	Total K
Balance at 1 January 2016 - Restated	**119,995,375**	**422,135,647**	**66,844,794**	**(96,606,977)**	**512,368,839**
Government grants	-	12,095,000	-	-	12,095,000
Dividends paid	-	-	-	(1,000,000)	(1,000,000)
Profit for the year - Restated	-	-	-	2,264,356	2,264,356
Balance at 31 December 2016 - Restated	**119,995,375**	**434,230,647**	**66,844,794**	**(95,342,621)**	**525,728,195**
Grants	-	38,841,874	-	-	38,841,874
Loss for the year	-	-	-	(10,401,831)	(10,401,831)
Balance at 31 December 2017	**119,995,375**	**473,072,521**	**66,844,794**	**(105,744,452)**	**554,168,238**

CONSOLIDATED	Share capital K	Government grants K	Asset revaluation reserve K	Accumulated losses (Restated) K	Total K
Balance at 1 January 2016	**119,995,375**	**422,135,652**	**68,771,071**	**(98,411,757)**	**512,490,341**
Government grants	-	12,095,000	-	-	12,095,000
Dividends paid	-	-	-	(1,000,000)	(1,000,000)
Loss for the year - Restated	-	-	-	(446,422)	(446,422)
Balance at 31 December 2016	**119,995,375**	**434,230,652**	**68,771,071**	**(99,858,179)**	**523,138,919**
Grants received during the year	-	38,841,874	-	-	38,841,874
Loss for the year	-	-	-	(11,486,369)	(11,486,369)
Balance at 31 December 2017	**119,995,375**	**473,072,526**	**68,771,071**	**(111,344,548)**	**550,494,424**

Notes to the financial statements are included on pages 42 to 65.

	Notes	Consolidated		Parent Entity	
		2017 K	2016 K	2017 K	2016 K
Cash flows from operating activities					
Interest received		21,306,672	37,539,735	13,969,393	32,089,571
Interest on deposits		3,882,466	3,239,655	277,711	384,839
Commissions and other income received		13,122,489	13,533,498	9,166,731	11,046,130
Rent received		4,775,856	4,567,445	3,880,452	3,958,832
Security deposits received		2,103,784	8,928,991	553,290	1,873,293
Payments to suppliers and employees		(59,317,976)	(68,530,892)	(49,049,293)	(60,456,386)
Loan repayments		96,178,651	75,974,999	71,475,926	60,581,605
Loans funded (net)		(100,064,526)	(93,432,155)	(67,892,850)	(65,016,811)
Net cash used in operating activities	**18(b)**	**(18,012,587)**	**(18,178,724)**	**(17,618,640)**	**(15,538,927)**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		255,589	144,336	255,589	144,336
Purchase of property, plant and equipment	18(c)	(16,154,681)	(22,000,277)	(11,981,639)	(20,640,885)
Net Decrease / (increase) in investment in short-term securities		7,985,193	(5,794,648)	-	-
Net cash used in investing activities		**(7,913,898)**	**(27,650,589)**	**(11,726,050)**	**(20,496,549)**
Cash flows from financing activities					
Proceeds from grants		38,841,874	12,095,000	38,841,874	12,095,000
Dividends paid		-	(1,000,000)	-	(1,000,000)
Net cash from financing activities		**38,841,874**	**11,095,000**	**38,841,874**	**11,095,000**
Net increase/(decrease) in cash and cash equivalents		**12,915,389**	**(34,734,313)**	**9,497,184**	**(24,940,476)**
Cash and cash equivalents at the beginning of the financial year		**49,481,356**	**84,215,669**	**52,960,776**	**77,901,252**
Cash and cash equivalents at the end of the financial year	18(a)	**62,396,745**	**49,481,356**	**62,457,960**	**52,960,776**

Notes to the financial statements are included on pages 42 to 65.

1. Summary of accounting policies

Statement of compliance

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.

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.

Going concern - State guarantee

Pursuant to Section 29 of the National Development Bank Act 2007 provides that the Government of PNG (the State) may gurantee or indemnify (including any overdraft or other financial accommodation) the bank for in respect of any asset or liability. However, any specific guarantees have 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, an amount of K5 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. Interest, including premiums and discounts on held-to-maturity and investment securities, is brought to account using the effective interest rate method. Interest relating to impaired loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against income. Unpaid interest relating to prior reporting periods is either written off as a bad debt or a specific provision is made as necessary.

(ii) Fees and other income

Application and establishment fees related to processing of loans are spread over the durations of the loans in compliance with International Accounting Standard IAS 18. All amounts expired are taken up in profit and loss account while the unexpired amounts are deferred.

Other fees and commissions are brought to account on an accruals basis when the services have been rendered.

(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.

<u>Contribution plans</u>
Contributions to superannuation plans are expensed when incurred.

(d) Loans and allowance for impairment

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 and other comprehensive income.

Collective 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 comprehensive income.

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.

(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 devices 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 the Government of Papua New Guinea.

(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) 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.

(n) 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.

(o) 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.

(p) Comparative amounts

Where necessary, comparative figures have been adjusted to conform to current disclosure and reclassification of balances. These reclassifications were made in the income tax and operating expenses in the income statements and certain line items in the cashflow statements.

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

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2017.

- Amendments to IAS 7 ‘Statement of Cash Flows’ on disclosure initiative
- Amendments to IAS 12, ‘Income Taxes’ on recognition of deferred tax assets for unrealised losses
- Annual improvements 2014-2016 in respect to IFRS 12.

New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2017 and not early adopted.

- Amendments to IFRS 2, ‘Share based payments’ on clarifying how to account for certain types of share-based payment transactions
- IFRS 9: ‘Financial Instruments’ on the classification and measurement of financial assets and liabilities, hedge accounting and recognition of impairment losses
- IFRS 15: ‘Revenue from contracts with customers’
- IFRS 16: ‘Leases’
- Amendment to IFRS 4, ‘Insurance contracts’ regarding the implementation of IFRS 9
- Amendment to IAS 40, ‘Investment property’ relating to transfers of investment property
- Annual improvements 2014-2016 in respect to IFRS 1 and IAS 28
- IFRIC 22, ‘Foreign currency transactions and advance consideration’
- IFRS 17: ‘Insurance contracts’
- IFRIC 23, ‘Uncertainty over income tax treatments’
- Annual improvements 2015-2017

International Financial Reporting Standard (IFRS) 9: Financial Instrument implementation

Governance and Impact Management

The new International Financial Reporting Standard (IFRS) 9 on Financial Instrument is effective 1 January 2018. The adoption and implementation of this new standard will have significant impact on the financials, risk management, IT system and business units' management. This means the current internal controls have to be adjusted and refined and review functions increased in frequency, loan approval and review processes refined from risk management perspective, IT system adjusted to accommodate collaterals fully for better credit exposure assessment and business units having better vigilance and system to better manage the credit risk. There will be an oversight function on the areas of judgements to ensure reasonableness. The adoption of IFRS 9 means there will be closer vigilance and tighter control over loan portfolios in the areas of lending and collections, and furthermore, policies and procedures have to be amended. Monthly and quarterly reporting to Senior Management and Board will be implemented as a monitoring tool in 2018. Credit committee which is sub-committee to the Board will monitor and assess the loan portfolio performance.

Assessment of Significant Increase in Credit Risk

The assessment of significant increase in credit risk (SIR) will be done on a periodic basis. The Group will assess the credit risk of default over the life of the financial asset at reporting period by comparing the risk at origination using established key indicators to determine whether the credit risk has increased significantly or not. At each reporting period, the change in credit risk will be assessed on each loan balance.

Impairment

The adoption of IFRS 9 significantly impacts our impairment methodology. Under IFRS 9 impairment model uses three stages to assess credit deterioration since origination.

Stage 1 – 12 Months Expected Credit Loss (ECL)

This applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not likely for credit impairment. The Expected Credit Loss (ECL) will be calculated using a 12 months Probability of Default (PD) that represents the probability of default over the next 12 months. For financial assets maturing less than 12 months the probability of default will reflect the remaining period of the asset life. This methodology is significantly different to the Company and Group's current methodologies of credit risk assessment.

Stage 2 – Financial Assets Experiencing Significant Increase in Risk

When financial assets experience a significant increase in credit risk (SIR) subsequent to origination but is not credit impaired then they are considered to be in Stage 2. This requires the calculation of Expected Credit Loss (ECL) based on lifetime Probability of Default (PD) that represents the probability of default occurring over the estimated remaining life of the financial asset. Provisions are higher due to the increase in credit risk and impact period longer than 12 months.

Stage 3 – Objective Evidence of Impairment

The financial asset that has objective evidence of impairment come under this stage where allowance for credit loss will continue over the lifetime of the finance asset.

The adoption of this IFRS 9 means the adoption of this methodology where the loan balances of the Company and for the Group at each reporting period, whether monthly or yearly, will be structured in these stages.

The provision impact expected to be significant compared to the Company and Group's current methodologies.

Macroeconomic Factors and Forward Looking Information

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates the forecast of future economic conditions. Macroeconomic factors and future looking information are required to be incorporated in the measurement of the expected credit loss (ECL) as well as determining whether or not there has been a significant increase in credit risk in the financial asset since origination. Measurement of ECL at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and future economic conditions.

Experienced Credit Judgement

The Company and the Group as a whole uses the best judgement based on historical performance of individual customers and current information available factoring in the contractual period of the financial asset to assess the allowance for Expected Credit Loss (ECL).

Default and Write Off

In consideration of write off of financial assets which are Company and Group's loan balances, the probability of default is assessed using past events, current available information and future looking information. Where credit is fully impaired and recoverability is not realisable, a write off of the loans will be considered in line with the Company and Group's Loan Impairment Policies.

Transition

The Group will require an adjustment on 31 December 2017 closing provisions balance against accumulated losses to comply with the requirements of IFRS 9. There will be no restatement of comparative periods.The Group is currently in the process of developing a loan loss provision model in accordance with the requirements of IFRS 9.

Quantification

The Group will comply with the three stages impairment model under IFRS 9 to measure the allowances required at each reporting period. Past events, current information, macroeconomics factors such as GDP indicative of general activity level within the economy, and forward looking information are factored in determining the probability of default on loan balances.

Expected loss is measured considering the probability of default, loss given default percentage which takes into account collateral over the balance of loan and exposure at default. The formula of calculating the Expected Loss thus: EL = PD x LGD x EAD, where LGD is Loss Given Default, PD is the probability of default and EAD being Exposure At Default.

International Financial Reporting Standard (IFRS) 15: Revenue from contracts with customers (effective 1 January 2018)

IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The entity will have to adopt a new 5-step process for the recognition of revenue:

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

The group is currently in the process of assessing its existing revenue streams and contracts in relation to the implementation of IFRS 15.

International Financial Reporting Standard (IFRS) 16: Leases (effective 1 January 2019)

IFRS 16 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.

2. Interest income

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Loans and advances	21,555,098	19,735,698	14,029,393	14,278,024
Cash and short term funds	3,355,209	2,832,052	392,345	422,518
	24,910,307	**22,567,750**	**14,421,738**	**14,700,542**

3. Fees and other income

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Rental income	4,147,705	3,566,391	3,880,452	3,958,832
Application fee	585,681	2,531,056	410,881	2,267,069
Ledger maintenance fee	8,062,219	7,864,843	6,867,796	6,975,497
Commission	897,491	754,558	880,554	742,954
Gain on sale of assets	255,589	144,336	255,589	144,336
Tender fees	52,150	37,850	52,150	37,650
Other income	2,891,495	2,177,744	699,762	878,624
	16,892,330	**17,076,778**	**13,047,184**	**15,004,962**

4. Operating expenses

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Staff costs	22,467,349	22,997,895	17,230,588	17,793,045
Administrative and overhead expenses	8,656,339	13,100,061	3,607,462	8,394,597
Marketing expenses	700,669	929,412	657,482	848,506
Directors' fees and other board expenses	709,311	833,973	455,213	526,672
Depreciation expense	5,257,034	5,208,036	4,557,118	4,416,411
	37,790,702	**43,069,377**	**26,507,863**	**31,979,231**

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	
	2017 K	2016 K	2017 K	2016 K
(Loss) / Profit from before income tax	(10,726,342)	3,497,199	(9,641,804)	6,207,977
Income tax expense calculated at 30% (2016: 30%)	(3,217,903)	1,049,160	(2,892,541)	1,862,393
Non-deductible expenses	149,690	609,754	20,944	36,891
Non- taxable income	(519,626)	(411,001)	(265,154)	(411,001)
Deferred tax assets not recognised	4,403,216	2,695,708	3,896,778	2,455,338
Income tax expense	**815,377**	**3,943,621**	**760,027**	**3,943,621**

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	
	2017 K	2016 K	2017 K	2016 K
Deferred tax	760,027	3,943,621	760,027	3,943,621
Current tax	55,350	-	-	-
	815,377	**3,943,621**	**760,027**	**3,943,621**

b) Deferred taxes

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
	60,203,924	**(3,259,176)**	**56,944,748**
Deferred tax liabilities			
Property plant and equipment	(24,478,667)	(638,607)	(25,117,274)
Rental debtors	(243,948)	(348,510)	(592,458)
Prepaid insurance	(1,712,869)	1,712,869	-
	(26,435,484)	**725,752**	**(25,709,732)**
Net deferred tax assets	**33,768,440**	**(2,533,424)**	**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	**2,640,693**	**58,343,521**
Deferred tax liabilities			
Property plant 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)	2,048,763	(118,030)
Others	(113,296)	113,296	-
	(27,215,773)	**107,270**	**(27,108,504)**
Net deferred tax assets	**33,768,440**	**2,533,423**	**31,235,017**
At 30%	**10,130,532**	**(760,027)**	**9,370,505**

	Opening Balance	**Recognised in profit or loss**	**Closing Balance**
2016 PARENT			
Deferred tax assets			
Allowance for doubtful debts	70,566,335	(11,950,177)	58,616,158
Provisions for employee entitlements	1,223,155	221,777	1,444,932
Provision for audit fees	93,500	49,334	142,834
	71,882,990	**(11,679,066)**	**60,203,924**
Deferred tax liabilities			
Property plant and equipment	(24,392,064)	(86,603)	(24,478,667)
Rental debtors	(40,746)	(203,202)	(243,948)
Prepaid insurance	(536,337)	(1,176,532)	(1,712,869)
	(24,969,147)	**(1,466,337)**	**(26,435,484)**
Net deferred tax assets	**46,913,843**	**(13,145,403)**	**33,768,440**
At 30%	**14,074,153**	**(3,943,621)**	**10,130,532**
2016 CONSOLIDATED			
Deferred tax assets			
Allowance for doubtful debts	70,566,334	(10,618,176)	59,948,158
Provisions for employee entitlements	1,299,410	500,303	1,799,713
Provision for audit fees	118,500	71,500	190,000
Others	-	(953,658)	(953,658)
	71,984,244	**(11,000,031)**	**60,984,213**
Deferred tax liabilities			
Property plant and equipment	(26,695,410)	2,012,673	(24,682,737)
Rental debtors	(40,746)	(212,202)	(252,948)
Prepaid insurance	1,665,759	(3,832,551)	(2,166,792)
Others	-	(113,296)	(113,296)
	(25,070,397)	**(2,145,376)**	**(27,215,773)**
Net deferred tax balances	**46,913,847**	**(13,145,407)**	**33,768,440**
At 30%	**14,074,154**	**(3,943,621)**	**10,130,532**

c) Unrecognized deductible temporary differences

	Consolidated		**Parent Entity**
	2017 **K**	**2016** **K Restated**	**2017** **K**
Tax losses	27,675,719	27,675,719	20,001,701
Loan provisions	40,188,244	23,042,612	36,086,317
	67,863,963	**50,718,331**	**56,088,018**

Net deferred tax liability of K201,461 at 31 December 2017 was in relation to the tax effect of certain taxable temporary differences in the subsidiary.

6. Trade and other receivables

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Interest withholding tax	115,933	107,417	115,932	107,375
Trade receivables	1,049,775	252,948	592,458	243,948
Less: Allowance for rental debts	(160,200)	(46,797)	(52,011)	(46,797)
	1,005,508	**313,568**	**656,379**	**304,526**
Prepayments	3,590,782	3,081,966	3,222,164	2,332,730
Goods and Services Tax	1,339,214	1,172,805	1,339,214	1,172,805
Other receivables	2,460,951	1,210,566	4,951,115	1,950,596
	8,396,455	**5,778,905**	**10,168,872**	**5,760,657**

7. Loans and advances

	Consolidated		Parent Entity	
	2017 K	2016 Restated K	2017 K	2016 Restated K
Loans originated by the bank	400,938,773	385,338,594	351,426,507	344,935,632
Less: allowance for loan impairment	(95,855,157)	(82,578,275)	(89,117,378)	(80,660,610)
Net loans and advances	**305,083,616**	**302,760,319**	**262,309,129**	**264,275,022**

Movement in allowance for loan impairment as below:

	Consolidated		Parent Entity	
	2017 K	2016 Restated K	2017 K	2016 Restated K
Balance at 1 January	(82,578,275)	(92,022,814)	(80,660,610)	(91,784,775)
(Provision) / Reversals during the financial year	(16,415,013)	5,552,045	(11,486,709)	7,111,701
Loan written off / other adjustments	(3,138,131)	3,892,494	3,029,941	4,012,464
Balance at 31 December	**(95,855,157)**	**(82,578,275)**	**(89,117,378)**	**(80,660,610)**

Provision for impairment is represented by:

	Consolidated		Parent Entity	
	2017 K	2016 Restated K	2017 K	2016 Restated K
Individually assessed or specific provision	(91,193,618)	(82,186,182)	(86,188,776)	(80,588,637)
Collective provision	(4,661,539)	(392,093)	(2,928,602)	(71,973)
Balance at 31 December	**(95,855,157)**	**(82,578,275)**	**(89,117,378)**	**(80,660,610)**

Loan impairment (expense)/ recovery:

	Consolidated		Parent Entity	
	2017 K	2016 Restated K	2017 K	2016 Restated K
Total new and increase provisioning	(18,536,670)	(2,371,584)	(13,608,367)	(809,129)
Recoveries during the year	2,121,657	7,920,829	2,121,657	7,920,829
Total	**(16,415,013)**	**5,549,245**	**(11,486,710)**	**7,111,700**

8. Investment in subsidiaries

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Investments carried at cost:				
Non-current				
Investment in subsidiaries	-	-	59,181,057	46,834,312

Name of entity	Principal activity	Country of incorporation and operation	Ownership interest 2017 %	Ownership interest 2016 %
NDB Investments Limited	Property rental & retail	PNG	100%	100%
Peoples Micro Bank Limited	Micro finance	PNG	100%	100%

9. Property, plant 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 2016	**106,906,261**	**7,047,522**	**16,471,438**	**26,660,674**	**157,085,895**
Additions	-	-	-	20,640,885	20,640,885
Disposals	(25,000)	(377,602)	(4,614)	-	(407,216)
Transfer of WIP to other class of assets	17,940,162	921,039	2,120,853	(20,982,054)	-
Adjustment – Others (i)	(3,746,940)	(111,331)	(162,440)	-	(4,020,710)
Balance as at 31 December 2016	**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**	**7,351,815**	**19,620,594**	**29,078,139**	**179,368,239**
Accumulated depreciation					
Balance as at 1 January 2016	**2,879,319**	**4,771,056**	**13,632,360**	**-**	**21,282,734**
Disposals	(25,000)	(377,602)	(4,614)	-	(407,216)
Depreciation expense	1,579,630	1,121,987	1,714,795	-	4,416,411
Others (i)	482,489	(20,196)	(15,771)	-	446,525
Balance as at 31 December 2016	**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**
Net book values					
As at 31 December 2017	**116,660,198**	**1,770,690**	**2,976,263**	**29,078,140**	**150,485,293**
As at 31 December 2016	**116,158,045**	**1,984,383**	**3,098,467**	**26,319,505**	**147,560,401**

CONSOLIDATED	Land and buildings at fair value	Motor vehicles at cost	Office equipment at cost	Work in progress at cost	Total
	K	K	K	K	K
Cost/valuation					
Balance as at 1 January 2016	**106,945,669**	**8,414,543**	**18,200,004**	**26,774,910**	**160,335,126**
Additions	-	208,732	209,923	21,581,622	22,000,277
Disposals	(25,000)	(377,602)	(4,614)	-	(407,216)
Transfers	17,940,162	921,039	2,120,853	(20,982,054)	-
adjustment – others (i)	(3,746,940)	(244,494)	(149,136)	-	(4,140,569)
Balance as at 31 December 2016	**121,113,891**	**8,922,218**	**20,377,030**	**27,374,478**	**177,787,617**
Additions	3,769,288	170,188	233,567	11,981,639	16,154,681
Disposals	-	(1,146,671)	(103,492)	-	(1,250,163)
Transfers	2,121,226	1,018,857	2,448,252	(5,588,334)	-
Transfer to Subsidiary	-	-	-	(3,648,974)	(3,648,974)
adjustment – others (i)	121,982	(54,238)	(270,258)	(894,354)	(1,096,868)
Balance as at 31 December 2017	**127,126,386**	**8,910,355**	**22,685,098**	**29,224,455**	**187,946,292**
Accumulated depreciation					
Balance as at 1 January 2016	**2,892,725**	**5,420,861**	**14,406,767**	**-**	**22,720,352**
Disposals	(25,000)	(377,602)	(4,614)	-	(407,216)
Depreciation expense	1,597,219	1,433,843	2,176,974	-	5,208,036
Others (ii)	482,491	(31,764)	113,635	-	564,362
Balance as at 31 December 2016	**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	(162,413)	-	(210,850)
Balance as at 31 December 2017	**6,728,280**	**6,743,586**	**18,409,690**	**-**	**31,881,555**
Net book value					
As at 31 December 2017	**120,398,107**	**2,166,769**	**4,275,408**	**29,224,455**	**156,064,737**
As at 31 December 2016	**116,166,457**	**2,476,879**	**3,684,268**	**27,374,478**	**149,702,083**

The properties of the company was revalued in 2012 and the carrying values adjusted based on these valuation. Subsequent additions to these properties are carried at cost.

10. Investment properties

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Balance at beginning of financial year – at fair value	34,070,239	32,847,218	20,724,038	19,501,017
Additions	35,120	-	-	-
Change in fair value	1,732,086	1,370,003	883,846	1,370,003
Transferred from property, plant and equipment – accumulated depreciation	(277,253)	(146,982)	(277,253)	(146,982)
Balance at end of financial year – at fair value	**35,560,192**	**34,070,239**	**21,330,631**	**20,724,038**

Revaluation of the Group's investment properties were performed in September 2017 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	
	2017 K	2016 K	2017 K	2016 K
Trade and other payables	3,310,800	4,823,627	1,897,831	4,025,391
	3,310,800	**4,823,627**	**1,897,831**	**4,025,391**

12. Customer deposits

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Deposit liabilities	49,804,496	48,552,489	-	-
Security deposits	15,920,676	16,473,966	15,920,676	16,473,966
	65,725,172	**65,026,455**	**15,920,676**	**16,473,966**

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

13. Employee provisions

			Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Annual leave	703,584	705,869	490,883	520,068
Long service leave	1,620,114	1,093,844	1,299,352	924,864
	2,323,698	**1,799,713**	**1,790,235**	**1,444,932**

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	
	2017 K	2016 K	2017 K	2016 K
Ordinary shares of 119,995,375 (2016: 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	
	2017 K	2016 K	2017 K	2016 K
Government grants	473,072,526	434,230,652	473,072,521	434,230,647
Asset revaluation	68,771,071	68,771,071	66,844,794	66,844,794
	541,843,597	**503,001,723**	**539,917,315**	**501,075,441**

a) Government grants

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Balance at beginning of financial year	434,230,652	422,135,652	434,230,647	422,135,647
Grants received during the year	38,841,874	12,095,000	38,841,874	12,095,000
Balance at end of financial year	**473,072,526**	**434,230,652**	**473,072,521**	**434,230,647**

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

b) Asset revaluation reserve

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Balance at beginning and end of financial year	68,771,071	68,771,071	66,844,792	66,844,792
	68,771,071	**68,771,071**	**68,844,792**	**66,844,792**

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 K5,580,386 as at 31 December 2017 (2016: K5,067,901).

(b) Loan commitments

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

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Micro Finance	1,682,200	9,400	1,682,200	9,400
Agriculture	852,148	900,600	852,148	900,600
Commercial	48,817,490	34,411,755	48,817,490	34,411,755
Credit Schemes	2,964,969	2,607,672	2,964,969	2,607,672
Women in Business	9,532,227	5.160,815	9,532,227	5.160,815
	63,849,034	**43,090,242**	**63,849,034**	**43,090,242**

(c) Lease commitments

There are no finance lease liabilities . Non-cancellable operating lease commitments as at 31 December 2017 amounts to nil (2016: nil).

17. Contingent liabilities

Legal proceedings

There were outstanding legal proceedings against the Group as at 31 December 2017. The proceedings mainly relate to claims by/against defaulting customers for breach of loan agreement 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	
	2017 K	2016 K	2017 K	2016 K
BPNG Settlement Account	27,184	27,184	27,184	27,184
BSP Account	57,170,354	44,084,580	49,179,054	39,975,251
Cash on hand	4,717,406	4,607,282	39,571	44,718
ANZ Account	178,354	415,947	-	-
Interest bearing deposits	303,447	346,363	13,212,151	12,913,623
Total Cash	**62,396,745**	**49,481,356**	**62,457,960**	**52,960,776**

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

	Note	Consolidated		Parent Entity	
		2017 K	2016 K	2017 K	2016 K
Loss for the year after tax		(11,486,369)	(446,422)	(10,401,831)	2,264,356
Depreciation and amortisation	9	5,257,034	5,208,036	4,557,118	4,416,411
Change in fair value of investment property	10	1,732,086	1,370,003	883,846	1,370,003
Gain on disposal of fixed assets	3	(255,589)	(144,336)	(255,589)	(144,336)
(Increase) / Decrease in assets:					
Trade and other receivables		4,326,052	2,835,654	4,378,553	2,335,123
Loans and advances		16,175,229	(26,172,069)	20,214,209	(15,360,180)
Deferred taxes		2,254,557	3,505,423	977,753	3,503,720
Increase/ (decrease) in liabilities:					
Trade and other payables		(51,681,808)	(20,519,873)	(53,630,407)	(30,129,879)
Provisions		(254,455)	(289,106)	(262,968)	(271,111)
Clients' trust funds		15,920,676	16,473,966	15,920,676	16,473,966
Net cash used in operating activities		(18,012,587)	(18,178,724)	(17,618,640)	(15,538,927)

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

	Note	Consolidated		Parent Entity	
		2017 K	2016 K	2017 K	2016 K
Additions to property, plant and equipment	9	(16,154,681)	(22,000,277)	(11,981,639)	(20,640,885)
Purchases of assets		**(16,154,681)**	**(22,000,277)**	**(11,981,639)**	**(20,640,885)**

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 exposure 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

The Group takes on exposure to credit risk, which is the risk that a counter party may cause a financial loss for the Group by failing to discharge an obligation. Credit is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. The credit risk management and controls are centralised in Credit Risk Management Team of the Group and the Lending Committee who reports to the Board of Directors.

(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 - 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			-	-	1,897,831	1,897,831
Security deposits			-	-	15,920,676	15,920,676
			-	-	**17,818,507**	**17,818,507**

PARENT - 2016

	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			-	-	4,025,391	4,025,391
Security deposits			-	-	16,473,966	16,473,966
			-	-	**20,499,357**	**20,499,357**

CONSOLIDATED - 2017

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing Less than 1 year	Interest bearing Greater than 1 year	Non-interest bearing 1 year	Total
	%	%	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%	-	16,079,883	-	16,079,883
			54,248,145	**16,079,883**	**3,310,800**	**73,638,828**

CONSOLIDATED - 2016

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing Less than 1 year	Interest bearing Greater than 1 year	Non-interest bearing 1 year	Total
	%	%	K	K	K	K
Financial Liabilities:						
Trade and other payables			-	-	4,823,627	4,823,627
Deposit liabilities		9%	52,883,501	-	-	52,883,501
Security deposits		1%	-	16,638,705	-	16,638,705
			52,883,501	**16,638,705**	**4,823,627**	**74,345,833**

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% (2016: 3.58%). The short term placements are considered safe investments where periods are fixed but interest rates vary. NDB has short term deposits with the subsidiary People's Micro Bank Limited amounting to K13.18 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 K620,933 (2016: K491,350). If there was a decrease in interest rate by 1% the net interest income would have decreased by K620,935 (2016: K491,350).

If the interest rate has increased by 1% on the loans and advances issued the Group's net interest income would have increased by K3,054,757 (2016: K3,027,603). If the interest rate has decreased by 1% the Group's net interest on loans would have decreased to K3,054,757 (2016: K3,027,603).

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 related parties in which the directors have significant influence are carried out on standard commercial terms and market rates. For the year ended 31 December 2017, balances and transactions with related entities with directors' interests were as follows:

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Balance at the beginning of the financial year	1,298,041	2,245,651	1,288,524	2,245,651
Interest	127,803	141,447	88,638	141,447
Additional loan	857,675	1,070,701	-	1,061,184
Charges	50,087	61,094	32,862	61,094
Loan repayments	(423,414)	(2,220,852)	(277,175)	(2,220,852)
Balance at the end of the financial year	**1,910,192**	**1,298,041**	**1,132,849**	**1,288,524**

The above related party loans include loans of K1.8 million at 31 December 2017 (31 December 2016: K67 thousand) from Kare Kare Investments Ltd, a wholy-owned company of the managing director (Mr. Moses Liu). This loan is provided at an interest rate of 5% (2016: 5%) and is repayable over 13.5 years. Mr William Lamur is the director of East New Britain Development Corporation Ltd, who owes NDB outstanding loan balance of K0.7 million at 31 December 2017 (2016: K0.8 million). These loans are provided at the rate of 6.5% (2016: 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 2017 staff account balances were as follows:

a. Loans to key management personnel

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Staff personal loan	64,939	226,081	64,939	226,081
Housing loan	3,201,067	2,286,836	3,201,067	2,286,836
Commercial loan	539,580	1,264,199	539,580	1,264,199
Large Equipment Loan	347,186	-	347,186	-
Doubtful debts loan	-	-	-	-
Total staff loan	**4,152,772**	**3,777,116**	**4,152,772**	**3,777,116**
Provisions	-	-	-	-
Staff loan - net	**4,152,772**	**3,777,116**	**4,152,772**	**3,777,116**

b. Key management personnel compensation

There were six specified Directors of the Group during the year (2016: six) who were remunerated where details of the remuneration are disclosed below. 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
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**
2016	K	K	K	K	K	K	K	K	K
Specified Directors	420,250	-	-	-	-	21,550	-	-	441,800
Total	**420,250**	**-**	**-**	**-**	**-**	**21,550**	**-**	**-**	**441,800**

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
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**
2016	K	K	K	K	K	K	K	K	K
Specified Executives	3,520,432	261,759	-	169,755	-	-	-	-	3,951,946
Total	**3,520,432**	**261,759**	**-**	**169,755**	**-**	**-**	**-**	**-**	**3,951,946**

c. Rent Free Arrangement

NDB Board passed resolutions to have subsidiary People's Micro Bank Limited 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.

The subsidiary NDB Investments Limited uses office space free of charge. In 2018 NDB Board will determine whether or not the subsidiary will be charged rent from 2018 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	
	2017 K	2016 K	2017 K	2016 K
Audit of the financial report	202,500	190,000	135,000	130,000

The auditor of the Group is PricewaterhouseCoopers PNG for the financial years 2017 and 2016, respectively.

22. Investment in short-term securities

	Consolidated		Parent Entity	
	2017 K	2016 K	2017 K	2016 K
Short-term placements in Central Bank and treasury bills with the Bank of PNG.	47,014,551	43,693,877	-	-

23. Other information

Company information

The Group had 428 employees during the year (2016: 478).

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. Prior period restatements – loan loss provisioning

The Bank has performed an assessment of the recoverability of all loans outstanding at 31 December 2017, including a detailed review of the existence and quality of underlying securities against the loan balances. A provision of K22,091,115 has been recorded in respect of loans previously considered secured for which the Bank does not expect its rights to security to be sufficiently enforceable. The Bank has determined that identified issues with respect to loan security were in existence in previous years and as a result has recorded the additional provision as a prior period adjustment in the financial statements.

Restatement - 31 December 2016 (Parent entity)

	As previously reported	Prior period adjustment	As restated
Statement of profit and loss and other comprehensive income			
Provision for impairment	7,984,375	(872,674)	7,111,701
Total comprehensive income	3,137,030	(872,674)	2,264,356
Statement of financial position			
Loans and advances	286,366,137	(22,091,115)	264,275,022
Total assets	570,340,510	(22,091,115)	548,249,395
Accumulated losses	(73,251,506)	(22,091,115)	(95,342,621)
Total equity	547,819,310	(22,091,115)	525,728,195

Restatement - 31 December 2015 (parent entity)

	As previously reported	Prior period adjustment	As Restated
Statement of financial position			
Loans and advances	271,202,040	(21,218,441)	249,983,599
Accumulated losses	(75,388,536)	(21,218,441)	(96,606,977)

Restatement - 31 December 2016 (Group)

	As previously reported	Prior period adjustment	As restated
Statement of profit and loss and other comprehensive income			
Provision for impairment	6,424,719	(872,674)	5,552,045
Total comprehensive income/(loss)	426,252		(446,422)
Statement of financial position			
Loans and advances	324,851,434	(22,091,115)	302,760,319
Total assets	618,710,445	(22,091,115)	596,619,330
Accumulated losses	(77,767,064)	(21,091,115)	(99,858,179)
Total equity	545,230,034	(22,091,115)	523,138,919

Restatement - 31 December 2015 (Group)

	As previously reported	Prior period adjustment	As Restated
Statement of financial position			
Loans and advances	298,004,623	(21,218,441)	276,786,182
Accumulated losses	(77,193,316)	(21,218,441)	(98,411,757)

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 company, the results of those operations, or the state of affairs of the Company in future financial years.

2017 HIGHLIGHTS


50th Anniversary
NATIONAL DEVELOPMENT BANK
1967 - 2017
This plaque was unveiled on the 8th July 2017
MOSES LIU
Managing Director

PRODUCTS & SERVICES

The National Development Bank offers demand-driven financial products and services to enterprising and credit worthy Papua New Guineans who are engaged in the formal, semiformal and informal sector economy or any viable commercial and agricultural economic activities.

The products range from short term to long term commercial, agriculture, poultry, and microfinance loans.

The Bank's lending products:

SMALL BUSINESS LOANS

- Poultry
- Fishing
- Logging
- Retail trade
- Transport
- Cocoa and Coffee processing
- Copra processing and export
- Other commercially related ventures

AGRICULTURE LOANS

- Cocoa farming, production, processing and export
- Coffee farming, production, processing and export
- Oil Palm block development, poisoning and replanting

CREDIT SCHEMES

- Tourism: Tourism Credit Scheme under the PNG Tourism Promotion Authority
- Cooperatives: CSU Revolving Fund Credit Facility (CSURFCF)
- Small Business Development:

SMALL BUSINESS CREDIT GUARANTEE SCHEME (SBDC)

- Fisheries: Fisheries Credit Scheme under the National Fisheries Authority (NFA)
- District Credit Schemes

MICROFINANCE LOANS

- Small short-term loans for informal sector business
- Poultry and piggery loans
- Small agricultural loans
- Small fisheries loans

Some of the Credit Scheme facilities available and presently managed in partnership with the various sponsors include:

DISTRICT CREDIT SCHEMES

SMALL & MEDIUM ENTERPRISES CORPORATION

WESTERN HIGHLANDS CREDIT FACILITY

COOPERATIVES SOCIETIES REVOLVING FUND CREDIT FACILITY

THE TOURISM PROMOTION AUTHORITY OF PAPUA NEW GUINEA

NATIONAL FISHERIES AUTHORITY

NATIONAL AGRICULTURE DEVELOPMENT PLAN

OUR RESOURCES

The National Development Bank gets funding primarily from the National Government through equity grants used as seed capital. The Bank also administers various credit schemes and funding provided by the National and Provincial Governments and our partners like the National Fisheries Authority (NFA), Tourism Promotion Authority (TPA), and the Department of Commerce and Industry for lending to Cooperatives.

OUR NETWORK

Locally, NDB has strong linkage partnership with Government agencies and organisations like the National Fisheries Authority (NFA), Cooperative Societies Unit (CSU), Tourism Promotion Authority (TPA), SME Corporation (SMEC), PNG Institute of Banking and Business Management (PNG-IBBM), Association of Microfinance Institutions of PNG and several others.

Internationally, NDB is an active member of development bank organisations like the Association of Development Financing Institutions in Asia & the Pacific (ADFIAP), Association of Development Financing Institutions in the Pacific (ADFIP), Micro Finance Pasifika and others.

CREDIT SCHEME FACILITIES

In an attempt to provide promising entrepreneurs and their enterprises with access to formal credit, government as well as non government organisations (NGOs) and private enterprises in most third world and developing countries have made use of credit schemes. The perceived belief is that credit schemes can address several barriers to loan access by small and medium enterprises. These barriers include:

- The high transaction cost of small loans
- Perceived high risk associated with lending to Small / Medium Enterprises (SME's) and;
- Lack of tangible collateral demanded by mainstream financial institutions.

The sponsors instigate these schemes by providing seed capital or security deposits and enter into a Memorandum of Agreement with the Bank that stipulates the parties' responsibilities as well as the operational aspects of the scheme. All applicants who want to participate in any credit scheme loans must have good credit history to be considered. Any borrower with existing unpaid loans from other lenders are ineligible. NDB expects all borrowers both past and present to honour their loan commitments so that the funds can be revolved to all economically active Papua New Guineans with demonstrated good borrowing track record and serviceability.

OUR STRONG PARTNERSHIP WITH GOVERNMENT AGENCIES AND OTHER ORGANISATIONS ESTABLISHES NDB AS A COMMITTED BANK FOR THE PEOPLE.

BRANCH DIRECTORY

HEAD OFFICE
P.O Box 686 WAIGANI
Somare Cres. Waigani
T (675) 324 7500
F (675) 325 9817 / 6886
M (675) 7090 8200
E ndb@devbank.com.pg

ALOTAU
P.O Box 874, ALOTAU, MBP
T (675) 641 0182
F (675) 641 1016

BANZ
P.O Box 25, BANZ, JIWAKA
T (675) 546 2551 / 2552
F (675) 546 2556

BIALLA
P.O Box 6, BIALLA, WNBP
T (675) 983 1180 / 1130
F (675) 983 1008

BOROKO
SOUTHERN REGIONAL OFFICE
P.O Box 6180, BOROKO, NCD
T (675) 312 7700 / 7708
F (675) 325 6652

BUKA
P.O BOX 770, BUKA, AROB
T (675) 701 59 907
M (675) 700 96629

GOROKA
P.O Box 445, GOROKA, EHP
T (675) 532 2761 / 2155
F (675) 532 2156

KIMBE
P.O Box 183, KIMBE, WNBP
T (675) 983 5084 / 5019
F (675) 983 5135

KAVIENG
P.O Box 136, KAVIENG, NIP
T (675) 984 2060
F (675) 984 2060

KIUNGA
P.O Box 140, DARU, WP
M (675) 709 08 223

KOKOPO
P.O Box 521, KOKOPO, ENBP
T (675) 982 8724 / 8544 / 8548
F (675) 982 8542

KUNDIAWA
P.O. Box 646 KUNDIAWA, SIMBU PROVINCE
T (675) 535 1566

LAE
NORTHERN REGIONAL OFFICE
P.O Box 341, LAE, MP
T (675) 472 9743 / 1711 / 1712
F (675) 472 5416/15

MADANG
P.O Box 632, MADANG, MP
T (675) 422 2142 / 2961 / 2202
F (675) 452 2876 / 422 2876

MAPRIK
P.O Box 180, MAPRIK, ESP
T (675) 458 1205 / 1206
F (675) 458 1205 / 1206
M: (675) 790 86 164

MENDI
P. O Box 355, MENDI, SHP
T (675) 542 2043 EXT 8225
M: (675) 728 30 316

MT HAGEN
HIGHLANDS REGIONAL OFFICE
P.O Box 309, MT. HAGEN, WHP
T (675) 542 2043 / 1613 / 33 / 34
F (675) 542 1781

MUTZING
P.O Box 2579, MUTZING, MP
T (675) 474 9345 / 46 / 47
F (675) 474 9348
M: (675) 703 06 546

POPONDETTA
P.O Box 198, POPONDETTA, ORO
T (675) 629 7392 / 7012 / 2599
F (675) 629 7157

TARI
C/-NDB HAGEN. P.O. Box 309. WHP
T (675) 542 2043 EXT 8227
M (675) 727 88 457

VANIMO
P.O. Box 33. SANDAUN PROVINCE
T (675) 456 2305 / 7430
M (675) 775 22 782

WABAG
P.O. Box 106. WABAG. ENGA PROVINCE
T (675) 547 1011
F (675) 547 1163
CUG: (675) 762 82 150

WEWAK
P.O Box 141, WEWAK, ESP
T (675) 456 2777 / 2305 / 7400
F (675) 456 2253

CREATING WEALTH AND EMPOWERING LOCAL BUSINESSES

50 YEARS ANNIVERSARY 1967 - 2017

NDB

Haus Mani Bilong Yumi

EMPOWERING Local Businesses since 1967