CREDIT CORPORATION

PRELIMINARY FINAL REPORT

FINANCIAL YEAR ENDED

31 DECEMBER 2018

Incorporating the requirements of Appendix 4B (equity accounted)

40 YEARS

Appendix 4B

For the full year to 31 December 2018

Results for announcement to the market

Comparisons of current year to 31 December 2018 are with the year to 31 December 2017

Preliminary Final Report for the year ended 31 December 2018		
Revenue from ordinary activities (PGK Millions)	**K181m**	**K132m**
Net profit after tax for the period		
Attributable to equity holders (PGK Millions)	K98m	K74m
Dividends (distributions) Final dividend		
Unfranked (PGK toea per share)	-	11
Full Year dividend		
Unfranked (PGK toea per share)	-	15
Interim dividend		
Unfranked (PGK toea per share)	6	4

Appendix 4B

For the Full Year to 31 December 2018 Results for announcement to the market

Credit Corporation (PNG) Limited results for the year to 31 December 2018 compared with results for the year to 31 December 2017

Directors

The Directors present this report together with the Consolidated Financial Report for the year ended 31 December 2018.

Directors:

The directors of the company during or since the end of the year are:

- Sydney Yates, Chairman
- Johnson Kalo
- Richard Sinamoi
- Fay Zina Lalo
- Michael Varapik
- Albert Mellam
- James Kruse
- Abigail Chang
- David Doig.

The Company Secretary during or since the end of the year is Beverlyn Malken

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1. Results overview

CREDIT CORPORATION DELIVERS SOLID RESULT – NEW STRATEGIC PATH FOCUSED ON SHAREHOLDER VALUE CREATION

1.1 Results Highlights

	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
RESULT DRIVERS - GROUP						
Group Core Operating Profit After Tax (PGK'000)*	86,273	75,424	14.38%	34,793	51,480	-32.42%
Profit after tax attributable to the shareholders (PGK'000)	97,923	73,639	32.98%	28,262	69,661	-59.43%
Expense to Income Ratio**	37.65%	44.28%	-6.63%	37.65%	35.13%	2.52%
Group Return on Equity	10.38%	9.43%	0.94%	10.38%	8.26%	2.12%
Return on Asset	6.02%	5.55%	0.47%	4.86%	7.20%	-2.34%
Earnings Per Share	0.32	0.24	33%	0.09	0.23	-61.74%
Net Asset Backing Per Share	2.76	2.63	5%	2.76	2.74	0.88%
RESULT DRIVERS - FINANCE						
Core Operating Profit After Tax (PGK'000)	24,317	26,954	-9.78%	12,153	12,164	-0.09%
Net interest margin (%)	12.20%	13.67%	-1.46%	13.85%	12.94%	0.91%
Net Loan growth	581,939	480,879	21.02%	581,939	544,846	6.81%
Funding growth	483,432	454,352	6.40%	483,432	452,284	6.89%
Loan impairment expense (PGK'000)	25,268	6,703	276.98%	12,862	12,406	3.67%
RESULT DRIVERS - PROPERTY						
Core Operating Profit After Tax (PGK'000)	12,017	9,833	22.21%	8,611	3,406	152.82%
Occupancy Rates (Average)	76%	44%	32.00%	76%	74%	2.00%
Investment property fair value	297,410	301,810	-1.46%	297,410	301,810	-1.46%
Rental Yields	12%	8%	3.80%	12%	9.83%	1.90%
RESULT DRIVERS - INVESTMENTS						
Fair Value of Listed Investments (PGK'000)	377,930	354,234	6.69%	377,930	368,716	2.50%
Dividend Yield	12.25%	12.06%	0.20%	12.25%	9.09%	3.16%
Dividend Income (PGK'000)	46,306	42,712	8.42%	13,388	32,918	-59.33%
Share of profit of equity accounted investee (PGK'000)	(2,999)	(1,780)	68%	(5,624)	2,626	-314%

*Core operating profits excludes fair value changes arising from revaluation investments
**Expense to income ratio excludes any fair value changes of investments and movement in bad debt provisions.

1.2 Operating performance and earnings

Credit Corporation Group ("the Group") achieved an improved performance during the 2018 financial year delivering a solid result that demonstrates the value of a diversified business. The Group recorded a 33% increase in net profit after tax of K98m for the financial year ended 31 December 2018. The core profit also increased by 14% to K86m reflecting a stable performance of the underlying business.

Despite challenging economic conditions in a number of key markets, the Group achieved growth in the loan book within the finance division, along with improved occupancy driving enhanced rental income in the property division.

Against an economic backdrop, which included factors such as PNG having to deal with the disruption caused by APEC, and Fiji facing its general elections – all three segments – finance, property and investment – performed in line with expectations.

In FY18, consolidated group net operating income grew by 38%, while total operating expenses increased by 33%.

During the year the Board declared an interim dividend of 6 toea per share, representing a 50% increase on the previous corresponding period. In keeping with previous practice, the Board is expected to declare a final dividend after it meets in June 2019. Credit Corporation has now declared a dividend to shareholders for 40 consecutive years.

The Group achieved a lower cost to income ratio for the year of 38%. This has reduced 7%, demonstrating the ongoing focus on improving the efficiency of the business.

Group return on equity was also higher at 10.38%, representing a 94bps increase.

These achievements are the outcome of the Board and management's focus on strong business performance and on delivering enhanced shareholder value.

The FY18 statutory result was impacted by a significant non-cash impairment cost of K25.3m (an increase of K18.6m) due to adopting new accounting standards, provisioning on legacy loans, and a general increase due to loan book growth. This was partially offset by favourable movements in the fair value of investments.

The past six months has also been a time of review for Credit Corporation. While driving performance across the business, which is evident in the growth in the loan book within the finance division and improved occupancy driving enhanced rental income in the property division – the Group has concurrently reflected on its business strategy, particularly the changing dynamics of the consumer and business finance sector across the Pacific and the needs of customers.

Credit Corporation's Board announced a new strategic direction for the business over the next five years, focusing on developing a broader range of lending products and business efficiency initiatives to drive shareholder value creation.

While Credit Corporation's financial performance is not yet where Directors want it to be or where they think it could be in the future, with a new strategic direction in place, the foundations of sustainable future success are in place and there is an expectation the transformation pace will pick up during FY19.

Key highlights of the result included:

- Net loan book grew by 21% in FY18 primarily due to a more focused sales effort
- Loan book growth in respective regions included: CC PNG (12%), CC Fiji (19%), CC VL (38%), while the loan book in CC SI decreased (-26%).
- Property rental income increased by 45% to K33m due to improved occupancy across both the commercial and residential properties. Overall occupancy across the group increased by 32%.
- Property occupancy benefitting from property marketing efforts and refurbishments. A key project has been fibre cabling at Era Matana and Era Dorina to enhance tenant services.
- Credit House is almost fully tenanted with strong mix of corporate and international tenants.
- Dividend income increased by 8% in FY18. This was driven by dividends received from BSP shares.

- Completed a share buy-back of 1,078,258 shares providing an exit mechanism for smaller shareholders given liquidity considerations. The buy-back program was withdrawn at the end of December 2018. The focus is now on a renewed strategy that will enable us to achieve a prudent balance between returns to shareholders, and retaining sufficient flexibility to invest capital, pursue growth options and maintain strong credit metrics.
- 40th year celebrations assisted in the Group's marketing efforts and boosted corporate visibility
- Board reset strategic direction for the Group over the next five years focused on driving enhanced shareholder value. The next twelve months will see a sustained effort to satisfy the requirements of the new strategic direction.
- Appointment of new Board members including Syd Yates, Richard Sinamoi, James Kruse and Michael Varapik and key executives with new CEO Peter Aitsi and new CFO Jeff Undah.
- Governance, risk and compliance remain key priorities, with the Board decision to hire a Chief Risk Officer and presently recruiting for a General Manager for the Property division. A new Head of Credit has also been appointed and has commenced in this role.
- Implemented new accounting standards including IFRS9 for the first time.
- Enhanced shareholder communication with half yearly market updates supported by shareholder updates.

The loan provisions expense for the Group increased by K18.6m to K25.3m in FY18. The increase is attributed to the adoption of IFRS 9, provisioning for legacy loans and the general increase as a result of growth in loan book. From a legacy loan perspective, the Board took the decision to adopt a full impairment charge in relation to its legacy portfolio. This, in addition to other initiatives, will enable management to focus on driving business results, which deliver shareholder value. The Group's focus is on best practice in terms of accounting standards and asset quality. In 2019, the Group will also take proactive recovery measures.

Credit Corporation accounts for interests in associates and joint ventures using the equity accounting method. Due to a time lag between the date of Credit Corporation Reporting Requirements and those of investee company Capital Insurance Group, Directors have taken a prudent approach in their consideration of the investee's impairment indicators. As such, Directors have decided to adopt a K2.99m impairment charge on this interest until there is greater visibility of the investee's financial position. If the actual outcomes for the investee, based on its audited accounts, are significantly different from projections, there may be a reversal of this impairment loss.

The key drivers of the results for each segment are discussed below.

1.2.1 Finance Segment

Net interest income increased 28% to K72m over the period. The result was primarily driven by loan growth, while deposits grew by 6.4% over the same period. Growth was offset by increased loan impairment costs.

While Credit Corporation continues to focus on achieving low cost of funds, there was pressure on net interest margins during FY18, due to higher costs associated with funding strong loan book growth.

CC Finance PNG

CC Finance PNG performed well during FY18 achieving solid lending volume growth, despite some economic headwinds. CC Finance PNG recorded new lending of K169.5m in FY18, which was 20% higher than the previous year and performed higher than expectations. Margins were also maintained above target.

CC Finance PNG business recorded a loss of approximately K94k, attributable to the rise in provisions on the loan book. These provisions are related to legacy loans that have underperformed due to local economic factors. These are isolated to two customers that management are confident of resolving in FY19.

CC Fiji

CC Fiji's lending volumes grew to a record $86.5m (K135.7m) in FY18, representing a 17% increase on the previous corresponding period.

The business unit achieved NPAT of K15.5m, representing a 22% increase on the prior year, which was ahead of expectations.

It is anticipated that margins will come under further pressure as liquidity tightens in 2019 due to increased competition in the market.

CC Vanuatu

CC Vanuatu produced an outstanding performance in FY18, with lending volumes growing to approximately VT1.2billion (K35.4m), which was well ahead of expectations. Margins were also maintained throughout the year.

The business delivered NPAT of VT344m (K10.3m).

The Vanuatu business has done particularly well in attracting new deposits during the year to keep pace with lending growth.

CC Solomons

CC Solomon's was significantly impacted by the weak economic conditions during FY18. Lending volumes have slowed considerably and the year ended with SBD$26m (K10.7m) in new loans, compared with SBD$54m (K22.3m) in 2017. The business delivered a NPAT loss of SBD$887k (K357k), further compounded by impairment provisions of SBD$18m (~K7.6m) relating to the reclassification of loan arrears and delinquent accounts.

Solomon's will be subject to close ongoing supervision over the coming year.

CC Timor-Leste

The Timor-Leste business has achieved US$1.375m (K4.4m) in loans during FY18. Timor-Leste is continuing to receive a steady rate of enquiries as a result of referrals and advertising in the local market. While the Group has received regulatory approval to operate in the country, it is still awaiting approval to accept deposits. A review of this operation is part of the current strategic review process underway.

1.2.2 Property Segment

Properties recorded a 22% increase in core profits in FY18. The increase was attributed to improved occupancy rates for all properties. This has also resulted in improved rental yields for the business the fair value of properties reduced by 1.46% compared to FY 17

- Era Dorina – Occupancy increased to 67% (56% in FY17).
- Era Matana – Occupancy increased to 69% (17% in FY17).
- Credit House – Occupancy increased to 92% (59% in FY17).

These results were achieved in an already over supplied property market in Port Moresby. The rental rates for properties has come under pressure while lease tenure for residential properties has averaged at 24 months. CCP has been a preferred property company in the market despite the macro challenges and will continue to focus on ensuring the Group maintains its position as a premium brand in the market.

The Group is leveraging Era Dorina's unique features and has positioned the estate as a family-friendly residential complex. In keeping with this environment, the Group has commenced several strategic projects such as installing a new children's playground and the upgrading of the stage 3 pool area.

The Group has focused on increasing direct marketing activities targeting real estate agents and also larger companies which have potential to take up multiple tenancies. Refreshed newspaper advertisements are being rolled out in the first quarter of 2019, supported by on site client events.

The Group is also close to completing a fibre cabling project for Era Dorina, with the objective to further differentiate the properties from the market.

Era Matana and now Era Dorina will both have fibre cabling allowing the transition away from the current wireless-based service, to ensure a reliable service in terms of connectivity and bandwidth offered to tenants.

1.2.3 Investment Segment

The investment portfolio consists of listed equities, predominantly BSP shares. The valuation of shares in BSP increased by 7% in FY18, while the dividend yields also improved by 20bps.

1.2.4 Asset quality and loan impairment

In FY18, the Group adopted IFRS 9 and fully embedded its requirements. The loan book was impacted by a number of key factors during the year. Loan provisions on the balance sheet increased by 113% as a result of:

- Loan growth
- Impact of provisioning on legacy loans for CC Finance PNG
- Reclassification of loan arrears and delinquent loans for Solomon Islands.

Provisions for both years ended 31 December 2017 and 2018 were calculated for IFRS 9 adoption. For 31 December 2017, transition adjustment of K4.9m was made to retained earnings with a corresponding increase to loan provisions on the balance sheet.

The deterioration in collateral values and a longer realisation period to clear loan delinquency in key markets has impacted on the increase in the loan provisioning impact under IFRS 9.

Solomon Islands had understated its loan provisioning expense over time due to issues pertaining to administration of the arrears based model that was not in compliance with the prudential standard. This has been corrected and now reflected in forecast using IFRS 9. Systems and processes have been strengthen to ensure this situation does not reoccur.

With the recruitment of new Head of Credit, asset management and recovery will be further strengthened.

The key focus of FY19 will be on the discipline to be applied in terms of generating quality loan growth, while dealing with the impact of the legacy of bad loans.

1.2.5 Property Valuations

The fair value loss on investment property was (K8.9m) compared to (FY2017: (K19.8m) loss). On a comparative basis, the FY18 fair value results were achieved on the back of improved occupancies across the three property portfolios. The Group has adopted an approach to conduct revaluations every three years consistent with IFRS requirements. The next revaluation will be due in FY19.

From a market perspective, the rental rates for properties have come under pressure due to oversupply of property spaces in Port Moresby. Lease tenure for residential properties has been reduced to on average 24 months. Despite these challenges, CCP still maintains its status as a preferred supplier in the market and will maintain many of the new tenants, who are coming mainly from referrals from existing tenants.

CCP has seen an increase in enquiries from employees from a number of the major resources companies.

While CCP does not anticipate an increase in rental prices, it does expect occupancy levels to rise based on prevailing conditions. CCP expects occupancy to settle at 80% to 85% by end of FY19.

1.2.6 Operating expenses

Operating expenses increased by 33% and this was largely attributed to increased loan impairment costs. (The increase in impairment costs is further explained in the Asset Quality and Impairment section).

Depreciation expense also increased by 49% and this was attributed to adoption of IFRS 16. The Group early adopted IFRS 16, which specifies how to recognise, measure, present and disclose leases. As a result, right of use assets and a corresponding lease liability were recognised in the balance sheet as at 31 December 2018. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information for FY17 has not been restated and continues to be reported under IAS 17.

Personnel expense costs were lower as a result of timing differences between changes in key management personnel. Other operating expenses were also lower due to various costs disciplines put in place to manage operating costs across the Group.

1.3 External market conditions

While the IMF has recently revised down world GDP growth, the South Pacific is expected to show some resilience in 2019.

The table below shows the GDP growth estimates for 2018 and forecast for 2019 from the Asian Development Bank for each of the countries in which CCP Group is represented.

COUNTRY	2018	2019
PAPUA NEW GUINEA	0.5%	3.0%
FIJI	3.2%	3.9%
SOLOMON ISLANDS	3.2%	3.0%
VANUATU	3.4%	3.2%
TIMOR-LESTE	0.6%	4.0%

Source: https://www.adb.org/

1.3.1 Papua New Guinea

While Papua New Guinea's economy was sluggish in 2018, it is forecast to grow by up to 3% in 2019[1]. The National Government released its 2019 budget in November 2018 and is dealing with a number of key issues including the foreign currency shortage and declining government revenues that is delaying the government's ability to pay its bills to the private sector.

On a positive note, the PNG Government has been successful in its inaugural sovereign bond issue that should result in an increased injection of foreign currency into the banking system. This, however, could also put pressure on domestic liquidity and interest rates.

During the APEC week in November 2018, the PNG Government signed a MOU with Total SA, Exxon and Oil Search agreeing to work toward March 2019 to sign the Gas Agreement for the US$12b Papua LNG Project. Another positive was the signing of the MOU between developers Newcrest and Harmony Gold and key stakeholders of the Wafi Golpu mine project in December 2018. These two multi-billion dollar projects will no doubt have an enormous impact on the PNG economy if able to be progressed in 2019.

Another key development out of APEC for PNG has been the US$1.7b Papua New Guinea Electrification Partnership with Australia, Japan, the United States and New Zealand, which aims to extend power to 70% of the country's population by 2030.

A further APEC announcement will see the US partner with Australia and Papua New Guinea to redevelop the Manus Island naval base

Economic conditions will remain challenging however the business initiatives introduced throughout FY18 have positioned us well to leverage further on the positive momentum being reflected in loan growth. The steps taken to recruit key personnel and to improve our operating systems will enable us to optimise any economic upswing that may come from the much anticipated Wafi Golpu project and Papua LNG as they start early development works.

[1] Source: https://www.adb.org/

1.3.2 Fiji

The Fiji GDP grew by an estimated 3.2% in 2018, making nine consecutive years of positive growth, and it is set to increase by 3.9% in 2019. Economic sectoral performances were generally upbeat, with production from the primary and manufacturing industries on the rise and visitor arrivals up to record levels. Motor vehicle sales continue to be strong, with new and second hand motor vehicle registrations increasing by 19.4% and 11.4% respectively in 2018.

With the uncertainty of the National Elections now behind Fiji, business confidence is expected to be bolstered and stable economic conditions are predicted to continue into 2019. The government plans include generating private sector investment and activity through a low tax regime in addition to a stable interest rate environment.

There is ongoing competitive pressure in the asset finance marketplace through competitors offering lower interest rates and fees as they attempt to build market share.

With greater levels of competition in Fiji, the focus will be on retaining our existing clients by fully leveraging the Group's branch network and extracting full value in terms of improved levels of customer service as we implement the upgrade of our operating platform.

1.3.3 Solomon Islands

The Solomon Islands GDP grew by an estimated 3.2% in 2018 and is set to increase by 3.4% in 2019, driven by agriculture, fishing, construction, manufacturing plus tourism-related sectors.

A recent positive development for the country has been the inauguration of a $144m Coral Sea Cable System between the Australian and Solomon Islands governments. The submarine fibre optic cable will link Sydney to Honiara in Solomon Islands, as well as to Port Moresby in Papua New Guinea. Australia will also aid in the construction of a Solomon Islands domestic broadband network, which has been described as "game-changing infrastructure." Presently, the country is wholly reliant on expensive satellite technology to access the Internet.

Solomon Islands are in an election period therefore the government is in caretaker mode. In April, Solomon Islands will hold the first general election since the departure of the Regional Assistance Mission to Solomon Islands (RAMSI). The incumbent government has claimed it has led the way on the country's fiscal situation, restoration of political stability, restoration of international confidence and continued implementation of key projects such as the Tina Hydro, Goldridge mining redevelopment, Munda International airport, Development Bank of Solomon Islands (DBSI) and the 2023 Pacific Games.

Despite this, Solomon Islands continues to face a challenging business environment as evidenced by a growing number of overdue loans. The business focus for CC Solomons has been on managing loan book quality. Looking ahead to FY19, it is hoped that the incoming government can assist in further economic stimulus.

1.3.4 Vanuatu

Vanuatu GDP grew by an estimated 3.4% in 2018 and is set to increase by 3.2% in 2019. Tourism activities, agriculture, fisheries and kava are key industries for the nation.

Vanuatu's economy experienced challenges in 2018 and many of those related to a slowdown in tourism revenues including larger resorts and hotels. This has a flow on affect to other businesses.

However, the Vanuatu government has this year convened a number of major tourism and travel stakeholders meetings this calendar year to announce a major strategy initiative in the sector.

As part of this new initiative it has launched Shared Vision 2030, a plan that commits Air Vanuatu, the Vanuatu Tourism Office, and Airports Vanuatu Ltd to an ambitious expansion strategy.

In 2019, Air Vanuatu, the national flag carrier of the Pacific island nation, has ordered four A220 aircraft. Air Vanuatu has stated the new aircraft will allow the carrier to streamline its current operations and launch a growth plan that is a key pillar of Vanuatu's economic development goals.

Public expenditure related to relocation of the Ambae community following eruption of Manaro volcano may also contribute to growth.

The outlook for Vanuatu remains positive, however greater focus will be given to managing the quality of the loan book. The Group will also look at strategic partnerships with key businesses to deliver a "one stop" service for our customers.

1.3.5 East Timor (Timor-Leste)

Timor-Leste is essentially an oil and gas economy. The oil industry generates almost all government revenue and underwrites the government expenditure programs. The country's GDP grew by an estimated 0.6% in 2018 and is set to increase by 4% in 2019.

Timor-Leste successfully held its first early election on May 2018 demonstrating its growing maturity as a democratic state.

Political parties, throughout their election campaigns, emphasised the need to diversify Timor-Leste's economy, acknowledging that economic diversification is essential to move the country away from dependency on its oil resources. The strategy lies in making significant investments in other productive sectors, particularly agriculture and tourism.

Timor-Leste has experienced modest economic growth, particularly in its non-oil GDP. Domestic consumption, including household consumption, has increased, causing consumption-based poverty to decline. Among households the acquisition of durable goods has also increased.

In 2018, the Timor-Leste government agreed to buy Shell and ConocoPhillips's stakes in the rich Greater Sunrise oil and gas fields as part of its plan to pipe the natural resources to its south coast for processing. Timor-Leste has pursued a vision for a pipeline and a domestic LNG industry for a number of years, arguing the plan is crucial to its national development.

Timor-Leste President Fransisco Guterres has given his approval to a decree which allows the country's petroleum fund to be used for buying out the stakes of Shell and ConocoPhillips for $650m in the Greater Sunrise project.

However, CC's Timor-Leste operations continue to experience challenges given regulatory issues related to raising deposits. The Timor operations are currently being reviewed as part of the Group's new strategic direction.

1.4 Key strategic priorities

Credit Corporation Board unveiled a new strategic direction in 2018. The initial focus of the strategy will be on a number of key priorities including financial performance, customer value, core systems and processes, and people.

From a finance perspective, the Group will be investing in capability and growing the segment through digital competency, distribution maturity and a prudent funding strategy.

The Group will also be seeking growth opportunities via M&A, geographic expansion and distribution networks.

The new strategic direction acknowledges the property and investment businesses are the Group's key capital generating segments that support the finance business.

In terms of property, there will be a sharpened focus on further lifting property presentation and maximising yields, while building a longer-term strategy for maximising asset performance.

Another key business unit initiative is a review of the Group's investment portfolio, to ensure that it is optimised without capital or revenue impact, as a hedge against cyclical downtrends in other sectors.

The next twelve months will see a sustained effort to satisfy the requirements of the new strategic direction.

1.5 Governance and risk

From a governance perspective, there have been changes to the composition of the Board and senior management.

Syd Yates was appointed new Board Chairman and he brings to the Board a wealth of experience in the banking, finance and investment sector that will greatly assist Credit Corporation Group as it commences its next phase of growth.

Mr Yates is a highly regarded and accomplished company executive and director. His career includes 20 years' with a leading PNG financial services company Kina Securities, where he fulfilled roles as Managing Director and CEO. His standout achievement during his time at Kina included the successful listing of the company on the Australian Securities Exchange (ASX) and the Port Moresby Stock Exchange (POMSoX) in 2015 and the acquisition of Maybank PNG by Kina in the same year.

Allan Marlin and Sir Wilson Kamit also tendered their resignation as Directors and John Dunlop retired during the year and new Independent Directors Richard Sinamoi, James Kruse, Michael Varapik and Mr Yates were elected to the Board. They join Johnson Kalo, Fay Zina Lalo, Albert Mellam, Abigail Chang and David Doig on the Board.

The board intends to establish a stand-alone risk committee, separate from the audit committee, to further enhance visibility of risks and risk management.

Peter Aitsi was also appointed CEO of the Group and was also appointed to the Boards of the Credit Corporation finance companies operating in Fiji and Solomon Islands. The Group has also appointed a new Chief Financial Officer Jeff Undah.

A new Head of Credit has also been appointed and has commenced in this role.

The Group is also ensuring its governance structures and processes are also evolving and maturing.

A key focus will be strengthening the Group's risk and compliance structures to meet the ongoing requirements of regulators across the Pacific as it moves towards best practice.

This focus is particularly important given the adoption of new International Financial Reporting Standards together with increased regulatory requirements have significant strategic, financial and compliance considerations for the Group.

The Board has also progressed a number of other key focus areas since its appointment. These have included:

- Changing the way it reports giving more transparency to the operating divisions of the Group
- Fostering a culture of accountability throughout the Group
- Setting performance benchmarks linked to its strategy and budget
- Half yearly market updates supported by shareholder updates.

The Group is placing an increasing emphasis on managing risk as an essential enabler of the business and the Board has created the Chief Risk Officer role as a stand-alone position, and will add it to the Senior Executive Group, as an indication of the importance the Group places on the risk function.

The new role will lead strategies for continuing to ensure risk is embedded within strategic and day-to-day decision-making and to ensure optimal client and business outcomes.

This is even more important in today's heightened risk environment across all sections of the financial services industry. The Group is also recruiting a General Manager for its Property division and has recently recruited a new Head of Credit.

1.6 Disclosure and context

1.6.1 Future performance, forward looking statements

The information in this document is for general information only. To the extent that certain statements contained in this document may constitute "forward-looking statements" or statements about "future matters", the information reflects Credit Corporation (PNG) Limited's intent, belief or expectations at the date of this document. Subject to any continuing obligations under applicable law or any relevant listing rules of the POMSoX, Credit Corporation (PNG) Limited disclaims any obligation or undertaking to disseminate any updates or revisions to this information over time. Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Credit Corporation (PNG) Limited's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

1.6.2 Rounding

All amounts in this report have been rounded to the nearest million Kina unless otherwise stated.

1.7 Profit results for the year ended to December 2018

1.7.1 Statutory results

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
Finance Income	92,397	74,020	25%	48,952	43,445	13%
Finance cost	(20,407)	(17,643)	16%	(10,722)	(9,685)	11%
Net Finance income	**71,990**	**56,377**	**28%**	**38,230**	**33,759**	**13%**
Other income	91,314	76,574	19%	36,760	54,554	-33%
Fair value gain/(loss) on financial assets	27,395	18,590	47%	9,214	18,181	-49%
Fair value loss on investment properties	(8,952)	(19,821)	-55%	(8,952)	0	0%
Net operating income	**181,747**	**131,720**	**38%**	**75,253**	**106,495**	**-29%**
Impairment loss on finance receivables	25,268	6,703	277%	12,860	12,408	4%
Personnel expenses	17,735	19,224	-8%	8,765	8,970	-2%
Depreciation expense	4,935	3,309	49%	2,714	2,221	22%
other operating expenses	26,094	26,511	-2%	12,549	13,546	-7%
Total expenses	**74,032**	**55,747**	**33%**	**36,887**	**37,146**	**-1%**
Results from operating activities	**107,715**	**75,974**	**42%**	**38,366**	**69,349**	**-45%**
Share of profit of equity accounted investee (net of tax)	(2,999)	(1,780)	68%	(5,624)	2,626	-314%
Profit before tax	**104,716**	**74,193**	**41%**	**32,741**	**71,975**	**-55%**
Income tax expense	6,793	555	1124%	4,479	2,313	94%
Profit attributable to equity holders of the company	**97,923**	**73,638**	**33%**	**28,262**	**69,661**	**-59%**

The above information reflects the full year audited consolidated financial results for Credit Corporation Group for the financial year ended 31 December and Half year ended 30 June reviewed financial statements.

1.7.2 Net interest margin

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
Average Interest earning assets	531,409	438,130	21%	531,409	512,863	4%
Average yield on interest earning assets (%)	-16.81%	17.75%	-34.56%	18.42%	16.94%	1.48%
Average interest bearing liabilities	468,892	439,099	7%	468,892	483,816	-3%
Average cost on interest bearing liabilities (%)	-4.61%	4.08%	-8.69%	4.57%	4.00%	0.57%
Interest spread (%)	12.20%	13.67%	-1.46%	13.85%	12.94%	0.91%

The net interest margin ("NIM") reduced by 146bps to 12.20% in FY18. All key markets experienced margin compression as a result of competition coupled with the additional requirements to raise more funds to fund loan growth. The increased competition in key markets has resulted in yields on average interest earning assets reduced by 93 bps. There has also been a general increase in interest rates on deposits across key markets due to varying macro factors which has caused an increase in cost of funding. Going forward, cost of funds is expected to increase in key markets as a result of the Finance business phasing its loan growth in line with funding growth as interest rates rise. Also improved foreign currency flows in key markets will have potential upward pressure on interest rates.

1.7.3 Investment fair value movement

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
Property						
Residential property	(7,528)	(20,425)	-63%	(7,528)	-	0%
Commercial Property	(1,423)	603	-336%	(1,423)	-	0%
Total gain/(loss) on property valuation	**(8,952)**	**(19,821)**	**-55%**	**(8,952)**	**-**	**0%**
Financial Assets						
Listed equity	27,395	18,590	47%	9,214	18,181	-49%
Share of profits from equity accounted investee	(2,999)	(1,780)	68%	(5,624)	2,626	-314%
Total gain/(loss) on valuation of financial assets	**24,396**	**16,810**	**45%**	**3,589**	**20,807**	**-83%**
Total gain/(loss) on valuation of investments	**15,445**	**(3,011)**	**-613%**	**(5,362)**	**20,807**	**-126%**

Property valuations

The Group has adopted an approach, to do external revaluations on investment properties at the end of every three-year period, which is in line with the International Financial Reporting Standards.

The last property valuation was performed in FY16 and the next revaluation is due in FY19. Within the three-year period, an internal assessment of property valuations is performed with external auditors attesting to fair values of investment properties.

In FY18, the fair value loss on the total investment property portfolio was K8.9m. The movement in fair value loss was largely attributed to reduced rental rates in the markets as there is now an oversupply of properties in the market.

Notwithstanding the external market factors occupancy across all property portfolios increased by 32% to 76% in FY18. Occupancy by properties were as follows:

- Era Dorina – Occupancy increased to 67% (56% in FY17)
- Era Matana – Occupancy increased to 69% (17% in FY17)
- Credit House – Occupancy increased to 92% (59% in FY17).

Investment valuations

The investment portfolio consists of listed equities with BSP dominating 99% of the investments portfolio. Valuation of shares was based on closing market price as at 31 December 2018. As at the end of FY18, the Group had 36,294,081 shares in Bank South Pacific with a fair value of K327m. This represents an increase of 6.69% in fair value movement from FY17.

Dividend income received in FY18 increased by 9% to K46m and was predominantly derived from BSP investment. As a result, dividend yield on investments continued to improve by 22bps.

1.7.4 Share of profits from equity accounted investee

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
Investments - equity accounted	12,462	15,461	-19%	12,462	18,087	-31%
Share of profit of equity accounted investee (net of tax)	(2,999)	(1,780)	68%	(5,624)	2,626	-314%

Equity accounted investee represents investment in Capital Insurance Group ('CIG"). Credit Corporation (PNG) Limited holds 25% of share in Capital Insurance Group. Through this shareholding, Credit Corporation (PNG) Limited has determined that it has significant influence but does not have a controlling vote on the Board of Capital Insurance Group. The unfavourable movement in share of profits from equity accounted investee was attributed to a reduction in net assets of Capital Insurance Group.

Credit Corporation accounts for interests in associates and joint ventures using the equity accounting method. Due to a time lag between the date of Credit Corporation Reporting Requirements and those of investee company Capital Insurance Group, Directors have taken a prudent approach in their consideration of the investee's impairment indicators. As such, Directors have decided to adopt a K2.99m impairment charge on this interest until there is greater visibility of the investee's financial position. If the actual outcomes for the investee, based on its audited accounts, are significantly different from projections, there may be a reversal of this impairment loss. During the year, there were no dividends received from Capital Insurance Group.

1.7.5 Operating expenses

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
Impairment loss on finance receivables	25,268	6,703	277%	12,860	12,408	4%
Personnel expenses	17,735	19,224	-8%	8,765	8,970	-2%
Depreciation expense	4,935	3,309	49%	2,714	2,221	22%
Other operating expenses	26,094	26,511	-2%	12,549	13,546	-7%
Total Expenses	74,032	55,747	33%	36,887	37,146	-1%

Operating expenses increased by 33% and was largely attributed to increased loan impairment costs. The increase in impairment costs is further explained in the Asset quality and impairment section.

Depreciation expense also increased by 49% and this was attributed to adoption of IFRS 16. The Group early adopted IFRS 16, which specifies how to recognize, measure, present and disclose leases. As a result, right of use assets and a corresponding lease liability were recognised in the balance sheet as at 31 December 2018. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information for FY17 has not been restated and continues to be reported under IAS 17.

Personnel expense costs were lower as a result of timing differences between changes in key management personnel. Other operating expenses were also lower due to various costs disciplines put in place to manage operating costs across the Group.

1.7.6 Asset quality and impairment

Figures in PGK'000s	Full Year Ended		
	Dec-18	Dec-17	Change %
Loan Balance (net of unearned income)			
· Stage 1 -12 month ECL	456,489	400,129	14%
· Stage 2 - Life time ECL	74,218	70,655	5%
· Stage 3 - Life time ECL	111,727	38,517	190%
Total loans (Net of unearned income)	642,434	509,301	26%
Loan Provisions	(60,495)	(28,422)	113%
Net loan book	581,939	480,879	21%
Loan impairement expense	25,268	6,703	277%

The Groups fully adopted requirements of IFRS 9 in FY18. The IFRS 9 standard requires accounts that have shown a significant increase in credit risk (SICR) to be assigned a lifetime expected loss and are assigned under stage 2 and 3. In FY18, there was a notable increase in loans classified under stage 3. This increase resulted in a notable impact where loan provisions and impairment costs increased substantially. The increase was mostly attributed to three main reasons:

- Loan growth
- Impact of provisioning on legacy loans for CC Finance PNG
- Reclassification of loan arrears and delinquent loans for Solomon Islands.

For CC Finance PNG, the increase was isolated to two customers that management are confident of resolving in 2019. In Solomon Islands, the subdued economic conditions have generally impacted loan book quality wherein management has reviewed the current credit quality to ensure that appropriate provisioning levels are maintained to reflect these circumstances.

In FY18, the focus has been on quality loan growth and strengthening of areas management systems and processes across the Group.

For FY17, a transition adjustment of K4.9m was made to retained earnings with a corresponding increase to loan provisions on balance sheet as required under IFRS 9.

1.7.7 Group Capital Adequacy

Group Capital Adequacy is based on the prudential requirements of respective central banks in Papua New Guinea, Fiji Solomon Islands and Vanuatu. The prudential standards in respective jurisdictions prescribe the capital adequacy ratios and leverage ratios to ensure that the Finance businesses are well capitalised.

	Full Year Ended		Half Year Ended	
	Dec-18	Dec-17	Dec-18	Jun-18
Total Risk Weighted Capital (PGK'000)	188,068	201,404	188,068	198,580
Tier 1 Capital (PGK'000)	157,207	181,932	157,207	180,440
Tier 2 Capital (PGK'000)	30,861	19,472	30,861	18,140
Total RWC	28%	34%	28%	30%
Tier 1 RWC	20%	28%	20%	26%
Leverage Ratio	18%	25%	18%	25%

In FY18, The Total Capital and Tier 1 capital reduced by 6.5% due to retained earnings adjustment attributed to adoption of IFRS 9. As at 31 December 2018, all Finance subsidiaries were well capitalised and above regulatory limits despite the IFRS 9 adjustments.

1.7.8 Lending

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
Gross balance	754,198	605,404	25%	754,198	694,200	9%
Unearned income	(111,763)	(96,103)	16%	(111,763)	(109,739)	2%
Loan Provision	(60,495)	(28,422)	113%	(60,495)	(37,644)	61%
Net loans	581,939	480,879	21%	581,939	546,817	6%

Gross loan book grew by 25% in FY18. The growth was largely attributed to renewed focus on sales across the key markets. During the year, there was change in certain business development roles across key markets which has been the main driving factor for the double digit growth. PNG, Fiji and Vanuatu were the key markets that experienced double digit growth. For CC Solomons, the focus has been on managing loan book quality given the subdued economic conditions within that market.

Loan provisioning also increased by 113% in FY18. Part of that increase was attributed to normal provisioning as a result of loan growth. However, there were other two factors impacting on increase in provisioning being provisioning on legacy loans and reclassification of loan arrears and delinquent loans for CC Solomons.

1.7.9 Funding

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change %	Dec-18	Jun-18	Change %
On Call	509	68	649%	509	139	266%
1 month	25,952	35,654	-27%	25,952	51,493	-50%
2 months	35,207	59,409	-41%	35,207	66,175	-47%
3 months	75,318	50,773	48%	75,318	71,627	5%
6 months	137,848	96,283	43%	137,848	79,676	73%
12 months	155,981	170,089	-8%	155,981	143,451	9%
24 months	52,617	42,076	25%	52,617	39,723	32%
Total Deposits for Credit Corp	483,432	454,352	6%	483,431	452,284	7%

Funding grew by 6% as at end of FY18. The growth was attributed to the need to raise more funding to grow loan book. During the year, the Group also utilised available cash to fund loan growth whilst it focused on keeping funding levels at reasonable liquid levels. The Finance business has been actively focused on ensuring that it manages its liquidity in line with best practice. There also has been cost pressure on deposit pricing in order to attract new deposits. For FY19, the focus will be on ensuring that growth in loan book is aligned with funding growth. The Group is also committed to strengthening its treasury function with additional resources and expertise to assist with meeting funding requirements and to manage funding risk in the future.

2. Consolidated profit and loss account

		Current period – K''000	Previous corresponding period - K''000
2.1	Sales (or equivalent operating) revenue	125,448	96,783
2.2	Share of +associates' "net profit (loss) attributable to shareholders" (equal to item 16.7)	(2,999)	(1,780)
2.3	Other revenue	76,706	52,580
2.4	**+Operating profit (loss) before abnormal items and tax**	104,716	74,193
2.5	Abnormal items before tax (detail in item 2.4)	-	-
2.6	+Operating profit (loss) before tax (items 1.4 + 1.5)	104,716	74,193
2.7	Less tax	(6,793)	(555)
2.8	+Operating profit (loss) after tax but before outside +equity interests	97,923	73,638
2.9	Less outside +equity interests	-	-
2.10	**+Operating profit (loss) after tax attributable to shareholders**	97,923	73,638
2.11	Extraordinary items after tax (detail in item 2.6)	-	-
2.12	Less outside +equity interests	-	-
2.13	Extraordinary items after tax attributable to **shareholder**s	-	-
2.14	**Total +operating profit (loss) and extraordinary items after tax** (items 1.8 + 1.11)	**97,923**	**73,638**
2.15	+Operating profit (loss) and extraordinary items after tax attributable to outside +equity interests (items 1.9 + 1.12)	-	-
2.16	**+Operating profit (loss) and extraordinary items after tax attributable to shareholders** (items 1.10 + 1.13)	97,923	73,638
2.17	Retained profits (accumulated losses) at beginning of financial period	403,648	374,104
2.18	If change in accounting policy as set out in clause 11 of AASB 1018 Profit and Loss Accounts, adjustments as required by that clause (include brief description) Adjustment from implementation of IFRS 9	(4.937)	-
2.19	Aggregate of amounts transferred from reserves	(18,256)	(940)
2.20	Total available for appropriation *(carried forward)*	478,378	446,802
2.21	Dividends paid Final Dividend : 10 toea per share Interim Dividend: 4 toea per share	(33,853) (18,460)	(30,837) (12,317)
2.22	Aggregate of amounts transferred to reserves	-	-
2.23	**Retained profits (accumulated losses) at end of financial period**	**426,055**	**403,648**
2.24	+Operating profit (loss) after tax before outside +equity interests (items 1.8) and amortisation of goodwill	97,923	73,638
2.25	Less (plus) outside +equity interests		

		Current period – K''000	Previous corresponding period - K''000
2.26	+Operating profit (loss) after tax (before amortisation of goodwill) attributable to shareholders	97,923	73,638

3. Intangible, abnormal and extraordinary items

		Consolidated - current period			
		Before tax K'000	Related tax K'000	Related outside +equity interests K'000	Amount (after tax) attributable to shareholders K'000
3.1	Amortisation of goodwill	-	-	-	-
3.2	Amortisation of other intangibles	-	-	-	-
3.3	**Total amortisation of intangibles**	-	-	-	-
3.4	Abnormal items	-	-	-	-
3.5	**Total abnormal items**	-	-	-	-
3.6	Extraordinary items	-	-	-	-
3.7	**Total extraordinary items**	-	-	-	-

4. Comparison of half year profits

(Preliminary final report only)

		Current year – K''000	Previous year - K''000
4.1	Consolidated +operating profit (loss) after tax attributable to **shareholders** reported for the *1st* half year (item 1.10 in the half yearly report)	69,662	61,795
4.2	Consolidated +operating profit (loss) after tax attributable to **shareholders** for the *2nd* half year	28,261	11,843

5. Consolidated balance sheet

(See note 5)

		At end of current period K'000	As shown in last +annual report K'000	As in last half yearly report K'000
Current assets				
5.1	Cash	93,887	137,537	123,103
5.2	Receivables – net of portfolio & specific provisions	110,585	81,705	103,332
5.3	Investments	5,204	-	932
5.4	Inventories	868	889	905

		At end of current period K'000	As shown in last +annual report K'000	As in last half yearly report K'000
5.5	Other – (Other Debtors & Income & Dividend WTax)	6,039	18,169	15,153
5.6	**Total current assets**	216,583	238,300	243,425
Non-current assets				
5.7	Receivables – net of portfolio & specific provisions	471,354	399,174	441,514
5.8	Investments in +associates	12,462	15,461	18,087
5.9	Other investments	676,628	663,384	678,723
5.10	Inventories	-	-	-
5.11	Exploration and evaluation expenditure capitalised (see para .71 of *AASB 1022*)	-	-	-
5.12	Development properties (+mining entities)	-	-	-
5.13	Other property, plant and equipment (net)	25,107	22,801	25,620
5.14	Intangibles (net)	56	82	68
5.15	Other (provide details if material)	28,816	18,977	22,814
5.16	**Total non-current assets**	**1,214,423**	**1,119,879**	**1,186,826**
5.17	**Total assets**	**1,431,006**	**1,358,179**	**1,430,251**
Current liabilities				
5.18	Accounts payable	6,442	6,541	7,461
5.19	Borrowings	60,110	59,519	62,283
5.20	Provisions	2,749	2,112	36,402
5.21	Other (provide details if material)-Deposits & IFRS 16 Lease liability	434,097	412,276	415,256
5.22	**Total current liabilities**	**503,398**	**480,448**	**521,402**
Non-current liabilities				
5.23	Accounts payable	-	-	2,271
5.24	Borrowings	-	-	-
5.25	Provisions (Deferred tax liability)	24,467	23,935	24,440
5.26	Other (provide details if material)-Deposits & IFRS 16 Lease liability	51,932	42,076	38,504
5.27	**Total non-current liabilities**	**76,399**	**66,011**	**65,215**
5.28	**Total liabilities**	**579,797**	**546,459**	**586,617**
5.29	**Net assets**	**851,209**	**811,720**	**843,634**
Equity				
5.30	Capital	21,983	22,008	21,999
5.31	Reserves	403,161	386,064	399,196
5.32	Retained profits (accumulated losses)	426,065	403,648	422,439

		At end of current period K'000	As shown in last +annual report K'000	As in last half yearly report K'000
5.33	Equity attributable to **shareholder**s of the parent entity	851,209	811,720	843,634
5.34	Outside +equity interests in controlled entities	-	-	-
5.35	**Total equity**	**851,209**	**811,720**	**843,634**
5.36	Preference capital included as part of 4.33	**-**	**-**	**-**

6. Exploration and evaluation expenditure capitalised

To be completed only by entities with mining interests if amounts are material. Include all expenditure incurred regardless of whether written off directly against profit.

		Current period - K'000	Previous corresponding period - K'000
6.1	Opening balance	NA	NA
6.2	Expenditure incurred during current period		
6.3	Expenditure written off during current period		
6.4	+Acquisitions, disposals, revaluation increments, etc.		
6.5	Expenditure transferred to development properties		
6.6	**Closing balance as shown in the consolidated balance sheet** (item 4.11)	NA	NA

7. Development properties

(To be completed only by entities with mining interests if amounts are material)

		Current period - K'000	Previous corresponding period - K'000
7.1	Opening balance	NA	NA
7.2	Expenditure incurred during current period		
7.3	Expenditure transferred from exploration and evaluation		
7.4	Expenditure written off during current period		
7.5	+Acquisitions, disposals, revaluation increments, etc.		
7.6	Expenditure transferred to mine properties		
7.7	**Closing balance as shown in the consolidated balance sheet** (item 4.12)	NA	NA

8. Consolidated statement of cash flows

(See note 6)

		Current period - K'000	Previous corresponding period - K'000
Cash flows related to operating activities			
8.1	Receipts from customers	128,041	107,216
8.2	Payments to suppliers and employees	(35,630)	(38,871)
8.3	Dividends received from +associates	-	297
8.4	Other dividends received	46,332	42,353
8.5	Interest and other items of similar nature received	-	-

		Current period - K'000	Previous corresponding period - K'000
8.6	Interest and other costs of finance paid	(20,407)	(17,643)
8.7	Income taxes paid	(8,748)	(4,958)
8.8	Other (provide details if material) – Movements in loans advanced and deposits by finance entities	(95,553)	704
8.9	**Net operating cash flows**	14,035	89,098
Cash flows related to investing activities			
8.10	Payment for purchases of property, plant and equipment	(4,548)	(3,562)
8.11	Proceeds from sale of property, plant and equipment	371	684
8.12	Payment for purchases of equity investments	-	-
8.13	Proceeds from sale of equity investments	3,699	14,975
8.14	Loans to other entities	-	-
8.15	Loans repaid by other entities	-	-
8.16	Other (provide details if material)-(Short term investments & interest income from funds deposited, including acquisition of investment property, interest income from other investments)	(1,173)	9,880
8.17	**Net investing cash flows**	(1,651)	21,977
Cash flows related to financing activities			
8.18	Proceeds from issues of +securities (shares, options, etc.)	-	-
8.19	Proceeds from borrowings	5,000	-
8.20	Repayment of borrowings	(4,409)	(2,880)
8.21	Dividends paid	(52,313)	(45,201)
8.22	Other (provide details if material)	(4,152)	(15,688)
8.23	**Net financing cash flows**	(55,874)	(64,769)
8.24	**Net increase (decrease) in cash held**	(43,490)	46,306
8.25	Cash at beginning of period *(see Reconciliation of cash)*	137,537	88,413
8.26	Exchange rate adjustments to item 7.25.	(160)	2,818
8.27	**Cash at end of period** *(see Reconciliation of cash)*	93,887	137,537

9. Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows. If an amount is quantified, show comparative amount.

10. Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current period - K'000	Previous corresponding period - K'000
10.1	Cash on hand and at bank	93,887	137,537
10.2	Deposits at call	-	-
10.3	Bank overdraft	-	-
10.4	Other (provide details)	-	-
10.5	**Total cash at end of period** (item 7.26)	**93,887**	**137,537**

11. Ratios

		Current period - K'000	Previous corresponding period - K'000
11.1	**Profit before abnormals and tax / sales** Consolidated +operating profit (loss) before abnormal items and tax (item 1.4) as a percentage of sales revenue (item 1.1)	83%	77%
11.2	**Profit after tax / +equity interests** Consolidated +operating profit (loss) after tax attributable to **shareholder**s (item 1.10) as a percentage of equity (similarly attributable) at the end of the period (item 4.33)	12%	9%

12. Earnings per security (EPS)

		Current period - K'000	Previous corresponding period - K'000
12.1	Calculation of the following in accordance with *AASB 1027: Earnings per Share*		
	(a) Basic EPS	0.32	0.24
	(b) Diluted EPS (if materially different from (a)	Same as above	Same as above
	(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	308,990,373	312,672,856

13. NTA backing

(See note 7)

		Current period - K'000	Previous corresponding period - K'000
13.1	+Net tangible asset backing per +ordinary security	K2.76	K2.63

14. Details of specific receipts/outlays, revenues/expenses

		Current period - K'000	Previous corresponding period - K'000
14.1	Interest revenue included in determining item 1.4	92,397	74,020
14.2	Interest revenue included in item 12.1 but not yet received (if material)	-	-
14.3	Interest expense included in item 1.4 (include all forms of interest, lease finance charges, etc.)	(20,407)	(17,643)
14.4	Interest costs excluded from item 12.3 and capitalised in asset values (if material)	-	-
14.5	Outlays (except those arising from the +acquisition of an existing business) capitalised in intangibles (if material)	-	-
14.6	Depreciation and amortisation (excluding amortisation of intangibles)	(4,935)	(3,309)

15. Control gained over entities having material effect

(See note 8)

15.1	Name of entity (or group of entities)	NA
15.2	Consolidated +operating profit (loss) and extraordinary items after tax of the entity (or group of entities) since the date in the current period on which control was +acquired	K
15.3	Date from which such profit has been calculated	
15.4	+Operating profit (loss) and extraordinary items after tax of the entity (or group of entities) for the whole of the previous corresponding period	K

16. Loss of control of entities having material effect

(See note 8)

16.1	Name of entity (or group of entities)	NA
16.2	Consolidated +operating profit (loss) and extraordinary items after tax of the entity (or group of entities) for the current period to the date of loss of control	K
16.3	Date to which the profit (loss) in item 14.2 has been calculated	
16.4	Consolidated +operating profit (loss) and extraordinary items after tax of the entity (or group of entities) while controlled during the whole of the previous corresponding period	K
16.5	Contribution to consolidated +operating profit (loss) and extraordinary items from sale of interest leading to loss of control	K

17. Reports for industry and geographical segments

Information on the industry and geographical segments of the entity must be reported for the current period in accordance with AASB 1005: Financial Reporting by Segments. Because of the different structures employed by entities, a pro forma is not provided. Segment information should be completed separately and attached to this report. However, the following is the presentation adopted in the Appendices to AASB 1005 and indicates which amounts should agree with items included elsewhere in this report.

18. Dividends (in the case of a trust, distributions)

18.1	Date the dividend (distribution) is payable	24th August, 2018 23th November, 2018
18.2	+Record date to determine entitlements to the dividend (distribution) (i.e., on the basis of registrable transfers received up to 5.00 pm	3dr August, 2018 9th November, 2018
18.3	If it is a final dividend, has it been declared? *(Preliminary final report only)*	Yes

19. Amount per security

			Amount per +security	K'000s
19.4	*(Preliminary final report only)* **Final dividend:**	Current year	Toea 11 per share	33,853
19.5		Previous year	Toea 10 per share	30,837
19.6	*(Half yearly and preliminary final reports)* **Interim dividend:**	Current year	Toea 6 per share	18,460
19.7		Previous year	Toea 4 per share	12,317

20. Total dividend (distribution) per security (interim plus final)

(Preliminary final report only)

		Current year	Previous year
20.8	+Ordinary securities	K0.17	K0.14
20.9	Preference +securities	-	-

21. Half yearly report - interim dividend (distribution) on all securities *or*

22. Preliminary final report - final dividend (distribution) on all securities

		Current period - K'000	Previous corresponding period - K'000
22.10	+Ordinary securities	33,853	30,837
22.11	Preference +securities	-	-
22.12	**Total**	33,853	30,837

The +dividend or distribution plans shown below are in operation.

-

The last date(s) for receipt of election notices for the +dividend or distribution plans | -

Any other disclosures in relation to dividends (distributions)

-

23. Details of aggregate share of profits (losses) of associates

Entity's share of associates'		Current period - K'000	Previous corresponding period - K'000
23.1	+Operating profit (loss) before income tax	(4,283)	(699)
23.2	Income tax expense	1,284	1,081
23.3	+Operating profit (loss) after income tax	(2,999)	(1,780)
23.4	Extraordinary items net of tax	-	-
23.5	Net profit (loss)	(2,999)	(1,780)
23.6	Outside +equity interests	-	-
23.7	Net profit (loss) attributable to shareholders	(2,999)	(1,780)

24. Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. If the interest was +acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition.

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to +operating profit (loss) and extraordinary items after tax (item 1.14)	
24.1 Equity accounted +associated entities	**Current period**	**Previous corresponding period**	**Current period – K'000**	**Previous corresponding period – K'000**
Capital Insurance Group	25%	25%	(2,999)	(1,780)
24.2 Total			(2,999)	(1,780)
24.3 Other material interests	-	-	-	
			,	
24.4 Total			(2,999)	(1,780)

25. Issued and quoted securities at end of current period

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

Category of +securities		Number issued	Number quoted	Amount paid per share (toea)	
25.1	**Preference +securities** *(description)*	-	-		
25.2	Issued during current period	-	-		
25.3	**+Ordinary securities** **Shares**	308,324,034	307,936,332		
25.4	Issued during current period (dividend reinvestment)	-	-		
25.5	**+Convertible debt securities** *(description and conversion factor)*	-	-		
25.6	Issued during current period	-	-		
25.7	**Options** *(description and conversion factor)*	-	-	*Exercise price*	*Expiry date (if any)*
25.8	Issued during current period	-	-	-	-
25.9	Exercised during current period	-	-	-	-
25.10	Expired during current period	-	-	-	-
25.11	**Debentures** *(totals only)*	-	-		
25.12	**Unsecured notes** *(totals only)*	-	-		

26. Comments by directors

Comments on the following matters are required by POMSoX or, in relation to the half yearly report, by AASB 1029: Half-Year Accounts and Consolidated Accounts. The comments do not take the place of the directors' report (as required by the Companies Act 1997) and may be incorporated into the directors' report. For both half yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.

Material factors affecting the revenues and expenses of the economic entity for the current period

N/A

A description of each event since the end of the current period which has had a material effect and is not related to matters already reported, with financial effect quantified (if possible)

Changes in accounting policies since the last +annual report are disclosed as follows.

(Disclose changes in the half yearly report in accordance with paragraph 15(c) of AASB 1029: Half-Year Accounts and Consolidated Accounts. Disclose changes in the preliminary final report in accordance with AASB 1001: Accounting Policies-Disclosure.)

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27. Additional disclosure for trusts

27.1	Number of +units held by the management company or a +related party of it	NA
27.2	A statement of the fees and commissions payable to the management company. Identify: • initial service charges • management fees • other fees	

28. Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place	Grand Papua Hotel, Port Moresby
Date	26th June, 2019
Time	11:00AM
Approximate date the +annual report will be available	20 May, 2019

Compliance statement

1. This report has been prepared under accounting policies which comply with accounting standards approved by the Accounting Standards Board pursuant to the Companies Act 1997 or other standards acceptable to POMSoX (see note 13).

Identify other standards used	None

2. This report, and the financial statements prepared under the Companies Act 1997 (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed (see note 2).
4. This report is based on financial statements to which one of the following applies.
   (Tick one)

✓	The financial statements have been audited.	☐	The financial statements have been subject to review.
☐	The financial statements are in the process of being audited or subject to review.	☐	The financial statements have *not* yet been audited or reviewed.

5. If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available*.
6. The entity has a formally constituted audit committee.

Sign here: .... Date: 15/03/19
(Chairman)

Print name: **SYDNEY YATES OBE**

Notes

1. **For announcement to the market** The percentage changes referred to in this section are the percentage changes calculated by comparing the current period's figures with those for the previous corresponding period. Do not show percentage changes if the change is from profit to loss or loss to profit, but still show whether the change was up or down. If changes in accounting policies or procedures have had a material effect on reported figures, do not show either directional or percentage changes in profits. Explain the reason for the omissions in the note at the end of the announcement section.

2. **True and fair view** If this report does not give a true and fair view of a matter (for example, because compliance with an Accounting Standard is required) the entity must attach a note providing additional information and explanations to give a true and fair view.

3. **Consolidated profit and loss account**

   Item 2.1 The definition of "operating revenue" and an explanation of "sales revenue" (or its equivalent) and "other revenue" are set out in *AASB 1004: Disclosure of Operating Revenue*.

   Item 2.2 'Share of +associates' "net profit (loss) attributable to shareholders"' would form part of "other revenue" in *AASB 1004* to the extent that a profit is to be reported. POMSoX has elected to require disclosure of a share of a loss in the same location for consistency of presentation.

   Item 2.4 "+operating profit (loss) before abnormal items and tax" is calculated before dealing with outside +equity interests and extraordinary items, but after deducting interest on borrowings, depreciation and amortisation.

   Item 2.7 This item refers to the total tax attributable to the amount shown in item 1.6. Tax includes income tax (if any) but excludes taxes treated as operating expenses.

4. **Income tax** If the amount provided for income tax in this report differs (or would differ but for compensatory items) by more than 15% from the amount of income tax *prima facie* payable on the profit before tax, the entity must explain in a note the major items responsible for the difference and their amounts.

5. **Consolidated balance sheet**

   a. Format
   The format of the consolidated balance sheet should be followed as closely as possible. However, additional items may be added if greater clarity of exposition will be achieved, provided the disclosure still meets the requirements of *AASB 1029* and *AASB 1034*.

   b. Basis of revaluation
   If there has been a material revaluation of non-current assets (including investments) since the last +annual report, the entity must describe the basis of revaluation adopted. The description must meet the requirements of paragraphs 9.1 - 9.4 of AASB 1010: Accounting for the Revaluation of Non-Current Assets. If the entity has adopted a procedure of regular revaluation, the basis for which has been disclosed and has not changed, no additional disclosure is required. Trusts should also note paragraph 10 of AASB 1029 and paragraph 11 of AASB 1030.

6. **Statement of cash flows** For definitions of "cash" and other terms used in this report see *AASB 1026: Statement of Cash Flows*. Entities should follow the form as closely as possible, but variations are permitted if the directors (in the case of a trust, the management company) believe that this presentation is inappropriate. However, the presentation adopted must meet the requirements of *AASB 1026*. +Mining exploration entities may use the form of cash flow statement in Appendix 5B.

7. **Net tangible asset backing** Net tangible assets are determined by deducting from total tangible assets all claims on those assets ranking ahead of the +ordinary securities (ie, all liabilities, preference shares, outside +equity interests etc.). +Mining entities are *not* required to state a +net tangible asset backing per +ordinary security.

8. **Gain and loss of control over entities** The gain or loss must be disclosed if it has a material effect on the consolidated financial statements. Details must include the contribution for each gain or loss that increased or decreased the entity's consolidated +operating profit (loss) and extraordinary items after tax by more than 5% compared to the previous corresponding period.

9. **Rounding of figures** This report anticipates that the information required is given to the nearest K1,000. However, an entity may report exact figures, if the K'000 headings are amended.

10. **Comparative figures** Comparative figures are the unadjusted figures from the previous corresponding period. However, if there is a lack of comparability, a note explaining the position should be attached.

11. **Comparative figures when equity accounted information first included in the accounts** There will be a lack of comparability in the figures for the previous corresponding period when equity accounted information is first included if this information has a material effect on the consolidated accounts. If it does have a material effect, attach a note providing a better comparison by restating "+Operating profit (loss) after tax attributable to shareholders" (item 1.10) and "Investments in +associates" (item 4.8) for the previous corresponding period to incorporate equity accounted information. In addition, as required by Note 1, no directional or percentage changes in profit are to be reported in the "For announcement to the market" section. Where the disclosures were not previously required in Appendix 4B, no comparatives need be shown.

12. **Additional information** An entity may disclose additional information about any matter, and must do so if the information is material to an understanding of the reports. The information may be an expansion of the material contained in this report, or contained in a note attached to the report. The requirement under the listing rules for an entity to complete this report does not prevent the entity issuing reports more frequently. Additional material lodged with the +Registrar under the Companies Act 1997 must also be given to POMSoX. For example, a directors' report and statement, if lodged with the +Registrar, must be given to POMSoX.

13. **Accounting Standards** POMSoX may for foreign entities accept, for example, the use of accounting standards not approved under the Companies Act 1997 if the entity is not subject to, or is exempted from, the requirements of Section 390 of the Companies Act 1997.

14. [Not used]