

Bank of South Pacific Limited and Subsidiaries

Financial Statements

31 December 2015



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Directors' Report

for the Year Ended 31 December 2015

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 2015. 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, 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, Fiji Islands, Cook Islands, Samoa and Tonga. The registered office is at Douglas Street, Port Moresby.

Review of operations

For the year ended 31 December 2015, Group's profit after tax was K531.879 million (2014: K507.339 million). The Bank's profit after tax was K505.749 million (2014: K512.892 million which included a dividend income of K19.221 million received from BSP Life (Fiji) Limited).

Dividends

Dividend payment totaling K369.810 million was paid in 2015 (2014: K309.141 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 2015:

Sir K Constantinou, OBE	Mr. R Fleming, CSM	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 49. Details of amounts paid to the auditors for audit and other services are shown in Note 42 of the Notes to the Financial Statements.

Donations & Sponsorships

Donations and sponsorship by the Group during the year amounted to K9,091,256 (2014: K9,357,564).

Directors' Report

for the Year Ended 31 December 2015

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 11th day of March 2016.



Sir Kostas Constantinou, OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Director

Statement by the Directors

for the Year Ended 31 December 2015

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 11th day of March 2016.



Sir Kostas Constantinou, OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Director

Statement of Comprehensive Income

for the Year Ended 31 December 2015

<i>All amounts are expressed in K'000</i>	Note	Consolidated		Bank	
		2015	2014	2015	2014
Interest income	2	1,100,866	947,340	1,083,281	947,309
Interest expense	2	(94,615)	(62,579)	(93,098)	(63,640)
Net interest income		1,006,251	884,761	990,183	883,669
Fee and commission income	3	310,468	305,031	301,232	296,773
Other income	4	209,175	293,255	200,425	312,477
Net banking operating income		1,525,894	1,483,047	1,491,840	1,492,919
Net insurance premium income		94,322	90,330	-	-
Investment revenue		93,405	69,092	-	-
Increase in policy liabilities	39(b)	(34,984)	(17,491)	-	-
Policy maintenance & investment expenses		(67,488)	(66,076)	-	-
Share of profits from associates and jointly controlled entities	9	1,598	10,233	-	-
Claims, surrender and maturities		(65,608)	(70,404)	-	-
Net insurance operating income	39(a)	21,245	15,684	-	-
Net operating income		1,547,139	1,498,731	1,491,840	1,492,919
Impairment expense	13	(89,905)	(76,796)	(86,657)	(76,796)
Impairment on subsidiary	8	-	-	(11,068)	-
Operating expenses	5	(691,084)	(703,085)	(665,979)	(693,671)
Profit before income tax		766,150	718,850	728,136	722,452
Income tax expense	6	(234,271)	(211,511)	(222,387)	(209,560)
Net profit for the year		531,879	507,339	505,749	512,892
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	48,839	(24,354)	31,912	(18,082)
<i>Items that will not be reclassified to profit or loss:</i>					
Recognition of deferred tax on asset revaluation reserve	24	1,301	(35,762)	4,592	(35,762)
Net movement in asset revaluation	24	21,450	44,330	14,304	44,330
Other comprehensive income, net of tax		71,590	(15,786)	50,808	(9,514)
Total comprehensive income for the year		603,469	491,553	556,557	503,378
Earnings per share - basic & diluted (toea)	23	113.7	108.3	108.1	109.5

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

Statement of Financial Position

As at 31 December 2015

<i>All amounts are expressed in K'000</i>	Note	Consolidated		Bank	
		2015	2014	2015	2014
ASSETS					
Cash and balances with Central Bank	10	1,202,466	1,355,469	1,010,856	1,262,306
Treasury & Central Bank bills	11	2,503,109	2,183,237	2,501,256	2,183,237
Amounts due from other banks	12	695,280	380,653	572,400	380,653
Statutory deposits with Central Banks	25	1,359,606	1,251,582	1,341,650	1,251,582
Other financial assets	16	2,308,926	2,361,649	2,074,124	2,188,067
Loans, advances and other receivables from customers	13	8,621,514	6,756,997	8,181,227	6,688,147
Assets held for sale	14	35,135	65,052	35,135	65,052
Property, plant and equipment	14	686,325	662,313	597,373	629,682
Assets subject to operating lease	14	52,857	53,783	52,857	53,783
Investment in associates and joint ventures	9	117,316	118,389	29,447	38,520
Investment in subsidiaries	8	-	-	259,869	108,635
Intangible assets	7	110,226	110,374	99,601	104,210
Investment properties	15	101,019	70,684	-	-
Deferred tax assets	6	147,389	111,677	159,290	115,552
Other assets	17	255,135	334,648	206,558	285,093
Total assets		18,196,303	15,816,507	17,121,643	15,354,519
LIABILITIES					
Amounts due to other banks	18	344,346	259,892	344,877	259,879
Customer deposits	19	14,595,374	12,708,383	14,248,296	12,804,555
Subordinated debt securities	20	75,525	75,525	75,525	75,525
Other liabilities	21	969,179	756,548	353,252	257,674
Provision for income tax	6	39,005	63,022	36,168	62,738
Other provisions	22	143,698	152,944	132,535	147,800
Total liabilities		16,167,127	14,016,314	15,190,653	13,608,171
SHAREHOLDERS EQUITY					
Ordinary shares	23	374,621	379,297	374,621	379,297
Retained earnings	24	1,399,490	1,219,436	1,340,000	1,183,505
Other reserves	24	255,065	201,460	216,369	183,546
Total shareholders' equity		2,029,176	1,800,193	1,930,990	1,746,348
Total equity and liabilities		18,196,303	15,816,507	17,121,643	15,354,519

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

Statement of Changes In Shareholders' Equity

for the Year Ended 31 December 2015

Bank		Share capital	Reserves	Retained earnings	Total
<i>All amounts are expressed in K'000</i>					
	Note				
Balance as at 1 January 2014		381,498	181,446	991,368	1,554,312
Net profit		-	-	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		-	(9,514)	-	(9,514)
Balance at 31 December 2014		379,297	183,546	1,183,505	1,746,348
Net profit		-	-	505,749	505,749
2014 final dividend paid	23	-	-	(262,021)	(262,021)
2015 interim dividend paid	23	-	-	(105,218)	(105,218)
Share buyback	23	(4,676)	-	-	(4,676)
Transfer from Asset Revaluation Reserve	24	-	(22,103)	22,103	-
BSP Life policy reserve	24	-	4,118	(4,118)	-
Other comprehensive income		-	50,808	-	50,808
Balance at 31 December 2015		374,621	216,369	1,340,000	1,930,990
Group					
Balance as at 1 January 2014		381,498	202,272	1,035,290	1,619,060
Net profit		-	-	507,339	507,339
2013 final dividend paid	23	-	-	(215,476)	(215,476)
2014 interim dividend paid	23	-	-	(93,665)	(93,665)
BSP Life policy reserve	24	-	24,055	(24,055)	-
Prior year consolidation adjustment	24	-	3,360	(2,438)	922
Transfer from Asset Revaluation Reserve	24	-	(12,441)	12,441	-
Share buyback	23	(2,201)	-	-	(2,201)
Other comprehensive income		-	(15,786)	-	(15,786)
Balance at 31 December 2014		379,297	201,460	1,219,436	1,800,193
Net profit		-	-	531,879	531,879
2014 final dividend paid	23	-	-	(263,872)	(263,872)
2015 interim dividend paid	23	-	-	(105,938)	(105,938)
Share buyback	23	(4,676)	-	-	(4,676)
Transfer from asset revaluation reserve	24	-	(22,103)	22,103	-
BSP Life policy reserve	24	-	4,118	(4,118)	-
Other Comprehensive income		-	71,590	-	71,590
Balance at 31 December 2015		374,621	255,065	1,399,490	2,029,176

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

Statement of Cash Flow

for the Year Ended 31 December 2015

<i>All amounts are expressed in K'000</i>	Notes	Consolidated		Bank	
		2015	2014	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,095,363	911,236	1,077,459	911,236
Fees and other income		559,043	816,898	420,288	638,786
Interest paid		(73,977)	(61,185)	(76,268)	(61,844)
Amounts paid to suppliers and employees		(536,708)	(662,045)	(433,083)	(497,431)
Operating cash flow before changes in operating assets	28	1,043,721	1,004,904	988,396	990,747
Increase in loans, advances and other receivables from customers		(1,983,852)	(1,563,291)	(1,579,065)	(1,555,657)
Increase in statutory deposits with the Central Banks		(108,024)	(185,002)	(90,068)	(185,002)
Decrease in bills receivable and other assets		145,398	42,649	65,851	41,540
Increase in customer deposits		1,886,991	468,351	1,443,741	508,329
(Decrease)/increase in bills payable and other liabilities		180,266	(123,960)	58,021	(121,086)
Net cash flow from operations before income tax		1,164,500	(356,349)	886,876	(321,129)
Income taxes paid		(282,784)	(212,870)	(282,837)	(212,556)
Net cash flow from operating activities		881,716	(569,219)	604,039	(533,685)
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease/(increase) in government securities		(384,565)	915,226	(533,611)	836,664
Expenditure on property, plant & equipment		(154,540)	(192,269)	(111,508)	(186,162)
Proceeds from disposal of property, plant & equipment		36,088	13,900	36,088	14,218
Proceeds from other investments		27,332	9,895	27,332	-
Purchase of controlled entities, net of cash acquired	40	-	-	176,524	-
Additional funding of subsidiaries		-	-	(16,251)	(11,706)
Net cash flow from investing activities		(475,685)	746,752	(421,426)	653,014
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	23	(4,676)	(2,201)	(4,676)	(2,201)
Dividends paid	23	(369,810)	(309,141)	(367,239)	(309,141)
Net cash flow from financing activities		(374,486)	(311,342)	(371,915)	(311,342)
Net Increase/(decrease) in cash and cash equivalents		31,545	(133,809)	(189,302)	(192,013)
Effect of exchange rate movements on cash and cash equivalents		45,625	(13,345)	44,601	(10,461)
Cash and cash equivalents at the beginning of the year		1,476,230	1,623,384	1,383,080	1,585,554
Cash and Cash Equivalents at the end of the year	28	1,553,400	1,476,230	1,238,379	1,383,080

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

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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, amendment and interpretations effective in the year ended 31 December 2015

The following new standards and amendments were applicable for the first time during the accounting period beginning 1 January 2015:

- Annual improvements 2012 (effective 1 July 2014) makes minor changes to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 37 and IAS 39.
- Annual improvements 2013 (effective 1 July 2014) makes minor changes to IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Other standards, amendments and interpretations which were released during the accounting period beginning 1 January 2015 are not relevant or material to the Group.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2015 or adopted early

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2016 or later periods, but the entity has not early adopted them:

- Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation (effective 1 January 2016). These amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- Amendments to IAS 27 "Separate financial statements" on the equity method (effective 1 January 2016). These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (original effective date of 1 January 2016 now postponed) in relation to the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- Annual improvements 2014 (effective 1 January 2016) makes minor changes to IFRS 5, IFRS 7, IAS 19, and IAS 34.
- Amendments to IAS 1 "Presentation of Financial Statements" (effective 1 January 2016) clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

A. Basis of Presentation & General Accounting Policies (continued)

- IFRS 15 “Revenue from contracts with customers” (effective 1 January 2018) is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- IFRS 9, ‘Financial Instruments’ (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is less complex and principles based. The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, relaxes the requirements for hedge accounting and introduces an expected credit losses model that replaces the current incurred loss impairment model.
- IFRS 16, “Leases” (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed and IFRS 16 will require a lessee to recognise a lease liability representing future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. For lessees who previously entered into operating leases, one of the main impacts will be an increase in debt on the balance sheet.

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 2015, 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 20% - 50% of voting rights.

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

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 entity (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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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 instalment 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.

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 beneficiaries. 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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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. Loan origination fees are deferred over the expected term of the financial instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future payments and receipts through the expected life of the instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

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.

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 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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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 the 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. Buildings under constructions are referred to as work in progress and are accounted for at cost and subsequently reclassified to building (Premises) upon completion.

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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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.

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 securities issued by Governments and Central Banks of respective countries (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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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.

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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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.

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.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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.

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 2015

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 Provisions

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 Provisions

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 Provisions

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 2015

2. Net interest income	Consolidated		Bank	
	2015	2014	2015	2014
<i>All amounts are expressed in K'000</i>				
Interest income				
Cash and balances with Central Bank	9,069	10,867	9,954	10,867
Treasury bills	88,366	67,392	88,366	67,392
Central Bank Bills	8,269	18,544	8,269	18,544
Other financial assets - Inscribed Stock	210,270	189,229	210,270	189,229
Loans, advances and other receivables from customers	782,619	658,807	763,984	658,776
Other	2,273	2,501	2,438	2,501
	1,100,866	947,340	1,083,281	947,309
Less:				
Interest expense				
Customer deposits	73,660	39,420	72,650	40,481
Other banks	12,647	14,851	12,140	14,851
Subordinated debt securities	8,308	8,308	8,308	8,308
	94,615	62,579	93,098	63,640
	1,006,251	884,761	990,183	883,669

Loan origination fees recognized in the Statement of Comprehensive Income in accordance with the Group's accounting policy detailed in Note 1(e) have now been classified under 'net interest income' as required by IAS. Comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Fee and commission income

Fee and commission income				
Product related	186,258	186,356	184,445	186,356
Trade and international related	14,377	14,675	14,373	14,675
Electronic banking related	87,813	84,765	86,213	84,765
Other	25,483	26,876	19,506	18,618
	313,931	312,672	304,537	304,414
Less:				
Fee and commission expenses				
Agencies	532	735	374	735
International Finance Corporation fees	2,931	6,906	2,931	6,906
	3,463	7,641	3,305	7,641
	310,468	305,031	301,232	296,773

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

4. Other income

	Consolidated		Bank	
	2015	2014	2015	2014
<i>All amounts are expressed in K'000</i>				
Foreign exchange related	178,943	267,497	170,839	267,497
Operating lease rentals	10,104	10,146	10,104	10,146
Other	20,128	15,612	19,482	34,834
	209,175	293,255	200,425	312,477

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

5. Operating expenses

Administration	126,095	111,893	108,591	104,001
Computing	48,307	46,407	47,307	46,403
Depreciation	70,007	76,707	67,607	76,707
Amortization of computer development	44,713	46,116	44,224	46,116
Non-executive Directors costs	2,249	1,772	1,713	1,445
Non-lending losses	17,496	25,891	28,328	25,056
Fixed asset impairment expenses	44,666	50,397	44,666	50,397
Premises and equipment	62,857	65,916	60,656	65,829
	416,390	425,099	403,092	415,954
Staff costs				
Defined contribution plans	11,463	10,262	11,079	10,262
Statutory benefit contributions	(676)	7,577	(784)	7,577
Wages and salaries	209,189	202,691	199,766	202,691
Other staff benefits	54,718	57,456	52,826	57,187
	274,694	277,986	262,887	277,717
	691,084	703,085	665,979	693,671

6. Income tax expense

	Consolidated		Bank	
	2015	2014	2015	2014
<i>All amounts are expressed in K'000</i>				
Current tax	260,995	247,754	257,544	244,991
Deferred tax	(35,712)	(40,082)	(43,738)	(40,092)
Current year	225,283	207,672	213,806	204,899
Income tax under provided	8,988	3,839	8,581	4,661
	234,271	211,511	222,387	209,560
Tax calculated at 30% of profit before tax (2014:30%)	218,441	216,736	218,441	216,736
Tax calculated at respective subsidiary tax rates	6,510	3,355	-	-
Expenses not deductible for tax	5,175	477	2,825	2,406
Tax loss not recognised	2,617	1,347	-	-
Deductible expenses not recognised for accounting purposes	(7,460)	(14,243)	(7,460)	(14,243)
Income tax under provided	8,988	3,839	8,581	4,661
	234,271	211,511	222,387	209,560

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

6. Income tax expense (continued)

Represented by:	Consolidated		Bank	
	2015	2014	2015	2014
<i>All amounts are expressed in K'000</i>				
Provision for income tax				
At 1 January	(63,022)	(33,395)	(62,738)	(33,222)
Income tax provision	(260,995)	(247,754)	(257,544)	(244,991)
Income tax under/over provided	2,228	5,257	1,277	2,919
Foreign tax paid	35,198	12,130	33,627	11,816
Tax payments made	247,586	200,740	249,210	200,740
At 31 December	(39,005)	(63,022)	(36,168)	(62,738)
Deferred taxes				
Specific allowance for losses on loans, advances and other receivables from customers	32,603	11,173	32,118	11,173
General allowance for losses on loans, advances and other receivables from customers	95,541	86,953	92,262	86,953
Employee related provisions	17,955	19,350	16,378	19,267
Prepaid expenses	(1,396)	(1,253)	(1,396)	(1,253)
Other provisions	14,028	22,711	25,502	26,191
Property, plant & equipment	(32,676)	(44,469)	(31,240)	(43,991)
Unrealised foreign exchange gains	(3,626)	(908)	(3,626)	(908)
Accruals	24,960	18,120	29,292	18,120
At 31 December	147,389	111,677	159,290	115,552
Represented by:				
<i>All amounts are expressed in K'000</i>				
	2015	2014	2015	2014
Deferred tax asset	199,444	161,926	195,553	161,703
Deferred tax liability	(52,055)	(50,249)	(36,263)	(46,151)
At 31 December	147,389	111,677	159,290	115,552
Deferred taxes movement				
At 1 January	111,677	87,002	115,552	88,453
Current year movement	35,712	40,082	43,738	40,092
Revaluation recognised in equity	4,441	(11,048)	4,441	(11,048)
Income tax under/over provided	(2,999)	-	(2,999)	-
Other movements	(1,442)	(4,359)	(1,442)	(1,945)
At 31 December	147,389	111,677	159,290	115,552

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

7. Intangible assets

7(a) Goodwill

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
At 1 January	21,271	21,271	18,267	18,267
Net movement	21,103	-	17,405	-
Gross carrying amount	42,374	21,271	35,672	18,267

7(b) Computer development costs

At 1 January	89,103	133,198	85,943	133,198
Additions	34,511	20,368	33,257	18,788
Disposals	(11,049)	(18,347)	(11,047)	(19,927)
Amortisation expense	(44,713)	(46,116)	(44,224)	(46,116)
At 31 December	67,852	89,103	63,929	85,943
Total intangible assets	110,226	110,374	99,601	104,210

8. Investment in subsidiaries

All amounts are expressed in K'000

Name of Subsidiary	Principal activity	Place of incorporation and operation		Balance of Investment	
		Ownership %		2015	2014
BSP Capital Limited	Share brokerage/Fund Management/Capital Raising	PNG	100%	2,000	8,959
BSP Life Limited	Life Insurance	Fiji	100%	87,599	87,653
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	317
BSP Finance Limited	Credit Institution	PNG	100%	27,958	11,706
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,610	-
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,331	-
At 31 December				259,869	108,635

During the year the Bank acquired two subsidiaries as part of its acquisition of interests in regional banks (refer to note 40).

Provision of impairment of the Investment in BSP Capital Limited

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:

<i>All amounts are expressed in K'000</i>	2015	2014
Opening Balance	8,959	8,959
Additional capital	4,109	-
Provision for Impairment	(11,068)	-
At 31 December	2,000	8,959

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

9. Investment in Associates and Joint Ventures

Entity	Joint Venture/ Associate	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
				2015	2014
Suva Central Ltd	Joint Venture	Property rental	Fiji	50%*	50%*
Richmond Ltd	Joint Venture	Hotel operation	Fiji	61.3%** ,50%***	61.3%** , 50%***
Williams and Gosling Ltd	Associate	Freight forwarding	Fiji	27.7%*	27.7%*
Carpark Ltd	Joint Venture	Property	PNG	–	33.33%
Malagan Ltd	Joint Venture	Property	PNG	–	33.33%

The investments above are accounted for using the equity method in the consolidated financial statements except for Carpark Ltd and Malagan Ltd which are accounted for at cost less impairment. Carpark Ltd and Malagan Ltd interests were disposed off during the year.

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

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Associates				
Investment in associate - equity	79,718	72,900	-	-
Translation movement	6,553	(3,415)	-	-
Share of profit for the year	1,598	10,233	-	-
Net investment at 31 December	87,869	79,718	-	-
Summarised financial information of associate:				
Total assets	147,013	180,637	-	-
Total liabilities	(41,380)	(34,705)	-	-
Net assets	105,633	145,932	-	-
Net profit	10,341	17,085	-	-
Share of associate's profit	1,598	10,233	-	-
Joint Ventures & Associates				
Share of associate's net assets - equity	87,869	79,718	-	-
Shares held in jointly owned entity - at cost less impairment	29,447	38,671	29,447	38,520
Total investments in associates and joint ventures	117,316	118,389	29,447	38,520

10. Cash and balances with Central Bank

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Notes, coins and cash at bank	468,712	479,818	403,269	386,655
Balances with Central Bank other than statutory deposit	733,754	875,651	607,587	875,651
Total cash and balances with Central Bank	1,202,466	1,355,469	1,010,856	1,262,306

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

11. Treasury and Central Bank bills

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Treasury and Central Bank bills – face value	2,541,571	2,210,743	2,539,719	2,210,743
Discount for interest receivable	(38,462)	(27,506)	(38,463)	(27,506)
At 31 December	2,503,109	2,183,237	2,501,256	2,183,237

Treasury and Central Bank bills are debt securities issued by Central Banks. These bills are classified as assets held for trading and carried at fair value by the Insurance business and assets held to maturity by the Banking businesses.

12. Amounts due from other banks

Items in the course of collection	80,076	85,803	80,077	85,803
Placements with other banks	615,204	294,850	492,323	294,850
At 31 December	695,280	380,653	572,400	380,653

13. Loans, advances and other receivables from customers

Overdrafts	583,436	792,580	557,746	792,580
Lease financing	245,153	273,194	230,487	273,194
Term loans	7,059,098	4,821,727	6,710,903	4,792,132
Mortgages	1,137,938	1,157,855	1,110,619	1,157,328
Policy loans	42,761	39,678	-	-
Gross loans, advance and other receivables due from customers net of reserved interest	9,068,386	7,085,034	8,609,755	7,015,234
Less allowance for losses on loans, advances and other receivables from customers	(446,872)	(328,037)	(428,528)	(327,087)
At 31 December	8,621,514	6,756,997	8,181,227	6,688,147

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

Lease financing

The Group and the bank provide lease financing 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 2015

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

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Gross investment in finance lease receivable				
Not later than 1 year	56,733	20,523	49,816	20,523
Later than 1 year and not later than 5 years	215,911	282,168	201,049	282,168
	272,644	302,691	250,865	302,691
Unearned future finance income				
Not later than 1 year	(4,963)	(14,291)	(1,803)	(14,291)
Later than 1 year and not later than 5 years	(22,528)	(15,206)	(18,575)	(15,206)
	(27,491)	(29,497)	(20,378)	(29,497)
Present value of minimum lease payment receivable	245,153	273,194	230,487	273,194
Present value of minimum lease payment receivable is analysed as follows:				
Not later than 1 year	51,770	20,523	48,013	20,523
Later than 1 year and not later than 5 years	193,383	252,671	182,474	252,671
At 31 December	245,153	273,194	230,487	273,194
Provision for impairment				
Movement in allowance for losses on loans, advances and other receivables from customers:				
Balance at 1 January	328,037	277,081	327,087	275,788
Net new and increase provisioning	74,410	62,096	71,201	62,096
Loans written off against provisions / (Write back of provisions no longer required)	44,425	(11,140)	30,240	(10,797)
At 31 December	446,872	328,037	428,528	327,087
Provision for impairment is represented by				
Collective provision	329,641	290,200	321,468	289,845
Individually assessed or specific provision	117,231	37,837	107,060	37,242
At 31 December	446,872	328,037	428,528	327,087
Loan impairment expense				
Net collective provision funding	(51,406)	(50,812)	(48,656)	(50,812)
Net new and increase individually assessed provisioning	(23,004)	(11,284)	(22,545)	(11,284)
Total new and increase provisioning	(74,410)	(62,096)	(71,201)	(62,096)
Recoveries during the year	60,155	33,204	59,713	33,204
Net write back/(write off)	(75,650)	(47,904)	(75,169)	(47,904)
At 31 December	(89,905)	(76,796)	(86,657)	(76,796)

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

14. Property, plant and equipment

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Carrying value				
Capital Work in Progress	158,621	180,694	151,589	176,719
Premises	578,832	546,600	527,023	522,769
Accumulated depreciation	(109,247)	(92,923)	(104,351)	(85,812)
	469,585	453,677	422,672	436,957
Equipment	281,633	256,832	209,931	221,749
Accumulated depreciation	(188,379)	(163,838)	(151,684)	(140,691)
	93,254	92,994	58,247	81,058
At 31 December	721,460	727,365	632,508	694,734
Assets held for sale (premises)	(35,135)	(65,052)	(35,135)	(65,052)
Net assets at 31 December	686,325	662,313	597,373	629,682

Reconciliation of carrying value of property, plant & equipment is set out below:

Capital Work in Progress

At 1 January	180,694	117,253	176,719	113,744
Additions	127,472	172,826	112,205	169,297
Transfers	(149,545)	(109,385)	(137,335)	(106,322)
At 31 December	158,621	180,694	151,589	176,719

Premises

At 1 January	453,677	385,195	436,957	368,091
Additions	77,426	90,108	66,934	89,860
Disposals	(41,383)	(35,573)	(41,383)	(35,573)
Depreciation expense	(27,535)	(22,882)	(26,330)	(22,250)
Revaluation gains/ (losses)	7,400	36,829	(13,506)	36,829
At 31 December	469,585	453,677	422,672	436,957

Equipment

At 1 January	92,994	120,912	81,058	107,788
Additions	50,174	29,192	21,672	26,097
Disposals	(10,928)	(6,983)	(10,928)	(6,092)
Depreciation expense	(38,986)	(50,127)	(33,555)	(46,735)
At 31 December	93,254	92,994	58,247	81,058

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

14. Property, plant and equipment (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Assets subject to operating lease				
Carrying value				
Aircraft	130,122	123,326	130,122	123,326
Accumulated depreciation	(77,265)	(69,543)	(77,265)	(69,543)
At 31 December	52,857	53,783	52,857	53,783
Reconciliation of carrying value of aircraft is set out below:				
Aircraft				
At 1 January	53,783	61,505	53,783	61,505
Depreciation	(7,722)	(7,722)	(7,722)	(7,722)
Revaluation net increase	6,796	-	6,796	-
At 31 December	52,857	53,783	52,857	53,783
Future minimum lease receipts				
Not later than 1 year	10,104	10,104	10,104	10,104
Later than 1 year and not later than 5 years	5,219	15,323	5,219	15,323
At 31 December	15,323	25,427	15,323	25,427

The carrying amount of land and buildings and aircraft had they been recognised under the cost model are as follows:

Freehold land	25,987	24,301	25,987	24,301
Buildings	132,727	108,844	128,935	108,844
Aircraft	21,834	26,396	21,834	26,396
At 31 December	180,548	159,541	176,756	159,541

Freehold land and buildings carried at fair value

Independent valuations of the Bank's land and buildings were performed by Countrywide Realty Limited and The Professional Valuers of PNG Limited to determine the fair value of the land and buildings. The valuations, which conform to International Valuation Standards, were 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 Ascend Advisory 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 was 31 March 2014 and was extrapolated to 31 December 2015 based on expected fair values per the aircraft lease contracts.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

15. Investment properties

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Opening net book value	70,684	65,429	-	-
Additions	10,325	4,856	-	-
Translation movement	5,736	(3,053)	-	-
Gain on revaluation	14,274	3,452	-	-
At 31 December	101,019	70,684	-	-

16. Other financial assets

Securities – held to-maturity:

Inscribed stock – issued by Central Bank	2,227,847	2,297,935	2,074,124	2,188,067
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Financial assets carried at fair value through profit and loss:

Equity securities	81,079	63,714	-	-
At 31 December	2,308,926	2,361,649	2,074,124	2,188,067

17. Other assets

Funds in transit and other assets	115,258	208,069	107,147	187,035
Accrued interest income	83,814	78,311	78,763	78,311
Intercompany account	-	-	4,614	6,478
Outstanding premiums	30,831	21,447	-	-
Inventory	6,896	6,830	-	-
Prepayments	15,311	12,224	14,706	12,224
Accounts receivable	3,025	7,767	1,328	1,045
At 31 December	255,135	334,648	206,558	285,093

18. Amounts due to other banks

Vostro account balances	39,185	201,192	38,789	201,179
Other borrowings	305,161	58,700	306,088	58,700
At 31 December	344,346	259,892	344,877	259,879

19. Customer deposits

On demand and short term deposits	11,589,377	10,725,060	11,390,548	10,765,038
Term deposits	3,005,997	1,983,323	2,857,748	2,039,517
At 31 December	14,595,374	12,708,383	14,248,296	12,804,555

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 diversified across industries and region.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

20. Subordinated debt securities

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>Note</i>	Consolidated		Bank	
		2015	2014	2015	2014
Creditors and accruals		115,785	94,804	95,900	66,925
Items in transit and all other liabilities		269,958	175,849	257,352	190,749
Policy liabilities	39(b)	563,441	473,753	-	-
Premiums received in advance		5,969	293	-	-
Outstanding claims		12,462	10,534	-	-
Claims incurred but not reported (IBNR)		1,564	1,315	-	-
At 31 December		969,179	756,548	353,252	257,674

22. Other provisions

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Staff related	62,205	67,665	55,274	62,547
Provision for non-lending loss	47,762	41,691	47,743	41,666
Provisions – other	33,731	43,588	29,518	43,587
	143,698	152,944	132,535	147,800
Staff related provisions:				
At 1 January	67,665	62,191	62,547	57,170
Provisions charge	34,969	36,203	30,535	36,106
Payouts	(40,429)	(30,729)	(37,808)	(30,729)
At 31 December	62,205	67,665	55,274	62,547

23. Ordinary shares

<i>Number of shares in '000s, Book value in K'000</i>	Number of shares	Book value
At 31 December 2013/1 January 2014	468,429	381,498
Share buyback	(292)	(2,201)
At 31 December 2014 / 1 January 2015	468,137	379,297
Share buyback	(612)	(4,676)
At 31 December	467,525	374,621

In May 2014, the Directors agreed to introduce a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, anytime before that.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

23. Ordinary shares (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Earnings per ordinary share				
Net Profit attributable to shareholders (K'000)	531,879	507,339	505,749	512,892
Weighted average number of ordinary shares in use ('000)	467,831	468,278	467,831	468,278
Basic and diluted earnings per share (expressed in toea)	113.7	108.3	108.1	109.5

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 (2015: 22.5 toea; 2014:20 toea)	105,938	93,665	105,218	93,665
Final ordinary dividend (2014: 56 toea; 2013: 46 toea)	263,872	215,476	262,021	215,476
	369,810	309,141	367,239	309,141

24. Retained earnings & other reserves

Retained earnings

At 1 January	1,219,436	1,035,290	1,183,505	991,368
Net profit for the year	531,879	507,339	505,749	512,892
Dividend paid	(369,810)	(309,141)	(367,239)	(309,141)
Disposal of assets – Asset revaluation	22,103	12,441	22,103	12,441
Prior year consolidation adjustment	-	(2,438)	-	-
BSP Life policy reserve	(4,118)	(24,055)	(4,118)	(24,055)
At 31 December	1,399,490	1,219,436	1,340,000	1,183,505

Other reserves comprise

Revaluation reserve	166,878	166,230	163,023	166,230
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	31,048	26,930	31,048	26,930
Exchange reserve	34,926	(13,913)	21,663	(10,249)
	255,065	201,460	216,369	183,546

Movement in reserves for the year:

Revaluation reserve

At 1 January	166,230	170,103	166,230	170,103
Asset revaluation increment	21,450	44,330	14,304	44,330
Transfer assets revaluation reserve to retained earnings	(22,103)	(12,441)	(22,103)	(12,441)
Deferred tax on disposal of properties	6,631	-	6,631	-
Deferred tax on asset revaluation – prior year	-	(23,051)	-	(23,051)
Deferred tax on asset revaluation – current year	(5,330)	(12,711)	(2,039)	(12,711)
At 31 December	166,878	166,230	163,023	166,230

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

24. Retained earnings & other reserves (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Capital reserve				
At 1 January	635	635	635	635
At 31 December	635	635	635	635
General reserve				
At 1 January	26,930	2,875	26,930	2,875
BSP Life policy reserve	4,118	24,055	4,118	24,055
At 31 December	31,048	26,930	31,048	26,930
Exchange reserve				
At 1 January	(13,913)	10,441	(10,249)	7,833
Movement during the year	48,839	(24,354)	31,912	(18,082)
At 31 December	34,926	(13,913)	21,663	(10,249)

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	Consolidated		Bank	
	2015	2014	2015	2014
Standby letters of credit	31,164	24,797	31,164	24,797
Guarantees and indemnities issued	304,086	293,853	299,857	292,489
Trade letters of credit	46,139	20,091	45,255	20,091
Commitments to extend credit	1,224,744	1,009,943	1,223,746	1,008,952
	1,606,133	1,348,684	1,600,022	1,346,329

Legal Proceedings

A number of legal proceedings against the Bank and the Group were outstanding as at 31 December 2015. Based on information available at 31 December 2015, the Bank and the Group estimates a contingent liability of K8.9 million (2014: K37.4 million) in respect of these proceedings.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

25. Contingent liabilities and commitments (continued)

Statutory deposits with Central Banks	Consolidated		Bank	
	2015	2014	2015	2014
<i>All amounts are expressed in K'000</i>				
Cash reserve requirement: requisite reserve requirements of respective countries	1,359,606	1,251,582	1,341,650	1,251,582
Commitments for capital expenditure				
Amounts with firm commitments, and not reflected in the accounts	29,505	74,105	20,631	65,315
Operating lease commitments				
Not later than 1 year	22,466	19,918	22,466	19,704
Later than 1 year and not later than 5 years	36,421	38,116	36,421	37,486
Later than 5 years	16,797	15,621	16,797	15,621
	75,684	73,655	75,684	72,811

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 incurs 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 2015 as detailed below:

Name of Director	Meetings attended / total held	Appointed/ (Resigned)	Total remuneration	
			2015	2014
Sir K. Constantinou, OBE	8/8	-	293,105	277,759
T. E. Fox, OBE	7/8	-	251,351	243,492
Dr. I. Temu	7/8	-	133,966	123,904
C. C. Procter	-	(24/05/14)	-	144,011
Sir N. Bogan	5/8	-	139,000	127,083
R. Fleming, CSM*	8/8	-	-	-
G. Aopi, CBE	8/8	-	147,872	126,934
G. Robb, OAM	7/8	-	376,039	363,283
F. Talao	8/8	-	137,950	115,121
E. B Gangloff	7/8	-	142,119	116,771
A. Mano	7/8	29/08/14	122,855	26,250

Directors Sir Kostas Constantinou, OBE, Freda Kanek Talao and Geoffrey John Robb 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 25 May 2015 Annual General Meeting. Augustine Mano was elected by the shareholders at the same Annual Meeting on 25 May 2015.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

27. Directors and executive remuneration (continued)

Non-executive Board Members of the Board - Constantinou, Fox and Robb received an allowance of K60,000 as Directors of BSP Capital Ltd which forms part of the Group.

* 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	2015 No.	2014 No.	Remuneration K'000	2015 No.	2014 No.	Remuneration K'000	2015 No.	2014 No.
100 – 110	36	35	370 – 380	-	1	700 - 710	2	-
110 – 120	29	25	380 - 390	3	-	710 - 720	2	1
120 - 130	21	22	390 - 400	0	5	720 - 730	2	-
130 - 140	17	25	410 - 410	1	2	730 - 740	1	3
140 - 150	17	16	410 - 420	-	2	750 – 760	-	3
150 - 160	12	8	420 - 430	2	1	770 – 780	1	1
160 – 170	7	9	430 – 440	-	1	780 – 790	-	8
170 – 180	13	7	440 – 450	2	2	800 -810	2	-
180 – 190	9	2	450 – 460	1	1	820 – 830	2	-
190 – 200	3	2	460 – 470	4	1	830 – 840	-	2
200 – 210	3	4	490 – 500	-	-	850 – 860	1	3
210 – 220	3	3	500 – 510	-	1	880 – 890	1	-
220 – 230	4	4	510 – 520	1	-	890 – 900	-	1
230 – 240	2	7	520 – 530	2	-	910 – 920	1	-
240 – 250	2	8	540 – 550	2	1	950 - 960	-	1
250 – 260	5	5	560 – 570	5	1	980 - 990	1	-
260 – 270	4	2	570 - 580	1	1	1090 - 1100	1	-
270 – 280	8	5	590 - 600	3	2	1100 – 1100	1	1
280 – 290	8	8	600 – 610	1	2	1170 - 1180	1	1
290 – 300	3	3	610 - 620	3	2	1190 -1200	-	1
300 - 310	3	2	620 – 630	-	4	1230 -1240	-	1
310 – 320	3	5	630 – 640	2	2	1270 - 1280	-	1
320 – 330	4	3	640 – 650	1	2	1630 - 1640	2	1
330 – 340	3	1	650 – 660	2	1	1660 - 1670	1	-
340 – 350	3	1	660 – 670	2	1	1730 - 1740	1	-
350 – 360	1	2	680 - 690	3	3	1840 - 1850	-	1
360 – 370	5	5	690 - 700	3	2	3560 - 3570	1	1
Total							296	291

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

27. Directors & executive remuneration (continued)

The specified executives during the year were:

Robin Fleming, CSM	Robert Loggia	Haroon Ali	Richard Borysiewicz
Johnson Kalo	Peter Beswick	Paul Thornton	Edward Ruha
Aho Baliki, OBE	Giau Duruba	Rohan George	Christophe Michaud

Specified executives' remuneration in aggregate (K'000)

Year	Primary		Non-monetary	Super	Post-employment Prescribed		Equity options	Other benefits	Total
	Salary	Bonus			benefits	Other			
2015	11,478	2,443	397	222	-	-	-	375	14,915
2014	11,302	3,128	207	193	-	-	-	710	15,540

28 Reconciliation of operating cash flow

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2015	2014	2015	2014
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	531,879	507,339	505,749	512,892
Add: Tax Expense	234,271	211,511	222,387	209,560
Operating profit before income tax	766,150	718,850	728,136	722,452
Major non cash amounts				
Depreciation	74,243	80,731	67,607	76,707
Amortisation of deferred acquisition and computer development costs	44,713	46,116	44,224	46,116
Net (profit)/loss on sale of fixed assets	(2,621)	1,210	(2,621)	1,210
Movement in forex income accrual	45,625	(13,344)	44,601	(10,461)
Movement in provision for doubtful debts	89,905	112,076	86,657	112,076
Movement in payroll provisions	(5,460)	2,821	(7,273)	2,821
Impairment of subsidiary	-	-	11,068	-
Impairment of fixed assets	44,666	50,397	44,666	50,397
Net effect of other accruals	(13,500)	6,047	(28,669)	(10,571)
Operating cash flow before changes in operating assets	1,043,721	1,004,904	988,396	990,747

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 Banks (note 10)	1,202,466	1,355,469	1,010,856	1,262,306
Amounts due from other banks (note 12)	695,280	380,653	572,400	380,653
Amounts due to other banks (note 18)	(344,346)	(259,892)	(344,877)	(259,879)
	1,553,400	1,476,230	1,238,379	1,383,080

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29 Segment information

Bank of South Pacific Limited and Group comprises various segments, these being the provision of banking services and products, stock broking and insurance services and asset financing. 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, Solomon Islands, Cook Islands, Tonga and Samoa. 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

	PNG Retail Bank	PNG Wholesale Bank	PNG Bank Other	Non PNG Bank	Non Bank Entities	Adjust Inter Segments	Total
<i>Analysis by segments</i>							
Year ended 31 December 2015							
Net interest income	234,523	443,477	209,970	112,624	5,657	-	1,006,251
Other income	252,402	139,125	3,540	119,780	7,468	(2,672)	519,643
Net insurance income	-	-	-	-	21,245	-	21,245
Total operating income	486,925	582,602	213,510	232,404	34,370	(2,672)	1,547,139
Operating expenses	(288,946)	(64,837)	(206,598)	(128,324)	(15,102)	12,723	(691,084)
Impairment expenses	(41,874)	(24,324)	(6,912)	(14,194)	(2,601)	-	(89,905)
Profit before income tax	156,105	493,441	-	89,886	16,667	10,051	766,150
Income tax	(47,735)	(154,270)	-	(23,063)	(9,203)	-	(234,271)
Net profit after income tax	108,370	339,171	-	66,823	7,464	10,051	531,879
Year ended 31 December 2014							
Net interest income	188,478	454,082	145,849	95,260	31	1,061	884,761
Other income	256,047	219,457	44,702	89,012	8,572	(19,504)	598,286
Net insurance income	-	-	-	-	15,684	-	15,684
Total operating income	444,525	673,539	190,551	184,272	24,287	(18,443)	1,498,731
Operating expenses	(376,859)	(55,361)	(153,472)	(108,072)	(10,847)	1,526	(703,085)
Impairment expenses	(20,986)	5,685	(37,079)	(24,416)	-	-	(76,796)
Profit before income tax	46,680	623,863	-	51,784	13,440	(16,917)	718,850
Income tax	(12,759)	(183,498)	-	(13,303)	(1,951)	-	(211,511)
Net profit after income tax	33,921	440,365	-	38,481	11,489	(16,917)	507,339

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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 2015, 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>	2015	2014
Customer Deposits		
Opening balances	142,812	192,446
Net movement	(39,872)	(49,634)
Closing balance	102,940	142,812
Interest paid	1,967	2,350
Loans, advances and other receivables from customers		
Opening balances	599,994	384,320
Loans issued	73,272	304,949
Interest	43,000	35,721
Charges	6,656	4,451
Loan repayments	(103,937)	(129,447)
Closing balance	618,985	599,994

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 2015, staff account balances were as follows:

<i>All amounts are expressed in K'000</i>	2015	2014
Housing loans	87,090	54,711
Other loans	34,929	30,889
	122,019	85,600
Cheque accounts	8,920	10,630
Foreign currency accounts	1	487
Savings accounts	11,399	11,023
	20,320	22,140

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for the Year Ended 31 December 2015

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 adverse 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, Solomon Islands, Cooks Islands, Samoa and Tonga are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF), Central Bank of Solomon Islands (CBSI), The Financial Supervisory Commission (FSC), Central Bank of Samoa (CBS) and National Reserve Bank of Tonga (NRBT) 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 2015, 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.

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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	
	2015	2014	2015	2014
Balance sheet assets (net of provisions)				
Currency	2,562,072	2,607,051	-	-
Loans, advances and other receivables from customers	8,621,514	6,756,997	6,693,220	5,726,934
Investments and short term securities	4,812,035	4,544,886	-	-
All other assets	2,200,682	1,907,573	1,415,736	1,301,840
Off balance sheet items	1,606,133	1,348,684	271,380	194,548
Total	19,802,436	17,165,191	8,380,336	7,223,322

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2015	2014	2015	2014
a) Tier 1 capital	1,603,825	1,412,838	19.0%	19.4%
Tier 1 + Tier 2 capital	1,952,807	1,746,292	23.1%	24.0%
b) Leverage Capital Ratio			8.9%	9.0%

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 2015, the 25 largest exposures totaled K4.6 billion, accounting for over 53% of the Bank and 50% of the Group's total loan portfolio (2014: K4.1 billion, accounting for over 58% and 57% respectively).

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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 2015 is as follows:

2015	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
<i>Neither past due nor impaired</i>	501,022	6,781,727	910,964	222,097	42,761	8,458,571
<i>Past due but not impaired</i>						
- Less than 30 days	65,606	139,621	99,990	2,584	-	307,801
- 30 to 90 days	3,417	63,060	55,027	4,783	-	126,287
- 91 to 360 days	2,815	19,524	12,918	820	-	36,077
	71,838	222,205	167,935	8,187	-	470,165
<i>Individually impaired loans</i>						
- Less than 30 days	123	4,780	6,398	-	-	11,301
- 30 to 90 days	-	3,011	1,600	-	-	4,611
- 91 to 360 days	5,820	28,862	20,234	14,610	-	69,526
- More than 360 days	4,633	18,513	30,807	259	-	54,212
	10,576	55,166	59,039	14,869	-	139,650
Total gross loans, advances and other receivables from customers	583,436	7,059,098	1,137,938	245,153	42,761	9,068,386
Less impairment provisions						(446,872)
Net Loans & Advances						8,621,514

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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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	2015	%	2014	%
Commerce, finance and other business	5,136,578	60	3,665,694	54
Private households	1,669,618	19	948,957	14
Government and public authorities	126,141	1	81,873	1
Agriculture	405,766	5	322,532	5
Transport & communication	582,835	7	792,809	12
Manufacturing	244,371	3	298,307	4
Construction	456,205	5	646,825	10
Net loan portfolio balance	8,621,514	100	6,756,997	100

Ownership risk concentrations

Ownership risk concentrations within the customer loan portfolio are as follows:

All amounts are expressed in K'000

As at 31 December	2015	%	2014	%
Corporate / Commercial	4,625,570	54	4,309,941	64
Government	2,110,014	24	1,149,503	17
Retail	1,885,930	22	1,297,553	19
Net loan portfolio balance	8,621,514	100	6,756,997	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 2015

The maturity profile of material Assets and Liabilities as at 31 December 2015 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 complies with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that the Bank operates in. The CRR specifies that a bank must hold an amount equal to a percentage of its total customer deposits in the form of cash in an account maintained by the respective Central Bank. The Bank 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 and Cash Equivalents.

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34. Liquidity risk (continued)

Maturity of assets and liabilities

All amounts are expressed in K'000

As at 31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	2,562,072	-	-	-	-	2,562,072
Treasury & Central Bank bills	645,928	624,880	1,222,753	-	9,548	2,503,109
Amounts due from other banks	630,079	27,731	37,470	-	-	695,280
Loans, advances and other receivables from customers	1,058,463	403,714	1,061,606	3,248,162	2,849,569	8,621,514
Other financial assets	16,534	157,000	175,395	1,317,947	642,050	2,308,926
Total assets	4,913,076	1,213,325	2,497,224	4,566,109	3,501,167	16,690,901
Liabilities						
Amounts due to other banks	291,616	11,743	40,841	146	-	344,346
Customer Deposits	11,178,740	546,155	1,533,035	146,407	1,191,037	14,595,374
Other liabilities	957,047	397	1,621	2,984	82,655	1,044,704
Other provisions	182,703	-	-	-	-	182,703
Total liabilities	12,610,106	558,295	1,575,497	149,537	1,273,692	16,167,127
Net liquidity gap	(7,697,030)	655,030	921,727	4,416,572	2,227,475	523,774

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	5,692,609	568,496	1,608,423	3,148,690	3,271,369	14,289,587
Total liabilities	12,799,244	309,789	709,421	122,125	75,735	14,016,314
Net liquidity gap	(7,106,635)	258,707	899,002	3,026,565	3,195,634	273,273

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.

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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 2015	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Bank	1,492,074	444,596	214,083	2,727	408,592	2,562,072
Treasury & Central Bank bills	2,284,741	35,620	180,896	-	1,852	2,503,109
Amounts due from other banks	117,296	58,986	26,423	135,140	357,435	695,280
Loans, advances and other receivables from customers	5,851,464	1,733,203	183,451	164,301	689,095	8,621,514
Other financial assets	2,074,124	234,802	-	-	-	2,308,926
Other assets	1,278,357	125,968	54,988	-	46,089	1,505,402
Total assets	13,098,056	2,633,175	659,841	302,168	1,503,063	18,196,303
Liabilities						
Amounts due to other banks	(230,615)	(59,545)	(54)	(29,776)	(24,356)	(344,346)
Customer Deposits	(10,258,953)	(2,073,203)	(724,148)	(677,256)	(861,814)	(14,595,374)
Other liabilities	(1,035,729)	(76,104)	(50,184)	-	(65,390)	(1,227,407)
Total liabilities	(11,525,297)	(2,208,852)	(774,386)	(707,032)	(951,560)	(16,167,127)
Net on-balance sheet position	1,572,759	424,323	(114,545)	(404,864)	551,503	2,029,176
Off-balance sheet net notional position	(45)	-	-	(1,562)	6,159	4,552
Credit commitments	1,259,124	338,854	4,352	-	3,802	1,606,131
31 December 2014						
Total Assets	12,495,902	2,067,893	534,191	202,444	516,077	15,816,507
Total Liabilities	(10,808,958)	(1,897,941)	(432,807)	(281,774)	(594,834)	(14,016,314)
Net on-balance sheet position	1,686,944	169,952	101,384	(79,330)	(78,757)	1,800,193
Off-balance sheet net notional position	-	-	-	9,977	(10,713)	(736)
Credit commitments	1,065,452	266,152	14,725	-	-	1,346,329

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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 2015		At 31 December 2014	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 1% (2014 – 1%)	1,372	1,372	903	903
USD dollar weakening by 1% (2014 – 1%)	(1,345)	(1,345)	(885)	(885)
AUD strengthening by 1% (2014 – 1%)	7	7	(25)	(25)
AUD dollar weakening by 1% (2014 – 1%)	(7)	(7)	24	24

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 2015 and prevailing rates of interest, a 1% increase in markets rates will result in a K32.3 million increase in net interest income, whilst a 1% decrease in rates will result in a K47.8 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 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Assets						
Cash & Central Bank assets	-	-	-	-	-	1,202,466
Treasury & Central Bank bills	441,264	157,000	175,395	1,087,400	642,050	-
Amounts due from other banks	630,079	27,731	37,470	-	-	-
Statutory deposits - Central Bank	-	-	-	-	-	1,359,606
Loans, advances and other receivables from customers	7,512,150	150,807	535,575	294,081	128,901	-
Investments	1,657	157,000	175,395	1,251,744	840,446	-
Other assets	219,023	-	-	-	-	1,169,063
Total assets	8,804,173	492,538	923,835	2,633,225	1,611,397	3,731,135
Liabilities						
Amounts due to other banks	270,943	32,749	36,559	-	-	4,095
Customer deposits	6,847,265	536,520	1,501,362	167,803	154,177	5,388,247
Other liabilities	103,068	-	-	-	75,525	866,111
Other provisions	-	-	-	-	-	182,703
Total liabilities	7,221,276	569,269	1,537,921	167,803	229,702	6,441,156
Interest sensitivity gap	1,582,897	(76,731)	(614,086)	2,465,422	1,381,695	(2,710,021)

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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 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	5,959,668	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	7,267,844	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	756,548
Other Provisions	-	-	-	-	-	215,966
Total liabilities	7,248,643	490,623	751,546	127,461	75,735	5,322,306
Interest sensitivity gap	19,201	48,796	769,818	1,334,384	954,959	(1,326,965)

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 table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy.

The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All amounts are expressed in K'000

2015	Level 1	Level 2	Level 3	Total
Financials assets				
Equity securities	-	79,544	1,535	81,079
Non-financial assets				
Asset held for sale	-	-	35,135	35,135
Property, plant & equipment	-	-	686,325	686,325
Total	-	79,544	722,995	802,539
Financials liabilities				
Policy liabilities	-	-	563,441	563,441

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

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

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

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2015 (2014 – 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 2015 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 2015		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(9,979)	-	(200)	(4,050)	(11,000)	(2,681)	-
	Kina	(45)	-	-	-	-	-	(45)
Buying	FCY	9,459	12,780	-	-	3,000	820	-
	Kina	-	-	-	-	-	-	-
As at 31 December 2014		USD	AUD	EURO	GBP	JPY	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)

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

39 Insurance

(a) Net insurance operating income

<i>All amounts are expressed in K'000</i>	Consolidation		Bank	
	2015	2014	2015	2014
Net insurance income	21,245	15,684	-	-

Presentation of insurance business results in the statement of comprehensive income has been regrouped to more accurately reflect the insurance business contribution to shareholder profits. Comparative figures have been adjusted to conform to changes in presentation in the current year.

(b) Policy liabilities

Key assumptions used in determining this liability are as follows:

Discount rates

For contracts in Statutory Fund 1 which have a Discretionary Participating Fund (DPF), the discount rate used is linked to the assets which back those contracts. At 31 December 2015 this was 5.04% per annum (2014: 4.84% 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 4.2% per annum was used at 31 December 2015 (2014: 3.9% 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 (2014: 3.5% per annum) for determining future expenses

Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation (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:

	2015	2014
Whole of Life and Endowment Insurance	15%	15%
Term Insurance	18%	18%
Accident Insurance	14%	14%

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

39 Insurance (continued)

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.

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>	2015	2014
<u>Policy Liabilities</u>		
Opening balance	473,753	481,087
Translation movement	40,319	(23,346)
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 in policy liabilities	34,984	17,491
Increase in policy liabilities on revaluation of land	14,385	-
Total policy liabilities	563,441	473,753

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

40. Business combinations

(a) Summary of acquisition

During the year the Bank acquired the operations of the following entities:

Acquisition date	Entity	% acquired
9 July 2015	Westpac Banking Corporation Cook Islands branch	100.0
10 July 2015	Westpac Bank of Samoa Limited	98.70
10 July 2015	Westpac Bank of Tonga Limited	100.0
30 October 2015	Westpac Banking Corporation Solomon Islands branch	100.0

Acquisition account	K'000
Cash	28,444
Due from other financial institution and regulatory deposits	388,151
Loans and advances	573,162
Investment securities	3,080
Other assets and intergroup balances	21,834
Property, plant & equipment	19,380
Tax receivables and deferred tax assets	15,772
Deposits	(785,902)
Due to other financial institutions	(34,231)
Provisions and other liabilities	(10,722)
Net identifiable assets acquired	218,968
Add: goodwill	21,103
Net assets acquired for cash consideration	240,071

(1) Acquired loans and advances

The fair value of acquired loans and advances is K573.162m. The gross contractual amount for loans and advances due is K605.028m of which K31.866m is expected to be uncollectible.

(2) Accounting policy choice for non-controlling interests

The group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

(3) Profit Contribution of acquired businesses

The acquired businesses contributed revenue of K35.2m and net profit of K11.7m to the Group for the period from 10 July 2015 (Cook Islands, Samoa and Tonga) and 30 October 2015 (Solomon Islands) to 31 December 2015. If the acquisitions had occurred on 1 January 2015, consolidated pro-forma revenue and profit for the year ended 31 December 2015 would have been K84.6m and K28.6m respectively.

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2015

40. Business combinations (continued)

(b) Purchase consideration – cash outflow

<i>Outflow of cash to acquire subsidiary, net of cash acquired</i>	K'000s
Cash consideration	240,071
Less: cash balances acquired	<u>(416,595)</u>
Net inflow of cash – investing activities	<u>(176,524)</u>

Acquisition-related costs of K8.336m that were not directly attributable to the issue of shares are included in other operating expenses in the statement of comprehensive income and in operating cash flows in the statement of cash flows.

41. Events occurring after balance sheet date

There have been no adjusting events after the end of the reporting period.

42. Remuneration of auditors

All amounts are expressed in K'000	Consolidated		Bank	
	2015	2014	2015	2014
Financial statement audits	2,372	1,919	1,934	1,568
Other services	<u>997</u>	<u>936</u>	<u>900</u>	<u>929</u>
	<u>3,369</u>	<u>2,855</u>	<u>2,834</u>	<u>2,497</u>

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.



Independent Auditor's Report

Bank of South Pacific Limited

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 2015, 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 2015 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 2015, and their financial performance and cash flows for the year then ended.



Independent Auditor's Report

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 2015:

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, and provider of audit-related and taxation 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.


PricewaterhouseCoopers



J. C. Seeto
Registered under the Accountants Registration Act 1996
Partner

Port Moresby
11 March 2016