Bank of South Pacific Limited and Subsidiaries

Half-year financial report

For the half-year ended

30 June 2015

Contents of Financial Statements

		Page
Directors' Report		**1**
Independent Auditor's Review Report		**2**
Statement by the Directors		**4**
Condensed Consolidated Statement of Profit & Loss and Other Comprehensive Income		**5**
Condensed Consolidated Statement of Financial Position		**6**
Condensed Consolidated Statement of Changes in Shareholders' Equity		**8**
Condensed Consolidated Statement of Cash Flow		**9**
Notes to the Condensed Consolidated Financial Statements		**11**
1	Statement of significant accounting policies	11
2	Operating profit before income tax	12
2(a)	Net interest income	12
2(b)	Fee and commission income	12
2(c)	Other income	12
2(d)	Loan impairment expense	12
2(e)	Other operating expenses	12
3	Dividends	13
4	Loans, advances and other receivables from customers	13
5	Capital adequacy and liquid assets ratio	14
6	Contingent liabilities and commitments	15
7	Derivative financial instruments	17
8	Related parties	18
9	Notes to condensed consolidated statement of cash flows	19
10	Segment information	19
11	Subsequent events	20

Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2015.

Directors and officers

The names of the Directors and officers of Bank of South Pacific Limited during or since the end of the half-year are:

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

Principal activities

The principal activity of the Bank is the provision of commercial banking and finance services. The Group's activities include the provision of commercial banking and finance services, stock broking and fund management and insurance business throughout Papua New Guinea and the Pacific region. BSP is a company 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

The net profit of the Group for the half year ended 30 June 2015, after tax was K266.952 million (half year ended 30 June 2014: K262.464 million).

Dated and signed at Port Moresby this 24th day of August 2015.

Sir Kostas Constantinou, OBE
Chairman

R Fleming
Chief Executive Officer/ Director

pwc

Independent Auditor's Review Report

to the Directors of Bank of South Pacific Limited

Report on the condensed interim financial statements

We have reviewed the accompanying condensed interim financial statements, being a special purpose financial report, of Bank of South Pacific Limited (the Company), which comprise the condensed statement of financial position as at 30 June 2015, the condensed statement of profit or loss and other comprehensive income, condensed statement of changes in shareholders' equity and condensed statement of cash flows for the half-year ended on that date and other selected explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 30 June 2015 or from time to time during the half-year.

The condensed interim financial statements do not contain all the disclosures required of the full financial statements under generally accepted accounting practice in Papua New Guinea. Reading these condensed financial statements, therefore, is not a substitute for reading the annual financial statements of the Company.

Directors' responsibility for the condensed interim financial statements

The Directors of the Company are responsible for the preparation of these interim financial statements such that they present fairly the matters to which they relate in accordance with IAS 34 'Interim Financial Reporting' 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 a conclusion on the condensed interim financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the condensed interim financial statements do not present fairly the matters to which they relate. As the auditor of the Company, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the condensed interim financial statements of the Company do not present fairly the Group's financial position as at 30 June 2015 and its financial performance and cash flows for the half-year ended on that date in accordance with IAS 34 'Interim Financial Reporting'.

PricewaterhouseCoopers
PwC Haus, Level 6, Harbour City, Konedobu. PO Box 484, PORT MORESBY, PAPUA NEW GUINEA
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, www.pwc.com.pg

pwc

Independent Auditor's Review Report (continued)

to the Directors of Bank of South Pacific Limited

Restriction on distribution or use

This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Company, as a body, for our review work, for this report or for those conclusions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers

Jonathan Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
24 August 2015

Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2015.

Directors and officers

The names of the Directors and officers of Bank of South Pacific Limited during or since the end of the half-year are:

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

Principal activities

The principal activity of the Bank is the provision of commercial banking and finance services. The Group's activities include the provision of commercial banking and finance services, stock broking and fund management and insurance business throughout Papua New Guinea and the Pacific region. BSP is a company 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

The net profit of the Group for the half year ended 30 June 2015, after tax was K266.952 million (half year ended 30 June 2014: K262.464 million).

Dated and signed at Port Moresby this 24th day of August 2015.

Sir Kostas Constantinou, OBE	R Fleming
Chairman	Chief Executive Officer/ Director

CONDENSED CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2015

		Group		Bank	
		Half Year Ended		Half Year Ended	
	Notes	30 June		30 June	
All amounts are expressed in K'000		2015	2014	2015	2014
Interest income	2(a)	506,492	437,864	505,156	437,863
Interest expense	2(a)	(35,968)	(29,904)	(36,702)	(29,904)
Net interest income		470,524	407,960	468,454	407,959
Fee and commission income	2(b)	160,842	152,144	158,437	152,144
Other income	2(c)	155,292	265,020	109,750	232,055
Net banking operating income		786,658	825,124	736,641	792,158
Net insurance premium income		44,827	47,110	-	-
Increase in policy liabilities		(6,476)	(6,625)	-	-
Claims, surrender and maturities		(29,450)	(36,494)	-	-
Net insurance operating income		8,901	3,991	-	-
Total net operating income before impairment and operating expenses		795,559	829,115	736,641	792,158
Loan impairment expense	2(d)	(36,109)	(33,003)	(34,238)	(33,003)
Other operating expenses	2(e)	(383,477)	(426,780)	(327,837)	(373,276)
Operating profit before tax		**375,973**	**369,332**	**374,566**	**385,879**
Income tax expense		(109,021)	(106,868)	(110,359)	(107,159)
Profit for the period		**266,952**	**262,464**	**264,207**	**278,720**
Other comprehensive income					
Exchange difference - translation of foreign operations to presentation currency		2,423	(17,620)	2,194	(17,620)
Net movement on asset revaluation		8,330	(23,051)	8,330	(23,051)
Other comprehensive income, net of tax		**10,753**	**(40,671)**	**10,524**	**(40,671)**
Total comprehensive income for the period		**277,705**	**221,793**	**274,731**	**238,049**
Earnings per share (toea per share)					
Earnings per share – Basic and diluted (toea per share)		57.0	56.0		

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

All amounts are expressed in K'000	Note	Group		Bank	
		As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
ASSETS					
Cash and balances with Central Bank		1,387,580	1,355,469	1,350,091	1,262,306
Treasury & Central Bank bills		1,780,884	2,183,237	1,780,884	2,183,237
Amounts due from other banks		920,564	380,653	945,788	380,653
Statutory deposits with Central Bank		1,280,906	1,251,582	1,280,906	1,251,582
Other financial assets		2,602,874	2,361,649	2,365,605	2,188,067
Loans, advances and other receivables from customers	4	7,029,024	6,817,396	6,924,432	6,748,546
Asset held for sale		58,632	65,052	58,632	65,052
Property, plant and equipment		666,625	662,313	634,299	629,682
Asset subject to operating lease		49,922	53,783	49,922	53,783
Investment in associates & joint ventures		118,528	118,389	38,540	38,520
Investment in subsidiaries		-	-	120,635	108,635
Intangible assets		95,753	110,374	92,749	104,210
Investment properties		75,063	70,684	-	-
Deferred tax assets		116,563	111,677	116,968	115,552
Other assets		448,718	334,648	376,723	285,093
Total assets		**16,631,636**	**15,876,906**	**16,136,174**	**15,414,918**
LIABILITIES					
Amounts due to other banks		288,085	259,892	288,085	259,879
Customer deposits		13,288,722	12,708,383	13,385,980	12,804,555
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		896,767	816,947	365,902	318,073
Provision for income tax		103,823	63,022	103,800	62,738
Other provisions		167,314	152,944	160,449	147,800
Total liabilities		**14,820,236**	**14,076,713**	**14,379,741**	**13,668,570**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Group		Bank	
All amounts are expressed in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
SHAREHOLDERS EQUITY				
Share Capital	376,672	379,297	376,672	379,297
Retained earnings	1,225,552	1,219,436	1,188,728	1,183,505
Other reserves	209,176	201,460	191,033	183,546
Total shareholders' equity	**1,811,400**	**1,800,193**	**1,756,433**	**1,746,348**
Total equity and liabilities	**16,631,636**	**15,876,906**	**16,136,174**	**15,414,918**

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2015

All amounts are expressed in K'000		Share capital	Other Reserves	Retained earnings	Total
GROUP					
Balance at 1 January 2015		**379,297**	**201,460**	**1,219,436**	**1,800,193**
Profit for the period		-	-	266,952	266,952
Dividend paid		-	-	(263,873)	(263,873)
Share buyback		(2,625)	-	-	(2,625)
Transfer from Asset Revaluation Reserve		-	(3,037)	3,037	-
Other comprehensive income		-	10,753	-	10,753
Balance at 30 June 2015		**376,672**	**209,176**	**1,225,552**	**1,811,400**
Balance at 1 January 2014		**381,498**	**202,272**	**1,035,290**	**1,619,060**
Profit for the period		-	-	262,464	262,464
Dividend paid		-	-	(215,476)	(215,476)
BSP Life Policy reserve		-	24,054	(24,054)	-
Transfer from Asset Revaluation Reserve		-	(9,559)	9,559	-
Other comprehensive income		-	(40,671)	-	(40,671)
Balance at 30 June 2014		**381,498**	**176,096**	**1,067,783**	**1,625,377**
BANK					
Balance at 1 January 2015		**379,297**	**183,546**	**1,183,505**	**1,746,348**
Profit for the period		-	-	264,207	264,207
Dividend paid		-	-	(262,021)	(262,021)
Share buyback		(2,625)	-	-	(2,625)
Transfer from Asset Revaluation Reserve		-	(3,037)	3,037	-
Other comprehensive income		-	10,524	-	10,524
Balance at 30 June 2015		**376,672**	**191,033**	**1,188,728**	**1,756,433**
Balance at 1 January 2014		**381,498**	**181,446**	**991,368**	**1,554,312**
Profit for the period		-	-	278,720	278,720
Dividend paid		-	-	(215,476)	(215,476)
BSP Life Policy Reserve	5	-	24,054	(24,054)	-
Transfer from Asset Revaluation Reserve			(9,559)	9,559	-
Other comprehensive income		-	(40,671)	-	(40,671)
Balance at 30 June 2014		**381,498**	**155,270**	**1,040,117**	**1,576,885**

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF-YEAR ENDED 30 JUNE 2015

	Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts are expressed in K'000	2015	2014	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES				
Interest received	499,999	433,781	498,664	433,913
Fees and other income	284,951	447,679	219,090	361,937
Interest paid	(32,159)	(31,122)	(36,702)	(31,277)
Amounts paid to suppliers and employees	(275,898)	(396,324)	(213,585)	(317,330)
Operating cash flow before changes in operating assets	**476,893**	**454,014**	**467,467**	**447,243**
Increase in loans	(244,535)	(635,293)	(208,836)	(637,585)
Increase in other assets	(110,415)	(82,556)	(112,739)	(82,557)
Increase in customer deposits	580,339	400,671	581,425	396,690
Increase in statutory deposits	(29,324)	(119,862)	(29,324)	(119,862)
Increase in other liabilities	76,011	12,547	47,829	12,547
Net cash flow from operations before income tax	**748,969**	**29,521**	**745,822**	**16,476**
Income taxes paid	(73,106)	(74,181)	(70,713)	(74,094)
Net cash flow from operating activities	**675,863**	**(44,660)**	**675,109**	**(57,618)**
CASH FLOW FROM INVESTING ACTIVITIES				
Decrease in Government securities	161,028	534,265	235,971	519,845
Payments for property, plant & equipment	(38,060)	(134,477)	(32,987)	(130,102)
Proceeds for disposal of property, plant & equipment	9,073	15,688	9,073	15,610
Proceeds from other investments	-	18,101	-	-
Net cash flow used in investing activities	**132,041**	**433,577**	**212,057**	**405,353**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF-YEAR ENDED 30 JUNE 2015

		Group		Bank	
		Half Year Ended		Half Year Ended	
		30 June		30 June	
All amounts are expressed in K'000	Note	2015	2014	2015	2014
CASH FLOW FROM FINANCING ACTIVITIES					
Share buy back		(2,625)	-	(2,625)	-
Dividends paid		(263,873)	(215,476)	(262,021)	(215,476)
Net cash flow used in financing activities		**(266,498)**	**(215,476)**	**(264,646)**	**(215,476)**
Net Increase in cash and cash equivalents		**541,406**	**173,441**	**622,520**	**132,259**
Effect of exchange rate movements on cash and cash equivalents		2,423	(920)	2,194	12,701
Cash and cash equivalent at the beginning of the period		1,476,230	1,678,106	1,383,080	1,640,276
Cash and Cash Equivalents at the end of the period	9	**2,020,059**	**1,850,627**	**2,007,794**	**1,785,236**

See accompanying Notes to the condensed consolidated financial statements

1. Statement of significant accounting policies

Statement of compliance

The half year report is a general purpose financial report prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements are denominated in Papua New Guinea Kina, which is the reporting currency of the Group. All financial information presented in Papua New Guinea Kina has been rounded to the nearest thousand dollars, unless otherwise stated.

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2014 financial report for the financial year ended 31 December 2014.

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

	Group		Bank	
	Half Year Ended 30 June		Half Year Ended 30 June	
All amounts expressed are in K'000	2015	2014	2015	2014
Interest Income				
Domestic loans and advances	354,810	303,300	353,474	303,300
Public securities: Treasury bills/inscribed stock	145,816	127,444	145,816	127,444
Other loans and advances	4,688	5,794	4,688	5,794
Other	1,178	1,326	1,178	1,325
	506,492	437,864	505,156	437,863
Interest Expense				
Current and term deposits	(27,217)	(17,421)	(27,217)	(17,421)
Other borrowings	(4,120)	(4,122)	(4,120)	(4,122)
Deposits from other banks	(4,631)	(8,361)	(5,365)	(8,361)
	(35,968)	(29,904)	(36,702)	(29,904)
	470,524	407,960	468,454	407,959

(b) Fee and commission income

Fees and commissions	160,842	152,144	158,437	152,144

(c) Other income

Foreign exchange earnings	86,100	184,477	86,100	184,477
Other	69,192	80,543	23,650	47,578
	155,292	265,020	109,750	232,055

(d) Loan impairment expense

New write off	(28,815)	(22,483)	(28,815)	(22,483)
Net new and increased individually assessed and collective provisioning	(34,779)	(28,961)	(32,907)	(28,961)
Recoveries during the period	27,485	18,441	27,484	18,441
	(36,109)	(33,003)	(34,238)	(33,003)

(e) Other operating expenses

Staff	(152,115)	(154,853)	(135,350)	(141,142)
Depreciation	(57,594)	(66,025)	(55,062)	(63,796)
Computing	(24,625)	(23,640)	(24,122)	(23,640)
Premises and equipment expenses	(50,170)	(38,548)	(43,424)	(34,077)
Administration and other expenses	(98,973)	(143,714)	(69,879)	(110,621)
	(383,477)	(426,780)	(327,837)	(373,276)

3. Dividends

On 23 May 2015, the directors declared a final dividend of 56 toea per share for the year ended 31 December 2014. The declared final gross dividend amount was K263.873 million (December 2013: K215.476 million). Net dividend paid after dividend withholding tax was K250.559 million (December 2013:K205.883 million).

4. Loans, advances and other receivables from customers

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
Gross loans, advances and other receivables from customers net of reserved interest	7,390,265	7,145,433	7,284,766	7,075,633
Allowances for losses on loans, advances and other receivables from customers	(361,241)	(328,037)	(360,334)	(327,087)
Net loans, advances and other receivables from customers	7,029,024	6,817,396	6,924,432	6,748,546
Industry concentration of loan, advances and other receivables from customers				
Commerce, finance and other business	2,852,516	2,593,609	2,755,441	2,524,759
Private households	982,756	948,957	979,669	948,957
Government and public authorities	1,159,745	1,191,449	1,159,745	1,191,449
Agriculture	444,307	322,532	444,171	322,532
Transport and communication	712,945	709,099	709,017	709,099
Manufacturing	297,726	404,925	297,593	404,925
Construction	579,029	646,825	578,796	646,825
	7,029,024	6,817,396	6,924,432	6,748,546

5. Capital adequacy and liquid assets ratio

The Bank and Group are 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. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum 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 capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2015, the Bank and Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 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 balance sheet and is made up of tier 1 capital (core) and tier 2 capital (supplementary), after deducting the value of investments in other banks and financial institutions. 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 subordinate loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions.

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.

	As at 30 June 2015		As at 31 Dec 2014	
Risk weighted capital ratios	K'000	%	K'000	%
Tier 1 Capital	1,160,895	14.9	1,412,838	19.4
Tier 1 + Tier 2 Capital	1,772,824	22.8	1,746,292	24.0
Leverage capital ratio		**7.1**		**9.0**

6. Contingent liabilities and commitments

The primary purpose of credit related commitments are to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank and Group do not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent the unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit are subject to customers maintaining approved specific credit standards. While there is credit risk associated with the remainder of commitments, the risk is considered to be modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The total outstanding contractual amount of commitments to extend does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Off-balance-sheet financial instruments

The following table indicate the contractual amounts of the Bank and Group's off-balance sheet financial instruments that commit it to extend credit to customers.

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
Standby letters of credit	27,715	24,797	27,715	24,797
Guarantees and indemnities issued	228,468	293,853	228,468	292,489
Trade letters of credit	11,325	20,091	11,325	20,091
Commitments to extend credit	789,364	1,009,943	788,713	1,008,952
	1,056,872	1,348,684	1,056,221	1,346,329

Commitments for capital expenditure

Commitments for capital expenditure not included in the accounts as at 30 June 2015 amounted to K53.3 million (31 December 2014: K74.1 million).

Contingent liability

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 2015. No provision has been made as existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 30 June 2015, the Bank and Group estimates a contingent liability of K9.3 million in respect of these proceeding (31 December 2014: K37.4 million).

Statutory deposit

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
Cash reserve requirement - from 10% of all amounts due to customers in PNG	1,280,906	1,251,582	1,280,906	1,251,582

Operating lease commitments

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
Not later than 1 year	31,975	19,918	31,796	19,704
Later than 1 year and not later than 5 years	40,368	38,116	39,865	37,486
Later than 5 years	14,201	15,621	13,858	15,621
	86,544	**73,655**	**85,519**	**72,811**

7. Derivative financial instruments

In the normal course of trading, the Bank and Group enter into forward exchange contracts. The Bank and Group do 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 Group transact 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, stated at the face value of the respective contracts are:

Forward exchange contracts

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
Buying	(5,640)	(112,852)	(5,640)	(112,852)
Selling	-	118,589	-	118,589
	(5,640)	5,737	(5,640)	5,737

There is no material difference between the fair value and face value of the contracts.

8. Related parties

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 and the Group 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 period:

- Directors and/or parties in which a 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, properly rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates.

Significant related party balances relating to loans and advances to customers are as follows:

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2015	As at 31 December 2014	As at 30 June 2015	As at 31 December 2014
Loans to :				
Parties where the related party interest is primarily in a director capacity	571,177	547,967	571,177	547,967
Parties where the related party interest is primarily in an executive capacity	46,080	46,778	46,080	46,778
General staff	3,531	5,249	3,531	5,249
	620,788	599,994	620,788	599,994

9. Notes to condensed consolidated statements of cash flows

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

	Group Half Year ended 30 June		Bank Half Year ended 30 June	
All amounts expressed are in K'000	2015	2014	2015	2014
Cash and balances with Central Bank	1,387,580	1,212,834	1,350,091	1,350,091
Due from other banks	920,564	996,868	945,788	996,868
Due to other banks	(288,085)	(359,075)	(288,085)	(379,357)
	2,020,059	1,850,627	2,007,794	1,785,236

10. Segment information

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

All amounts expressed are in K'000

Half year ended

30 June 2015	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	332,396	363,505	55,386	2,322	3,370	38,580	795,559
Costs	(220,408)	(100,963)	(49,659)	(4,287)	(5,689)	(38,580)	(419,586)
Operating results	111,988	262,542	5,727	(1,965)	(2,319)	-	375,973
Income tax expense							(109,021)
Profit after tax							266,952

All amounts expressed are in K'000

Half year ended

30 June 2014	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	307,592	448,072	50,114	2,071	5,001	16,265	829,115
Costs	(264,063)	(111,417)	(45,499)	(3,997)	(18,542)	(16,265)	(459,783)
Operating results	43,529	336,655	4,615	(1,926)	(13,541)	-	369,332
Income tax expense							(106,868)
Profit after tax							262,464

11. Subsequent events

On 10 July 2015, the Group acquired the Westpac Bank Australia Limited subsidiaries of Tonga and Samoa and its branch operation in the Cook Islands for a consideration of K187.040 million. At the date of this report the accounting for the acquisition, in particular the fair values of the assets and liabilities acquired have not yet been finalised.