

Bank of South Pacific Limited and Subsidiaries

Financial Statements

31 December 2014



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Directors' Report

for the Year Ended 31 December 2014

The Directors take pleasure in presenting the Financial Statements of the Bank of South Pacific Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2014. In order to comply with the provision of the Companies Act 1997, the Directors Report as follows:

Principal activities

The principal activity of the Bank of South Pacific Limited (BSP) is the provision of commercial banking and finance services. The Group's activities also include stock broking and fund management and life business services throughout Papua New Guinea and the Pacific region. BSP is a Bank listed on the Port Moresby Stock Exchange (POMSoX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Bank and the Group are licensed to operate in the Solomon Islands and Fiji Islands. The registered office is at Douglas Street, Port Moresby.

Review of operations

For the year ended 31 December 2014, Group's profit after tax was K507.339 million (2013: K436.828 million). The Bank's profit after tax was K512.892 million (2013: K424.762 million profit) and included a dividend income of K19.221 million received from BSP Life (Fiji) Limited during the year.

Dividends

Dividend payment totaling K309.141 million was paid in 2014 (2013: K271.686 million). A detailed breakup of this is provided in Note 23.

Directors and officers

The following were directors of the Bank of South Pacific Limited at 31 December 2014:

Mr. K Constantinou, OBE	Mr. R Fleming	Ms. F Talao
Mr. G Aopi, CBE	Mr. T E Fox, OBE	Dr. I Temu
Sir. N Bogan	Mr. G Robb, OAM	
Mr. E B Gangloff	Mr. A Mano	

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 27 of the Notes to the Consolidated Financial Statements. The CEO Robin Fleming remains the only executive director.

The company secretary is Mary Johns.

Independent Audit Report

The financial statements have been audited and should be read in conjunction with the independent audit report on page 48. Details of amounts paid to the auditors for audit and other services are shown in Note 41 of the Notes to the Financial Statements.

Donations & Sponsorships

Donations and sponsorship by the Group during the year amounted to K9,357,564 (2013: K9,267,141).

Directors' Report

for the Year Ended 31 December 2014

Change in accounting policies


No changes in accounting policies significantly impacted the Group during the year.

For, and on behalf of, the Directors.

Dated and Signed in accordance with a resolution of the Directors in Port Moresby this 13th day of March 2015.



Kostas Constantinou, OBE
Chairman



Robin Fleming
Group Chief Executive Officer/Director

Statement by the Directors

for the Year Ended 31 December 2014

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Bank and the Group.

Additional Statutory Information

The results of the Bank and the Group's operations during the financial year have, in the opinion of the Directors, not been materially affected by items of an abnormal nature, other than those disclosed in the financial statements.

In the opinion of the Directors, no circumstances have arisen that make adherence to the existing method of valuation of assets or liabilities of the Bank and the Group misleading or inappropriate.

At the date of this report the Directors are not aware of any circumstances that would render the values attributed to current assets in the financial statements misleading.

No contingent liability other than that disclosed in the notes to the attached financial statements has become enforceable, or is likely to become enforceable, within a period of twelve months from the date of this report, that will materially affect the Bank and the Group in its ability to meet obligations as and when they fall due.

Dated and signed in accordance with a resolution of the Directors at Port Moresby this 13th day of March 2015.



Kostas Constantinou, OBE
Chairman



Robin Fleming
Group Chief Executive Officer/Director

Statement of Comprehensive Income

for the Year Ended 31 December 2014

	Note	Consolidated		Bank	
		2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>					
Interest income	2	915,465	794,807	915,434	793,877
Interest expense	2	(62,579)	(53,950)	(63,640)	(53,474)
Net interest income		852,886	740,857	851,794	740,403
Fee and commission income	3	311,336	285,594	303,078	281,028
Other income	4	414,671	495,166	338,047	400,311
Net banking operating income		1,578,893	1,521,617	1,492,919	1,421,742
Net insurance premium income		92,703	84,323	-	-
Increase (decrease) in policy liabilities		(16,512)	(22,025)	-	-
Claims, surrender and maturities		(72,354)	(61,841)	-	-
Net insurance operating income		3,837	457	-	-
Total net operating income before impairment and operating expenses		1,582,730	1,522,074	1,492,919	1,421,742
Impairment expense	13	(76,796)	(78,573)	(76,796)	(78,573)
Impairment on subsidiary	8	-	(14,967)	-	(14,967)
Operating expenses	5	(797,317)	(833,849)	(693,671)	(735,326)
Share of profits from associates and jointly controlled entities	9	10,233	12,270	-	-
Profit before income tax		718,850	606,955	722,452	592,876
Income tax expense	6	(211,511)	(170,127)	(209,560)	(168,114)
Net profit for the year		507,339	436,828	512,892	424,762
Other comprehensive income					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Translation of financial information of foreign operations to presentation currency	24	(24,354)	(4,133)	(18,082)	(6,741)
<i>Items that will not be reclassified to profit or loss:</i>					
Expiration of the unexercised share options	24	-	(4,526)	-	(4,526)
Recognition of deferred tax on asset revaluation reserve	24	(35,762)	-	(35,762)	-
Net movement in asset revaluation	24	44,330	-	44,330	-
Other comprehensive income for the year, net of tax		(15,786)	(8,659)	(9,514)	(11,267)
Total comprehensive income for the year		491,553	428,169	503,378	413,495
Earnings per share - basic & diluted (toea)	23	108.3	93.1	109.5	90.5

The attached notes form an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2014

<i>All amounts are expressed in K'000</i>	Note	Consolidated		Bank	
		2014	2013	2014	2013
ASSETS					
Cash and balances with Central Bank	10	1,355,469	964,220	1,262,306	926,390
Treasury & Central Bank bills	11	2,183,237	3,283,432	2,183,237	3,283,432
Amounts due from other banks	12	380,653	1,445,199	380,653	1,445,199
Statutory deposits with Central Bank	25	1,251,582	1,066,580	1,251,582	1,066,580
Other financial assets	16	2,361,649	2,170,798	2,188,067	1,924,536
Loans, advances and other receivables from customers	13	6,817,396	5,306,362	6,748,546	5,244,188
Asset held for sale	14	65,052	-	65,052	-
Property, plant and equipment	14	662,313	623,360	629,682	589,623
Assets subject to operating lease	14	53,783	61,505	53,783	61,505
Investment in associates and joint ventures	9	118,389	116,821	38,520	43,690
Investment in subsidiaries	8	-	-	108,635	96,929
Intangibles	7	110,374	156,049	104,210	151,465
Investment properties	15	70,684	65,429	-	-
Deferred tax assets	6	111,677	87,002	115,552	88,453
Other assets	17	334,648	414,663	285,093	363,470
Total assets		15,876,906	15,761,420	15,414,918	15,285,460
LIABILITIES					
Amounts due to other banks	18	259,892	786,035	259,879	786,035
Customer Deposits	19	12,708,383	12,200,999	12,804,555	12,296,226
Subordinated debt securities	20	75,525	75,525	75,525	75,525
Other liabilities	21	816,947	936,369	318,073	435,124
Provision for income tax	6	63,022	33,395	62,738	33,222
Other provisions	22	152,944	110,037	147,800	105,016
Total liabilities		14,076,713	14,142,360	13,668,570	13,731,148
SHAREHOLDERS EQUITY					
Ordinary shares	23	379,297	381,498	379,297	381,498
Retained earnings	24	1,219,436	1,035,290	1,183,505	991,368
Other reserves	24	201,460	202,272	183,546	181,446
Total shareholders' equity		1,800,193	1,619,060	1,746,348	1,554,312
Total equity and liabilities		15,876,906	15,761,420	15,414,918	15,285,460

The attached notes form an integral part of these consolidated financial statements.

Statement of Changes In Shareholders' Equity

for the Year Ended 31 December 2014

Bank	Notes	Share capital	Reserves	Retained earnings	Total
<i>All amounts are expressed in K'000</i>					
Balance as at 1 January 2013		384,814	192,713	838,292	1,415,819
Net profit	23	-	-	424,762	424,762
Other comprehensive income	24	-	(11,267)	-	(11,267)
2012 final dividend paid	23	-	-	(178,001)	(178,001)
2013 interim dividend paid	23	-	-	(93,685)	(93,685)
Share buyback	23	(3,316)	-	-	(3,316)
Balance at 31 December 2013	23&24	381,498	181,446	991,368	1,554,312
Net profit	23	-	-	512,892	512,892
2013 final dividend paid	23	-	-	(215,476)	(215,476)
2014 interim dividend paid	23	-	-	(93,665)	(93,665)
Share buyback	23	(2,201)	-	-	(2,201)
BSP Life Policy Reserve	24	-	24,055	(24,055)	-
Transfer from Asset Revaluation Reserve	24	-	(12,441)	12,441	-
Other comprehensive income	24	-	(9,514)	-	(9,514)
Balance at 31 December 2014		379,297	183,546	1,183,505	1,746,348
Group					
Balance as at 1 January 2013		384,814	210,931	870,148	1,465,893
Net profit	23	-	-	436,828	436,828
2013 final dividend paid	23	-	-	(178,001)	(178,001)
2014 interim dividend paid	23	-	-	(93,685)	(93,685)
Share buyback	23	(3,316)	-	-	(3,316)
Other comprehensive income	24	-	(8,659)	-	(8,659)
Balance at 31 December 2013	23&24	381,498	202,272	1,035,290	1,619,060
Net profit	23	-	-	507,339	507,339
2013 final dividend paid	23	-	-	(215,476)	(215,476)
2014 interim dividend paid	23	-	-	(93,665)	(93,665)
Share buyback	23	(2,201)	-	-	(2,201)
BSP Life policy reserve	24	-	24,055	(24,055)	-
Prior year consolidation adjustment		-	3,360	(2,438)	922
Transfer from Asset Revaluation Reserve	24	-	(12,441)	12,441	-
Other Comprehensive income	24	-	(15,786)	-	(15,786)
Balance at 31 December 2014		379,297	201,460	1,219,436	1,800,193

The attached notes form an integral part of these consolidated financial statements.

Statement of Cash Flow

for the Year Ended 31 December 2014

	Notes	Consolidated		Bank	
		2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>					
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		911,236	793,338	911,236	792,272
Fees and other income		816,898	824,729	638,786	680,650
Interest paid		(61,185)	(64,232)	(61,844)	(63,615)
Amounts paid to suppliers and employees		(662,045)	(653,712)	(497,431)	(489,745)
Operating cash flow before changes in operating assets	28	1,004,904	900,123	990,747	919,562
Increase in loans, advances and other receivables from customers		(1,563,291)	(558,746)	(1,555,657)	(571,969)
(Increase) in statutory deposits with the Central Bank		(185,002)	(193,382)	(185,002)	(193,382)
Decrease in bills receivable and other assets		42,649	8,361	41,540	13,532
Increase in customer deposits		468,351	1,280,731	508,329	1,375,536
(Decrease)/increase in bills payable and other liabilities		(123,960)	189,106	(121,086)	147,016
Net cash flow from operations before income tax		(356,349)	1,626,193	(321,129)	1,690,295
Income taxes paid		(212,870)	(156,953)	(212,556)	(156,634)
Net cash flow from operating activities		(569,219)	1,469,240	(533,685)	1,533,661
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease/(increase) in government securities		915,226	(599,553)	836,664	(615,794)
Expenditure on property, plant & equipment		(192,269)	(212,647)	(186,162)	(203,484)
Proceeds from disposal of property, plant & equipment		13,900	7,760	14,218	7,615
Proceeds from other investments		9,895	34,653	-	-
Additional funding of subsidiaries		-	-	(11,706)	-
Net cash flow from investing activities		746,752	(769,787)	653,014	(811,663)
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	23	(2,201)	(3,316)	(2,201)	(3,316)
Dividends paid	23	(309,141)	(271,686)	(309,141)	(271,686)
Net cash flow from financing activities		(311,342)	(275,002)	(311,342)	(275,002)
Net Increase/(decrease) in cash and cash equivalents		(133,809)	424,451	(192,013)	446,996
Effect of exchange rate movements on cash and cash equivalents		(13,345)	10,746	(10,461)	10,746
Cash and cash equivalents at the beginning of the year		1,623,384	1,188,187	1,585,554	1,127,812
Cash and Cash Equivalents at the end of the year	28	1,476,230	1,623,384	1,383,080	1,585,554

The attached notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

1. Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The assets and liabilities are presented in order of liquidity on the statement of financial position.

A. Basis of Presentation & General Accounting Policies

The consolidated financial statements of the Bank of South Pacific Limited (the Bank) and the Group are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of these standards issued by the International Financial Reporting Interpretations Committee. They are prepared on the basis of the historical cost convention, as modified by the revaluation of certain non-current assets, financial instruments and liabilities.

Estimates and assumptions have been used to achieve conformity with generally accepted accounting principles in the preparation of these financial statements. These assumptions and estimates affect balances of assets and liabilities, contingent liabilities and commitments at the end of the reporting period, and amounts of revenues and expenses during the reporting period. Whilst the estimates are based on management's best knowledge of current events and conditions, actual results may ultimately differ from those estimates.

The financial statements are presented in Papua New Guinea Kina, expressed in thousands of Kina, as permitted by Papua New Guinea Accounting Standards.

Standards, amendments and interpretations effective in the year ended 31 December 2014:

The below new amendment was applicable for the first time during the accounting period beginning 1 January 2014.

- Amendments to IAS 36 "Impairment of assets" (effective 1 January 2014) on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The Group has no such impaired assets.

Other standards, amendments and interpretations which were released during the accounting period beginning 1 January 2014 are not relevant or material to the Group.

Standards and amendments issued but not yet effective for the year ended 31 December 2014 or not adopted early:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial Instruments' (effective 1 January 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mix measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investment in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value through OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The Group is yet to assess IFRS 9's full impact.
- IFRS 15, Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

B. Consolidation

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Bank and the Group as at 31 December 2014, and their results for the year then ended.

Controlled entities are those over which the Group has the power to govern financial and operating policies, generally accompanied by a shareholding that commands the majority of voting rights, and are commonly referred to as subsidiaries.

Subsidiaries are accounted for at acquisition under the acquisition cost method of accounting, where:

- acquisition cost is measured at fair value of assets transferred, equity issued, liabilities assumed and any directly attributable costs of the transaction;
- identifiable net assets are recorded initially at acquisition, at their fair values;
- any excess of the acquisition cost over the relevant share of identifiable net assets acquired is treated as goodwill, and any deficiency is recognised directly in the statement of comprehensive income;
- All intercompany transactions and balances are eliminated.

C. Investment in Associates and Joint Arrangements

Investments in Associates

Associates are entities over which the Group has significant, but not controlling influence, generally accompanied by a shareholding conferring between 20percent- 50percent of voting rights.

In the consolidated financial statements, these investments are accounted for under the equity method, where:

- The investment is initially recognised at cost;
- The Group's share of profits or losses are recognised in the statement of comprehensive income.

Interests In Joint Arrangements

The Group applies IFRS 11 to all joint ventures. Under IFRS 11 investments in joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method in the consolidated financial statements. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures

Interests in joint ventures classified as held for sale are accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

D. Revenue

Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income on an accrual basis using the effective yield method. The income arising from the various forms of installment credit has been determined using the effective interest method.

Interest income includes coupons earned on inscribed stock, accrued discount and premium on Treasury and Central Bank bills.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

D. Revenue (continued)

Short term insurance contracts

These contracts are the Term Life, Medical and Travel policies sold and underwritten by BSP Health Care (Fiji) Limited.

These contracts protect the Group's customers from the consequences of events such as death, medical emergency or loss on travel. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the Statement of Financial Position date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or beneficiary. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Statement of Financial Position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long term insurance contracts

These contracts insure human life events (for example death, survival, disability or critical illness) over a long duration. Guaranteed benefits paid on occurrence of the specified insurance event are fixed or linked to the level of bonus declared on the policy. Most of the policies have maturity and surrender benefits.

For all these contracts, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Approximately 90% of the above contracts in the Group's portfolio contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to generated benefits, additional benefits in the form of reversionary bonuses.

The liability for long term insurance contracts (principally Life Insurance) has been determined in accordance with LPS 1.04 Valuation of Policy Liabilities, issued by the Australian Prudential Regulation Authority.

The policy liability is calculated in a way that allows for the systematic release of planned profit margins as services are provided to policy owners and the revenues relating to those services are received (Margin on Services methodology). Services used to determine profit recognition include the cost of expected insurance claims and the allocation of future bonuses. The liability is generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums and take into consideration projected future bonuses. The liabilities are recalculated at each balance date using best estimate assumptions. These assumptions are revisited regularly and adjusted for actual experiences on claims, expense, mortality and investment returns. The policy liability also includes policy owner retained earnings.

Insurance policy liabilities are further detailed in Note 39.

E. Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. All other risk related fees that constitute cost recovery are taken to income when levied. Non-refundable front-end loan fees are capitalized and deferred over the expected term of the financial instrument.

F. Borrowing expenses

Expenses associated with the borrowing of funds are charged to the statement of comprehensive income in the period in which they are incurred.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

G. Provision for loan impairment

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

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

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

H. Goodwill

Goodwill represents the excess of the cost of any acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the exchange transaction. Goodwill is reported in the statement of financial position as an intangible asset.

In determining the estimated useful life of goodwill, management considers various factors including net selling price of the acquired business, existing market share, potential growth opportunities, and other factors inherent in the acquired business. This assessment is reviewed at each balance date, so that any indication of impairment with implications for the recoverability of goodwill can be tested, and adjustments to the carrying value of goodwill made if necessary.

I. Computer systems development costs

Costs incurred to develop and enhance the Bank and the Group's computer systems are capitalised to the extent that benefits do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the economic entity. These costs are amortised over the estimated economic life of four years using the straight-line method. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

J. Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of regular independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the consolidated financial statements of the consolidated entity, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in statement of comprehensive income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. Building under constructions are referred to as work in progress and are accounted for at cost and subsequently reclassified to building (Premises) upon completion.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

J. Property, plant and equipment (continued)

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful life, residual value and depreciation method is reviewed at the end of each annual reporting period.

The following basis and method of depreciation is used:

Class of asset	Method	Rate
Property (excluding land)	Straight line basis	2 - 3% p.a
Plant and equipment	Straight line basis	10 - 25% pa
Equipment under operating lease	Straight line basis	6- 20% pa

Gains or losses on disposals (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Repairs and maintenance are taken into account in determining operating profit when the expenditure is incurred.

K. Leases

Bank is lessee

All leases entered into by the Bank and the Group are operating leases. Total payments made are charged to the statement of comprehensive income reflecting the pattern of benefits derived from the leased assets.

Bank is lessor

Finance leases are included in Loans, Advances and Other Receivables from Customers and are accounted for under the finance method whereby income is taken to account over the life of the lease in proportion to the outstanding investment balance.

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

L. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise notes and coins, and balances due to and from other banks with original maturities of less than three months.

M. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The Group's financial assets at fair value through profit or loss comprise certain equity securities included under other financial assets in the statement of financial position.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

M. Financial assets (continued)

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position

c) Held to maturity investments

Held to maturity investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost. The Group's held to maturity investments comprise Treasury and Central Bank bills and certain debt securities included under other financial assets in the statement of financial position

Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other banking income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

N. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

O. Employee benefits

A liability is required 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 consolidated entity in respect of services provided by employees up to reporting date.

Post-employment benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Bank and the Group pays fixed contributions into a separate fund, and there is no recourse to the Bank and the Group for employees if the fund has insufficient assets to pay employee benefits relating to service up to the balance sheet date.

The Bank and the Group pays contributions to publicly or privately administered superannuation plans on a mandatory, contractual or voluntary basis in respect of services rendered up to balance sheet date by all staff members other than non-citizen contract staff for whom there is no legal obligation to do so. The contributions are at the current rate of employees' gross salary. Once the contributions have been paid, the Bank and the Group have no further payment obligations for post-employment benefits from the date an employee ceases employment with the Bank and the Group.

P. 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 the 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 statement of financial position. 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 the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank 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 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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

Q. Foreign currency

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

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

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

R. Share capital

Share issue costs

External costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Dividends for the year, declared after the balance sheet date, are dealt with in the subsequent events note.

S. Asset impairment

At each reporting date, the Bank and the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank and the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

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

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

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

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

T. Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured, with certain exceptions, at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Company's control and the Company remains committed to a sale.

U. Fiji Class Shares

Fiji Class Shares issued by BSP Convertible Notes (Fiji) Limited, a subsidiary of the Bank incorporated in Fiji, are classified as equity of the subsidiary.

V. Derivative financial instruments and acceptances

Forward foreign exchange contracts entered into for trading purposes are initially recognized at cost and subsequently re-measured at fair value based upon the forward rate. Gains and losses on such contracts are taken to the statement of comprehensive income.

Acceptances comprise undertakings by the Bank and the Group to pay bills of exchange drawn on customers. The Bank and the Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Customer acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

The Bank and the Group does not actively enter into or trade in complex forms of derivative financial instruments such as currency and interest rate swaps and options.

W. Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

X. Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Y. Comparatives

Comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

Z. Critical accounting estimates and judgments

The application of the Group's accounting policies requires the use of estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

Individually Assessed Provision

Provisions for impairment of financial assets are raised where there is objective evidence of impairment at an individual or collective basis, at an amount adequate to cover assessed credit related losses. Credit losses arise primarily from loans, but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments.

Specific Provision

Individually assessed provisions are raised where there is objective evidence of impairment (where the Group does not expect to receive all of the cash flows contractually due). Individually assessed provisions are made against individual risk rated credit facilities other than retail personal loans. The provisions are established based primarily on estimates of the realisable (fair) value of collateral taken and are measured as the difference between a financial asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short term balances are not discounted.

Collective Assessed Provision

All other loans and receivables that do not have specifically assessed provision are assessed collectively for impairment (Collectively Assessed Provision).

The collectively assessed provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date. The Group has established a risk grading system which groups loan accounts with similar risk characteristics. A periodic credit review is undertaken by management on a collective and individual basis to ascertain whether the risk grades are still appropriate in consideration of economic developments, industry specific and borrower specific circumstances. A provision rate applied for each risk grade segment which takes into account the frequency of default and loss given default rates for the particular segment.

The risk grading and provision rates require a series of estimates and judgments. Changes in these estimates could have a direct impact on the level of provision determined. The amount required to bring the collective provision to the level assessed is recognised in the statement of comprehensive income.

Individually and collectively assessed provisions are detailed in Note 13.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

2. Net interest income	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Interest income				
Cash and balances with Central Bank	10,867	8,184	10,867	8,184
Treasury bills	67,392	47,176	67,392	47,176
Central Bank Bills	18,544	27,850	18,544	27,850
Other financial assets - Inscribed Stock	189,229	140,195	189,229	140,195
Loans, advances and other receivables from customers	626,932	569,262	626,901	568,332
Other	2,501	2,140	2,501	2,140
	915,465	794,807	915,434	793,877
Less:				
Interest expense				
Customer deposits	39,420	32,054	40,481	31,578
Other banks	14,845	13,589	14,845	13,589
Subordinated debt securities	8,314	8,307	8,314	8,307
	62,579	53,950	63,640	53,474
	852,886	740,857	851,794	740,403
3. Banking fee and commission income				
Fee and commission income				
Product related	218,231	208,628	218,231	208,628
Trade and international related	14,675	13,467	14,675	13,467
Electronic banking related	59,195	46,770	59,195	46,770
Other	26,877	17,419	18,618	12,853
	318,977	286,284	310,719	281,718
Less:				
Fee and commission expenses				
Agencies	735	504	735	504
IFC fees	6,906	186	6,906	186
	7,641	690	7,641	690
	311,336	285,594	303,078	281,028

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

4. Other income	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Foreign exchange related	267,497	353,463	267,497	353,463
Non-banking subsidiary income	95,846	94,855	-	-
Other	51,328	46,848	70,550	46,848
	414,671	495,166	338,047	400,311

Foreign Exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets.

5. Other operating expenses				
Administration	170,384	194,455	102,433	129,474
Auditors remuneration	1,919	2,707	1,568	2,110
Computing	46,407	39,521	46,403	39,521
Depreciation	80,731	90,817	76,707	86,723
Amortization of computer development	46,116	85,018	46,116	85,018
Non-executive Directors costs	1,772	1,434	1,445	1,224
Non-lending losses	25,891	16,942	25,056	16,942
Fixed Asset Impairment Expenses	50,397	-	50,397	-
Premises and equipment	69,872	79,150	65,829	70,730
	493,489	510,044	415,954	431,742
Staff costs				
Defined contribution plans	10,262	10,643	10,262	9,512
Statutory benefit contributions	8,658	10,908	7,577	10,908
Wages and salaries	224,760	227,150	202,691	210,461
Other	60,148	75,104	57,187	72,703
	303,828	323,805	277,717	303,584
	797,317	833,849	693,671	735,326

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

6. Income tax

Income tax expense	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Current tax	247,754	181,261	244,991	180,959
Deferred tax	(40,082)	(12,599)	(40,092)	(12,341)
Current year	207,672	168,662	204,899	168,618
Income tax under/(over) provided in previous years	3,839	1,465	4,661	(504)
	211,511	170,127	209,560	168,114
Tax calculated at 30% of profit before tax (2013:30%)	197,003	178,406	196,656	177,863
Tax calculated at 20% of profit before tax - subsidiary	2,988	3,246	-	-
Expenses not deductible for tax	6,314	(13,520)	8,243	(9,245)
Impact of change in tax rate – Fiji subsidiary	-	530	-	-
Tax loss not recognised	1,347	-	-	-
Income tax under/(over) provided in previous years	3,859	1,465	4,661	(504)
	211,511	170,127	209,560	168,114
Provision for income tax				
At 1 January	(33,395)	(13,112)	(33,222)	(13,022)
Income tax provision	(247,754)	(181,261)	(244,991)	(180,959)
Previous years over/(under) provided	5,257	4,125	2,919	4,125
Foreign tax paid	12,130	7,617	11,816	7,398
Tax payments made	200,740	149,236	200,740	149,236
At 31 December	(63,022)	(33,395)	(62,738)	(33,222)
Deferred taxes				
Specific allowance for losses on loans, advances and other receivables from customers	11,173	11,704	11,173	11,704
General allowance for losses on loans, advances and other receivables from customers	86,953	71,033	86,953	71,033
Employee related provisions	19,350	18,708	19,267	18,453
Prepaid expenses	(1,253)	(1,285)	(1,253)	(1,285)
Other provisions	22,711	17,085	26,191	16,527
Fixed assets	(44,469)	(29,234)	(43,991)	(27,033)
Unrealised foreign exchange gains	(908)	(10,444)	(908)	(10,381)
Accruals	18,120	9,435	18,120	9,435
	111,677	87,002	115,552	88,453

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

6. Income tax (continued)

Represented by:	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Deferred tax asset	161,926	134,372	161,703	127,151
Deferred tax liability	(50,249)	(47,370)	(46,151)	(38,698)
At 31 December	111,677	87,002	115,552	88,453

Movement in deferred tax is reconciled as follows:

<i>All amounts are expressed in K'000</i>					
Consolidation					
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Closing balance
2014					
Gross deferred tax liabilities	(47,370)	7,555	613	(11,048)	(50,249)
Gross deferred tax assets	134,372	32,527	(4,973)	-	161,926
	87,002	40,082	(4,360)	(11,048)	111,677
2013					
Gross deferred tax liabilities	(34,560)	(11,412)	(1,398)	-	(47,370)
Gross deferred tax assets	111,141	24,011	(780)	-	134,372
	76,581	12,599	(2,178)	-	87,002
<i>All amounts are expressed in K'000</i>					
Bank					
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Closing balance
2014					
Gross deferred tax liabilities	(38,698)	7,556	(3,961)	(11,048)	(46,151)
Gross deferred tax assets	127,151	32,536	2,016	-	161,703
	88,453	40,092	(1,945)	(11,048)	115,552
2013					
Gross deferred tax liabilities	(28,358)	(11,467)	1,127	-	(38,698)
Gross deferred tax assets	110,401	23,808	(7,058)	-	127,151
	82,043	12,341	(5,931)	-	88,453

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

7. Intangible asset

7(a) Goodwill

	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Gross carrying amount	22,851	22,851	18,267	18,267

7(b) Computer development costs

At 1 January	133,198	3,126	133,198	3,126
Additions	18,788	208,147	18,788	208,147
Disposals	(18,347)	6,943	(19,927)	6,943
Amortisation expense	(46,116)	(85,018)	(46,116)	(85,018)
At 31 December	87,523	133,198	85,943	133,198
Total Intangible assets	110,374	156,049	104,210	151,465

8. Investments in subsidiaries

All amounts are expressed in K'000

Name of Subsidiary	Principal activity	Place of incorporation and operation	Balance of Investment	
			Ownership %	2014
BSP Capital Limited	Share brokerage/Fund Management/Capital Raising	PNG 100%	8,959	8,959
BSP Life Limited	Life Insurance	Fiji 100%	87,653	87,653
BSP Convertible Notes Limited	Capital Raising	Fiji 100%	317	317
BSP Finance (Fiji) Limited	Credit Institution	Fiji 100%	6,406	-
BSP Finance (PNG) Limited	Credit Institution	PNG 100%	5,300	-
			108,635	96,929

Provision of impairment of the Investment in BSP Capital Limited

In 2013, the directors determined that the investment in BSP Capital Limited had been materially impaired as the carrying amount of the investment was greater than its net book value. As of the reporting date, the investment amount is written down to its net book value.

Represented by:

	2014	2013
<i>All amounts are expressed in K'000</i>		
Opening Balance	8,959	19,407
Net Movement	-	4,519
Provision for Impairment	-	(14,967)
Closing Balance	8,959	8,959

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

9. Investments in Associates and Joint Ventures

Entity	Joint Venture/ Associate	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
				2014	2013
Suva Central Limited	Joint Venture	Property rental	Fiji	50%*	50%*
Richmond Limited	Joint Venture	Hotel operation	Fiji	61.3%**; 50%***	61.3%**; 50%***
Williams and Gosling	Associate	Freight forwarding	Fiji	27.7%*	27.7%*
Carpark Limited	Joint Venture	Property	PNG	33.33%	33.33%
Malagan Limited	Joint Venture	Property	PNG	33.33%	33.33%

The investments above are accounted for using the equity method in the consolidated financial statements except for Carpark Limited and Malagan Limited which are accounted for at cost less impairment.

both ownership and voting power held, **ownership, *voting power held.*

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2014	2013	2014	2013
Associates				
Investment in associate - equity	72,900	53,166	-	-
Movement	(3,415)	7,464	-	-
Share of profit/(loss) for the year	10,233	12,270	-	-
Net investment in associate	79,718	72,900	-	-
Summarised financial information of associate:				
Total assets	180,637	173,293	-	-
Total liabilities	(34,705)	(38,418)	-	-
Net assets	145,932	134,875	-	-
Net profit/(loss)	17,085	22,316	-	-
Share of associate's profit/(loss)	10,233	12,270	-	-
Joint Ventures & Associates				
Share of associate's net assets - equity	79,718	72,900	-	-
Shares held in jointly owned entity - at cost less impairment	38,671	43,921	38,520	43,690
Total investments in associates and joint ventures	118,389	116,821	38,520	43,690

10. Cash and balances with Central Bank

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2014	2013	2014	2013
Notes, coins and cash at bank	479,818	391,639	386,655	353,809
Balances with Central Bank other than statutory deposit	875,651	572,581	875,651	572,581
Total cash and balances with Central Bank	1,355,469	964,220	1,262,306	926,390

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

11. Treasury and Central Bank bills

Treasury and Central Bank bills – face value	2,210,743	3,309,115	2,210,743	3,309,115
Premium/(discount) for interest receivable	(27,506)	(25,683)	(27,506)	(25,683)
	2,183,237	3,283,432	2,183,237	3,283,432

Treasury and Central Bank bills are debt securities issued by the Central Bank. These bills are classified as assets held for trading and carried at fair value.

12. Amounts due from other banks

Items in the course of collection	85,803	128,524	85,803	128,524
Placements with other banks	294,850	1,316,675	294,850	1,316,675
	380,653	1,445,199	380,653	1,445,199

13. Loans, advances and other receivables from customers

Overdrafts	1,423,127	1,203,238	1,423,127	1,203,237
Lease financing	273,194	261,271	273,194	261,271
Term loans	4,251,579	2,951,144	4,221,984	2,931,168
Mortgages	1,157,855	1,124,777	1,157,328	1,124,300
Policy loans	39,678	43,013	-	-
Gross loans, advance and other receivables due from customers net of reserved interest	7,145,433	5,583,443	7,075,633	5,519,976
Less allowance for losses on loans, advances and other receivables from customers	(328,037)	(277,081)	(327,087)	(275,788)
	6,817,396	5,306,362	6,748,546	5,244,188

The spread of the loans are detailed in the maturity analysis table on Note 34. The loans are well-diversified across various sectors and region and are further analysed on Note 33.

Lease financing

The Group and the bank provide finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles and plant and equipment. Finance lease receivables are included within loans, advances and other receivables from customers and are analysed as follows:

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

13. Loans, advances and other receivables from customers (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2014	2013	2014	2013
Gross investment in finance lease receivable				
Not later than 1 year	20,523	28,268	20,523	28,268
Later than 1 year and not later than 5 years	282,168	266,429	282,168	266,429
	<u>302,691</u>	<u>294,697</u>	<u>302,691</u>	<u>294,697</u>
Unearned future finance income				
Not later than 1 year	(14,291)	(11,895)	(14,291)	(11,895)
Later than 1 year and not later than 5 years	(15,206)	(21,531)	(15,206)	(21,531)
	<u>(29,497)</u>	<u>(33,426)</u>	<u>(29,497)</u>	<u>(33,426)</u>
Present value of minimum lease payment receivable	273,194	261,271	273,194	261,271
Present value of minimum lease payment receivable is analysed as follows:				
Not later than 1 year	20,523	16,373	20,523	16,373
Later than 1 year and not later than 5 years	252,671	244,898	252,671	244,898
	<u>273,194</u>	<u>261,271</u>	<u>273,194</u>	<u>261,271</u>
Provision for impairment				
Movement in allowance for losses on loans, advances and other receivables from customers:				
Balance at 1 January	277,081	220,553	275,788	214,721
Net new and increase provisioning	62,096	69,320	62,096	69,320
Loans written off against provisions / (Write back of provisions no longer required)	(11,140)	(12,792)	(10,797)	(8,253)
Balance at 31 December	328,037	277,081	327,087	275,788
Provision for impairment is represented by				
Collective provision	290,200	237,400	289,845	236,776
Individually assessed or specific provision	37,837	39,681	37,242	39,012
Balance at 31 December	328,037	277,081	327,087	275,788
Loan impairment expense				
Net collective provision funding	(50,812)	(57,449)	(50,812)	(57,449)
Net new and increase individually assessed provisioning	(11,284)	(11,871)	(11,284)	(11,871)
Total new and increase provisioning	(62,096)	(69,320)	(62,096)	(69,320)
Recoveries during the year	33,204	26,239	33,204	26,239
Net write back/(write off)	(47,904)	(35,492)	(47,904)	(35,492)
	<u>(76,796)</u>	<u>(78,573)</u>	<u>(76,796)</u>	<u>(78,573)</u>

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

14. Property, plant and equipment	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Carrying value				
Capital Work in Progress	180,694	117,253	176,719	113,744
Premises	546,600	490,704	522,769	465,966
Accumulated depreciation	(92,923)	(105,509)	(85,812)	(97,875)
	453,677	385,195	436,957	368,091
Equipment	256,832	471,108	221,749	436,168
Accumulated depreciation	(163,838)	(350,196)	(140,691)	(328,380)
	92,994	120,912	81,058	107,788
	727,365	623,360	694,734	589,623
Reconciliation of carry value of property, plant and equipment is set out below:				
Capital Work in Progress				
At 1 January	117,253	325,821	113,744	324,982
Additions	172,826	171,170	169,297	167,006
Transfers	(109,385)	(379,738)	(106,322)	(378,244)
At 31 December	180,694	117,253	176,719	113,744
Premises				
At 1 January	385,195	330,720	368,091	316,703
Additions	90,108	90,489	89,860	86,745
Disposals	(35,573)	(7,877)	(35,573)	(7,877)
Revaluation gains/ (losses)	36,829	-	36,829	-
Depreciation expense	(22,882)	(28,137)	(22,250)	(27,480)
At 31 December	453,677	385,195	436,957	368,091
Equipment				
At 1 January	120,912	87,751	107,788	76,594
Additions	29,192	88,909	26,097	83,360
Disposals	(6,983)	(789)	(6,092)	(644)
Depreciation expense	(50,127)	(54,959)	(46,735)	(51,522)
At 31 December	92,994	120,912	81,058	107,788

As at end of 31 December 2014, there were three properties held for sale. The carrying amount at the time of transfer was K65.052m. No impairment losses have been recognised from these assets.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

14. Property, plant and equipment (continued)

	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Assets subject to operating lease				
Carrying value				
Aircraft	123,326	123,326	123,326	123,326
Accumulated depreciation	(69,543)	(61,821)	(69,543)	(61,821)
	53,783	61,505	53,783	61,505
Reconciliation of carry value of aircraft is set out below:				
Aircraft				
At 1 January	61,505	69,226	61,505	69,226
Depreciation	(7,722)	(7,721)	(7,722)	(7,721)
At 31 December	53,783	61,505	53,783	61,505
Future minimum lease payments				
Not later than 1 year	10,104	10,104	10,104	10,104
Later than 1 year and not later than 5 years	15,323	25,427	15,323	25,427
	25,427	35,531	25,427	35,531
The carrying amount of land and buildings and aircraft had they been recognised under the cost model are as follows:				
Freehold land	24,301	14,932	24,301	11,832
Buildings	108,844	100,864	108,844	86,240
Aircraft	53,783	61,508	53,783	61,508
At 31 December	186,928	177,304	186,928	159,580

Freehold land and buildings carried at fair value

An independent valuation of the Bank's land and buildings was performed by Countrywide Realty Limited and The Professional Valuers of PNG Limited to determine the fair value of the land and buildings. The valuation, which conforms to International Valuation Standards, was determined by reference to capitalization of the notional income stream approach on the Market Value basis. The recent valuation was dated 31 December 2014.

Assets subject to operating lease - aircraft

An independent valuation of the Bank's aircrafts was performed by Charles Taylor Aviation to determine the current realistic fair value for each of the aircraft. The valuation, which conforms to International Valuation Standards, takes into consideration the current global market variations for the specific types of aircrafts. The effective date of the valuation is 31 May 2012.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

15. Investment properties

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2014	2013	2014	2013
Opening net book value	65,429	56,755	-	-
Net movement	1,803	8,251	-	-
Gain / (loss) on revaluation	3,452	423	-	-
At 31 December	70,684	65,429	-	-

16. Other financial assets

Securities – held to-maturity:

Inscribed stock – issued by Central Bank 2,297,935 2,121,654 2,188,067 1,924,536

Financial assets carried at fair value through profit and loss:

Equity securities	63,714	49,144	-	-
At 31 December	2,361,649	2,170,798	2,188,067	1,924,536

17. Other assets

Items in transit and other assets	208,069	282,534	187,035	272,728
Accrued income	78,311	75,882	78,311	75,882
Intercompany account	-	-	6,478	494
Outstanding premiums	21,447	26,050	-	-
Inventory	6,830	7,861	-	-
Prepayments	12,224	13,943	12,224	13,943
Accounts receivable	7,767	8,393	1,045	423
	334,648	414,663	285,093	363,470

18. Amounts due to other banks

Vostro account balances	201,192	358,633	201,179	358,633
Other borrowing	58,700	427,402	58,700	427,402
	259,892	786,035	259,879	786,035

19. Customer Deposits

On demand and short term deposits	10,725,060	10,232,667	10,765,038	10,326,962
Term deposits	1,983,323	1,968,332	2,039,517	1,969,264
	12,708,383	12,200,999	12,804,555	12,296,226

The majority of the amounts are due to be settled within twelve months of the balance sheet date as shown in the maturity analysis table on note 34. The deposits are well-diversed across industries and region.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

20. Subordinated Notes

At 31 December, there is K75.525 million of debt securities outstanding, expected to be settled more than 12 months after the balance sheet date. The notes were issued during 2009, with a maturity date in 2019, and interest is payable semi-annually at 11% per annum. They are valued at amortised cost. There have been no defaults of interest or other breaches with respect to these debt securities since issue.

21. Other liabilities

<i>All amounts are expressed in K'000</i>	<i>Consolidated</i>		<i>Bank</i>	
	2014	2013	2014	2013
Creditors and accruals	94,804	76,584	66,925	63,812
Items in transit and all other liabilities	236,248	362,875	251,148	371,312
Policy liabilities	473,753	481,087	-	-
Premiums received in advance	293	3,985	-	-
Outstanding claims	10,534	10,398	-	-
Claims incurred but not reported (IBNR)	1,315	1,440	-	-
Balance at 31 December	816,947	936,369	318,073	435,124

22. Other provisions

<i>All amounts are expressed in K'000</i>	<i>Consolidated</i>		<i>Bank</i>	
	2014	2013	2014	2013
Staff related	67,665	62,191	62,547	57,170
Provision for non-lending loss	41,691	30,947	41,666	30,947
Provisions – other	43,588	16,899	43,587	16,899
	152,944	110,037	147,800	105,016
Staff related provisions:				
At 1 January	62,191	57,069	57,170	52,287
Provisions charge	13,967	23,705	13,870	21,655
Payouts	(8,493)	(18,583)	(8,493)	(16,772)
At 31 December	67,665	62,191	62,547	57,170

23. Ordinary shares

<i>Number of shares in '000s, Book value in K'000</i>	Number of shares	Book value
At 31 December 2012/1 January 2013	469,201	384,814
Share buyback	(777)	(3,316)
At 31 December 2013 / 1 January 2014	468,424	381,498
Share buyback	(292)	(2,201)
At 31 December	468,132	379,297

In May 2014, the Directors agreed to introduce a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

23. Ordinary shares (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2014	2013	2014	2013
Earnings per ordinary share				
Net Profit attributable to shareholders (K'000)	507,339	436,828	512,892	424,762
Weighted average number of ordinary shares in use ('000)	468,278	469,136	468,278	469,136
Basic and diluted earnings/(loss) per share (expressed in toea)	108.3	93.1	109.5	90.5

Basic earnings per ordinary share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Bank of South Pacific Limited has no dilutive potential ordinary shares. Consequently, basic earnings per ordinary share equals diluted earnings per share.

Dividend paid on ordinary shares

Interim ordinary dividend (2014: 20 toea; 2013:20 toea)	93,665	93,685	93,665	93,685
Final ordinary dividend (2013: 46 toea; 2012: 38 toea)	215,476	178,001	215,476	178,001
	309,141	271,686	309,141	271,686

24. Reserves and retained earnings

Retained earnings

At 1 January	1,035,290	870,148	991,368	838,292
Net profit for the year	507,339	436,828	512,892	424,762
Dividend paid	(309,141)	(271,686)	(309,141)	(271,686)
Disposal of assets – Asset revaluation	12,441	-	12,441	-
Prior year consolidation adjustment	(2,438)	-	-	-
BSP Life policy reserve	(24,055)	-	(24,055)	-
At 31 December	1,219,436	1,035,290	1,183,505	991,368

Reserves comprise

Revaluation reserve	166,230	170,103	166,230	170,103
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	18,218	-	-
General reserve	26,930	2,875	26,930	2,875
Exchange reserve	(13,913)	10,441	(10,249)	7,833
	201,460	202,272	183,546	181,446

Movement in reserves for the year:

Revaluation reserve

At 1 January	170,103	170,103	170,103	170,103
Asset revaluation increment	44,330	-	44,330	-
Transfer assets revaluation reserve to retained earnings	(12,441)	-	(12,441)	-
Deferred tax on asset revaluation – prior year	(23,051)	-	(23,051)	-
Deferred tax on asset revaluation – current year	(12,711)	-	(12,711)	-
At 31 December	166,230	170,103	166,230	170,103

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

24. Reserves and retained earnings (continued)

	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Capital reserve				
At 1 January	635	635	635	635
At 31 December	635	635	635	635
General reserve				
At 1 January	2,875	2,875	2,875	2,875
BSP Life policy reserve	24,055	-	24,055	-
At 31 December	26,930	2,875	26,930	2,875
Exchange reserve				
At 1 January	10,441	14,574	7,833	14,574
Movement during the year	(24,354)	(4,133)	(18,082)	(6,741)
At 31 December	(13,913)	10,441	(10,249)	7,833

Equity component of convertible notes

On 20 April 2010, the Group issued 3,064,967 Fiji Dollars (FJD) denominated mandatory convertible notes through its wholly owned subsidiary BSP Convertible Notes Limited (BSP CN) at an issue price of FJD5.25 (K7.30) per note.

The notes mandatorily converted to Fiji Class Shares on 20 April 2013 based on a conversion ratio of 1.1. Key rights of Fiji Class Shareholders are as follows:

- (i) The right to receive dividend equal to the amount of dividend to be paid on BSP Ordinary Share.
- (ii) The same voting rights as a BSP Ordinary Share and effected through a special voting share held by the Chairman of BSP.
- (iii) The Fiji Class Share may be exchanged on a one for one basis into BSP Ordinary Shares at a subsequent date and at the option of BSP on the occurrence of certain prescribed events.

25. Contingent liabilities and commitments

Off balance sheet financial instruments

Standby letters of credit	24,797	47,692	24,797	47,692
Guarantees and indemnities issued	293,853	556,166	292,489	545,058
Trade letters of credit	20,091	47,691	20,091	25,619
Commitments to extend credit	1,009,943	860,453	1,008,952	695,233
	1,348,684	1,512,002	1,346,329	1,313,602

Legal Proceedings

A number of legal proceedings against the Bank and the Group were outstanding as at 31 December 2014. Based on information available at 31 December 2014, the Bank and the Group estimates a contingent liability of K37.4 million (2013: K74.780 million) in respect of these proceedings.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

25. Contingent liabilities and commitments (continued)

Statutory deposits with the Central Bank

Cash reserve requirement - 10% of all amounts due to customers (2013: 9%)

	1,251,582	1,066,580	1,251,582	1,066,580
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Commitments for capital expenditure

Amounts with firm commitments, and not reflected in the accounts

	74,105	154,344	65,315	154,344
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Operating lease commitments

Not later than 1 year

	14,537	40,079	14,323	40,079
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Later than 1 year and not later than 5 years

	21,348	37,556	20,718	37,556
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Later than 5 years

	-	-	-	-
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	35,885	77,635	35,041	77,635
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26. Fiduciary activities

The Group especially through BSP Capital Limited conducts investment fund management, stock broking and other fiduciary activities as responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation. These funds are not consolidated as the Group does not have direct or indirect control. Where the funds incur liabilities in respect of these activities, and the primary obligation is incurred in an agency capacity, for the fund or clients rather than its own account, a right of indemnity exists against the assets of the applicable fund or trust. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Group will be required to settle the liabilities, the investments in the assets and liabilities of these activities are not included in the consolidated financial statements.

27. Directors and executive remuneration

Directors remuneration

Directors of the company received remuneration including benefits during 2014 as detailed below:

All amounts are in K'000

Name of Director	Meetings attended / total held	Appointed/ (Resigned)	Base emolument	Bonus shares	Total remuneration	
					2014	2013
K. Constantinou, OBE	7/7	-	277,759	-	277,759	222,539
T. E. Fox, OBE	7/7	-	243,492	-	243,492	213,542
Dr. I. Temu	7/7	-	123,904	-	123,904	112,014
C. C. Procter	2/2	(24/05/14)	144,011	-	144,011	217,388
Sir N. Bogan	5/7	-	127,083	-	127,083	104,967
R. Fleming*	7/7	-	-	-	-	-
G. Aopi, CBE	6/7	-	126,934	-	126,934	115,456
G. Robb, OAM	6/7	-	363,283	-	363,283	280,613
F. Talao	7/7	-	115,121	-	115,121	104,875
E. B Gangloff	6/7	-	116,771	-	116,771	-
A. Mano	2/2	29/08/14	-	-	26,250	-

Directors Sir Nagora Bogan and Gereia Aopi retired by rotation in accordance with Clause 15.3 of the Company's Constitution and being eligible, offered themselves for re-election by the shareholders on 24th May 2014 Annual General Meeting. Carlisle Procter resigned as a Director of the BSP Board on 24th May 2014. Augustine Mano joined the board on 29 August 2014 and will offer himself for election by the shareholders at the Annual Meeting in May 2015.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

27. Directors and executive remuneration (continued)

Non-executive Board Members of the Board – Constantinou, Fox and Robb received an allowance of K60,000 as Board of Directors of BSP Capital Ltd which forms part of the Group. Carlisle Procter resigned as Director of the Board of BSP Capital Ltd and received this Directors fee of K45,000 per annum.

* Managing Director / Chief Executive Officer receives no fees for his services as Director during the year. Other members of BSP executive management who serve as directors of subsidiaries of BSP Group receive no fees for their services as Director.

Executive remuneration

The number of employees or former employees whose income from the Bank was equal to or greater than K100,000 during the year, are classified in income bands of K10,000 as follows:

Remuneration K'000	2014 No.	2013 No.	Remuneration K'000	2014 No.	2013 No.	Remuneration K'000	2014 No.	2013 No.
100 – 110	35	34	410 - 410	2	4	740 - 750	-	1
110 – 120	25	16	410 - 420	2	-	750 – 760	3	2
120 - 130	22	21	420 - 430	1	2	760 – 770	-	2
130 - 140	25	21	430 – 440	1	2	770 – 780	1	1
140 - 150	16	24	440 – 450	2	-	780 – 790	8	1
150 - 160	8	11	450 – 460	1	2	800 -810	-	1
160 – 170	9	10	460 – 470	1	-	820 – 830	-	1
170 – 180	7	13	480 – 490	-	-	830 – 840	2	1
180 – 190	2	8	490 – 500	-	1	850 – 860	3	1
190 – 200	2	9	500 – 510	1	1	880 – 890	-	1
200 – 210	4	1	510 – 520	-	3	890 – 900	1	1
210 – 220	3	7	520 – 530	-	2	910 – 920	-	1
220 – 230	4	4	530 – 540	-	2	950 - 960	1	-
230 – 240	7	4	540 – 550	1	3	960 - 970	-	1
240 – 250	8	9	560 – 570	1	2	980 - 990	-	2
250 – 260	5	7	570 - 580	1	4	1090 - 1100	-	1
260 – 270	2	6	590 - 600	2	3	1100 – 1100	1	1
270 – 280	5	4	600 – 610	2	5	1170 - 1180	1	-
280 – 290	8	3	610 - 620	2	2	1190 -1200	1	-
290 – 300	3	-	620 – 630	4	1	1230 -1240	1	-
300 - 310	2	3	630 – 640	2	2	1260 – 1270	-	1
310 – 320	5	4	640 – 650	2	0	1270 - 1280	1	-
320 – 330	3	1	650 – 660	1	3	1630 - 1640	1	-
330 – 340	1	2	660 – 670	1	-	1660 - 1670	-	1
340 – 350	1	2	680 - 690	3	1	1730 - 1740	-	1
350 – 360	2	2	690 - 700	2	3	1790 – 1800	-	1
360 – 370	5	3	700 - 710	-	1	1840 - 1850	1	-
370 – 380	1	2	710 - 720	1	1	2430 – 2440	-	1
380 - 390	-	2	720 - 730	-	-	3560 - 3570	1	-
390 - 400	5	3	730 - 740	3	1	6800 - 6810	-	1
Total							291	312

2013 executive remuneration includes exercised options.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

27. Directors & executive remuneration (continued)

The specified executives during the year were:

Robin Fleming	Robert Loggia	Haroon Ali	Richard Borysiewicz
Johnson Kalo	Peter Beswick	Paul Thornton	Edward Ruha
Aho Baliki	Giau Duruba	Mark Railston	

Specified executives' remuneration in aggregate (K'000)

Year	Primary			Post-employment			Equity options	Other benefits	Total
	Salary	Bonus	Non-monetary	Super	Prescribed benefits	Other			
2014	11,302	3,128	207	193	-	-	-	710	15,540
2013	13,143	4,251	201	191	-	-	1,339	755	19,880

28 Reconciliation of operating cash flow

	Consolidated		Bank	
	2014	2013	2014	2013
<i>All amounts are expressed in K'000</i>				
Reconciliation of operating profit/(loss) after tax to operating cash flow before changes in operating assets				
Operating profit/(loss) after tax	507,339	436,828	512,892	424,762
Add: Tax Expense	211,511	170,127	209,560	168,114
Operating profit before income tax	718,850	606,955	722,452	592,876
Major non cash amounts				
Depreciation	80,731	90,817	76,707	86,723
Amortisation of deferred acquisition and computer development costs	46,116	85,018	46,116	85,018
Net (profit)/loss on sale of fixed assets	1,210	906	1,210	906
Movement in forex income accrual	(13,344)	10,746	(10,461)	10,746
Movement in provision for doubtful debts	112,076	104,812	112,076	104,812
Movement in payroll provisions	2,821	5,778	2,821	5,778
Net effect of other accruals	56,444	(4,909)	39,826	32,703
Operating cash flow before changes in operating assets	1,004,904	900,123	990,747	919,562

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity.

Cash and balances with Central Bank (note 10)	1,355,469	964,220	1,262,306	926,390
Amounts due from other banks (note 12)	380,653	1,445,199	380,653	1,445,199
Amounts due to other banks (note 18)	(259,892)	(786,035)	(259,879)	(786,035)
	1,476,230	1,623,384	1,383,080	1,585,554

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

29 Segment information

Bank of South Pacific Limited and Group comprises two segments, these being the provision of banking services and products, stock broking and insurance services. For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Bank and Group's management reporting system. The main business lines for management purposes are core banking segments of retail bank, wholesale bank which includes corporate and paramount strategic business units, insurance operations in Fiji, and BSP Capital's stock broking and fund management activities. The Bank of South Pacific Limited and Group's business segments operates in Papua New Guinea, Fiji and Solomon Islands. Inter segment adjustments reflects elimination entries in respect of inter segment income and expense allocations included funds transfer pricing.

All amounts are expressed in K'000

	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
<i>Analysis by segments</i>								
Year ended 31 December 2014								
Interest income	163,719	444,520	78,313	461	-	16,947	148,926	852,886
Other income	283,465	237,850	68,902	98,975	8,540	18,377	13,735	729,844
Total operating income	447,184	682,370	147,215	99,436	8,540	35,324	162,661	1,582,730
Operating expenses	(381,876)	(61,729)	(91,566)	(94,525)	(9,697)	(16,983)	(140,941)	(797,317)
Impairment expenses	(20,986)	5,685	(24,053)	-	-	(363)	(37,079)	(76,796)
Share of profits from associates and jointly controlled entities	-	-	-	10,233	-	-	-	10,233
Profit before income tax	44,322	626,326	31,596	15,144	(1,157)	17,978	(15,359)	718,850
Income tax	(11,461)	(184,796)	(6,503)	(1,775)	347	(7,323)	-	(211,511)
Net profit after income tax	32,861	441,530	25,093	13,369	(810)	10,655	(15,359)	507,339
Year ended 31 December 2013								
Interest income	157,410	433,472	61,576	-	-	14,557	73,842	740,857
Other income	298,309	236,434	50,140	176,100	3,687	16,547	-	781,217
Total operating income	455,719	669,906	111,716	176,100	3,687	31,104	73,842	1,522,074
Operating expenses	(253,289)	(256,639)	(83,622)	(172,475)	(6,921)	(16,504)	(44,399)	(833,849)
Impairment expenses	(25,747)	(39,234)	(13,205)	-	-	(387)	(14,967)	(93,540)
Share of profits from associates and jointly controlled entities	-	-	-	12,270	-	-	-	12,270
Profit before income tax	176,683	374,033	14,889	15,895	(3,234)	14,213	14,476	606,955
Income tax	(5,337)	(154,371)	(3,180)	(2,659)	1,009	(5,589)	-	(170,127)
Net profit after income tax	171,346	219,662	11,709	13,236	(2,225)	8,624	14,476	436,828

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for the Year Ended 31 December 2014

30. Related party transactions

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

- Directors and/or 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

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates. For the year ended 31 December 2014, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

<i>All amounts are expressed in K'000</i>	2014	2013
Customer Deposits		
Opening balances	192,446	139,557
Net movement	164,884	52,889
Closing balance	357,330	192,446
Interest paid	2,350	4,022
Loans, advances and other receivables from customers		
Opening balances	384,320	172,725
Loans issued	227,856	339,602
Interest	39,889	40,128
Charges	11,521	11,590
Loan repayments	(281,551)	(179,725)
Closing balance	382,035	384,320

Incentive-based transactions are provided for staff. Such transactions include marginal discounts on rates, and specific fee concessions. These incentives are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2014, staff account balances were as follows:

<i>All amounts are expressed in K'000</i>	2014	2013
Housing loans	14,653	18,111
Other loans	26,592	16,442
	41,245	34,553
Cheque accounts	9,452	8,083
Foreign currency accounts	487	237
Savings accounts	5,517	9,991
	15,456	18,311

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31. Bank operations, risks and strategies in using financial instruments

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the Bank and the Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These market risks (risk of an advance event in the financial markets that may result in loss of earnings) include liquidity risk, foreign exchange risk, interest rate risk and credit risk.

The Bank and the Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. These margins are achieved and increased by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank and the Group also seeks to optimise its interest margins by obtaining above average returns, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. In addition to directly advancing funds to borrowers, the Bank and the Group also enters into guarantees and other commitments such as letters of credit, performance bonds, and other bonds.

The Bank and the Group also enters into transactions denominated in foreign currencies. This activity generally requires the Bank and the Group to take foreign currency positions in order to exploit short term movements in the foreign currency market. The Board places limits on the size of these positions. The Bank and the Group also has a policy of using offsetting commitments for foreign exchange contracts, effectively minimising the risk of loss due to adverse movements in foreign currencies.

Risk in the Bank and the Group is managed through a system of delegated limits. These limits set the maximum level of risk that can be assumed by each operational unit and the Bank and the Group as a whole. The limits are delegated from the Board of Directors to executive management and hence to the respective operational managers.

The risk management framework establishes roles, responsibilities and accountabilities of the Asset and Liability Committee, the Credit Committee, the Operational Risk Committee and the Executive Committee, the specific management committees charged with the responsibility for ensuring the Bank and the Group has appropriate systems, policies and procedures to measure, monitor and report on risk management. The framework also includes policies and procedures which detail formal feedback processes to these management committees, to the Audit, Risk and Compliance Committee of the Board, and ultimately to the Board of Directors.

32. Capital adequacy

The Bank and the Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji and Solomon Islands are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF) and the Central Bank of Solomon Islands (CBSI) respectively. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. The Bank and the Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2014, the Bank and the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%.

The measure of capital used for the purposes of prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the statement of financial position and is made up of tier 1 capital (core) and tier 2 capital (supplementary). Tier 1 capital is obtained by deducting from equity capital and audited retained earnings (or losses), intangible assets including deferred tax assets. Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinated loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions. The leverage capital ratio is calculated as Tier 1 capital divided by total assets on the balance sheet.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

32. Capital adequacy (continued)

Risk weighted assets are derived from on-balance sheet and off-balance sheet assets. On balance sheet assets are weighted for credit risk by applying weightings (0, 20, 50 and 100 per cent) according to risk classification criteria set by the BPNG. Off-balance sheet exposures are risk weighted in the same way after converting them to on-balance sheet credit equivalents using BPNG specified credit conversion factors.

The Bank and the Group's capital adequacy level is as follows:

<i>All amounts are expressed in K'000</i>	Balance sheet / notional amount		Risk-weighted amount	
	2014	2013	2014	2013
Balance sheet assets (net of provisions)				
Currency	2,607,051	2,030,800	-	-
Loans, advances and other receivables from customers	6,817,396	5,306,362	5,787,333	5,009,265
Investments and short term securities	4,544,886	5,454,230	-	-
All other assets	1,907,573	2,970,028	1,301,840	2,778,531
Off balance sheet items	1,348,684	1,512,002	194,548	714,414
Total	17,225,590	17,273,422	7,283,721	8,502,210

Audited Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2014	2013	2014	2013
a) Tier 1 capital	1,412,838	1,181,187	19.4%	13.9%
Tier 1 + Tier 2 capital	1,746,292	1,533,093	24.0%	18.0%
b) Leverage Capital Ratio			9.0%	7.6%

33. Credit risk and asset quality

The Bank incurs risk with regard to loans, advances and other receivables due from customers and other monies or investments held with financial institutions. Credit risk is the likelihood of future financial loss resulting from the failure of clients or counter-parties to meet contractual obligations to the Bank and the Group as they fall due.

Credit risk is managed by analysing the risk spread across various sectors of the economy and by ensuring risk is diversely spread by personal and commercial customer. Individual exposures are measured using repayment performance, reviews and statistical techniques. Comprehensive credit standards and approval limits have been formulated and approved by the Credit Committee. The Credit Committee (which reports to the Board through the Executive and Chief Executive Officer) is responsible for the development and implementation of credit policy and loan portfolio review methodology. The Credit Committee is the final arbiter of risk management and loan risk concentration.

As indicated in Accounting Policy G – Loans and provision for loan impairment, the Bank and the Group has in place processes that identify, assess and control credit risk in relation to the loan portfolio, to assist in determining the appropriateness of provisions for loan impairment. These processes also enable assessments to be made of other classes of assets that may carry an element of credit risk. The Bank and the Group assigns quality indicators to its credit exposures to determine the asset quality profile.

Large credit exposures are also monitored as part of credit risk management. These are classified as the largest 25 individual accounts or groups of related counter-parties. As at 31 December 2014, the 25 largest exposures totaled K4.1 billion, accounting for over 60% of the Bank and 60% of the Group's total loan portfolio (2013: K3.2 billion, accounting for over 56% and 56% respectively).

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

33. Credit risk and asset quality (continued)

The Bank of Papua New Guinea has maintained a revised prudential standard for asset quality since October 2003. The revised standard specifies more detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those grading's.

An analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

2014	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
<i>Neither past due nor impaired</i>	1,334,964	3,933,033	1,041,853	251,252	39,678	6,600,780
<i>Past due but not impaired</i>						
- Less than 30 days	78,388	258,160	65,483	12,307	-	414,339
- 30 to 90 days	2,933	40,309	26,615	9,165	-	79,022
- 91 to 360 days	1,138	2,541	7,082	143	-	10,904
- More than 360 days	177	191	-	-	-	368
	82,636	301,201	99,180	21,616	-	504,632
<i>Individually impaired loans</i>						
- Less than 30 days	1,551	4,052	2,083	-	-	7,686
- 30 to 90 days	4	3,379	1,603	-	-	4,986
- 91 to 360 days	103	5,321	3,667	-	-	9,091
- More than 360 days	3,869	4,593	9,469	327	-	18,258
	5,527	17,345	16,822	327	-	40,021
Total gross loans, advances and other receivables from customers	1,423,127	4,251,579	1,157,855	273,194	39,678	7,145,433
Less impairment provisions						328,037
Net Loans & Advances						6,817,396

Credit related commitments

These instruments are used to ensure that funds are available to a customer as required. The Bank and the Group deals principally in the credit related commitments set out below.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank and the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same risk as loans.

Documentary and trade letters of credit are written undertakings by the Bank and the Group on behalf of a customer, authorising a third party to draw drafts on the Bank and the Group for specified amounts under specified terms and conditions. They are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a conventional loan.

Commitments to extend credit represent undrawn portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. Whilst the potential exposure to loss equates to the total undrawn commitments, the likely amount of loss is less than the total commitment since the commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank and the Group monitors the term to maturity of these commitments because longer term commitments generally carry a greater degree of credit risk than shorter term commitments.

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for the Year Ended 31 December 2014

33. Credit risk and asset quality (continued)

Economic sector risk concentrations

Economic sector risk concentrations within the customer loan portfolio are as follows:

All amounts are expressed in K'000

As at 31 December	2014	%	2013	%
Commerce, finance and other business	2,593,609	38	2,391,072	45
Private households	948,957	14	695,782	13
Government and public authorities	1,191,449	17	444,670	9
Agriculture	322,532	5	267,367	5
Transport & communication	709,099	10	583,853	11
Manufacturing	404,925	6	394,268	7
Construction	646,825	10	529,350	10
Net loan portfolio balance	6,817,396	100	5,306,362	100

34. Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Board, through the Asset and Liability Committee, sets liquidity policy to ensure that the Bank and the Group has sufficient funds available to meet all its known and potential obligations.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of banking activities. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Short-term mismatch of asset and liability maturity at 31 December 2014

The maturity profile of material Assets and Liabilities as at 31 December 2014 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Bank and the Group, and does not impair the ability of the Bank and the Group to meet its financial obligations as they fall due. The Directors are also of the view that the Bank and the Group is able to meet its financial obligations as they fall due for the following additional reasons:

- The Bank and the Group complies with the Minimum Liquid Asset Ratio ("MLAR") and Cash Reserve Requirement ("CRR") set by the regulatory authority, the Bank of Papua New Guinea ("BPNG"). The MLAR is the minimum ratio of liquid assets to total customer deposits considered by the regulator as sufficient to support exceptional liquidation by depositors, of their funds. The requirement to hold a minimum of 25% of the value of total customer deposits in the form of prescribed liquid assets was reduced to zero by the BPNG in September 2010. As at 31 December 2014, the Bank and the Group's Liquid Asset Ratio was approximately 34.34% (2013: 41.78%).
- The CRR specifies that a bank must hold an amount equal to 10% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and the Group complies with this daily requirement on an ongoing basis. The balance of the CRR account is shown in Note 10, Cash and Balances with Central Bank, and Note 28, Cash & Cash Equivalents.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

34. Liquidity risk (continued)

Maturity of assets and liabilities

All amounts are expressed in K'000

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	2,607,051	-	-	-	-	2,607,051
Treasury & Central Bank bills	985,499	370,203	821,872	5,663	-	2,183,237
Amounts due from other banks	277,441	103,212	-	-	-	380,653
Loans, advances and other receivables from customers	1,819,303	90,167	483,075	2,138,966	2,285,885	6,817,396
Other financial assets	63,714	4,914	303,476	1,004,061	985,484	2,361,649
Total assets	5,753,008	568,496	1,608,423	3,148,690	3,271,369	14,349,986
Liabilities						
Amounts due to other banks	259,892	-	-	-	-	259,892
Customer Deposits	11,629,385	247,242	709,421	122,125	210	12,708,383
Other liabilities	816,947	-	-	-	75,525	892,472
Other provisions	153,419	62,547	-	-	-	215,966
Total liabilities	12,859,643	309,789	709,421	122,125	75,735	14,076,713
Net liquidity gap	(7,106,635)	258,707	899,002	3,026,565	3,195,634	273,273
As at 31 December 2013						
Total assets	5,117,802	1,508,495	2,436,420	2,352,809	2,821,065	14,236,591
Total liabilities	12,325,268	457,718	364,169	81,441	913,764	14,142,360
Net liquidity gap	(7,207,466)	1,050,777	2,072,251	2,271,368	1,907,301	94,231

35. Operational risk

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Bank and the Group conducts its business. Examples of operational risks include employee errors, systems failures, fire, floods, or similar losses to physical assets, fraud, or criminal activity. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring.

An operational risk management function is responsible for the maintenance of these policies, procedures practices and monitoring the organization's compliance with them. The Operational Risk Committee coordinates the management process across the organization.

An independent internal audit function also conducts regular reviews to monitor compliance with approved BPNG standards and examines the general standard of control.

The Operational Risk Committee and the internal audit function mandatorily report to the Board Audit, Risk and Compliance Committee.

Notes to the Consolidated Financial Statements

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36. Foreign exchange risk

Foreign exchange risk is the risk to earnings caused by a change in foreign exchange rates on open currency positions. The objective of foreign exchange risk management within the Bank and the Group is to minimise the impact on earnings of any such movement.

The Bank and the Group accepts foreign currency denominated transactions and therefore has exposure to movements in foreign currency. The Bank and the Group has a policy to offset these transactions to minimise daily exposure. As foreign exchange contracts generally consist of offsetting commitments, they involve only limited foreign exchange risk to the Bank and the Group and material loss is not envisaged.

Currency concentration of assets, liabilities, and off-balance sheet items

All amounts are expressed in K'000

As at 31 December 2014	USD	AUD	EURO	PGK	Other	Total
Assets						
Cash and balances with Central Bank	3,059	1,879	139	1,769,100	832,874	2,607,051
Treasury & Central Bank bills	-	-	-	2,029,796	153,441	2,183,237
Amounts due from other banks	49,310	244,642	3,000	62,150	21,551	380,653
Loans, advances and other receivables from customers	129,265	7,221	-	5,134,346	1,546,564	6,817,396
Other financial assets	20,810	20,514	-	2,188,067	132,258	2,361,649
Other assets	-	-	-	1,314,602	154,078	1,468,680
Total assets	202,444	274,256	3,139	12,498,061	2,840,766	15,818,666
Liabilities						
Amounts due to other banks	(39,699)	(3,633)	-	(330)	(216,230)	(259,892)
Customer Deposits	(242,075)	(248,936)	-	(10,288,315)	(1,929,057)	(12,708,383)
Other liabilities	-	-	-	(522,472)	(527,726)	(1,050,198)
Total liabilities	(281,774)	(252,569)	0	(10,811,117)	(2,673,013)	(14,018,473)
Net on-balance sheet position	(79,330)	21,687	3,139	1,686,944	167,753	1,800,193
Off-balance sheet net notional position	9,977	860	(2,954)	-	(8,619)	(736)
Credit commitments	-	-	-	1,346,329	-	1,346,329
31 December 2013						
Total Assets	915,759	351,206	20,616	11,490,633	2,983,206	15,761,420
Total Liabilities	(736,230)	(289,279)	(13)	(10,373,653)	(2,743,185)	(14,142,360)
Net on-balance sheet position	179,529	61,927	20,603	1,116,980	240,021	1,619,060
Off-balance sheet net notional position	(283,238)	(59,576)	(20,535)	938,667	187,067	762,385
Credit commitments	-	-	-	1,512,002	-	1,512,002

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for the Year Ended 31 December 2014

36. Foreign exchange risk (continued)

All amounts are expressed in K'000

The following table presents sensitivities of profit or loss and equity to possible changes in exchange rates applied at the end of the reporting period, relative to the functional currency of the respective Group entities, with all other variables held constant:

	At 31 December 2014		At 31 December 2013	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 1% (2013 – 1%)	903	903	1,127	1,057
USD dollar weakening by 1% (2013 – 1%)	(885)	(885)	(1,104)	(1,104)
AUD strengthening by 1% (2013 – 1%)	(25)	(25)	(32)	(32)
AUD dollar weakening by 1% (2013 – 1%)	24	24	31	31

37. Interest rate risk

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the Bank and the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process governed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Bank and the Group. The objective of interest rate risk control is to minimise these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. The table below illustrates the interest sensitivity of assets and liabilities at the balance date.

Given the profile of assets and liabilities as at 31 December 2014 and prevailing rates of interest, a 1% increase in markets rates will result in a K20.0 million increase in net interest income, whilst a 1% decrease in rates will result in a K36.6 million decrease in net interest income.

Interest sensitivity of assets, liabilities and off balance sheet items – re-pricing analysis

All amounts are expressed in K'000

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Assets						
Cash & Central Bank assets	-	-	-	-	-	1,355,469
Treasury & Central Bank bills	985,499	370,203	821,872	5,663	-	-
Amounts due from other banks	320,993	29,365	30,295	-	-	-
Statutory deposits - Central Bank	-	-	-	-	-	1,251,582
Loans, advances and other receivables from customers	6,020,067	138,167	338,406	317,912	-	2,844
Investments	-	-	323,213	1,126,131	1,030,694	-
Other assets	1,684	1,684	7,578	12,139	-	1,385,446
Total assets	7,328,243	539,419	1,521,364	1,461,845	1,030,694	3,995,341
Liabilities						
Amounts due to other banks	259,892	-	-	-	-	-
Customer deposits	6,988,751	490,623	751,546	127,461	210	4,349,792
Other liabilities	-	-	-	-	75,525	816,947
Other provisions	-	-	-	-	-	215,966
Total liabilities	7,248,643	490,623	751,546	127,461	75,735	5,382,705
Interest sensitivity gap	79,600	48,796	769,818	1,334,384	954,959	(1,387,364)

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37. Interest rate risk (continued)

Interest sensitivity of assets, liabilities and off balance sheet items – re-pricing analysis

As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Assets						
Cash & Central Bank assets	-	-	-	-	-	964,220
Treasury & Central Bank Bills	2,453,175	822,622	7,635	-	-	-
Amounts due from other banks	1,350,590	94,609	-	-	-	-
Statutory deposits - Central Bank	-	-	-	-	-	1,066,580
Loans, advances and other receivables from customers	4,595,300	248,375	376,046	81,548	301	4,792
Investments	41,713	61,648	450,145	518,833	1,215,280	-
Other assets	5,894	5,052	20,207	5,363	-	1,371,492
Total assets	8,446,672	1,232,306	854,033	605,744	1,215,581	3,407,084
Liabilities						
Amounts due to other banks	786,035	-	-	-	-	-
Customer deposits	6,674,541	294,855	158,042	16,396	26	5,057,139
Other liabilities	-	-	-	-	75,525	936,369
Other Provisions	-	-	-	-	-	143,432
Total liabilities	7,460,576	294,855	158,042	16,396	75,551	6,136,940
Interest sensitivity gap	986,096	937,451	695,991	589,348	1,140,030	(2,729,856)

38. Fair values of financial assets and liabilities

There is no material difference between the fair value and carrying value of the financial assets and liabilities of Bank of South Pacific Limited and the Group.

The fair value hierarchy of the financial assets carried at fair value through the profit and loss:

All amounts are expressed in K'000

2014	Level 1	Level 2	Level 3	Total
Financials assets				
Equity securities	-	62,430	1,284	63,714
Non-financial assets				
Asset held for sale	-	-	65,052	65,052
Property, plant & equipment	-	-	662,313	662,313
Total	-	62,430	728,649	791,079
Financials liabilities				
Policy liabilities	-	-	473,753	473,753

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for the Year Ended 31 December 2014

38. Fair values of financial assets and liabilities (continued)

All amounts are expressed in K'000

2013

Financials assets

Equity securities	-	47,811	1,333	49,144
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Non-financial assets

Property, plant & equipment	-	-	623,360	623,360
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Total	-	47,811	624,693	672,504
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Financial liabilities

Policy liability	-	-	481,087	481,087
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There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2014 (2013 – none). Property, plant and equipment and assets held for sale represents commercial land and buildings that the Group based on valuations provided by independent valuers. Disposal cost for properties classified as held for sale is not expected to be material.

In the normal course of trading, the Bank and the Group enters into forward exchange contracts. The Bank and the Group does not actively enter into or trade in, complex forms of derivative financial instruments such as currency and interest rate swaps and options.

Exposures in foreign currencies arise where the Bank and the Group transacts in foreign currencies. This price risk is minimised by entering into counterbalancing positions for material exposures as they arise. Forward and spot foreign exchange contracts are used.

Forward exchange contracts outstanding at 31 December 2014 stated at the face value of the respective contracts are:

All amounts are expressed in respective FCY'000 and K'000

As at 31 December 2014		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	(42,143)	-	(971)	(2,450)	-	-
	Kina	110,701	-	4,058	3,830	-	118,589
Buying	FCY	41,773	-	-	1,000	-	-
	Kina	(108,795)	-	-	(4,057)	-	(112,852)
As at 31 December 2013		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	(121,041)	(30,538)	(44)	(1,550)	(262,287)	
	Kina	318,482	71,112	160	2,636	9,853	402,243
Buying	FCY	10,100	-	-	-	926	
	Kina	(23,246)	-	-	-	(4,063)	(27,309)

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

39 Policy liabilities

Key assumptions used in determining this liability are as follows:

Discount Rates

For contracts in Statutory Fund 1 which have a DPF, the discount rate used is linked to the assets which back those contracts. For 31st December 2014 this was 4.84% per annum (31st December 2013: 4.21% per annum), based on current 10 year government bond yields and expected earnings from the investment portfolio. For contracts without DPF and Accident Business, a rate of 3.95% per annum was used at 31st December 2014 (31st December 2013: 3.46% per annum). These rates were based on the 10 year government bond rate as published by the Reserve Bank of Fiji.

Investment and Maintenance Expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.5% per annum (31st December 2013: 3.5% per annum) for determining future expenses

Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation (i.e. 20%) are assumed to continue into the future

Mortality and Morbidity

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male. These are then adjusted for the Group's own experience. The mortality rates used was 70% of the FJ90-94 Male table for participating business in Statutory Fund 1.

Rates of Discontinuance

Best estimate assumptions for the incidence of withdrawal and discontinuance vary by product and duration and are based on the Group's experience which is reviewed regularly. Rates used for the long term insurance contracts are as follows:

	2014	2013
Whole of Life and Endowment Insurance	15%	15%
Term Insurance	18%	18%
Accident Insurance	14%	14%

Basis of Calculation of Surrender Values

Surrender values are based on the provisions specified in the policy contracts. There have been no changes to surrender bases during the period (or the prior periods) which have materially affected the valuation result.

Discretionary Participating Business

For most participating business, bonus rates are set such that, over long periods, the returns to contract holders are commensurate with the investment returns achieved on the pool of assets which provide security for the contract, together with other sources of profit arising from this business. Profits from these policies are split between contract holders and shareholders in accordance with the policy conditions which allow for shareholders to share in allocations at a maximum rate of 20%. For business written between 1995 and 1998 the shareholder receives 11% of profits.

In applying the contract holders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of contracts in force. Assumed future bonus rates included in the liability for the long term insurance contracts were set such that the present value of the liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2014

39 Policy liabilities (continued)

Reinsurance

Contracts entered into by the Group with Reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group, are classified as reinsurance contracts.

As the reinsurance agreements provide for indemnification by the Reinsurers against loss or liability, reinsurance income and expenses are recognised separately in profit or loss when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries are recognised as claim recoveries under profit or loss. This is netted off against the claim expenses. Reinsurance premiums are recognised as Reinsurance Expenses.

<i>All amounts are expressed in K'000</i>	2014	2013
<u>Policy Liabilities</u>		
Opening balance	481,087	399,627
Release provisions to claims & operating expenses	(1,394)	-
Release provision to fund advance premium	(5)	-
Release provision to fund negative Regional Shareholder to Retained Earnings	(80)	-
Increase / (decrease) in policy liabilities	(5,855)	81,460
Total policy liabilities	473,753	481,087

40. Events occurring after balance sheet date

On 29th January 2015, the Bank announced that it had entered into an agreement to acquire the banking operations of Westpac Banking Corporation (Westpac) in Samoa, Cook Islands, Solomon Islands, Vanuatu and Tonga for AUD125 million (approximately K258 million).

Completion of the sale is anticipated by mid-2015 and is subject to obtaining necessary statutory, regulatory and third party approvals. Prior to completion, Westpac will continue to own and manage banking operations in these countries and will continue to meet its customers' daily banking needs.

41. Remuneration of auditors

All amounts are expressed in K'000	Consolidated		Bank	
	2014	2013	2014	2013
Financial statement audits	1,919	2,707	1,568	2,110
Other services	936	4,413	929	4,413
	2,855	7,120	2,497	6,523

The external auditor PricewaterhouseCoopers is also engaged in providing other services to the Bank and Group as required and as permitted by prudential standards. The provision of other services included taxation and general training. Deloitte Touche Tohmatsu was the external auditor for the prior year.



Independent Auditor's Report

to the shareholders of Bank of South Pacific Limited

Report on the financial statements

We have audited the accompanying financial statements of Bank of South Pacific Limited (the Company), which comprise the statements of financial position as at 31 December 2014, the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2014 or from time to time during the financial year.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2014, and their financial performance and cash flows for the year then ended.



Independent Auditor's Report
to the shareholders of Bank of South Pacific Limited

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2014:

1. we have obtained all the information and explanations that we have required;
2. in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and
3. we have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacities as auditor, taxation advisor and provider of advisory services. These services have not impaired our independence as auditor of the Group.

Restriction on distribution or use

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

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Jonathan Seeto'.

Jonathan Seeto
Partner
Registered under the Accountants Registration Act 1996

Port Moresby
13 March 2015