



Haus Mani Bilong Yumi

National Development Bank Limited and its subsidiaries
Consolidated Annual Financial Report for the Financial Year Ended
31 December 2019

**National Development Bank Limited and its subsidiaries
Consolidated Annual Financial Report
for the Financial Year Ended
31 December 2019**

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National Development Bank Limited and its subsidiaries

Directors' report

For the financial year ended 31 December 2019

The directors of National Development Bank Limited and its subsidiaries referred to as the "Group" submit herewith the annual financial report of the Group for the financial year ended 31 December 2019. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

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

Directors

Name	Executive / non-executive director
Mr. Michael Mell	Non-executive Director (Chairman)
Mr. Darrell Seeto	Non-executive Director (Deputy Chairman)
Mr. Graham A King	Non-executive Director
Mr. Tauvasa Tanuvasa	Non-executive Director
Mr. Phillip Isu	Non-executive Director
Mr. Robert Karato Leo	Non-executive Director
Mr. Moses Liu	Managing Director

Company Secretary

Suzanne Unumba was the Company Secretary throughout the financial year.

Review of operations

The Group reported a consolidated loss after income tax for the year of (K23,163,975) (2018: profit of K10,069,571). The Company reported a loss after income tax for the year of (K23,174,098) (2018: profit of K7,271,967).

Changes in state of affairs

The Group's principal activities are as follows:

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

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

Changes in accounting policies

Changes in accounting policies during the financial year.

IFRS 16 Leases

IFRS 16, leases, is effective for first time for entities with an annual reporting period beginning on or after 1 January 2019. The impact of this new standard is reflected in these financial statements.

Entries in the interest register

The following are transactions recorded in the interest register:

Name	Nature of interest	Organization
Michael Mell	Chairman Chairman Managing Director	National Development Bank Limited Small to Medium Enterprise Corporation Mell & Research Marketing Consultants Ltd
Darrell Seeto	Deputy Chairman	National Development Bank Limited
Graham A. King	Chairman Director Director Director	PNG Oil Palm Research Association National Development Bank Limited Hargy Oil Palms Ltd Oil Palm Industry Corporation
Tauvasa Tanuvasa	Director	National Development Bank Limited
Phillip Isu	Director	National Development Bank Limited
Robert Karato Leo	Director	National Development Bank Limited

National Development Bank Limited and its subsidiaries
Directors' report (continued)
For the financial year ended 31 December 2019

	Director	Pu'u Management Consultants Limited
Moses Liu	Managing Director Chairman/Director Director/Shareholder Director Director	National Development Bank Ltd NDB Investments Limited Kare Investments Limited PNG Institute of Banking and Business Management Inc. Hela Investment Limited

Directors' and specified executives' remuneration

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

Remuneration above K100, 000 per annum

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

	2019	2018
K100,000 – K170,000	7	7
K170,001 – K180,000	-	-
K180,001 – K210,000	-	-
K210,001 – K220,000	-	-
K220,001 – K480,000	4	4
K480,001 – K490,000	-	-
K490,001 – K760,000	1	1
K760,001 – K770,000	-	-
K770,001 – K1,100,000	1	1

Donations

The Group made donations in the amount of K61,969 (2018: K71,793).

Independent auditor's report

The consolidated financial statements have been audited by KPMG PNG and should be read in conjunction with the independent auditor's report on pages 5 to 7. As at year end, a total fee of K297,500 (GST exclusive) (2018:K254,546) was incurred for audit services, and no amount was paid or payable to the audit firm for non-audit services.

Subsequent events

On 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.

For the Group'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.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature other than the matter above that in the opinion of the Directors of the Group, are likely to significantly affect the operations of the Group, the results of those operations, and the state of affairs of the Group, in future financial years.

Dividends

The Directors declared Nil dividends in 2019 (2018: K2,000,000).

National Development Bank Limited and its subsidiaries
Directors' report (continued)
For the financial year ended 31 December 2019

Company information

Solicitors

In 2019, the Group engaged Ashurst Limited as its solicitor.

Registered Office

National Development Bank Building
Somare Crescent
Waigani, NCD

Postal Address

P O Box 686
Waigani
Papua New Guinea
Telephone: 7090 8200

Signed in accordance with a resolution of the Directors.

On behalf of the Directors.



Michael Mell

Chairman

Port Moresby, 2nd July 2020



Moses Liu

Managing Director

Port Moresby, 2nd July 2020

National Development Bank Limited and its subsidiaries
Directors' declaration
For the financial year ended 31 December 2019

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with International Financial Reporting Standards ("IFRSs") and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Michael Mell
Chairman

Port Moresby, 2nd July 2020



Moses Liu
Managing Director

Port Moresby, 2nd July 2020

National Development Bank Limited and its subsidiaries
Statements of profit or loss and other comprehensive income
For the financial year ended 31 December 2019

	Notes	Consolidated		Parent Entity	
		2019 K	2018 K	2019 K	2018 K
Interest income	2	27,692,975	26,219,891	15,383,796	14,675,817
Fees and other income	3	17,024,063	16,818,600	13,569,784	13,182,769
Change in fair value of investment properties	10	(9,904,922)	3,396,520	(6,107,536)	1,673,637
Total operating income		34,812,116	46,435,011	22,873,044	29,532,223
Operating expenses	4	(43,092,151)	(39,628,526)	(32,446,289)	(28,246,096)
Profit before recovery and allowance for losses		(8,280,035)	6,806,485	(9,573,245)	1,286,127
Loan impairment (expense) / recovery	7	(13,904,555)	3,571,370	(13,573,853)	5,843,516
(Loss) / Profit before income tax		(22,184,590)	10,377,855	(23,174,098)	7,129,643
Income tax (expense) / benefit	5a	(979,385)	(308,284)	-	142,324
(Loss) / Profit for the year		(23,163,975)	10,069,571	(23,174,098)	7,271,967
Other comprehensive income					
<i>Items that will not be classified to profit and loss</i>					
Revaluation of property net of tax		-	32,355,798	-	32,281,023
Total other comprehensive income		-	32,355,798	-	32,281,023
Total comprehensive (loss) / income for the year		(23,163,975)	42,425,369	(23,174,098)	39,552,990

Notes to the financial statements are included on pages 13 to 43.

National Development Bank Limited and its subsidiaries
Statements of financial position
As at 31 December 2019

	Notes	Consolidated			Parent		
		2019 K	2018 K Restated*	2017 K Restated*	2019 K	2018 K Restated*	2017 K Restated*
Assets							
Cash and cash equivalents	18(a)	71,292,499	89,486,321	62,396,745	60,294,239	92,484,230	62,457,960
Investment in short term securities	22	56,377,919	64,293,608	47,014,551	15,115,110	-	-
Inventory		712,170	712,170	713,689	-	-	-
Loans and advances	7	302,775,191	287,716,532	276,383,867	244,792,100	245,742,286	234,820,328
Trade and other receivables	6	12,974,694	10,782,006	8,396,455	10,232,247	12,285,075	10,168,872
Income tax receivable	5(d)	-	-	-	19,606	57,831	3,657
Investment properties	10	21,372,790	31,277,712	27,881,192	12,634,416	18,741,952	17,343,631
Property and equipment	9 (a)	217,045,566	210,636,487	156,064,738	184,467,408	182,720,684	150,485,293
Right of use asset	9 (b)	6,119,426	-	-	315,934	-	-
Investment in subsidiaries	8	-	-	-	105,862,623	91,254,043	59,181,057
Net deferred tax assets	5(b)	162,785	418,984	9,370,505	-	-	9,370,505
Total assets		688,833,040	695,323,820	588,221,742	633,733,683	643,286,101	543,831,303
Liabilities							
Trade and other payables	11	5,972,041	5,871,623	3,310,800	4,491,532	3,744,931	1,897,831
Customer deposits	12	71,241,930	68,425,118	65,725,172	20,132,828	15,966,448	15,920,676
Employee provisions	13	2,504,432	2,555,696	2,323,698	1,846,377	1,933,087	1,790,235
Provision for income tax	5 (d)	49,906	1,164,873	55,350	-	-	-
Lease liabilities		6,750,048	-	-	323,532	-	-
Deferred fees		4,584,099	3,985,351	2,691,047	3,066,570	2,616,092	1,530,124
Net deferred tax liabilities	5(b)	-	-	-	-	-	-
Total liabilities		91,102,456	82,002,661	74,106,067	29,860,839	24,260,558	21,138,866
Net assets		597,730,584	613,321,159	514,115,675	603,872,844	619,025,543	522,692,437
Equity							
Share capital	14	119,995,375	119,995,375	119,995,375	119,995,375	119,995,375	119,995,375
Grants and reserves	15	640,198,199	633,269,671	541,843,597	638,197,142	631,268,614	539,917,315
Accumulated losses		(162,462,990)	(139,943,887)	(147,723,297)	(154,319,673)	(132,238,446)	(137,220,253)
Total equity		597,730,584	613,321,159	514,115,675	603,872,844	619,025,543	522,692,437

*Refer to Note 25 for details of restatements.

Notes to the financial statements are included on pages 13 to 43.

National Development Bank Limited and its subsidiaries
Statements of changes in equity
For the financial year ended 31 December 2019

PARENT ENTITY	Share capital	Government grants	Asset revaluation reserve	Accumulated losses (Restated*)	Total
	K	K	K	K	K
	Balance at 1 January 2018	119,995,375	473,072,521	66,844,794	(129,491,296)
Additional provision adjustment*	-	-	-	(3,741,957)	(3,741,957)
Investment property adjustment*	-	-	-	(3,987,000)	(3,987,000)
Restated at 1 January 2018	119,995,375	473,072,521	66,844,794	(137,220,253)	522,692,437
Grants	-	59,070,276	-	-	59,070,276
Dividend declared	-	-	-	(2,000,000)	(2,000,000)
Profit for the year	-	-	-	7,271,967	7,271,967
Adjustments	-	-	-	(290,160)	(290,160)
Revaluation surplus	-	-	32,281,023	-	32,281,023
Restated at 31 December 2018	119,995,375	532,142,797	99,125,817	(132,238,446)	619,025,543
IFRS 16 transition	-	-	-	(2,516)	(2,516)
Restated at 1 January 2019	119,995,375	532,142,797	99,125,817	(132,240,962)	619,023,027
Grants	-	7,023,915	-	-	7,023,915
Transfer to retained earnings	-	-	(95,387)	95,387	-
Dividend declared reversal	-	-	-	1,000,000	1,000,000
Loss for the year	-	-	-	(23,174,098)	(23,174,098)
Balance at 31 December 2019	119,995,375	539,166,712	99,030,430	(154,319,673)	603,872,844

CONSOLIDATED	Share capital	Government grants	Asset revaluation reserve	Accumulated losses (Restated*)	Total
	K	K	K	K	K
	Balance at 1 January 2018	119,995,375	473,072,526	68,771,071	(136,302,340)
Additional provision adjustment*	-	-	-	(3,741,957)	(3,741,957)
Investment property adjustment*	-	-	-	(7,679,000)	(7,679,000)
Restated 1 January 2018	119,995,375	473,072,526	68,771,071	(147,723,297)	514,115,675
Grants	-	59,070,276	-	-	59,070,276
Dividend declared	-	-	-	(2,000,000)	(2,000,000)
Profit for the year	-	-	-	10,069,571	10,069,571
Adjustments	-	-	-	(290,161)	(290,161)
Revaluation surplus	-	-	32,355,798	-	32,355,798
Restated at 31 December 2018	119,995,375	532,142,802	101,126,869	(139,943,887)	613,321,159
IFRS 16 transition	-	-	-	(450,515)	(450,515)
Restated 1 January 2019	119,995,375	532,142,802	101,126,869	(140,394,402)	612,870,644
Grants	-	7,023,915	-	-	7,023,915
Transfer to retained earnings	-	-	(95,387)	95,387	-
Dividend declared reversal	-	-	-	1,000,000	1,000,000
Loss for the year	-	-	-	(23,163,975)	(23,163,975)
Balance at 31 December 2019	119,995,375	539,166,717	101,031,482	(162,462,990)	597,730,584

*Refer to Note 25 for details of restatements.

Notes to the financial statements are included on pages 13 to 43.

National Development Bank Limited and its subsidiaries
Statements of cash flows
For the financial year ended 31 December 2019

	Notes	Consolidated		Parent Entity	
		2019 K	2018 K	2019 K	2018 K
Cash flows from operating activities					
Interest received		22,367,751	21,182,013	14,803,823	14,141,598
Interest on deposits		5,342,857	5,000,283	463,658	42,519
Commissions and other income received		12,288,340	13,310,353	14,020,262	9,397,660
Rent received		5,269,931	5,091,940	3,531,473	3,785,108
Security deposits received		(4,014,793)	3,857,403	(2,166,380)	(45,772)
Payments to suppliers and employees		(41,171,110)	(58,904,068)	(29,365,402)	(46,307,557)
Loan repayments		95,007,602	102,669,384	62,704,960	76,020,448
Loans funded (net)		(112,681,774)	(102,248,945)	(78,979,402)	(74,488,596)
Income Tax Paid		(1,696,742)	-	(1,696,742)	-
Net cash used in operating activities	18(b)	(19,287,938)	(10,041,637)	(16,683,750)	(17,454,592)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		832,407	256,821	797,407	256,819
Purchase of property, plant and equipment	18(c)	(12,653,940)	(11,489,303)	(7,990,762)	(10,846,233)
Net (increase)/decrease in investment in short-term securities		7,915,689	(9,706,581)	(15,155,110)	-
Net cash used in investing activities		(3,905,844)	(20,939,063)	(22,348,465)	(10,589,414)
Cash flows from financing activities					
Proceeds from grants		7,023,915	59,070,276	7,023,915	59,070,276
Dividends paid		-	(1,000,000)	-	(1,000,000)
Payment of Lease liabilities		(2,023,955)	-	(181,691)	-
Net cash from financing activities		4,999,960	58,070,276	6,842,224	58,070,276
Net increase in cash and cash equivalents		(18,193,822)	27,089,576	(32,189,991)	30,026,270
Cash and cash equivalents at the beginning of the financial year		89,486,321	62,396,745	92,484,230	62,457,960
Cash and cash equivalents at the end of the financial year	18(a)	71,292,499	89,486,321	60,294,239	92,484,230

Notes to the financial statements are included on pages 13 to 43.

National Development Bank Limited and its subsidiaries
Notes to the financial statements
For the financial year ended 31 December 2019

1. Summary of Accounting Policies

Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are disclosed in Note 3 (l).

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except the land and buildings and investment properties which are at fair value. All amounts are presented in Papua New Guinea kina which is the Group's functional and presentation currency.

The financial statements comprise of the profit or loss and statement of comprehensive income as showing as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

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

Use of estimates and judgements

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

- Note 1 (d) - Loan provisioning
- Note 1 (j) – Investment properties

Going concern - State guarantee

Pursuant to Section 29 of the National Development Bank Act 2007 provides that the Government of PNG (the "State") may guarantee or indemnify (including any overdraft or other financial accommodation) the bank for in respect of any asset or liability. However, any specific guarantees have not been provided. The State supports the Group and the Company through its annual budgetary allocation of grants and the grant allocated in the 2019 budget for the Group is K120 million. Out of this amount K7 million was received in 2019.

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

(a) Revenue Recognition

(i) Interest income

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

(ii) Fees and other income

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

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

(iii) Rental income

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

(b) Cash and cash equivalents

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

(c) Employee benefits

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

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

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

Contribution plans

Contributions to superannuation plans are expensed when incurred.

(d) Impairment of financial assets at amortized cost

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9.

Expected credit loss (“ECL”) impairment model

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

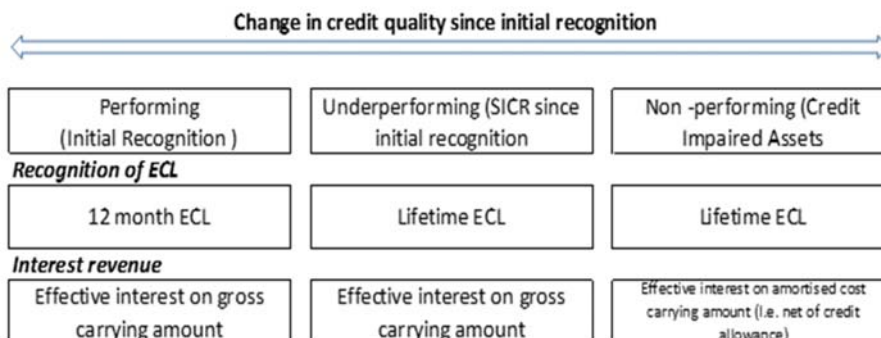
This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

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

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

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

The diagram below shows the impairment approach under IFRS 9.



Measurement of expected credit loss

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

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For the financial year ended 31 December 2019

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

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

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

Qualitative information assumptions on ECL changes

Assumptions	Scenario	2019	2018	Increase/decrease
Haircut on Collateral	Base	30%	30%	Stable
	Upturn	15%	15%	Stable
	Downturn	50%	50%	Stable
Time realisation	Base	12 months	12 months	Stable
	Upturn	6 months	6 months	Stable
	Downturn	30 months	30 months	Stable
Costs to recover		0%	0%	Stable
Cure rate	Base	0%	0%	Stable
	Upturn	10%	15%	Decreased
	Downturn	-25%	0%	Decreased
ECL Weighting	Base	70%	70%	Stable
	Upturn	10%	10%	Stable
	Downturn	20%	20%	Stable

Forward-looking information

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

Macroeconomic factors

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

National Development Bank Limited and its subsidiaries
Notes to the financial statements (continued)
For the financial year ended 31 December 2019

Multiple forward-looking scenarios

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

The weightings assigned to each economic scenario at 31 December 2019 were as follows:

Scenario	Base	Upturn	Downturn
Weighting	70%	10%	20%

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

Assessment of significant increase in credit risk (SICR)

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

The following information is taken into account when assessing whether the credit risk has increased significantly since initial recognition;

- existing or forecast adverse changes in business , financial or economic conditions that are expected to cause a significant decrease in the debtors ability to meet its debt obligations;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

Expected life

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

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

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

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Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group;
- 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 the borrower is in default; the Group considers indicators that are:

- qualitative e.g breach of covenants
- quantitative e.g overdue status and non-payment on another obligation of the same issuer in the Group; and
- based on data developed internally and obtained from external sources

Write-off policy

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

Collateral

The Group has a range of policies that are used for the purpose of managing and mitigating credit risks . To reduce its exposure to credit risks the Group accepts collateral to funds advanced. The specific types of collateral and valuation of collateral during the loan originating process and period assessment of credit quality and clearly outline in the internal policies. The different collateral types for loans and advances are;

- Mortgages over residential property;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Deed of assignment over cash deposit as security

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. The Group closely monitors collateral held for financial assets considered to be credit impaired , as it becomes more likely that the Group will take possession of the collateral to mitigate potential credit losses. Finance receivables and related collateral held in order to mitigate potential losses are shown below;

Collectively assessed - Parent

	Gross exposure	Impairment allowances	Carrying amount	Fair value of collateral held
	PGK	PGK	PGK	PGK
2019				
Stage 1	130,159,845	(653,336)	129,506,509	489,583,239
Stage 2	46,938,293	(2,511,262)	44,427,031	131,020,355
Stage 3	44,096,174	(4,385,444)	39,710,730	95,646,990
	221,194,312	(7,550,042)	213,644,267	716,250,584
2018				
Stage 1	138,242,165	(4,099,813)	134,142,352	301,752,280
Stage 2	30,812,251	(2,259,873)	28,552,378	60,691,163
Stage 3	58,028,574	(7,878,044)	50,150,530	100,450,744
	227,082,990	(14,237,730)	212,845,260	462,894,187

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Collectively assessed - Consolidated

	Gross exposure	Impairment allowances	Carrying amount	Fair value of collateral held
	PGK	PGK	PGK	PGK
2019				
Stage 1	179,391,934	(652,599)	178,739,335	629,800,042
Stage 2	47,802,045	(2,555,671)	45,246,374	134,545,251
Stage 3	54,295,566	(7,037,520)	47,258,046	119,495,538
	<u>281,489,545</u>	<u>(10,245,790)</u>	<u>271,243,754</u>	<u>883,840,831</u>
2018				
Stage 1	177,698,985	(5,043,528)	172,655,457	383,898,070
Stage 2	32,311,724	(2,404,812)	29,906,912	67,450,058
Stage 3	63,226,169	(10,967,870)	52,258,299	108,613,862
	<u>273,236,878</u>	<u>(18,416,210)</u>	<u>254,820,667</u>	<u>559,961,990</u>

Credit Risk Exposure

The tables below show the reconciliations from the opening to the closing balance of the loss allowance by class of financial asset. The basis for determining transfers due to changes in credit risk is set out in the Group's accounting policy; see Note 1 (d)

Parent

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	4,099,813	2,259,873	7,878,044	14,237,730
Transfer to Stage 1	14,611	(11,579)	(3,032)	-
Transfer to Stage 2	(261,660)	1,985,114	(1,723,454)	-
Transfer to Stage 3	(2,753,517)	(182,141)	2,935,658	-
Additional impairment / (release)	(1,668,222)	27,395	(5,285,464)	(6,926,291)
New loans	368,121	2,268,384	1,724,696	4,361,201
Loans derecognised	(1,010,899)	(27,395)	(3,056,910)	(4,095,204)
Write-off	1,846,899	(3,808,389)	1,934,096	(27,394)
Balance at 31 December	<u>635,146</u>	<u>2,511,262</u>	<u>4,403,634</u>	<u>7,550,042</u>

Consolidated

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	5,043,528	2,404,812	10,967,870	18,416,210
Transfer to Stage 1	14,609	(11,578)	(3,031)	-
Transfer to Stage 2	(261,660)	317,251	(55,591)	-
Transfer to Stage 3	(3,511,681)	(182,141)	3,693,822	-
Additional impairment / (release)	1,603,436	(3,367,285)	(4,095,354)	(5,859,203)
New loans	2,252,470	4,251,231	2,660,182	9,163,883
Loans derecognised	(4,488,103)	(30,945)	(3,714,651)	(8,233,699)
Write-off	-	(825,674)	(2,415,727)	(3,241,401)
Balance at 31 December	<u>652,599</u>	<u>2,555,671</u>	<u>7,039,247</u>	<u>10,245,790</u>

The following table contains an analysis of the credit risk exposure of the financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

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

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

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

(e) Consolidation of subsidiaries

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

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

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

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

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

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

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

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

(f) Government grants

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

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

National Government funding

Funding received by the Group is from individual Government Agencies and that coming direct from the National Government Budget support. The parent entity was previously known as the Rural Development Bank and historically (30-40 years ago) received some funding that was for specific projects (purpose) mainly for rural development and for specific agriculture initiatives. Presently under National Development Bank Limited, these funds are now received directly from National Government specifically for lending to both Agriculture and SME

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related projects and businesses. The Group deems that original intentions under the funding arrangements were that none of the remitted funds would be returned either partially or in full to both National Government and the Government Agencies and therefore these are currently classified as additional paid in capital within equity until they are converted to shares. The National Government remains the sole shareholder.

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

(g) Impairment of assets

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

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

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

(h) Income Tax

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

(i) Property and equipment

Land and buildings comprise residential and commercial buildings, head office and branch office buildings and vacant land. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

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(i) Property and equipment (continued)

Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset, and the amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less depreciation.

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

Increases in the carrying amount arising on revaluation are credited to deferred tax liability and revaluation reserves in shareholder's equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the statement of profit and loss and other comprehensive income.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(i)). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Finance and other income, in the statement of profit and loss and other comprehensive income. When revalued assets are sold, the amounts included in revaluation reserves are transferred to accumulated losses.

(j) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. The measurements of fair values are done by several independent professional valuers. They use comparable sales method, summation method and capitalization method to value the investment properties and valuations are conducted annually on all investment properties. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss account in the period in which they arise.

(k) Financial instruments

Financial assets and liabilities

Recognition and initial measurement

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

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

Classification and measurement

Classification and subsequent measurement of financial assets

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

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

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Financial assets include both debt and equity instruments.

i) Debt instruments

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

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

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

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

The group did not have any debt instruments measured at FVTPL in 2019.

The classification of debt instruments is determined based on:

- a) the business model under which the asset is held; and
- b) the contractual cash flow characteristics of the instrument.

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

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

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

Classification and subsequent measurement of financial liabilities

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

Determination of fair value

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

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

ii) Derecognition of financial assets and financial liabilities

Derecognition of financial assets

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

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

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

(l) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC4.

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

Policy applicable from 1 January 2019

At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

i. Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognizes 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 estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;

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– 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 Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the agreement is reasonably certain not to terminate early.

The lease liability is measured at amortized 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 Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group 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.

Short-term leases and leases of low-value assets

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

ii. Group acting as a lessor

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

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

A. Leases as Lessee

The Group leases a number of branch and office premises. The leases typically run for a period of 6 years, with an option to review the lease after that date. For some leases, payments are renegotiated every 6 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee and impact on initial application of IFRS 16, *Leases* is presented below.

Impact on transition

On transition to IFRS 16, the Group recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

1 January 2019

	Parent	Consolidated
Right of use asset	148,440	5,943,869
Deferred tax asset	-	-
Lease liabilities	(150,956)	(6,394,384)
Retained Earnings	2,516	450,515

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When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 6.25%.

	Parent	Consolidated
Balance at 1 January 2019	148,440	5,943,869
Depreciation charge	(168,023)	(796,411)
Additions	335,517	971,967
Balance at 31 December 2019	315,934	6,119,426

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

In PGK	Parent	Consolidated
Less than one year	79,666	961,930
Between one and five years	81,225	3,610,281
More than five years	-	3,719,864
Total undiscounted lease liabilities at 31 December	160,891	8,292,075
Discounted	146,849	6,260,469
- Recognition exemptions and options	4,107	133,915
Lease liability recognised at 1 January 2019	150,956	6,394,384

ii. Amounts recognized in profit or loss in 2019

In PGK

Interest on lease liabilities 18,749 379,251

In PGK

Operating Leases under IAS 17

Lease expense 181,691 2,023,955

iii. Amounts recognized in statement of cash flows

In PGK

Total cash outflows for leases 181,691 2,023,955

iv. Extension options

Some leases of office premises contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group is reasonably certain that it will take up the extension option and these have therefore been included in the right of use asset and lease liability assessments.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

National Development Bank Limited and its subsidiaries
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- Fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

i. As a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group'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.

ii. As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(m) Goods and services tax

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

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

(n) Inventories

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

(o) Comparative amounts

Where necessary, comparative figures have been adjusted to conform to current disclosure and reclassification of balances.

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

A number of new standards and amendments to standards are effective for annual periods beginning or after 1 January 2020, with early adoption available in annual period beginning on 1 January 2019. The Group has not applied the following new or amended standards in preparing these financial statements.

- *Amendments to references to Conceptual Framework in IFRS standards,*
- *Definition of a Business (Amendments to IFRS 3)*
- *Definition of Materiality (Amendments to IAS 1 and IASB)*

The Group is assessing the potential impact on its financial statements resulting from the application of these standards.

National Development Bank Limited and its subsidiaries
Notes to the financial statements (continued)
For the financial year ended 31 December 2019

2. Interest income

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Loans and advances	22,908,008	21,617,299	14,803,823	14,141,598
Cash and short term funds	4,784,967	4,602,592	579,973	534,219
	27,692,975	26,219,891	15,383,796	14,675,817

3. Fees and other income

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Rental income	4,643,019	4,667,429	3,531,473	3,785,109
Application fee	1,071,296	793,937	897,838	579,212
Ledger maintenance fee	7,892,806	8,113,655	6,753,415	6,780,984
Commission	668,724	1,082,725	662,646	1,072,705
Gain on sale of assets	797,407	256,820	797,407	256,820
Tender fees	150,550	75,577	150,350	75,577
Other income	1,800,261	1,828,457	776,655	632,362
	17,024,063	16,818,600	13,569,784	13,182,769

4. Operating expenses

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Staff costs	20,004,715	20,866,745	14,713,617	15,625,016
Administrative and overhead expenses	14,855,181	12,621,351	11,284,964	7,861,920
Marketing expenses	374,270	520,141	328,219	400,719
Directors' fees and other board expenses	925,374	682,737	667,776	416,297
Depreciation expense	6,932,611	4,937,552	5,451,713	3,942,144
	43,092,151	39,628,526	32,446,289	28,246,096

National Development Bank Limited and its subsidiaries
Notes to the financial statements (continued)
For the financial year ended 31 December 2019

5. Income taxes

a) Income tax expense

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

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Profit/ (Loss) from before income tax	(22,184,590)	10,377,855	(23,174,098)	7,129,643
Income tax expense calculated at 30% (2018: 30%)	(6,653,377)	3,113,356	(6,952,229)	2,138,892
Non-deductible expenses	64,434	62,614	28,971	34,514
Non- taxable income	1,832,260	(1,284,661)	1,832,261	(502,091)
Deferred tax assets not recognised	5,738,068	(1,583,025)	5,090,997	(1,813,639)
Income tax expense / (benefit)	979,385	308,284	-	(142,324)

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

Income tax expense comprises:

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Deferred tax	256,200	(142,324)	-	(142,324)
Current tax	723,185	450,608	-	-
	979,385	308,284	-	(142,324)

b) Deferred taxes

2019 PARENT

Deferred tax assets

Allowance for loan impairment (capped)	69,724,355	1,246,717	70,971,072
Provisions for employee entitlements	1,933,087	(86,710)	1,846,377
Provision for audit fees	80,045	79,555	159,600
Other provisions	381,017	(381,017)	-
	72,118,504	858,545	72,977,049

Deferred tax liabilities

Property and equipment	(71,536,964)	(558,662)	(72,095,625)
Rental debtors	(581,540)	(299,883)	(881,423)
	(72,118,504)	(858,545)	(72,977,049)

Net deferred tax assets

At 30%	-	-	-
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2019 CONSOLIDATED

Deferred tax assets

	Opening Balance	Recognised in profit or loss	Closing Balance
Allowance for loan impairment (capped)	72,234,614	923,635	73,158,249
Provisions for employee entitlements	2,555,703	(51,272)	2,504,431
Provision for audit fees	198,994	34,577	233,569
Others	381,017	(381,017)	-
	75,370,326	525,924	75,896,250

Deferred tax liabilities

Property and equipment	(72,460,180)	(1,094,131)	(73,554,312)
Others	(1,513,531)	(285,791)	(1,799,322)
	(73,973,711)	1,379,922	(75,353,634)

Net deferred tax assets

At 30%	1,396,615	(853,999)	542,616
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National Development Bank Limited and its subsidiaries
Notes to the financial statements (continued)
For the financial year ended 31 December 2019

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

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

c) Unrecognized deductible temporary differences

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Tax losses	(27,730,775)	(21,746,921)	(24,071,923)	(18,448,069)
Loan provisions	(58,967,113)	(45,927,277)	(52,750,533)	(40,423,396)
	(86,337,888)	(67,674,198)	(76,822,856)	(58,871,465)

d) Provision for Income Tax

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Opening balance brought forward	1,164,873	-	(57,831)	-
Current income tax provision/(recovery)	1,018,733	1,222,704	-	-
Payments made during the year	(1,696,742)	-	-	-
Interest withholding tax credited	(19,606)	-	(19,606)	-
Under/(Over) provision of tax in prior years	(417,352)	(57,831)	57,831	(57,831)
Total income tax payable/(recoverable)	49,906	1,164,873	(19,606)	(57,831)

National Development Bank Limited and its subsidiaries
Notes to the financial statements (continued)
For the financial year ended 31 December 2019

6. Trade and other receivables

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Interest withholding tax	-	115,933	-	115,933
Trade receivables	2,393,307	1,747,500	971,905	581,540
Less: Allowance for rental debts	(1,016,274)	(531,130)	(90,482)	(52,011)
	1,377,033	1,332,303	881,423	645,462
Prepayments	4,763,424	3,673,393	3,193,231	3,078,915
Goods and Services Tax	1,037,008	1,158,818	1,037,008	1,158,818
Other receivables	5,797,229	4,617,492	5,120,585	7,401,880
	12,974,694	10,782,006	10,232,247	12,285,075

7. Loans and advances

	Consolidated		Parent Entity	
	2019 K	2018 K Restated*	2019 K	2018 K Restated*
Loans originated by the bank	440,520,052	413,817,995	374,722,576	362,098,909
Less: allowance for loan impairment	(137,744,861)	(126,101,463)	(129,930,476)	(116,356,623)
Net loans and advances	302,775,191	287,716,532	244,792,100	245,742,286

Movement in allowance for loan impairment as below:

	Consolidated		Parent Entity	
	2019 K	2018 K Restated*	2019 K	2018 K Restated*
Balance at 1 January	(126,101,463)	(108,113,692)	(116,356,623)	(101,375,913)
Adjustment – IFRS 9	-	(19,889,506)	-	(19,619,369)
Impairment during the year	(13,904,555)	3,571,370	(15,576,236)	4,002,684
Loans written off / other adjustments	2,261,157	(1,669,635)	2,002,383	635,975
Balance at 31 December	(137,744,861)	(126,101,463)	(129,930,476)	(116,356,623)

Provision for impairment is represented by:

	Consolidated		Parent Entity	
	2019 K	2018 K Restated*	2019 K	2018 K Restated*
Individually assessed or specific provision	(127,499,071)	(107,685,253)	(122,380,434)	(102,118,893)
Collective provision	(10,245,790)	(18,416,210)	(7,550,042)	(14,237,730)
Balance at 31 December	(137,744,861)	(126,101,463)	(129,930,476)	(116,356,623)

Loan impairment (expense)/ recovery:

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Total new and (increase) /decrease provisioning	(13,904,555)	2,601,370	(13,573,853)	4,002,684
Recoveries during the year	-	970,000	-	1,840,832
Total	(13,904,555)	3,571,370	(13,573,853)	5,843,516

*Refer to Note 25 for details of restatement

National Development Bank Limited and its subsidiaries
Notes to the financial statements (continued)
For the financial year ended 31 December 2019

8. Investment in subsidiaries

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Investments carried at cost:				
<u>Non-current</u>				
Investment in subsidiaries	-	-	105,862,623	91,254,043

Name of entity	Principal activity	Country of incorporation and operation	Ownership interest	
			2019 %	2018 %
NDB Investments Limited	Property rental & retail	PNG	100%	100%
Peoples Micro Bank Limited	Micro finance	PNG	100%	100%

9(a). Property and equipment

PARENT ENTITY	Land and buildings at fair value	Motor vehicles at cost	Office equipment at cost	Work in progress at cost	Total
	K	K	K	K	K
Cost/valuation					
Balance as at 1 January 2018	123,317,691	7,351,814	19,620,594	29,078,139	179,368,238
Additions	-	-	-	10,846,233	10,846,233
Disposals	-	(326,642)	(109,322)	-	(435,964)
Transfer of WIP	23,894	387,476	1,009,247	(1,420,617)	-
Transfer to Subsidiary	(22,553,486)	-	-	-	(22,553,486)
Revaluation increment	46,534,049	-	-	-	46,534,049
Balance as at 31 December 2018	147,322,148	7,412,648	20,520,519	38,503,755	213,759,070
Additions	-	-	-	7,009,158	7,009,158
Disposals	(350,000)	(762,229)	(583,879)	-	(1,696,108)
Transfer of WIP	18,615,468	1,581,049	3,741,844	(23,938,361)	-
Balance as at 31 December 2019	165,587,616	8,231,468	23,678,484	21,574,552	219,072,120
Accumulated depreciation					
Balance as at 1 January 2018	6,657,493	5,581,124	16,644,331	-	28,882,946
Disposals	-	(326,642)	(109,322)	-	(435,964)
Depreciation expense	1,536,859	950,429	1,454,856	-	3,942,144
Others	(1,203,023)	(1,786)	(145,931)	-	(1,350,740)
Balance as at 31 December 2018	6,991,329	6,203,125	17,843,934	-	31,038,388
Disposals	(16,684)	(762,229)	(454,458)	-	(1,233,371)
Depreciation expense	2,227,297	944,731	1,946,922	-	5,118,950
Others	(319,255)	-	-	-	(319,255)
Balance as at 31 December 2019	8,882,687	6,385,627	19,336,398	-	34,604,712
Net book values					
As at 31 December 2019	156,704,929	1,845,842	4,342,086	21,574,552	184,467,408
As at 31 December 2018	140,330,820	1,209,524	2,676,584	38,503,755	182,720,684

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CONSOLIDATED	Land and buildings at fair value K	Motor vehicles at cost K	Office equipment at cost K	Work in progress at cost K	Total K
Cost/valuation					
Balance as at 1 January 2018	128,024,346	8,910,355	21,792,953	29,224,455	187,952,109
Additions	-	65,900	600,631	10,822,771	11,489,302
Disposals	-	(409,470)	(109,322)	(3,439)	(522,231)
Transfers	23,894	387,476	1,009,247	(1,420,617)	-
Adjustment – others	46,484,927	-	(892,145)	(26,900)	45,565,882
Balance as at 31 December 2018	174,533,167	8,954,260	22,401,364	38,596,270	244,485,062
Additions	338,579	193,071	4,959,091	8,239,495	13,730,236
Disposals	(780,184)	(891,388)	(100,644)	-	(1,772,216)
Transfers	8,828,376	1,581,403	3,775,445	(14,185,224)	-
Balance as at 31 December 2019	182,919,938	9,837,347	31,035,256	32,650,541	256,443,082
Accumulated depreciation					
Balance as at 1 January 2018	6,728,280	6,743,586	18,415,505	-	31,887,371
Disposals	-	(409,469)	(109,322)	-	(518,791)
Depreciation expense	2,038,873	1,127,853	1,770,825	-	4,937,552
Others	(1,611,621)	(4,310)	(137,164)	-	(1,753,095)
Balance as at 31 December 2018	7,155,532	7,457,659	19,939,845	-	34,553,036
Disposals	(16,683)	(862,095)	(93,685)	-	(972,463)
Depreciation expense	2,961,155	1,073,388	2,101,657	-	6,136,200
Others	(319,257)	-	-	-	(319,257)
Balance as at 31 December 2019	9,780,747	7,668,952	21,947,817	-	39,397,516
Net book value					
As at 31 December 2019	173,139,191	2,168,394	9,087,440	32,650,541	217,045,566
As at 31 December 2018	167,163,052	1,496,601	3,353,665	38,623,170	210,636,487

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

9(b). Right of Use Asset

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Right of use of assets	7,745,494	-	483,957	-
Accumulated Depreciation	(1,626,068)	-	(168,023)	-
Balance at 31 December	6,119,426	-	315,934	-

10. Investment properties

	Consolidated		Parent Entity	
	2019 K	2018 K Restated*	2019 K	2018 K Restated*
Balance at beginning of financial year – at fair value	31,277,712	27,881,192	18,741,952	17,343,631
Change in fair value	(9,904,922)	3,396,520	(6,107,536)	1,673,627
Transferred from property, plant and equipment – accumulated depreciation	-	-	-	(275,306)
Balance at end of financial year – at fair value	21,372,790	31,277,712	12,634,416	18,741,952

*Refer to Note 25 for details of restatement

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Revaluation of the Group's investment properties were performed in October 2019 by independent valuers, namely, The Professional Valuers of PNG Ltd , Prof Investments Limited and Sovereign Real Estate Limited. The direct comparable sales approach and the capitalisation of income methods were used in the valuation models.

Investment property	Valuation basis	Independent valuer	2019 Valuation	2018 Valuation Restated*
Henao Dr, Lot3, Sect78, Gordons	Capitalisation method	Prof-Investments Ltd	1,594,756	2,204,379
Pune St. Waigani, Lot21, sect48	Capitalisation method	Prof-Investments Ltd	782,182	897,000
Popondo Avenue - House Lot7 Sect 3	Capitalisation method	Prof-Investments Ltd	458,229	233,143
Sesenaga St. Lot 9, Sect 3	Capitalisation method	Prof-Investments Ltd	588,060	284,000
Simboro St, Lot9, Sect27	Capitalisation method	Prof-Investments Ltd	407,314	223,030
Jihiri St. Lot7, Sect25 Duplex	Capitalisation method	Prof-Investments Ltd	363,945	489,900
Jihiri St, Lot7, Sect26,	Capitalisation method	Prof-Investments Ltd	323,507	322,500
Osari - House Lot 7 Sect 5	Capitalisation method	Prof-Investments Ltd	407,314	281,000
Crane St. Duplex, Lot85, Sect93	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	891,716	1,195,000
Eagle St. Duplex, Lot57, Sect93	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	458,229	936,000
Orleander St. House, Lot25 Sect32	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	555,429	1,440,000
Orleander St Lot 19 Sect 41	Capitalisation method	Proff-Investments Ltd	4,435,222	7,500,000
Dobel St. Nabasa. Duplex, Lot15, Sect40	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	740,571	1,025,000
Kokopo Duplex Lot 120, Sect 37	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	308,571	893,000
Vunamami - Duplex Lot 5 Sect 225	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	-	398,000
Unnamed Lot 9 Sect 2	Summation method (replacement cost)	The Professional Valuers of PNG Ltd	319,371	420,000
Total Parent			12,634,416	18,741,952

Lot 1, Section 221, Ugava Road and Nilkare Avenue, Gordons 5	Capitalisation method	Proff-Investments Ltd	2,433,656	3,563,760
Palm Road, Lot 89, Section 32, Lae	Capitalisation method	Proff-Investments Ltd	6,304,718	8,972,000
Total NDB Investments			8,738,374	12,535,760

Total Investment properties	21,372,790	31,277,712
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Notes to the financial statements (continued)
For the financial year ended 31 December 2019

11. Trade and other payables

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Trade and other payables	5,972,041	5,871,623	4,491,532	3,744,931
	5,972,041	5,871,623	4,491,532	3,744,931

12. Customer deposits

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Deposit liabilities	51,109,102	52,458,670	-	-
Security deposits	20,132,828	15,966,448	20,132,828	15,966,448
	71,241,930	68,425,118	20,132,828	15,966,448

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

13. Employee provisions

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Annual leave	694,854	774,706	405,247	504,043
Long service leave	1,809,579	1,780,990	1,441,130	1,429,044
	2,504,432	2,555,696	1,846,377	1,933,087

14. Share capital

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

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

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Ordinary shares of 119,995,375 (2017: 119,995,375) @ K1.00 each	119,995,375	119,995,375	119,995,375	119,995,375
	119,995,375	119,995,375	119,995,375	119,995,375

15. Grants and reserves

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Government grants	539,166,717	532,142,802	539,166,712	532,142,797
Asset revaluation	101,031,482	101,126,869	99,030,040	99,125,818
	640,198,199	633,269,671	638,197,142	631,268,614

a) Government grants

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Balance at beginning of financial year	532,142,802	473,072,526	532,142,797	473,072,521
Grants received during the year	7,023,915	59,070,276	7,023,915	59,070,276
Balance at end of financial year	539,166,717	532,142,802	539,166,712	532,142,797

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

b) Asset revaluation reserve

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Balance at beginning of financial year	101,126,869	68,771,071	99,125,817	66,844,794
Increase/(decrease) arising from revaluation of properties	(95,387)	32,355,798	(95,387)	32,281,024
Balance at end of financial year	101,031,482	101,126,869	99,030,040	99,125,818

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

16. Commitments for expenditure

(a) Capital expenditure commitments

The Group has total capital expenditure commitments of K25,418,258 as at 31 December 2019 (2018: K9,906,399).

(b) Loan commitments

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

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Micro Finance	-	-	-	-
Agriculture	282,006	1,126,002	282,006	1,126,002
Commercial	16,766,303	4,993,608	16,766,303	4,993,608
Large Equipment Finance	6,697,058	2,050,800	6,697,058	2,050,800
Credit Schemes	426,938	56,500	426,938	56,500
Women in Business	2,084,914	3,386,982	2,084,914	3,386,982
Staff Loans	-	1,443,250	-	1,443,250
	26,257,219	13,057,142	26,257,219	13,057,142

(c) Lease commitments

There are no finance lease liabilities. Non-cancellable operating lease commitments as at 31 December 2019 for the company amounts to K738,024 (2018: 160,891). Consolidated as at 31 December 2019 amounts to K6,459,691 (2018: 8,292,075).

17. Contingent liabilities

Legal proceedings

There were 31 outstanding legal proceedings against the Group as at 31 December 2019. The proceedings mainly relate to claims by/against defaulting customers for breach of loan agreements and/or contract for sale or mortgaged properties and/or proceedings seeking to restrain the Group from dealing with or selling mortgaged properties. The outcome of the litigation are unknown as at the date the financial statements are finalised and are not expected to result in material liability to the Company. Accordingly, no provision has been made.

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18. Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

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

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Cash at Bank	66,467,039	83,813,120	60,262,638	76,157,726
Cash on Hand	4,825,460	3,906,269	31,60	37,677
Short term investments	-	1,766,932	-	16,288,827
Total Cash	71,292,499	89,486,321	60,294,239	92,484,230

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

Note	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Profit (Loss) for the year after tax	(23,163,975)	10,069,571	(23,174,098)	7,271,967
Depreciation and amortisation	6,984,033	4,937,552	5,451,713	3,942,144
Change in fair value of investment property	10	6,136,200	(3,669,725)	6,107,536
Gain on disposal of fixed assets	3	(797,407)	(256,820)	(1,673,637)
Loan impairment recovery		13,904,555	(6,546,070)	(797,407)
Income tax expense/ benefit		979,385	308,284	13,573,853
				(8,310,431)
<u>(Increase) / Decrease in assets:</u>				
Trade and other receivables		(2,192,688)	(2,385,551)	2,232,376
Loans and advances		(20,746,337)	(9,904,522)	(2,170,377)
Deferred taxes		256,198	8,951,521	(23,093,734)
Prior period provision		-	(8,516,578)	(8,205,487)
				9,370,505
				(8,516,578)
<u>Increase/ (decrease) in liabilities:</u>				
Trade and other payables		(100,418)	(4,662,255)	(786,601)
Provisions		51,264	(203,781)	(7,998,332)
Deferred Fees		(598,748)	(953,210)	86,710
Clients' trust funds		2,816,812	2,699,946	(345,303)
Net cash used in operating activities		(19,287,938)	(10,041,637)	(16,683,750)
				(17,454,592)

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

Note	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Additions to property and equipment	9	(12,653,940)	(11,489,303)	(7,990,762)
Purchases of assets		(12,653,940)	(11,489,303)	(10,846,233)
				(7,990,762)
				(10,846,233)

19. Financial instruments

(a) Financial risk management

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

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The Board provides written principles for overall risk management, as well as written policies covering credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk and operational risk.

(b) Foreign currency risk management

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

(c) Interest rate risk management

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

(d) Credit risk management

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

i. Settlement risk

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

ii. Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Group Credit, the Head of Group Credit, the Group Lending Committee and the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: Group Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances exposures).
- Developing and maintaining the Group's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 12 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Group Credit Risk Committee.
- Developing and maintaining the Group's processes for measuring Expected Credit Loss (ECL). This includes processes for:
 - initial approval, regular validation and back-testing of the models used;
 - determining and monitoring significant increase in credit risk; and
 - incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, regions risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk

(e) Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and provinces. The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

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Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by geography are reviewed by management and the Lending Committee on a regular basis and approved by the Board. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. The specific control and mitigation measure is through securing loans and advances via collateral. The principal collateral types of loans and advances are:

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

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

(f) Liquidity risk management

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

(g) Fair value of financial instruments

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

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

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

PARENT - 2019

	Interest bearing		Non-interest bearing	Total
	Less than 1 year	Greater than 1 year	1 year	
	K	K	K	K
Financial Liabilities:				
Trade and other payables	-	-	4,491,532	4,491,532
Security deposits	-	-	20,132,828	20,132,828
	-	-	24,624,360	24,664,360

PARENT - 2018

	Interest bearing		Non-interest bearing	Total
	Less than 1 year	Greater than 1 year	1 year	
	K	K	K	K
Financial Liabilities:				
Trade and other payables	-	-	3,744,931	3,744,931
Security deposits	-	-	15,966,448	15,966,448
	-	-	19,711,374	19,711,374

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CONSOLIDATED - 2019

	Interest bearing		Non-interest bearing	Total
	Less than 1 year	Greater than 1 year	1 year	
	K	K	K	K
Financial Liabilities:				
Trade and other payables	-	-	5,972,041	5,972,041
Deposit liabilities	51,109,102	-	-	51,109,102
Security deposits	-	20,132,828	-	20,132,828
	51,109,102	20,132,828	5,972,041	77,213,971

CONSOLIDATED - 2018

	Interest bearing		Non-interest bearing	Total
	Less than 1 year	Greater than 1 year	1 year	
	K	K	K	K
Financial Liabilities:				
Trade and other payables	-	-	5,871,623	5,871,623
Deposit liabilities	52,458,670	-	-	52,458,670
Security deposits	-	15,966,448	-	15,966,448
	52,458,670	15,966,448	5,871,623	74,296,741

The Group places short term deposits at various financial institutions for period ranging from one month to 12 months at an average industry variable rate of 3.58% (2018: 3.58%). The short term placements are considered safe investment where periods are fixed but interest rates vary. NDB has short term deposits with the subsidiary People's Micro Bank Limited amounting to K13,370,110 million at rate of 3% per annum.

Sensitivity Analysis

If the interest rate has increased by 1% the Group's net interest income on short term placement would have increased by K717,959 (2018: K877,194). If there was a decrease in interest rate by 1% the net interest income would have decreased by K717,959 (2018: K877,194).

If the interest rate has increased by 1% on the loans and advances issued the Group's net interest income would have increased by K3,034,016 (2018: K2,944,332). If the interest rate has decreased by 1% the Group's net interest come on loans would have decreased K3,034,016 (2018: K2,944,332).

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20. Related party transactions

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

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

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

Loan transactions with directors and/ or relates parties in which the directors have significant influence are carried out on standard commercial terms and market rates. For the year ended 31 December 2019, balances and transactions with related entities with directors interest were as follows:

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Balance at the beginning of the financial year	4,928,325	3,952,307	4,928,325	3,952,307
Interest	167,548	236,940	167,548	236,940
Additional loan	53,276	1,921,303	53,276	1,921,303
Charges	-	73,161	-	73,161
Loan repayments	(341,855)	(1,255,385)	(341,855)	(1,255,385)
Balance at the end of the financial year	4,807,294	4,928,325	4,807,294	4,928,325

The above related party loans include loans of K3.5 million (2018: K4.9 million) to Kare Kare Investments Ltd, a wholly owned company of the managing director (Mr. Moses Liu). This loan is provided at an interest rate of 5% (2018: 5%) and is repayable over 11.5 years.

Loans provided to staff are incentive-based with marginal discounts on rates and fee concessions. As at 31 December 2019 staff account balances were as follows:

a. Loans to key management personnel

	Consolidated		Parent Entity	
	2019 K	2018 K	2019 K	2018 K
Staff personal loan	-	15,381	-	15,381
Housing loan	4,900,455	4,508,093	4,900,455	4,508,093
Commercial loan	1,561,770	4,397,105	1,561,770	4,397,105
Large Equipment Loan	1,946,685	471,726	1,946,685	471,726
Doubtful debts loan	-	-	-	-
Total staff loan	8,408,910	9,393,305	8,408,910	9,393,305
Provisions	(115,839)	-	(115,839)	-
Staff loan - net	8,524,749	9,393,305	8,524,749	9,393,305

b. Key management personnel compensation

There were nine specified Directors of the Group during the year (2018: nine) who were remunerated where details of the remuneration are disclosed below. Four appointed toward end of last quarter 2018 and two being term expired in first quarter of 2019 financial year. The remuneration of the Managing Director of the parent entity is excluded from the figures disclosed below.

Specified director's remuneration

	Primary			Post-employment			Equity		Total K
	Fees K	Bonus K	Non-Monetary K	Benefits Superannuation K	Prescribed benefits K	Other K	Options K	Other K	
2019									
Specified Directors	461,519	-	-	-	-	54,790	-	-	516,039
Total	461,519	-	-	-	-	54,790	-	-	516,039
2018									
Specified Directors	368,828	-	-	-	-	18,000	-	-	386,828
Total	368,828	-	-	-	-	18,000	-	-	386,828

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

Specified executive's remuneration

	Primary		Post-employment			Equity		Total
	Fees	Bonus	Non-Monetary	Benefits Superannuation	Prescribed benefits	Other	Options	
	K	K	K	K	K	K	K	K
2019								
Specified Executives	3,353,639	263,767	-	203,745	-	-	-	3,821,151
Total	3,353,639	263,767	-	203,745	-	-	-	3,821,151
2018								
Specified Executives	3,375,871	256,056	-	208,184	-	-	-	3,840,111
Total	3,375,871	256,056	-	208,184	-	-	-	3,840,111

c. Rent Free Arrangement

NDB Board passed resolutions to have subsidiary People's Micro Bank Limited ("PMBL") use office spaces provided free of charge from financial year 2013 to 2015. The subsidiary is now charged rent at market rate for all office spaces provided and will continue to be charged rental for future periods. In the current year three buildings have been transferred to PMBL.

The subsidiary NDB Investments Limited uses office space free of charge. The arrangement will remain until it is fully liquidated.

d. Intercompany Balances

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

21. Remuneration of auditors

	Consolidated		Parent Entity	
	2019	2018	2019	2018
	K	K	K	K
Audit of the financial report	297,500	254,546	145,091	145,091

The auditor of the Group is KPMG for the financial year 2019. KPMG was the auditor for financial year 2018 as well.

22. Investment in short-term securities

	Consolidated		Parent Entity	
	2019	2018	2019	2018
	K	K	K	K
Short-term placements in Treasury Bills with the Bank of PNG.	56,377,919	64,293,608	15,115,110	-

23. Other information

Company information

The Group has 362 employees during the year (2018: 371).

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24. Operating lease arrangements

The Group as lessor – leasing arrangements

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

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

Operating leases where lessee has control over the asset are now recognized as Right of Use Asset and Lease Liability in the Balance Sheet.

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

25. Restatements

In 2019, the management of the Group discovered prior period errors relating to:

1. Investment property – the investment property held to earn rentals and / for capital appreciation (see Note 1(l)) is initially recognised at cost then subsequently measured at fair value. The Group engages independent professional valuers to perform the valuations. The group management discovered an error in the investment property valuation reports where the land had been double counted resulting in misstatements of K3,987,000 and K7,679,000 to the NDB and Consolidated financial statements respectively. The Group has determined that these errors are carried forward from previous reports and as a result have been recorded as prior period adjustments in the financial statements.
2. Specific Provision – a specific provision amount for impaired loans (see Note 1(d)) is recognised as the difference between the the amounts deemed recoverable based on collateral placed and the loan amount. In light of a review performed by management, an additional provision of K3,741,957 was raised due to errors in some of the collateral values and outdated valuations. The additional provisions related solely to the Company and no additional provision was raised for NDB Investments and People's Micro Bank Limited. The Group has determined that identified issues were in existence in previous years and as a result has recorded the additional provision as a prior period adjustment in the financial statements.

The following tables summaries the impact of the prior period error on the financial statements of the Group:

Restatement – 31 December 2017 (Parent Entity)

Statement of financial position	As reported	Adjustments	As Restated
Investment properties	21,330,631	(3,987,000)	17,343,631
Loans and advances	238,562,285	(3,741,957)	234,820,328
Total assets	551,560,260	(7,728,957)	543,831,303
Accumulated losses	(129,491,296)	(7,728,957)	(137,220,253)
Total equity	530,421,394	(7,728,957)	522,692,437

Restatement – 31 December 2017 (Group)

Statement of financial position	As reported	Adjustments	As Restated
Investment properties	35,560,192	(7,679,000)	27,881,192
Loans and advances	280,125,824	(3,741,957)	276,383,867
Total assets	599,642,699	(11,420,957)	588,221,742
Accumulated losses	(136,302,340)	(11,420,957)	(147,723,297)
Total equity	525,536,632	(11,420,957)	514,115,675

25. Restatements (continued)

Restatement – 31 December 2018 (Parent Entity)

Statement of financial position	As reported	Adjustments	As Restated
Investment properties	22,728,952	(3,987,000)	18,741,952
Loans and advances	249,484,243	(3,741,957)	245,742,286
Total assets	651,015,058	(7,728,957)	643,286,101
Accumulated losses	(124,509,489)	(7,728,957)	(132,238,446)
Total equity	626,754,500	(7,728,957)	619,025,543

Restatement – 31 December 2018 (Group)

Statement of financial position	As reported	Adjustments	As Restated
Investment properties	38,956,712	(7,679,000)	31,277,712
Loans and advances	291,458,489	(3,741,957)	287,716,532
Total assets	706,744,777	(11,420,957)	695,323,820
Accumulated losses	(128,522,930)	(11,420,957)	(139,943,887)
Total equity	624,742,116	(11,420,957)	613,321,159

26. Subsequent events

On 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.

For the Group'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.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature other than the matter above that in the opinion of the Directors of the Group, are likely to significantly affect the operations of the Group, the results of those operations, and the state of affairs of the Group, in future financial years.