Nationwide Microbank Limited

Financial Statements

For the Year Ended 31 December 2019

Nationwide Microbank Limited

Contents

For the Year Ended 31 December 2019

Nationwide Microbank Limited

Company Information

31 December 2019

Registered office	1st Floor, Wilson Kamit Building PNG Institute of Banking & Business Management ToRobert Training Centre, Konedobu, NCD
Principal Place of Business	ToRobert Training Centre, Vanama Crescent Konedobu, NCD
Directors	Allan Marlin Paul Nindipa Dame Carol Kidu Jason M'ilvena Lesieli Taviri (ceased 30 June 2019) Wavie Kendino (appointed 30 June 2019)
Chief Executive Officer	Anthony Michael Westaway
Secretary	None
Auditors	KPMG Level 3, Credit House, Cuthbertson Street Port Moresby NCD
Bankers	Bank South Pacific Limited ANZ PNG Limited

Nationwide Microbank Limited

Directors' Report

31 December 2019

The Directors have pleasure in presenting their report together with the financial statements of Nationwide Microbank Limited (MiBank) for the year ended 31 December 2019 and the auditor's report thereon.

Activities

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

Results

The loss for the year before taxation amounted to K989,413 (2018: K267,000)

Dividend

No dividend was paid or declared during the year.

Auditors

The financial statements for the company have been audited by KPMG (PNG) and should be read in conjunction with the Independent Audit Report as set out on pages 4 to 6.

Further disclosure

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

Signed at Port Moresby

For and on behalf of the Board of Directors:

Director: .... Director: Carol A. Kidu ....

Dated this 9th .... day of April 2020

Nationwide Microbank Limited

Directors' Declaration

1. In the opinion of the Directors of Nationwide Microbank Limited:

a). the statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the business of the company for the year ended 31 December 2019,
b). the statement of financial position is drawn up so as to exhibit a true and fair view of the state of affairs of the company as at 31 December 2019,
c). the statement of changes in equity is drawn up to exhibit a true and fair view of the changes in equity for the financial year end 31 December 2019,
d). at the date of this statement there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due.

2. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in Papua New Guinea and the Companies Act 1997 of Papua New Guinea.

3. The key risks facing the company are identified on a continuous ongoing basis. Systems have been established to monitor and manage risk including setting and adhering to a series of prudential limits and by adequate and regular reporting. These risk management systems are operating effectively and are adequate having regard to the risks they are designed to control.

Signed at Port Moresby

For and on behalf of the Board of Directors

Director .... Director Carol A. Kidu ....

Dated 09th April 2020

Independent Auditor's Report

To the shareholders of Nationwide Microbank Limited

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of Nationwide Microbank Limited (the "Company").

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Companies Act 1997*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *International Financial Reporting Standards*.

The Financial Report comprises:

- statement of financial position as at 31 December 2019;
- 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.

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 Report* section of our report.

We are independent of the Company in accordance with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Papua New Guinea. We have fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that we have remained independent as required by the Code throughout the period of our audit and to the date of this Auditor's Report.

Emphasis of matter – restatement of comparative balances

We draw attention to Note 28 to the financial statements, which states that the amounts reporting in the previously issued 2018 financial statements have been restated for the adoption of IFRS 9 'Financial Instruments' and disclosed as comparatives in this report. Our opinion is not modified in respect of this matter.

Other Information

Other Information is financial and non-financial information in Nationwide Microbank Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report 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 Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report 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 the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives 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 a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is 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 *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 the Financial Report.

As part of the audit in accordance with *International Standards on Auditing*, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, 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 controls.

Auditor's responsibilities for the audit of the Financial Report (continued)

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

The auditor communicates 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 the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

The *Companies Act 1997* requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the Financial Report for the year ended 31 December 2019:

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

KPMG
Chartered Accountants

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby
24 April 2020

Nationwide Microbank Limited

Statement of Financial Position
As At 31 December 2019

	Note	2019 PGK	2018 Restated Note 28* PGK	01 January 2018 Restated Note 28* PGK
ASSETS				
Cash and balances with central banks	10	**18,759,939**	15,773,654	11,997,791
Due from banks	10	**8,678,831**	5,728,314	9,149,127
Other assets	13	**3,226,924**	1,640,002	1,519,801
Deferred tax assets	9	**1,726,701**	1,433,480	1,382,516
Loans and advances to customers	11	**49,846,890**	49,405,959	53,335,201
Investment held to maturity	12	**-**	5,000,000	5,000,000
Property and equipment	17	**16,678,157**	3,895,833	3,478,533
TOTAL ASSETS		**98,917,442**	82,877,242	85,862,969
LIABILITIES				
Other liabilities	14	**4,601,223**	5,984,962	5,934,842
Deposits from customers	15	**69,274,560**	66,294,073	69,048,997
Provisions	16	**569,728**	407,686	421,609
Lease liabilities	18	**12,695,804**	-	-
TOTAL LIABILITIES		**87,141,315**	72,686,721	75,405,448
NET ASSETS		**11,776,127**	10,190,521	10,457,521
EQUITY				
Issued capital	19	**15,263,526**	12,688,506	12,688,506
Retained earnings		**(3,487,399)**	(2,497,985)	(2,230,985)
		11,776,127	10,190,521	10,457,521
TOTAL SHAREHOLDER EQUITY		**11,776,127**	10,190,521	10,457,521

Signed at Port Moresby

For and on behalf of the Board of Directors

Director ....

Director Carol A. Kidu ....

The accompanying notes form part of these financial statements.
*The company has disclosed the nature of the prior period error and the amount of the correction for each financial line item affected as required by IAS 8, refer to note 28 for disclosure.

Nationwide Microbank Limited

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 PGK	2018 Restated Note 28* PGK
Loans and advances to customers		**14,999,543**	15,022,570
Interest expense		**(1,415,054)**	(1,451,233)
Net interest income		**13,584,489**	13,571,337
Fees and commission income	5	**5,523,209**	5,117,858
Cash and balances with central banks	6	**975,993**	930,396
Other operating income	7	**357,112**	34,857
Net operating income		**20,440,803**	19,654,448
Personnel expenses	4(a)	**(7,098,890)**	(7,348,337)
Depreciation	17	**(4,339,112)**	(1,279,868)
Operating expenses	4(b)	**(9,524,412)**	(11,344,207)
Lease expenses	18	**(761,022)**	-
Loss before tax from operating income		**(1,282,633)**	(317,964)
Income tax expense	9	**293,219**	50,964
Loss for the year		**(989,414)**	(267,000)
Total comprehensive loss for the year net of tax		**(989,414)**	(267,000)

The accompanying notes form part of these financial statements.

*The company has disclosed the nature of the prior period error and the amount of the correction for each financial line item affected as required by IAS 8, refer to note 28 for disclosure.

Nationwide Microbank Limited

Statement of Changes in Equity

For the Year Ended 31 December 2019

	Note	Ordinary Shares PGK	Retained Earnings (As Restated) Note 28* PGK	Total PGK
Balance at 31 December 2017		12,688,506	(1,741,051)	10,947,455
Balance at 1 January 2018 as previously stated	19	12,688,506	(1,741,051)	10,947,455
Correction of error	28	-	(489,934)	(489,934)
As restated		12,688,506	(2,230,985)	10,457,521
Loss for the year		-	(267,000)	(267,000)
Other comprehensive income		-	-	-
Balance at 31 December 2018		12,688,506	(2,497,985)	10,190,521
Balance at 1 January 2019 as previously stated	19	**12,688,506**	**(1,547,631)**	**11,140,875**
Correction of error	28	**-**	**(950,355)**	**(950,355)**
As restated		**12,688,506**	**(2,497,986)**	**10,190,520**
Loss for the year		**-**	**(989,413)**	**(989,413)**
Other comprehensive income		**-**	**-**	**-**
Shares issued during the year		**2,575,020**	**-**	**2,575,020**
Balance at 31 December 2019		**15,263,526**	**(3,487,399)**	**11,776,127**

The accompanying notes form part of these financial statements.
*The company has disclosed the nature of the prior period error and the amount of the correction for each financial line item affected as required by IAS 8, refer to note 28 for disclosure.

Nationwide Microbank Limited

Statement of Cash Flows

For the Year Ended 31 December 2019

	Note	2019 PGK	2018 (As Restated) Note 28* PGK
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before tax		**(1,282,632)**	(317,964)
Adjustments for:			
Depreciation of property and equipment		**4,339,112**	1,279,868
Gain on disposal of property and equipment		**(81,000)**	(25,000)
Allowance for doubtful debt		**2,758,848**	2,097,743
Movement in working capital			
Increase in other assets		**(740,538)**	(120,200)
Decrease/ (increase) in loans and advances to customers		**(3,199,779)**	1,831,498
(Increase)/ decrease other liabilities		**(2,230,129)**	50,120
(Increase)/ decrease in provisions		**162,042**	(13,923)
(Increase)/ decrease in deposits from customers		**2,980,487**	(2,754,923)
Net cash provided by operating activities		**2,706,411**	2,027,219
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proeeds from investment held to maturity		**5,000,000**	-
Proceeds on disposal of property and equipment		**106,610**	25,000
Purchased of property and equipment		**(1,924,578)**	(1,697,168)
Net cash provided used in investing activities		**3,182,032**	(1,672,168)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Shareholder capital contribution	19	**2,575,020**	-
Payment of lease liabilities		**(2,526,661)**	-
Net cash provided by/(used in) financing activities		**48,359**	-
Net increase/(decrease) in cash and cash equivalents held		**5,936,802**	355,051
Cash and cash equivalents at beginning of year		**21,501,968**	21,146,917
Cash and cash equivalents at end of financial year	10	**27,438,770**	21,501,968

The accompanying notes form part of these financial statements.

*The company has disclosed the nature of the prior period error and the amount of the correction for each financial line item affected as required by IAS 8, refer to note 28 for disclosure.

Notes to the Financial Statements
For the Year Ended 31 December 2019

1 General

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

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with the applicable financial reporting standards to the extent IFRS complies with Bank of PNG prudential standards, other mandatory professional reporting requirements approved for the use in Papua New Guinea and the Papua New Guinea Companies Act 1997. IFRS are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention.

(b) Basis of accounting

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

This is the first set of the Company's financial statements in which IFRS 16 and IFRS 9 has been applied. The related changes to significant accounting policies are described in Note 2.

(c) Judgement

Information about judgement made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval model used to measure ECL.
- Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

1 General

(c) Judgement
Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in the material adjustment in the year ended 31 December 2019 is included in the following notes:

- Impairment of financial instruments, determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.
- Recognition and measurement of contingencies, key assumptions about the likelihood and magnitude of an outflow of resources.

(d) Use of judgement and estimates

In preparing these financial statements, management has made judgement, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

2 Change in significant accounting policy

IFRS 16 Leases

The Company initially applied IFRS 16 Leases from 01 January 2019. A number of other new standards are also effective from 01 January 2019 but they do not have a material effect on the Company’s financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 01 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information:

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not assessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 01 January 2019.

There has also been changes in the accounting over the life of the lease. In particular, the Company will now recognise a downloaded pattern of expense for most leases, even when they pay constant annual returns.

2 Change in significant accounting policy

IFRS 16 Leases

As a lessee

As a lessee, the Company leases many assets including property, equipment and IT equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet. At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand–alone price.

However, for a leases of property the Company has elected not to separate non-lease components and account for the lease and associated non- lease components as a single lease component.

i. Lease classified as operating lease under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 01 January 2019. Right- of – use assets are measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.
- the Company applied this approach to all other leases.

The Company has tested its right- of- use assets for impairment on the date of transition and has concluded that there is no indication that the right- of- use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- Did not recognise right- of- use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise right- of- use assets and liabilities for leases of low value assets (e.g. IT equipment);
- Excluded initial direct costs from the measurement of the right- of- use asset at the date of initial application; and
- Used hindsight when determining the lease term.

2 Change in significant accounting policy

IFRS 16 Leases

Impact on transition

On transition to IFRS 16, the company recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

	2019
	PGK
Right-of-use asset- property and equipment	**13,276,329**
Lease liabilities	**(13,276,329)**

	2019
	PGK
Operating lease commitment at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	**14,855,821**
Discounted using the incremental borrowing rate 01 January 2019	**6.25%**
Finance lease liabilities recognised as at 31 December 2018	**-**
Lease liabilities recognised at 31 December 2019	**12,695,804**

IFRS 9 Financial Instruments

Published in July 2014, replaces the existing 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 Company adopted IFRS 9 with initial application at 1 January 2018 restated.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company’s accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, debt investments at FVOCI and loan commitments issued, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 9 Financial Instruments

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on the asset had not increased significantly since its initial recognition.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IFRS 39	New classification under IFRS 9	Original carrying amount under IAS 39 PGK	New carrying amount under IFRS 9 PGK
Financial assets				
Cash and balances with central bank	**Loans and receivables**	**Amortised cost**	**11,997,791**	**11,997,791**
Due from banks	**Loans and receivables**	**Amortised cost**	**9,149,127**	**9,149,127**
Loans and advances	**Loans and receivables**	**Amortised cost**	**54,035,108**	**53,335,201**
Investment held to maturity	**Amortised cost**	**Amortised cost**	**5,000,000**	**5,000,000**
Total Financial assets			**80,182,026**	**79,482,119**
Financial liabilities				
Due to customers	**Other financial liabilities**	**Other financial liabilities**	**69,048,997**	**69,048,997**
Borrowings	**Other financial liabilities**	**Other financial liabilities**	**5,934,842**	**5,934,842**
Total financial liabilities			**74,983,839**	**74,983,839**

IFRS 9 Financial Instruments

The Company accounting policies are the classification of financial instruments under IFRS 9 are sent out in Note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below:

a. Debt securities that were previously classified as available-for-sale are now at amortised cost. The Company intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

b. These equity securities represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at amortised; and

Loans, advances and receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

3 Significant accounting policies

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

(a) Revenue recognition

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

Interest income and expense

Interest income and expense are recognised in the income statement on an effective interest rate ("EIR") basis. The EIR is the rate that, at the inception of the financial asset or liability, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Company estimates cashflows considering all contractual terms of the instrument (for example, prepayment options) but does not consider the assets' future credit losses.

At each reporting date, management makes an assessment of the expected remaining life of its financial assets, including any acquired loan portfolios, and where there is a change in those assessments, the remaining amount of any unamortised discount or premiums is adjusted so that the interest income continues to be recognised prospectively on the amortised cost of the financial asset at the original EIR. The adjustment is recognised within interest income in the income statement for the current period.

The calculation of the EIR includes all transaction costs and fees, paid or received, that are an integral part of the interest rate together with the discounts or premium arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

'Interest on financial assets and financial liabilities measured at amortised cost calculated on an EIR basis

Fees and commission income and expense

Fee and commission income includes fees relating to services provided to customers which do not meet the criteria for inclusion within interest income.

Other fee and commission income includes fees charged for mortgage services, arrears and other fees.

3 Significant accounting policies

(a) Revenue recognition

Fee income is recognised as the related services are performed.

(b) Cash and cash equivalents

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

(c) Property, plant and equipment

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

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

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

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

(d) Income tax

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

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

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

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

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

3 Significant accounting policies

(e) Employee benefits

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

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

(f) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IFRS 117 and IFRS interpretation 4.

Policy applicable from 01 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 01 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property. The Company has elected not to separate non- lease components and account for the lease and non-lease components as a single lease component.

The company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement's of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

3 Significant accounting policies

(f) Leases

As a lessee

- Fixed payments, including in- substance payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain no to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in- substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short- term leases and leases of low- value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

For contracts entered into before 01 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement has convey a right to use the asset. An arrangement conveyed the right-of-use the asset if one of the following was met:
    - the purchase had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
    - the purchase had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
    - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output

3 Significant accounting policies

(f) Leases

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to the asset.

Assets held under other leases where classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(g) Loans and advances

'Loans and advances' captions in the statement of financial position include:

- Loans and advances measured at amortised cost, they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.
- Loans and advances mandatory measured at FVTPL, or designated as at FVTPL, these are measured at fair value with changes recognised immediately in profit or loss, and
- lease receivables

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date, the consideration paid is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

(h) Provisions

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

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

(i) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Company initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument at initial recognition differs from the transaction price.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and it not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect
- the contractual terms of the financial asset give rise on specific dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and it not designation as at FVTPL

:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or contractual cash flows collected; and
- the frequency, volume and timing of sales in prior period, the reasons for such sales and its expectation about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(ii) Classification

The Company's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. Sales of loans from these portfolios are very rare.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest.

For the purpose of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features
- prepayment and extension terms
- terms that limit the Company's claim to cash flows from specified assets (e.g. non- recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Company holds a portfolio of long-term fixed-rate loans for which the Company has the option to propose to revise the interest rate at periodic reset dates. These reset results are limited to the market rate as the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Company has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does retain control of the financial asset.

On Derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 OCI is recognised in profit or loss.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(iii) Derecognition

Any cumulative gain/ loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities

The Company derecognises a financial liability when it contractual obligations are discharged or cancelled, or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In the case, the original financial asset is decognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way tat would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and mean that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(iv) Modifications of financial assets and financial liabilities

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating- rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining terms of the modified financial liability by re- computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a basis or to realise the asset and settle the liability simultaneously.

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non- performance risk.

When one is available, the Company measures the fair value of the instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information or an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(vi) Fair value measurement

The best evidence of the fair value of a financial instrument or initial recognition is normally the transaction price- i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

The Company recognises the loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitment issued
- No impairment loss is recognised on equity investments

The Company measures loss allowances at an equal to lifetime ECL, except for the following, for which they are measured as 12-months ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Company does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12-months after the reporting date. Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit- impaired.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(vii) Impairment

Lifetime ECL are the ECL that result from all possible default events over the expected file of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised by that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted-estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Credit- impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost, debt financial assets carried at FVOCI and finance lease receivables are credit impaired (referred to as 'Stage 3 financial asset) is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit- impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;

3 Significant accounting policies

(i) Financial assets and financial liabilities

(vii) Impairment

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit impaired, the Company considers the following factors.

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessment of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

The international support mechanisms in place to provide that necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirely or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on 'financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(viii) Designation at fair value through profit or loss

Financial assets

On initial recognition, the Company has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

Before 01 January 2018, the Company also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

3 Significant accounting policies

(i) Financial assets and financial liabilities

(viii) Designation at fair value through profit or loss

Financial liabilities

The Company has designated certain financial liabilities as at FVTPL, in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4 Profit before taxation

Profit before taxation is arrived at after charging and crediting the following:

(a) Personnel expenses

	2019 PGK	2018 PGK
Salaries and wages	**6,287,079**	6,568,792
Directors fees	**418,857**	360,683
Staff training	**138,256**	171,853
Travel and accommodation	**225,736**	213,890
Other	**28,962**	33,119
	7,098,890	7,348,337

(b) Operating expenses

	2019 PGK	2018 (As Restated) Note 28 PGK
Professional fees	**1,184,992**	1,045,219
Occupancy costs	**-**	2,784,634
Provision for credit losses	**2,758,848**	2,097,743
Advertising and promotions	**262,546**	294,943
Insurance	**279,760**	234,780
Repairs and maintenance	**377,047**	357,399
Office expenses	**865,564**	862,602
Other expenses	**807,788**	528,189
Security costs	**746,398**	860,258
Telephone and internet	**1,648,049**	1,873,113
Fees and registration	**593,420**	405,327
	9,524,412	11,344,207

Notes to the Financial Statements
For the Year Ended 31 December 2019

5 Fees and commission income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services.

	2019 PGK	2018 PGK
Account services	**1,665,414**	2,142,643
Loan processing fee	**2,388,144**	1,892,776
Penalty	**800,988**	820,945
Transactional	**668,663**	261,494
	5,523,209	5,117,858

6 Investment revenue

	2019 PGK	2018 PGK
Interest income on investments	**975,993**	930,396

7 Other operating income

	2019 PGK	2018 PGK
Cheques dishonored charges	**2,560**	9,857
Grants and donations received	**273,552**	-
Proceeds from the sale of assets	**81,000**	25,000
	357,112	34,857

8 Interest income and interest expense

	2019 PGK	2018 PGK
Loans and advances to customers	**14,999,543**	15,022,570
Cash and balances with central banks	**975,993**	930,396
	15,975,536	15,952,966

Interest expense		
Interest expense	**(1,415,054)**	(1,451,233)

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the financial assets and liabilities

Notes to the Financial Statements

For the Year Ended 31 December 2019

9 Income Tax Expense

	2019 PGK	2018 (As Restated) Note 28 PGK
Current tax	-	-
Deferred tax	**(293,219)**	(50,964)
Income tax expense for continuing operations	**(293,219)**	(50,964)

	2019 PGK	2018 (As Restated) Note 28 PGK
Profit before tax	**(1,282,632)**	(317,964)
Income tax expense calculated at 30% (2018: 30%)	**(384,790)**	(95,390)
Permanent difference	**92,161**	6,003
Prior year adjustment for deferred tax	**(590)**	125,348
Other	-	(86,925)
Income tax benefits	**(293,219)**	(50,964)
Tax expense/ (credit) is comprised of:		
Current income tax	-	-
Prior year deferred tax adjustment	**(590)**	-
Deferred tax charge (credit)	**(292,629)**	(50,964)
	(293,219)	(50,964)
Deferred tax assets		
Opening balance	**1,433,480**	1,172,544
Net movement for the year	**4,063,466**	260,936
	5,496,946	1,433,480
This balance comprises the tax effect of:		
Tax losses	**455,703**	86,925
Provision for impairment losses	**832,553**	1,078,327
Employee benefit provisions	**170,918**	122,306
Other provisions/ accruals	**6,864**	29,520
Prepayments	-	(45,134)
Fixed assets	**222,169**	161,536
Lease liability	**3,808,741**	-
	5,496,948	1,433,480
Deferred tax liabilities		
Opening balance	-	-
Net movement for the year	**(3,770,247)**	-
Ending balance	**(3,770,247)**	-

9 Income Tax Expense

	2019 PGK	2018 (As Restated) Note 28 PGK
This balance comprises the tax effect of:		
Property, plant and equipment	-	-
Prepayments	**(54,717)**	-
Right-of-use assets	**(3,715,530)**	-
	(3,770,247)	-
Net deferred tax assets	**1,726,701**	1,433,480

10 Cash and Cash Equivalents

	2019 PGK	2018 PGK
Cash at bank and in hand	**759,939**	773,654
Deposits with Bank of PNG	**18,000,000**	15,000,000
	18,759,939	15,773,654
Cash at bank	**8,164,277**	5,214,708
Other short- term deposits	**514,554**	513,606
	8,678,831	5,728,314
Total cash and cash equivalents	**27,438,770**	**21,501,968**

11 Loans and advances to customers

	2019 PGK	2018 (As Restated) Note 28 PGK	01 January 2018 (As Restated) Note 28 PGK
Loans to customers	**52,622,068**	53,000,382	57,215,122
Less: Allowances for impairment losses	**(2,775,178)**	(3,594,423)	(3,879,921)
	49,846,890	49,405,959	53,335,201

11 Loans and advances to customers

(a) Impairment allowance for loans and advance to customers

A reconciliation of the allowance for impairment losses for loans and advances by class, is as follows:

	2019 PGK	2018 (As Restated) Note 28 PGK	01 January 2018 (As Restated) Note 28 PGK
Movement in the provision for impairment losses			
Balance at the beginning of the year	**3,594,423**	3,180,014	2,171,465
Correction of prior year error	**-**	699,907	-
As restated balance	**3,594,423**	3,879,921	2,171,465
Provisions for losses on loans	**2,758,848**	1,440,000	2,526,506
Restatement/ correction of error	**-**	657,743	699,907
Amount written off	**(3,605,093)**	(2,383,241)	(1,517,957)
	2,748,178	3,594,423	3,879,921

During 2019, the Company corrected the accounting as per IFRS 9. This has resulting in restatement of prior period balances. (note 28).

	2019 PGK	2018 (As Restated) Note 28 PGK
Current	**20,881,072**	16,326,085
30 to 90 days	**7,348,761**	12,872,435
91 to 180 days	**20,403,490**	19,713,115
Total loans and advances	**48,633,323**	48,911,635
Loans to customers	**52,622,068**	53,000,381
Allowance for impairment loss	**(2,775,178)**	(3,594,423)
	49,846,890	49,405,958

12 Financial investments

	2019 PGK	2018 PGK
Investment carried at amortised costs (Held to maturity)		
BSP debt notes	**-**	5,000,000
	-	5,000,000

i. The Bank held 200 Bank of South Pacific Limited debt notes with a maturity date of 09 June 2019. The notes pay interest semi-annually at 11% per annum. None of these assets had been past due or impaired below face value at the end of the reporting date.

13 Other assets

	2019 PGK	2018 PGK
Prepayments	**358,260**	343,747
Rental deposits	**315,280**	295,738
Interest withholding tax	**273,594**	273,594
Interest receivable	**929,937**	474,809
Staff advances	**55,637**	16,497
Digicel Cellmoni Wallet	**365,842**	209,863
Sundry debtors	**928,374**	25,754
	3,226,924	1,640,002

14 Other liabilities

	2019 PGK	2018 PGK
Withholdling tax payable	**583,794**	593,441
Accrued interest	**709,963**	916,239
Accrued expenses	**699,511**	828,710
Sundry payables	**773,880**	779,878
Funds guaranteed on behalf of others	**1,834,075**	2,149,175
Unallocated deposits	**-**	717,519
	4,601,223	5,984,962

There is no interest charged on payables. The Bank has financial risk management policies in place to ensure that all payables are paid within pre- agreed credit terms.

Funds guaranteed on behalf of others represent funds held as collateral for loans disbursed under arrangements with various statutory bodies and district councils. As at 31 December 2019, loans disbursed against these funds totaled K3,346,816 (2018: K2,078,008).

15 Deposits from customers

	2019 PGK	2018 PGK
Term deposits current	**28,202,936**	30,847,821
Demand deposits	**41,071,624**	35,446,252
	69,274,560	66,294,073

16 Provisions

	2019 PGK	2018 PGK
Provision for annual leave	**58,708**	31,652
Provision for long service leave	**511,020**	376,034
	569,728	407,686

Notes to the Financial Statements
For the Year Ended 31 December 2019

17 Property, plant and equipment

(a) Movements in carrying amounts of property, plant and equipment

	Leasehold Improvements	Furniture, Fixtures and Fittings	Motor Vehicles	Plant and Equipment	Capital Work in Progress	Right-of-Use - Assets	Total
	PGK	PGK	PGK	PGK	PGK	PGK	PGK
Cost							
at 01 January 2019	3,198,751	563,845	1,992,913	6,700,987	124,070	13,276,330	25,856,896
Additions	723,760	11,934	872,849	242,706	73,329	1,946,136	3,870,714
Disposals	-	-	(368,330)	-	-	-	(368,330)
Balance as at 31 December 2019	3,922,511	575,779	2,497,432	6,943,693	197,399	15,222,466	29,359,280
Accumulated depreciation							
At 01 January 2019	(2,468,676)	(421,232)	(1,349,054)	(4,445,771)	-	-	(8,684,733)
Depreciation for the year	(386,751)	(57,065)	(379,785)	(678,145)	-	(2,837,366)	(4,339,112)
Disposals	-	-	342,720	-	-	-	342,720
	(2,855,427)	(478,297)	(1,386,119)	(5,123,916)	-	(2,837,366)	(12,681,125)
Carrying value as at 31 December 2019	1,067,084	97,482	1,111,313	1,819,777	197,399	12,385,100	16,678,155

Notes to the Financial Statements
For the Year Ended 31 December 2019

17 Property, plant and equipment

(a) Movements in carrying amounts of property, plant and equipment

	Leasehold Improvements	Furniture, Fixtures and Fittings	Motor Vehicles	Plant and Equipment	Capital Work in Progress	Total
	PGK	PGK	PGK	PGK	PGK	PGK
Cost						
at 01 January 2018	2,906,801	548,556	1,969,174	5,459,515	91,352	10,975,398
Additions	291,950	15,289	115,739	1,241,472	32,718	1,697,168
Disposals	-	-	(92,000)	-	-	(92,000)
	3,198,751	563,845	1,992,913	6,700,987	124,070	12,580,566
Accumulated depreciation						
At 01 January	(2,168,794)	(366,082)	(1,088,958)	(3,873,031)	-	(7,496,865)
Charge for the year	(299,882)	(55,150)	(352,096)	(572,740)	-	(1,279,868)
Disposal	-	-	92,000	-	-	92,000
At 31 December	(2,468,676)	(421,232)	(1,349,054)	(4,445,771)	-	(8,684,733)
Carrying value as at 31 December 2018	730,075	142,613	643,859	2,255,216	124,070	3,895,833

18 Leases

(a) Leases as Lessee (IFRS 16)

The Company leases investment property. The leases typically run for a period of 5 years, with an option to renew the lease after that date. Lease payments are renegotiated every 5 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Company restricted from entering into any sub-lease arrangements.

The property leases were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Company is a lessee is presented below:

(i) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

	Branch and office premises PGK	Total PGK
Balance at 01 January	**13,276,329**	**13,276,329**
Depreciation charge for the year	**(2,837,366)**	**(2,837,366)**
Additions to right-of-use assets	**1,946,136**	**1,946,136**
Balance at 31 December	**12,385,099**	**12,385,099**

Derecognition of the right-of-use assets during 2019 is as a result of entering in to a finance sub-lease.

At 31 December 2018, the future minimum lease payments under non- cancelable operating leases were payable as follows.

Maturity analysis- Contractual undiscounted cash flow	
Less than one year	2,829,240
Between one and five years	9,087,229
More than five years	2,939,352
Total undiscounted lease liabilities at 31 December	14,855,821

(ii) Amount recognised in profit or loss

2019 - Leases under IFRS 16	
Interest on lease liabilities	**761,022**
2018 - Operating leases under IAS 17	
Lease expense	**2,784,634**

Notes to the Financial Statements
For the Year Ended 31 December 2019

18 Leases

(a) Leases as Lessee (IFRS 16)

(iii) Extention options

Some leases of office premises contain extension exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

19 Issued Capital

	2019 PGK	2018 PGK
Shares issued on 01 January	**12,688,506**	12,688,506
Net movement in share capital	**2,575,020**	-
	15,263,526	12,688,506

Issued capital comprises 15,263,526 fully paid ordinary shares of K1.00 per share (2018: K12,688,506). In 2019, the Company issued 2,239,148 ordinary shares sold at K1.15 per share to Kina Bank Limited equivalent to K2,575,020.

20 Capital adequacy

The Company is required to comply with prudential standard 1/2003 - Capital Adequacy issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The prudential standard 1/2003 - Capital Adequacy is intended to ensure that each bank maintains a level of capital which (i) is adequate to protect the interests of depositors and creditors, (ii) is commensurate with the risk profile and activities of the bank, and (iii) promotes public confidence in the Bank and the overall banking system.

Prudential standard 1/2003 - Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. The minimum capital adequacy requirements as prescribed under the standard are (i) tire 1 risk- based capital ratio 8% , (ii) total risk based capital ratio of 12% and a leverage capital ratio of 6%.

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

	2019 PGK	2018 PGK
Core capital (K'000)	**12,377**	9,775
Supplementary capital (K'000)	**(1,448)**	1,130
Risk weighted assets (K'000)	**70,381**	63,219
Tier 1 capital adequacy ratio	**17.6%**	15.5%
Total capital adequacy ratio	**15.5%**	17.20%
Required tier 1 capital adequacy ratio minimum	**8%**	**8%**
Required total capital adequacy ratio minimum	**12%**	**12%**

21 Financial risk management

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors has established the risk management committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the board of directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

(i) Credit quality analysis

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors has established the risk management committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the board of directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The following table set out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Loans and advances to customers at amortised cost- gross carrying amount.

	2019			
	Stage 1 PGK	**Stage 2 PGK**	**Stage 3 PGK**	**Total PGK**
Current	**20,278,253**	**799,902**	**-**	**21,078,155**
Overdue < 30 days	**3,435,168**	**6,275**	**-**	**3,441,443**
Overdue > 30 days	**-**	**3,907,318**	**24,195,152**	**28,102,470**
	23,713,421	**4,713,495**	**24,195,152**	**52,622,068**

	2018			
	Stage 1 PGK	**Stage 2 PGK**	**Stage 3 PGK**	**Total PGK**
Current	**15,998,415**	**634,230**	**-**	**16,632,645**
Overdue < 30 days	**8,884,932**	**37,196**	**-**	**8,922,129**
Overdue > 30 days	**-**	**4,050,306**	**23,395,302**	**27,455,608**
	24,883,347	**4,721,732**	**23,395,302**	**53,010,382**

21 Financial risk management

(a) Credit risk

(i) Credit quality analysis

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator for credit quality of a loan extended to it. However, collateral provides additional security and the Company generally requests that borrowers provide it. The Company may take collateral in the form of deposits.

	2019		2018	
	Carrying amount PGK	Collateral PGK	Carrying amount PGK	Collateral PGK
Stage 1 and 2	28,426,915	56,963,809	29,605,080	77,355,656
Stage 3	24,195,153	49,227,328	23,395,302	46,017,268
	52,622,068	106,191,137	53,000,382	123,372,924

(ii) Amount arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on the financial instrument has increased significantly since initial recognition, the Company considers reasonable and supporting information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward- looking information.

- The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure to comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with

the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where appropriate for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due, for which a backstop of 15 days past due is applied.

Definition of default

The Company considers a financial asset to be a default when:

21 Financial risk management

(a) Credit risk

(ii) Amount arising from ECL

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to action such as realising security ;
- the borrower is more than 90 days past due on any material credit obligation to the Company. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limited smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.
- In assessing whether a borrower is in default, the Company considers indicators that are:
- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status and non- payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is a default and their significance may vary over time to reflect changes in circumstances

The definition of default largely aligns with that applied by the Company for regulatory capital purposes

Incorporation of forward-looking information

The Company incorporates forward- looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Company formulates three economic scenarios: a base case, which is the central scenario developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Company for other purposes such as strategic planning and budgeting.

	2019			2018		
	Upside	Central	Downside	Upside	Central	Downside
Scenario probability weighting	**20%**	**70%**	**10%**	**20%**	**70%**	**70%**

Sensitivity of ECL to future economic conditions

The ECL are sensitive to judgments and assumptions made regarding formulation of forward-looking scenarios and how much scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

21 Financial risk management

(a) Credit risk

(ii) Amount arising from ECL

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property LTV ratios are a key parameters in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for lending collateralized by property, to reflect possible changes in property prices. They are calculated on a discounting factor.

(b) Liquidity risk

(i) Maturity analysis for financial liabilities and financial assets

31 December 2019	Less than 12 month	1-2 years	2+ years	Total
Cash and balances with central bank	18,759,939	-	-	18,759,939
Due from banks	8,678,831	-	-	8,678,831
Loan and advances to customers	14,459,958	15,707,358	22,454,752	52,622,068
	41,898,728	15,707,358	22,454,752	80,060,838
Deposits from customers	69,274,560	-	-	69,274,560
Lease liability	2,537,066	2,544,226	7,614,512	12,695,804
Other liabilities	3,754,834	-	-	3,754,834
	75,566,460	2,544,226	7,614,512	85,725,198

Notes to the Financial Statements
For the Year Ended 31 December 2019

21 Financial risk management

(b) Liquidity risk

(i) Maturity analysis for financial liabilities and financial assets

31 December 2018	Less than 12 month	1-2 years	2+ years	Total
Cash and balances with central bank	**15,773,654**	-	-	**15,773,654**
Due from banks	**5,728,314**	-	-	**5,728,314**
Loans and advances	**14,967,187**	**14,345,748**	**23,687,446**	**53,000,381**
Investment held to maturity	**5,000,000**	-	-	**5,000,000**
	41,469,155	**14,345,748**	**23,687,446**	**79,502,349**
	41,469,155	**14,345,748**	**23,687,446**	**79,502,349**
Deposits from customers	**66,294,073**	-	-	**66,294,073**
Lease liability	-	-	-	-
Other liabilties	**5,984,962**	-	-	**5,984,962**
	72,279,035	-	-	**72,279,035**

22 Financial instruments

(a) Categories of financial instruments

	2019 PGK	2018 (As Restated) Note 28 PGK
Financial assets		
Cash and balances with central banks	**18,759,939**	15,773,654
Due from banks	**8,678,831**	5,728,314
Loans and advances to customers	**49,846,890**	49,405,959
Investment held to maturity	**-**	5,000,000
Financial liabilities		
Deposits held	**69,274,560**	66,294,073
Payables	**4,601,224**	5,984,962

As at reporting date the carrying value of the financial instruments approximated there fair value.

Notes to the Financial Statements
For the Year Ended 31 December 2019

23 Financial assets measured at amortised cost

	2019 PGK	2018 (As Restated) Note 28 PGK
Cash and balance with central bank	**18,759,939**	15,773,654
Due from banks	**8,678,831**	5,728,314
Loans and advances	**49,846,890**	49,405,959
	77,285,660	70,907,927

Financial liabilities measured at amortised costs

	2019 PGK	2018 (As Restated) Note 28 PGK
Deposits from customers	**69,274,560**	66,294,073

24 Related parties

(a) Related party register

The following retails are recorded in the interest register:

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

(b) Directors remuneration

	2019 PGK	2018 PGK
Allan Marlin	**69,000**	60,000
Jason Mcilvena	**50,000**	42,500
Paul Nindipa	**50,000**	42,000
Lady Carlo Kidu	**50,000**	40,500
Lesieli Taviri	**12,500**	40,500
Wavie Kandino	**25,000**	-
	256,500	225,500

24 Related parties

(c) Loans to related parties

	2019 PGK	2018 PGK
Loans to related parties	**1,253,352**	1,159,025

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

The loans to key management personnel are not secured.

(d) Compensation of key management personnel

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

	2019 PGK	2018 PGK
Short-term benefits	**2,452,427**	2,399,866
Other long-term benefits	**-**	-
	2,452,427	2,399,866

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

25 Contingent liabilities

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

26 Capital expenditure commitments

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

27 Events after the reporting period

The transaction to acquire PML was effected on 31 January 2020, following regulatory approval and due diligence by the Company's Advisors. The regulator, BPNG,agreed to provide capital adequacy concessions to the Company in respect to PML, to enable the transaction to be settled. It is intended that the PML business will be fully integrated in to the Company business and that a balance sheet amalgamation will occur. Going forward the PML business will be subject to the Company policies including those in relation to Fit & Proper together with AML and CTF. The Company currently has a project underway with advisors to build a customer due diligence (CDD) framework to ensure it complies with FASU requirements. The consolidated budget for the Company and the former PML business as approved by the Board for 2020 provides for a positive cash earnings result.

On the 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates.

27 Events after the reporting period

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Company cannot reasonably estimate the impact these events will have on the Company's financial position, results of operations or cash flows in the future. The board and management will closely monitor the effects of COVID-19 on the broader economy and business environment with adjustments made as necessary to operations and to the budget going forward.

28 Correction of error

During 2019, the Company implemented the adoption of IFRS 9 'Financial Instruments' by restating the 2018 financial statements. As a result, the loans and advances to customers and the related impairment expenses have been restated to reflect the requirements of this accounting standard on date of transition 1 January 2018. In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' the restatement error have been corrected by restating each of the affected financial statement line items for the prior period. The following tables summarise the impacts on the Company's financial statements:

(a) Statement of financial position

	Impact of correction of error		
01 January 2018	**As previously reported**	**Adjustments**	**As restated**
Total assets	**86,352,904**	**(489,934)**	**85,862,969**
Loans and advances to customers	54,035,108	(699,907)	53,335,201
Deferred tax assets	1,172,544	209,972	1,382,516
Total liabilities	**75,405,447**	**-**	**75,405,447**
Total equity	**10,947,456**	**(489,934)**	**10,457,521**
Ordinary share	12,688,506	-	12,688,506
Retained earnings	(1,741,051)	(489,934)	(2,230,985)

	Impact of correction of error		
31 December 2018	**As previously reported**	**Adjustments**	**As restated**
Total assets	**83,827,595**	**(950,355)**	**82,877,240**
Loans and advances to customers	50,763,608	(1,357,650)	49,405,958
Deferred tax assets	1,026,185	407,295	1,433,480
Total liabilities	**72,686,721**	**-**	**72,686,721**
Total equity	**11,140,874**	**950,355**	**10,190,519**
Ordinary share	12,688,506	-	12,688,506
Retained earnings	(1,547,631)	(950,355)	(2,497,986)

Notes to the Financial Statements
For the Year Ended 31 December 2019

28 Correction of error
(b) Statement of profit or loss and OCI

	Impact of correction of error		
31 December 2018	**As previously reported**	**Adjustments**	**As restated**
Net operating income	19,654,448	-	19,654,448
Personnel expenses	(7,348,337)	-	(7,348,337)
Operating expenses	(10,686,464)	(657,743)	(11,344,207)
Depreciation	(1,279,868)	-	(1,279,868)
	339,779	**(657,743)**	**(317,964)**
Income tax	(146,359)	197,323	50,964
	193,420	**(460,420)**	**(267,000)**