NDB

Haus Moni Bilong Yumi

NATIONAL DEVELOPMENT BANK

ANNUAL REPORT 2018

The **National Development Bank** is the **Government's vehicle** to **Creating Wealth And Empowering Local Businesses**

Front Cover
Uku Guiye (Owner of Minye Trading)

Back Cover (Top to bottom)
Mr & Mrs Kiveri (Owners of Jenny & Sons)
Ephraim Naso (Owner of Shunammite Engineering)
Monica Narimb (Owner of Monica Poultry)
Sam Oliver (Owner of Newlnd Real Estate Limited)

CONTENT

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.

PURPOSE, VISION, MISSION, STRATEGY & CORE VALUES STATEMENTS

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 banking and financial service 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 inclusive banking and financial services 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 companies;
iii. Enable more indigenous people into savings culture and wealth creation activities; and
iv. Improves the quality of life of our rural communities.

OUR STRATEGY
Have outreach to all major urban and rural centres' providing easily accessible banking service and affordable low rate credit to indigenous businesses and people to create wealth.

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
10. Collaborative Partnership

CHAIRMAN'S LETTER

23 September 2019

Hon. Sasindran Muthuvel, B.SC (Hort), P.G.D.B.M., MP
Minister for Public Enterprises & State Investments
C/- Kumul Consolidated Holdings Limited
PO 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 2018 Annual Report by the NDB Board together with the Consolidated Financial Statements for the year ended 31 December 2018.

The Auditor's report as required by Section 33 (4) of the aforementioned Act is appended to the 2018 audited consolidated financial statements for NDB and its controlled entities.

Yours sincerely

MICHAEL MELL MBA, BEc.UPNG
Chairman of the Board

MINISTER'S FOREWORD

It gives me great pleasure to present the 2018 Annual Report of the National Development Bank Limited for the financial year ended 31 December 2018. The Annual Report includes the 2018 Audited Financial Statements for the National Development Bank (NDB) and its controlled entities.

NDB Group has successfully delivered a positive operating profit for 2018 despite a challenging operating environment and the depressed state of the economy. NDB has been consistently operating profitably over the last six years years despite lending at a fixed interest rates of 6.5% effective 1 January 2013. The NDB Group recorded a net operating profit after tax of K10.1 million for the year ended 31 December 2018. It paid a divided of K1 million for the year. The Bank's overall profitability over the last ten years is indicative of the robust and resilient strategies that the Board and Management have implemented to sustain the Bank's operations to benefit the local SME sector by prudently managing its funds through Government grants.

The Balance Sheet indicates a 15% improvement in the Net Assets from K542 million restated in 2017 to K625 million in 2018.

NDB maintained a good loan book at K291 million. The Bank continued to manage and maintain the quality of its loan portfolio with loan arrears over 90 days within 2.9% 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.

Notably, demand for loans to Women In Business further increased by K10.2 million in 2018 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 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.

Hon. Sasindran Muthuvel, B.SC (Hort), P.G.D.B.M., MP
Minister for Public Enterprises & State Investments

CHAIRMAN'S REPORT

NDB operated under another year of challenging macroeconomic conditions in 2018 due to the severe impact of the earthquake in the highlands which affected gas and oil productions and the business activities including our customers in the region that affected Government's revenue and tight fiscal conditions slowing the local economy growth to 0.3%. The Tari and Mendi Branches were closed as the facilities were destroyed by the earthquake.

NDB has produced profitable operating outcome in 2018 and over the previous five 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 (SME) in the country. Consequently demand for loans from the SME sector grew by an average of 20% per year. It is pleasing to note that the 2018 Government appropriated funding of K61 million was received during the year enabling the funding of loans.

We thank the National Government for the Budgetary Grant of K61 million for 2018 which assisted the achievement of the operational targets for the year. NDB and its subsidiaries delivered most of the Group's corporate objectives for 2018 including increased lending to our people.

2018 Key Performance Highlights:

- Lent K86 million in 2018 at concessional rate of 6.5% p.a.
- Ensuring quality loan book by maintaining loan arrears over 90 days within 2.9%; a good performance compared to the commercial banks.
- Delivered net profit of K2.42 million for our subsidiary, People's Micro Bank (PMB) within five and half years since its inception in April 2013.
- Maintained our good loan book in 2018 at K291 million.
- Grew our net assets from K546 million restated in 2017 to K627 million an increase of K83 million.
- Further increased our lending to women entrepreneurs under the NDB Women in Business Segment by K10.2 million.
- Increased savings accounts opened at People's Micro Bank by 15% to 102,000 in 2018 from 89, 000 in 2017, and K6.2 million lent as loans.
- Increased interest shown by the SME sector on the Stret Pasin Business Incubation Centers in Port Moresby and Goroka.
- NDB Group financial statements for year ended 31 December 2018 shows a turnaround of K10.07 million compared to K11.50 million loss in 2017. NDB Group recorded an operating profit for the year of K8.2 million against K5.74 million in 2017.

This is reflective of the Management and Board's resolve to execute strategies to ensuring profitable outcomes.

- NDB Group continued its strategy to improve its customer service and business process reengineering project to create values for our customers by exceeding their expectations. With the limited resources entrusted to us by the Government. We resubmitted the proposal to the Government to commercialise the Bank in 2018 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 2019.

In 2019 NDB will roll out the new People's Micro Bank branch in Maprik and in 2020 the Tari and Kundiawa branches to increase its network operations to service our customers in the rural areas.

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 National Government for the trust you have placed on the Board, Management and Staff of the NDB Group to be entrusted with the stewardship of high level of funding in the 2018 Budget.

The following year will continue to present its challenges with a forecast of growth in the economy; NDB Group 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 2018. I also thank all NDB customers and suppliers who contributed towards the success in 2018 and look forward to your continued contributions in 2019.

MICHAEL MELL MBA, BEc.UPNG
Chairman of the Board

MANAGING DIRECTOR'S REPORT

The NDB Group delivered successful financial results for 2018 despite the very low growth of the economy of 0.3% as a result of the devastating earthquake that affected oil and gas productions and the general businesses in the Highlands region and the depressed commodity prices impacted significantly on Government's internal revenue regime in 2018. These factors adversely affected the overall business conditions in the country.

The NDB Group continued to sustain the growth of the Small to Medium Enterprises (SMEs) sector in the country by lending K86 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 K689 million (K24m – K713m) over the last 10 years as the focus has been on enabling a lot of ordinary Papua New Guineans to start up new or grow existing small businesses.

(Kmillion)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Loans	86	75	73	78	98	95	78	56	50	24

2018 Performance

In 2018, NDB Group had a strong financial performance in terms of profit and revenue after receiving K61 million from the Government out of the K100 million national budget allocations or 61%.

NDB Group remained focused on funding the growth of the SME sector however due to the depressed state of the economy affecting most business it was necessary to increase the management focus on credit risks. The challenge for the Bank was to efficiently deliver its products and services to exceed the customer expectations but it was equally important to institute appropriate risk mitigating strategies to ensure quality loans were processed.

The Bank continued to deliver innovative products and improved business processes utilizing its digital technology platform to enhance the delivery of quality services to our customers.

Profitability

NDB Group continued to perform profitably in 2018 despite the depressed economy as a result of the executing its cost containment and growth strategies. The Group operated in a sustainable manner by reporting an operating profit of K8.2 million. It reported a net profit of K10.1 million after adjusting for loan loss recovery/expense and income tax expense.

Balance Sheet

Net assets grew by 15% or K83 million to K625 million from K542 million mainly due to the capital injection by the National Government of K61 million and Net profit of K10.1 million.

Year of Exceeding Customer Expectations

In 2018 the NDB Group embraced the concept of exceeding customers to deliver quality products and services beyond what the expectations of our customers. Differentiating our services was necessary with added focus on quality as the Bank operated in a highly competitive market.

2019 Key Challenges

We expect the economic conditions in 2019 to improve slightly. The Government's fiscal and revenue stream is expected to be constrained or impacted by low revenue generation and consequently tax revenue at the back of the depressed economic conditions of 2018.

2019 is expected to be another challenging year as the economic condition are going to stagnant as the global economy is affected by the trade wars between USA and China and will affect commodities prices.

Consequently the Government's fiscal regime will be put under pressure resulting in negatively affecting the grant funding to the Bank.

Under this scenario managing credit will become more critical as the Bank's lending to the SME sector will be affected. Cost containment and loan portfolio growth will be also challenging under these businesses conditions for the year.

2019 Strategic Priorities

Strategic priorities for the year will be as follows:

- Commercialise NDB Group operations.
- Upgrade the Core Banking System
- Deliver on the Profit and Lending targets.
- Build new accessible modern Banking facilities for the rural people of Maprik, Tari, Kundiawa and Lae.
- Introduce new innovative products to the market.

I would like to thank the staff for their commitment and dedication in ensuring that NDB Group achieved these results in 2018 despite it being a very challenging year.

I would like to express my gratitude for their continuous support by the Government and the Board. Furthermore I thank 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 abundantly blessing the Bank in 2018 and am confident of His continued guidance in the effective execution of the NDB Group's strategies in 2019.

MOSES LIU
Managing Director

BOARD OF DIRECTORS

MICHAEL YAKE MELL

Chairman
Non-Executive Director
Appointed on 13 December 2018
Chairman of HR & Remuneration Committee

Mr. Michael Mell is the Founder and Managing Director of Mell Research and Marketing Consultants Limited (MRMC). He also serves as a Director of People's Micro Bank Limited, a subsidiary of NDB and as Chairman of Small and Medium Enterprises Corporation (SMEC).
Mell is a prominent researcher, pollster, author and publisher in PNG. Through his leadership, MRMC in 2017 launched its maiden issue of The Mell Review Magazine. Mell has a Bachelor's Degree in Economics and a Master's Degree in Business Administration, both attained from the University of Papua New Guinea. He is a member of PNG Institute of Directors.

DARRELL PATRICK SEETO

Deputy Chairman
Non-Executive Director
Appointed on 13 December 2018
Chairman of Lending Committee

Mr. Darrell Seeto has 25 years' experience in retail and commercial banking, corporate finance, debt and equity capital markets including equity and FX derivatives across international markets. Having worked his entire career in various preeminent financial institutions such as NAB Limited, Ord Minnet Securities, JP Morgan, Salmon Smith Barney the Investment Banking arm of Citigroup and Macquarie Bank in Australia.

Darrell held roles at JP Morgan as a Vice President in Wealth Management Division before being promoted to a Senior Vice President at Citigroup and a Division Director at Macquarie Bank Ltd. Currently Darrell is a Senior Adviser at the privately owned Australian firm, Shaw and Partners.

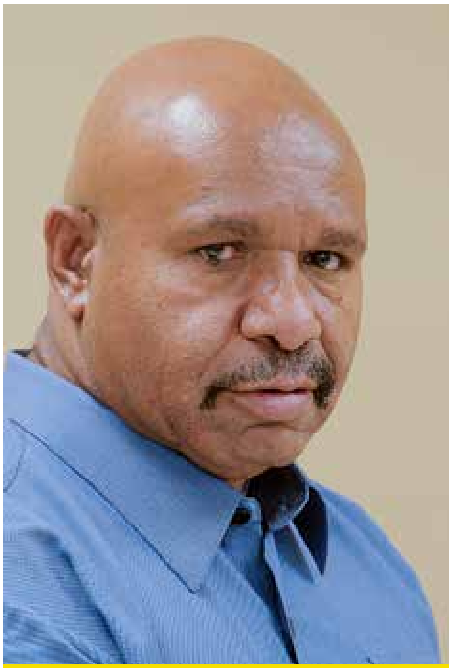
Darrell holds a Bachelor's Degree in Commerce (Accounting) from the University of New South Wales and Graduate Diploma in Applied Finance from the Australian Securities Institute of Australia. He is a certified accountant, a senior associate with the Australian Institute of Bankers and a master practitioner member of the Stockbrokers & Financial Advisers Association of Australia. He is also a member of PNG Institute of Directors.

PHILIP ISU
Non-Executive Director
Appointed on 13 December 2018
Chairman of Audit Risk & Compliance Committee

Phillip Magewa Isu has over 20 years' experience working in the Financial Sector in PNG. Over ten of those years in the senior management positions. Over 20 years' experience working in the Financial Sector in PNG and in senior management positions in both public sector and private sector. He was also a Director on a number of PNG companies.

He holds a Masters degree in Business Administration from RMIT University in Melbourne-Australia, Bachelors degree in Economics from the University of PNG. He also has Diploma in Economic Policy Analysis from the National Research Institute of PNG, Certificate in Development Economics from Administrative College in PNG and Certificate in Development Economics from International Development Centre in Japan.

Phillip is a Fellow with the Australian Institute of Management (FAIM) and a Member of PNG Institute of Directors. In July 2019, Mr. Isu completed the International Company Directors Course conducted by Australian Institute of Company Directors. He passed the assessment requirements set by AICD and was awarded the Graduate of Australian Institute of Company Directors (GAICD).



ROBERT LEO
Non-Executive Director
Appointed on 13 December 2018
Chairman of Tender Committee

Mr. Robert Leo is the Principal of Leo Lawyers and has been in private practice for over 20 years. He was formerly the Corporate Secretary for the Consumer Affairs Council. He was appointed by NEC as Director of the National Development Bank Limited effective from 13 December 2018. Robert is also a Director of Pu'u Management Consultants Limited.

Robert is one of the most experienced and senior lawyers practicing in civil litigation in PNG. He has a Bachelor's Degree in Law with Honours from the University of Papua New Guinea. He is a member Papua New Guinea Law Society, Port Moresby Chamber of Commerce and a member of PNG Institute of Directors.

BOARD OF DIRECTORS

GRAHAM ARTHUR KING

Non-Executive Director
Appointed on 9 June 2015

Mr. Graham King is a career agriculturalist who worked in Papua New Guinea for 35 years. He has worked in the oil palm industry as an Agronomist with PNGOPRA from 1996- 2000 and in plantation management at Higaturu Oil Palms from 2000-2007 and from 2008 he was the General Manager of Hargy Oil Palms Ltd until his retirement mid this year. Prior to joining the oil palm industry he was a research agronomist with the PNG Department of Agriculture and Livestock specializing in subsistence food production. Graham is also a director of a number of PNG companies and Associations including Hargy Oil Palms Ltd, National Development Bank, Oil Palm Industry Corporation and PNG Oil Palm Research Association.

Graham has experience in managing the human and physical resources necessary for initiation and coordination of agricultural business in diverse geographical locations. He has a Bachelor in Applied Science (Hort. Tech) University of Queensland – Gatton College. And is a member of PNG Institute of Directors.

TAUVASA TANUVASA CHOU-LEE

Non-Executive Director
Appointed on 15 February 2017

Mr. Tauvasa Tanuvasa was recently appointed as the Solicitor General of Papua New Guinea with the Department of Justice & Attorney General. He is a lawyer by profession since 2005 and is also a Provisionally Accredited Mediator. He is an experienced Civil and Non-Criminal Court Room Lawyer since 2005.

Tanuvasa holds, among others, Bachelor's Degree in Law with Honours from the University of Papua New Guinea, Master of Laws specializing in Government and Commercial Law from the Australian National University, Graduate Certificate in Governance and Public Policy (GCGPP) from University of Queensland, Prime Minister's Pacific Australia (PMPA) Award Awardee and USA International Visitors Leadership Program (IVLP) Awardee. He is a member of PNG Law Society, Legal Training Institute, PNG Institute of Directors and a member of South Pacific Lawyers Association.

MOSES LIU
Managing Director
Executive Director since 2012

Mr. Moses Liu was appointed by the NEC as the Managing Director of National Development Bank Limited (NDB) on 19 August 2014. He is the Chairman of NDB's subsidiary, NDB Investment Limited, a Director of Kare Kare Investments Ltd and Director of Hela Investment Limited. He possesses extensive experience in senior financial management roles in the private sector. He is professionally qualified with a Master of Business Administration (Accounting/Financial Management), UNE, NSW, Australia, has a Bachelor of Technology in Accounting from PNG University of Technology and is a Certified Practising Accountant.

Moses is a Certified Practicing Accountant of Papua New Guinea and Australia and a member of the PNG Institute of Directors.

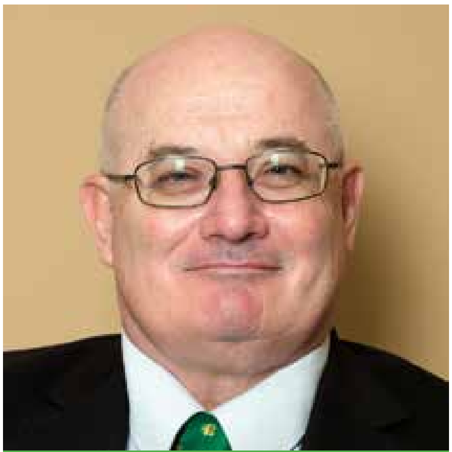
Awareness & Marketing Campaigns play a very important part to the rural populace of PNG.

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
Group CFO

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.

GRACE ANDREW
Manager Human Resource

Masters in Human Resource Management from the University of Papua New Guinea and is a member of PNG Human Resource Institute. Joined NDB in November 2005 as Senior HR Officer. Appointed as HR Manager in 2008.

Prior to joining NDB was employed 2 years at OTML and 3 years with Word Wide Fund for Nature and International NGO.

YUANIMBA YINANGUIE
Head of Property Safety & Security.

Mr Yinanguie joined NDB in September 2008 as Manager Property & Safety. Prior to that he served in a various local organizations in management roles with significant responsibility spanning over 20 years.

Mr Yinanguie was elevated to Head of Property Safety and Security in 2014. He holds a Bachelor's Degree in Architecture and Building. He leads the Property Safety & Security Department and also acts as the client representative for NDB's ongoing branch expansions.

EXECUTIVE MANAGEMENT (CONT'D)

EMMANUEL MABI
MIS Bureau Manager

Prior to joining NDB in 2012, Mr. Mabi served under various organizations both locally and abroad from military, manufacturing, superfunds, automotive, academic, mining, agriculture and finance spanning more than 20 years.

Mr. Mabi holds a Bachelors Degree in Information Technology and several Post Graduate Certificates.
He now leads the Group ICT Team.

LESLEY TIMOTHY
Programme Manager - NDB Investments

Mr. Timothy graduated from the University of Papua New Guinea with a Bachelor of Economics Degree BEc & is currently undertaking Diploma in Banking modules at the PNG Institute of Banking and Business Management. He joined the National Development Bank in 2012 under the Graduate Training and Development Program.

In 2014, he was appointed Branch Manager for NDB Mutzing Branch in Lae, Morobe Province. He moved to the Credit Department at Waigani Head Office as Credit Analyst and was later appointed to his current role as Programme Manager since 2018 with our subsidiary NDB Investments Ltd.

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.

Mr. Liu addressing NDB Managers on the importance of Exceeding Customer Expectations.


NDB Managers showing support for International Women's Day 2018.


NDB Managers Conference 2018.

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, academia, government and general business management and strategy.

2018 Award Winning NDB Staff

BOARD OF DIRECTORS

Chairman: Mr. Michael Mell
Directors: Mr. Darrell Seeto, Mr. Philip Isu, Mr. Robert Leo, Mr. Graham King, Mr. Tauvasa Tanuvasa Chou-Lee, 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. Baxter Torie, Mr. Anthony Dela Cruz, Mr. Lesley Timothy

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. Darrell Seeto
Members: Mr. Trevor Cain, Mr. Kini Vali, Ms. Suzanne Unumba

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 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 as often as necessary.

CORPORATE GOVERNANCE (CONT'D)

AUDIT RISK & COMPLIANCE COMMITTEE

Chairperson: Mr. Philip Isu
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. Robert Leo
Members: Mr. Max Kairu , Mr. Yuanimba Yinanguie, 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 Independent Director Mr. Robert Leo, with members comprising of the Principal Legal Officer, Manager for Property & Safety and Executive Manager Accounting and Finance.

Rewarding staff performance in 2018. Augustine Namba at a Hunters game.

MIS STEERING COMMITTEE

Chairman: Mr. Moses Liu
Members: Mr. Emmanuel Mabi, Mr. Trevor Cain, Mr. Anthony Dela Cruz, Mr. Max Kairu, Ms. Grace Andrew, Mr. Frankie Henry.

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.

Mr. Liu presenting a cheque of K35,000 to help out during the 2018 tragic earthquakes in the Highlands.

ACCOUNTING & FINANCE DIVISION

MAX KAIRU
Executive Manager
Accounting & Finance
Group CFO

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. Ensure annual external group audit is managed well and group statutory accounts are delivered within the set deadline;
4. Deliver NDB Group Annual Operating Plan and Group National Budget submission on set deadlines,
5. Modernize our payment processes and systems to best practice;
6. Ensure Trustee Shareholder and other stakeholders' expectations and requirements are met;
7. Ensure at minimum three Quarterly Project Steering Committee meetings and three Monitoring & Evaluations are held for compliance purposes.
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;
10. Provide effective and efficient services to both internal and external customers; and
11. Assist Group Management to Corporatize NDB Group

SUMMARY

2018 was even more challenging and stressful with due diligence conducted on Group's loan books and International Financial Reporting Standards (IFRS) 9 on Financial Instruments process set up by PriceWaterhouseCoopers (PWC) running well over nine months' period into May 2019. 2018 was the first year IFRS 9 was implemented which meant Management Information Systems Department had to redesign reports and Lending Division to perfect their securities' records to meet the requirements of IFRS 9.

The external audit process and finalization of statutory accounts for the Group was prolonged as a result of the above two matters not completed in timeline expected. The finalization of statutory happened in the latter part of May 2019.

Prioritizing the competing priorities was the main focus of Accounting & Finance during the year especially dealing with National Government reporting, other external stakeholder reporting and internal management reporting.

The experiences of 2018 in different projects and processes made the Division to be more focused and proactive in 2019 to ensuring systems and processes are more robust to avoid recurrence of matters experienced in IFRS 9 model set-up, Loan Book Due Diligence and external audit. Expenses committal process was introduced in 2018 but ineffective therefore putting business under pressure to meeting monthly profit target. 2019 will see a well-managed process. The Division will continue to support the Group management on NDB Group Corporatization matters.

WHAT WE DO

- Produce monthly management accounts for the Company and the Group;
- Oversee financial matters of the Group;
- Prepare Budget for the Group and submit to National Government for allocation;
- Preparing and attending National Government Quarterly budget review sessions.
- Run Quarterly Project Steering Committee meetings and Monitoring and Evaluation (M&E) program for NDB Group;
- Managing the annual group external audit and Group Statutory accounts sign off;
- Oversight function on affairs of National Development Bank Investments
- Ensure monthly, quarterly and yearly statutory compliance requirements for the Group are met;
- Managing external stakeholders' requirements;
- Assisting RDB Savings & Loans Society on monthly, quarterly and yearly compliance reporting requirements;
- Assist the Board & Management on matters of operational and structural significance;

KEY ACHIEVEMENTS

- Delivered audited individual and consolidated annual financial reports for period 2018 for NDB Group with favorable 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;
- IFRS 9 information related structures are now in place;
- Expense control is more managed than before;
- EFTPOS machines in 16 branches and business going cashless in 2019; and
- Under tight economic environment brought in K61 million grant receipt out of K120 million approved National Government budget, 51% success.

GOALS AND CHALLENGES FOR 2019

- Staff maximizing efficiency and delivery to meet or exceed expectation;
- Staff skills gap development, delegation and empowerment to unleash potential;
- Strictly meeting internal and external reporting deadlines;
- Monitor price, financial and operational risks closely;
- Secure the full release of National Government annual grant of K100 million for NDB Group for 2019 through the Project Steering Committee & Monitoring & Evaluation process.
- Managing Trustee Shareholder and other stakeholder expectations;
- Continue to assist the NDB Group ccorporatisation process; and
- Ensure revised Group profit targets are achieved.
- Ensure requirements for new International Financial Reporting Standards with implementation effective 1 January 2019 are well reflected in Group's systems and processes.

LENDING DIVISION

TREVOR CAIN
Executive Manager Lending

NDB continued to lend to the SME sector throughout all regions in PNG despite the continued contraction of the economy. Over 1900 SME customer loans were drawn totalling K76.3 million up on 2017 (66m) due mainly to businesses returning to operations after the election and increased activity due to APEC.

Agriculture makes up nearly K15m (20% of total funding) for 2018 however funding was lower than Government funding for agriculture due to the challenge of security available and enforceability in the event of default. While new legislation is in place with moveable asset security, the challenge continues to be funding against commitment to repay and ensuring customer's income is sustainable.

Arrears on current lending continue within normal financial standards at 3.09% over 30 days due to continued focus on all arrears. With a depressed economy this remains a challenge with some customer's experiencing continued delays in Government payments impacting on their loan servicing. This has resulted in an increase in recovery actions across all regions.
The focus in 2019/20 is to continue focusing on agriculture lending and a further streamline of applications with online submissions to reduce paper.

LEGAL DEPARTMENT

SUZANNE UNUMBA
Principal Legal Officer

The Department provides legal services and advice to the Bank's business units and staff. We also provide support role to NDB's subsidiaries, People's Micro Bank Limited and NDB Investment Limited.

Our line of work includes:

- General advice
- Litigation
- Contracts
- Conveyance
- Regulatory compliance

Most of the cases by and against the Bank are handled in-house. Matters are briefed out and advice sought from the Bank's external lawyers as and when deemed necessary.
The Department through the Company Secretary's Office is responsible for the administrative and statutory functions of NDB Board as well as to the Boards of the subsidiaries. Secretarial work is also provided to the Board committees.

ACHIEVEMENTS:

- Contain Legal Expenses within budget
- Completed about ten percent of litigation matters.

INTERNAL AUDIT DEPARTMENT

FRANKIE HENRY
Manager
Internal Audit

OVERVIEW

Internal Audit Department was established as an independent appraisal function designed to add value and improve the organisations operations by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes. The IA Department adopts a risk based audit 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 and independent audit that fulfils our obligations to the NDB Board and Management which includes reporting and communicating areas of high risk and ensuring risk mitigation strategies are in place and functioning effectively.

CHALLENGES/ VIEWS

Continued down turn in economy experienced during the year has in one way or the other affected banks operation including audit activities. For example, NDB Audit team has to cut back on some its planned activities such as routine branch visits just to contribute to bottom line. Despite the setback, audit team completed most of its audit focusing more on low performing branches to ensure high risk area are adequately addressed.

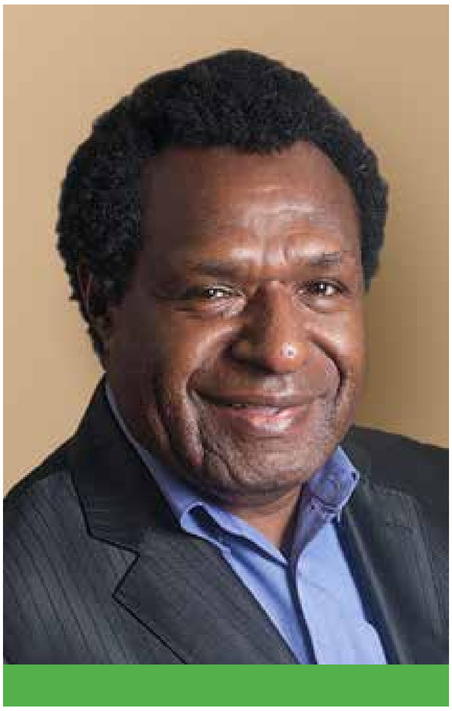
Presence of cash within the branch presents a high risk situation which has been the subject of fraud, abuse and mismanagement. In 2018, management have taken steps to improve controls surrounding cash handling by install EFTPOS in NDB branches nationwide in its endeavour to go branchless. This process is long overdue and is a positive step in the right direction. We anticipate decline in the instances of fraud and abuse involving cash at branch level.

Furthermore, the lack of clearly documented policy and procedures within Departments has been our main major concern especially in terms of properly assessing risks and planning our audits. Nevertheless we are continually stressing on the essence that policy and procedures is a form of guidance to staff in carrying out their daily tasks as well as external requirement by statutory bodies. The issue surrounding Policy and Procedure is ongoing and we expect the issue to be resolved with the progressive review and monitoring of the overall control environment. Management has issued instructions in the monthly meetings for Departments/ Divisions to comply by having set of instructions in the form of policy and procedure manuals as guide.

There are total of four audit staff including audit manager. Number of staff is minimal relevant to the size of the organisation and the role audit department plays. Our aim is to recruit and retain skilled and experienced staff while emphasis on multi-tasking for our staff as a way forward.

Going forward the audit department plans to undertake major review of its audit programs and procedure. External consultancy firms will be engaged to undertake this exercise, basically to review and streamline existing audit processes and procedures with best practice. This review will serve as a catalyst for our plans to improve our audit processes into a more robust and systematic function by adopting system based audit and reporting.

PROPERTY & SAFETY DEPARTMENT



YUANIMBA YINANGUIE
Head of Property, Safety & Security

PROPERTY & INFRASTRUCTURE DEVELOPMENT

The 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 has been completed and is scheduled to be handed over in September 2019.

The full modernization upgrade of the Head Office Building is continuing. The first and second floors were upgraded in 2018. Work is on part of the ground floor is currently in progress and is scheduled to be completed by the end of the year. This will house the Lending Department.

Construction has commenced on a new building in Tari and this is scheduled to be completed in August 2020.

Tenders for a new two level building building in Lae are currently under consideration. The new building will house a banking centre for People's Micro Bank and the bank's Lae operations. Construction is scheduled to commence in October 2019.

The design documentation for remedial works to the PMBL and NDB Mendi Branches is currently on hold due to uncertainty in funding.

The upgrade of residential properties throughout the bank's network is ongoing.

HUMAN RESOURCE DEPARTMENT

GRACE ANDREW
Manager
Human Resource

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.

2018 ACHIEVEMENTS

- Recruited & filled vacant/ replacement positions
- Managed staff transfers/appointments
- 2 graduate trainees completed the GTDP and now made permanent employees of the Bank
- Implemented the 2018 Training Plan
- Facilitated Pastoral Care/Employee Benefits

GOALS FOR 2019

- Manage employees issues, concerns
- Recruit & fill replacement positions
- Manage staff appointments/transfers
- Implement the 2019 Training Plan
- Closely monitor training to get value of every training than employees attend
- Review HR Policies and Procedures
- Facilitate Pastoral Care/Employee benefits
- Develop Succession Plan

MARKETING DEPARTMENT

BAXTER TORIE
Senior Marketing Officer

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.

2018 was a challenging year for the Marketing Department as we tried to maximize the value of spending for the group with half the team from previous years.

Our initiatives were in line with the overall theme of customer service and community social responsibility. We carried on the focus on building brand awareness in key communication channels such as digital marketing, direct marketing initiatives via events and workshops and sponsorship platforms.
Social media was widely used for information dissemination and customer engagement throughout the year.

OUR KEY DELIVERABLES FOR 2018:

- Brand awareness through the ***"Empowering local businesses since 1967"*** campaign
- Billboard rollout in 6 locations thoughout the country
- Continued strategic sponsorships for sports and community

NDB INVESTMENTS

LESLEY TIMOTHY
Programme Manager

2018: YEAR IN REVIEW

NDBI derives its income from two major business activities. The products and services under the Stret Pasin Business Incubation Program and the Rental income we derive from our small but profitable portfolio. Our range of business activities include;

- Stret Pasin Retail; this is no longer in operation. The Taraka Shop in Lae has been converted to entrepreneurial loan and will be serviced as normal loan.
- Young Enterprise Scheme; This program has been shelved in 2018 hence the focus now is on monitoring of existing loan accounts for batch 1.
- Business Incubation Centres; Because SMEs cannot afford to rent office or shop spaces, NDBI takes out the head lease for a large floor space, subdivides the floor into smaller partitions and then rents them out on affordable rates. There are two Incubation Centres currently operating in Port Moresby and Goroka.
- Mealz on Wheelz; This is a mobile food cart that can be towed behind a car. It targets SMEs in the catering industry that would like the mobility of operating in a wider market.

Financially, NDBI for the first time since its inception recorded a profit of K886, 232 in 2018. This significant improvement is because of ongoing reduction in operational costs particularly with the rightsizing of staff to become more efficient and cutting back on unproductive programs. Forecast for 2019 looks promising as we build on this positive result.

On the operational front, NDBI successfully delivered 5 Mealz on Wheelz food carts including fully kitted accessories to SME customers in rural Maprik District in the East Sepik Province. This was facilitated under the existing Maprik District Credit Scheme with our parent entity NDB.

While the Goroka Business Incubation Centre continues to serve its purpose well, the Port Moresby Business Incubation Centre has been renamed SME Central with a new logo to improve its exposure and increase customer traffic.

Construction of the only Stret Pasin store in Lae has been successfully completed. It has been commissioned for occupancy by the Morobe Provincial Building Board and official opening is scheduled for 1st January 2019.

We anticipate more profitable outcome in 2019 while we look at absorbing current operations into NDB's commercialization strategy. NDBI operations in the interim will focus on efficiently managing existing business incubation programs to support the growth of our indigenous SMEs and strive to achieve the Wealth Creation Pillar of Vision 2050.

NDB Maprik Staff with the 5 Mealz on Wheelz food cart ready to assemble on location.

SME Central Kiosk owner at Mother's Day promotion at the Garden City.

The MOWs ready for shipment.

Crowd at the SME Central Open Day.

Mr. Lesley Timothy speaking about the MOWs at the SME Central Open Day.

PEOPLE'S MICRO BANK

ANTHONY DELA CRUZ
Chief Executive Officer

HIGHLIGHTS OF 6 YEARS ACHIEVEMENTS (2013-2018)

This section summarizes PMB's milestone achievements in the past 6 years since inception:

2013

- Received a Micro Banking License from Bank of PNG
- 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 saving accounts
- 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
- OSS 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 deposits 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
- 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 K62.8 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
- 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

2018

- Grew customer deposits to over K63 million
- Grew number of saving accounts to over101,000 accounts
- Grew loan book to over K40 million, the highest since inception
- Grew the bank's assets to over K139 million
- Received additional capital injection of K34.3 million
- Net Capital stood at over K68 million
- Capital ratios stood well above regulation limits
- OSS is registered at 127.8%, ROE stood at 4.9%.
- Finished the year with a highest recorded annual Net Profit of K2.88 million
- Fully compliant to Prudential regulations

Explaining PMB Products at SME Central Open Day.

The Pipol's Kad

Kimbe Branch ATM

National Development Bank Limited
and its subsidiaries

CONSOLIDATED FINANCIAL REPORT

for the Year ended 31 December 2018

C O N T E N T

Page

DIRECTORS' REPORT

for the Financial Year Ended 31 December 2018

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

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

Directors

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

Company Secretary

Suzanne Unumba was the Company Secretary throughout the financial year.

Review of operations

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

Changes in state of affairs

The Group's principal activities are as follows:

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

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

Changes in accounting policies

Changes in accounting policies during the financial year.

IFRS 9 and IFRS 15

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

Entries in the interest register

The following are transactions recorded in the interest register:

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

Directors' and specified executives' remuneration

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

Remuneration above K100, 000 per annum

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

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

Donations

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

Independent auditor's report

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

Subsequent events

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

Dividends

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

Company information

Solicitors

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

Registered Office

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.

Michael Mell
Chairman
Port Moresby, 18 June 2019

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

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

Report on the Audit of the Financial Statements

Opinion

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

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

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

The financial statements comprise the:

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

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

Basis for Opinion

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

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

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

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

Emphasis of matter – restatement of comparative balances

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

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

Other Information

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

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

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

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

Responsibilities of Directors for the Financial Statements

The Directors are responsible for:

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is:

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG
Chartered Accountants

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby

19 June 2019

DIRECTORS' DECLARATION

for the Financial Year Ended 31 December 2018

The Directors declare that:

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

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

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Michael Mell
Chairman
Port Moresby, 18 June 2019

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

National Development Bank and its Subsidiaries

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Financial Year Ended 31 December 2018

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

Notes to the financial statements are included on pages 46 to 73.

National Development Bank and its Subsidiaries

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

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

*See Note 25 for details of the Restatement

Notes to the financial statements are included on pages 46 to 73.

National Development Bank and its Subsidiaries

STATEMENTS OF CHANGES IN EQUITY

for the Financial Year Ended 31 December 2018

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

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

*See Note 25 for details of the Restatement

Notes to the financial statements are included on pages 46 to 73.

National Development Bank and its Subsidiaries

STATEMENTS OF CASH FLOWS

for the Financial Year Ended 31 December 2018

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

Notes to the financial statements are included on pages 46 to 73.

1. Summary of Accounting Policies

Statement of compliance

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

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

Basis of preparation

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

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

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

Use of estimates and judgements

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

Note D - Loan provisioning

Going concern - State guarantee

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

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

(a) Revenue Recognition

(i) Interest income

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

(ii) Fees and other income

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

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

(iii) Rental income

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

(b) Cash and cash equivalents

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

(c) Employee benefits

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

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

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

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

(d) Impairment of financial assets at amortized cost

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

Expected credit loss impairment model

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

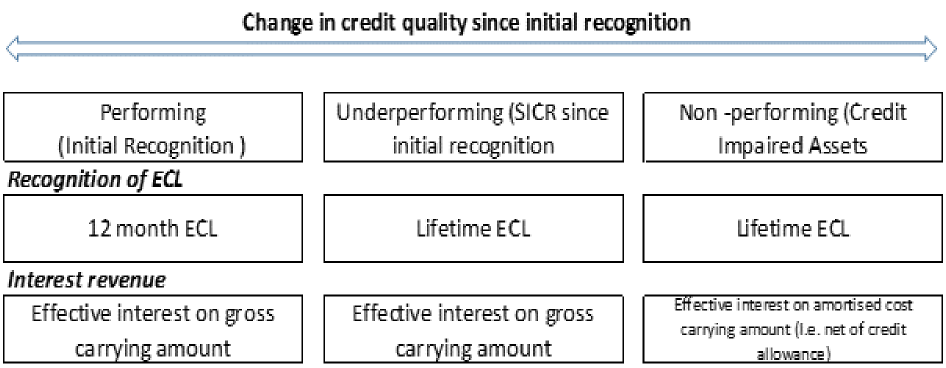
This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

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

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

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

The diagram below shows the impairment approach under IFRS 9.



Measurement of expected credit loss

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

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

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

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

Forward-looking information

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

Macroeconomic factors

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

Multiple forward-looking scenarios

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

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

Scenario	Base	Upturn	Downturn
Weighting	80%	10%	10%

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

Assessment of significant increase in credit risk (SICR)

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

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

Expected life

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

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

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

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

Definition of default

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

• significant financial difficulty of the borrower;

• default or delinquency in interest or principal payments;

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

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

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

Write-off policy

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

Policy applicable before 1 January 2018

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

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

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

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

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

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

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

(e) Financial instruments

Financial assets

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

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

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

The Group currently has loans and receivables.

Debt and equity instruments

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

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

Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(f) Foreign currency

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

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

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

(g) Consolidation of subsidiaries

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

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

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

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

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

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

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

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

(h) Government grants

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

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

National Government funding

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

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

(i) Impairment of assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

(j) Income Tax

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

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

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

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

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

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

(k) Property, plant and equipment

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

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

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

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

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

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

(l) Investment property

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

(m) Classification and measurement of financial instruments

Policy applicable from 1 January 2018

Financial assets and liabilities

Recognition and initial measurement

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

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

Classification and measurement

Classification and subsequent measurement of financial assets

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

• Amortised cost,

• Fair value through other comprehensive income (FVTOCI),

• Fair value through profit or loss (FVTPL).

Financial assets include both debt and equity instruments.

i) Debt instruments

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

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

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

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

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

The classification of debt instruments is determined based on:

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

b) the contractual cash flow characteristics of the instrument.

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

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

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

ii) Equity instruments

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

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

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

Classification and subsequent measurement of financial liabilities

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

Determination of fair value

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

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

iii) Derecognition of financial assets and financial liabilities

Derecognition of financial assets

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

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

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

Derecognition of financial liabilities

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

Policy applicable before 1 January 2018

Financial assets

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

Loans and receivables

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

Held-to-maturity investments

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

Debt and equity instruments

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

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

Financial liabilities
Financial liabilities are classified as other financial liabilities. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(n) Leases

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

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

(o) Goods and services tax

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

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

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

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

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

(p) Inventories

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

(q) Comparative amounts

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

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

Changes in significant accounting policies

A. IFRS 9 Financial instruments

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

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

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

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

ii. The business model assessment and transition

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

B. IFRS 15, Revenue from contracts with customers

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

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

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

C. IFRS 16 Leases

IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The details of the impact on the entities financial statements are currently being assessed by management.

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

2. Interest income

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

3. Fees and other income

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

4. Operating expenses

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

5. Income taxes

a) Income tax expense

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

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

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

Income tax expense comprises:

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

b) Deferred taxes

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

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

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

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

c) Unrecognized deductible temporary differences

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

d) Provision for Income Tax

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

6. Trade and other receivables

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

7. Loans and advances

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

Movement in allowance for loan impairment as below:

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

Provision for impairment is represented by:

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

Loan impairment (expense)/ recovery:

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

8. Investment in subsidiaries

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

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

9. Property and equipment

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

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

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

Note:

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

10. Investment properties

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

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

11. Trade and other payables

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

12. Customer deposits

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

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

13. Employee provisions

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

14. Share capital

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

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

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

15. Grants and reserves

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

a) Government grants

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

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

b) Asset revaluation reserve

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

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

16. Commitments for expenditure

(a) Capital expenditure commitments

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

(b) Loan commitments

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

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

(c) Lease commitments

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

17. Contingent liabilities

Legal proceedings

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

18. Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

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

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

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

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

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

19. Financial instruments

(a) Financial risk management

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

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

(b) Foreign currency risk management

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

(c) Interest rate risk management

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

(d) Credit risk management

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

i. Settlement risk

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

ii. Management of credit risk

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

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

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

(e) Risk limit control and mitigation policies

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

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

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

(f) Liquidity risk management

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

(g) Fair value of financial instruments

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

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

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

PARENT - 2018

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

PARENT - 2017

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

CONSOLIDATED - 2018

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing 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			-	-	5,871,631	5,871,631
Deposit liabilities		9%	52,458,670	-	-	55,277,289
Security deposits		1%	-	15,966,448	-	15,966,448
			52,458,670	**15,966,448**	**5,871,629**	**77,115,368**

CONSOLIDATED - 2017

	Average industry variable interest rate	Average industry fixed interest rate	Interest bearing 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%	-	15,920,676	-	15,920,676
			54,248,145	**15,920,676**	**3,310,800**	**73,479,621**

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

Sensitivity Analysis

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

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

20. Related party transactions

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

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

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

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

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

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

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

a. Loans to key management personnel

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

b. Key management personnel compensation

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

Specified director's remuneration

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

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

Specified executive's remuneration

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

c. Rent Free Arrangement

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

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

d. Intercompany Balance

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

21. Remuneration of auditors

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

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

22. Investment in short-term securities

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

23. Other information

Company information

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

24. Operating lease arrangements

The Group as lessor – leasing arrangements

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

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

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

25. Reconciliation of Restatement Relating to Provision for Impairment

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

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

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

Restatement – 31 December 2017 (Parent Entity)

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

Restatement – 31 December 2017 (Group)

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

Restatement – 31 December 2016 (Parent Entity)

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

Restatement – 31 December 2016 (Group)

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

26. Subsequent events

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

National Development Bank and its Subsidiaries

2018 PICTORIAL HIGHLIGHTS


NDB
NATIONAL DEVELOPMENT BANK

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 include:

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

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.

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

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