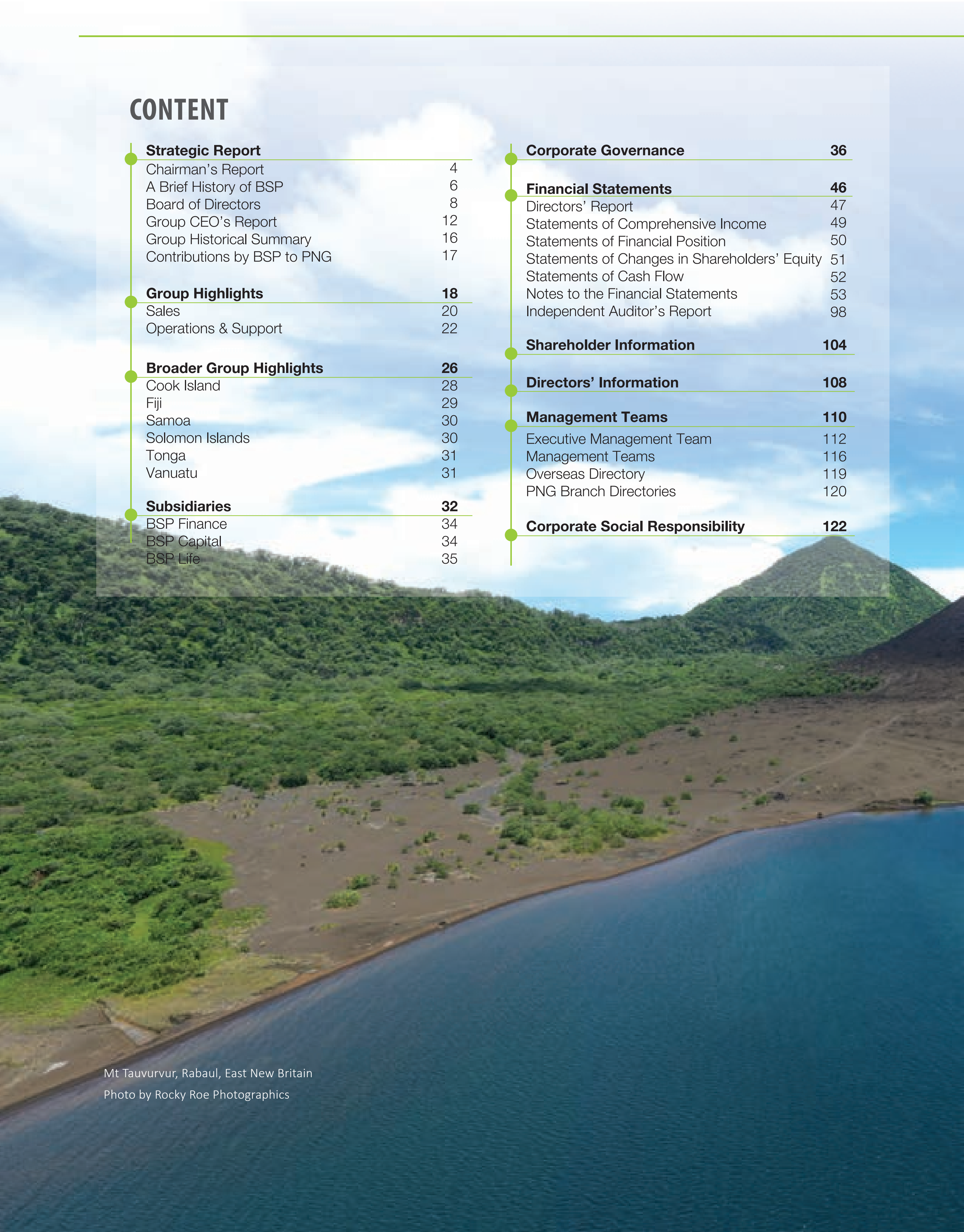
2019 ANNUAL REPORT

BANK OF SOUTH PACIFIC LIMITED

CONTENT



Mt Tauvurvur, Rabaul, East New Britain
Photo by Rocky Roe Photographics

OUR CORE VALUES

INTEGRITY

We are honest, committed, trustworthy and reliable in our dealings with our customers and each other.

LEADERSHIP

We inspire, we change, and we live our values, and lead by example.

PEOPLE

We respect and value our people and our customers.

QUALITY

We are commited to excellence whilst striving for continous improvement in products and services.

PROFESSIONALISM

We inspire, we change, and we live our values, and lead by example.

COMMUNITY

We respect, value and support the communities in which we operate.

TEAMWORK

We work with, and for, each other; we progress together.

Chairman's Report

Sir Kostas Constantinou, OBE

Despite challenging conditions continuing in 2019, our profit of K890.4m was up 5.5% on the previous year. BSP has continued to perform well, despite economic headwinds and uncertainties. Through capital discipline and prudent balance sheet management, we maintained our commitment to financial strength across all capital, funding and liquidity metrics. We finished 2019 with a capital adequacy ratio of 22% (2018 = 22.9%) and leverage ratio of 10.5% (2018 =10.3%) ... ratios that remain well in excess of the 12% and 6% prudential requirement respectively.

Strategy

Our diversification strategy is working, with growing offshore branch and subsidiary contributions.

My fellow directors and I are pleased to report that BSP's diversification strategy initiated in 2015 is gaining momentum. Just over 41% of BSP's 2019 profit growth was generated by our offshore branches, with the remaining 45% and 14% from PNG and our subsidiaries respectively.

Our offshore branches continue to grow, with four of the six now ranked "number one" in both loans and deposits in the countries they operate. Consequently, BSP has grown to become the South Pacific's leading bank.

We are also pleased to report that our expansion of BSP Finance continues to progress, with the Lao JV joining our portfolio in early 2020. Accordingly, our 2020 focus will be on bedding down the Lao JV and transitioning it to BSP Finance's operating model. In short, we will apply the same successful approach deployed in Cambodia, that is beginning to produce strong results. Specifically, BSP Finance Cambodia delivered an outstanding 2019 profit result, where it more than tripled its 2018 profit and now matches BSP Finance PNG's profit contribution.

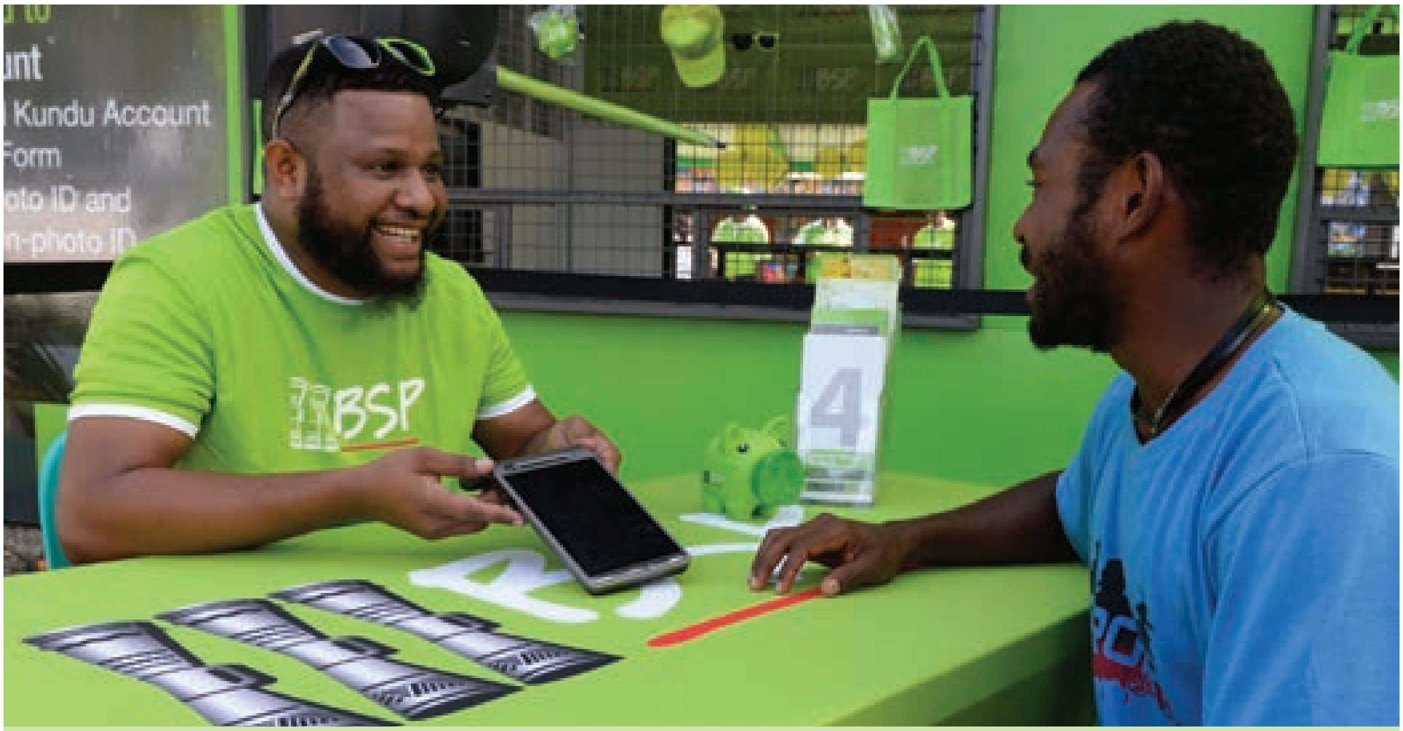
With our focus on delivering sustainable growth, we will continue to adopt a measured approach to exploring future asset finance growth opportunities within the Mekong Delta.

BSP Life PNG is the youngest subsidiary of the BSP Group, with its operations commencing in January 2018. In 2019, it successfully launched its new life insurance system and introduced its new "Wantok Group Term Life" product to meet the needs of PNG's employer based groups and associations. In late 2019, a sales team was established to market BSP Life's new product "Wantok Delite", a savings insurance product that was launched in early 2020.

Enhancing Governance

In 2019 we have invested in strengthening BSP's governance practices, to ensure we meet the high standards expected of us. The recent Royal Commission in Australia identified that the Australian Banks had failed to implement policies and effective controls to fully comply with existing industry standards. In the BSP Group's efforts to ensure that we are in compliance with the regulatory requirements in all our jurisdictions, BSP's Board has approved the establishment of an independent Group Compliance SBU (and added 16 new positions) to specifically implement and monitor the effectiveness of BSP's policies across the Group.

In October 2019, the SBU began overseeing the Anti-Money Laundering / compliance business unit, audit business unit and the credit inspection business unit. Group Compliance will ensure that BSP continues to meet its ongoing compliance requirements, regulatory requirements and changes in the industry standards.



BSP has continued to perform well, despite economic headwinds and uncertainties. In 2019, we continued to invest and expand our digital footprint across all our countries to better serve our growing customer base.

Standard & Poors Global (S&P) in its ratings assessment of BSP released on 20 May 2019, maintained BSP's stand-alone credit profile of "b+", which is an endorsement of BSP's strong underlying performance. S&P reiterated that the maintaining of BSP's overall rating at 'B/Stable/B' is not a reflection of BSP's underlying performance, but as a consequence of its exposure to PNG.

New Banking System

As reported last year, BSP has embarked on the replacement of its existing core banking system (ICBS) with a new system (Oracle Flexcube). A project of this size and complexity is very challenging to deliver. Accordingly, to reduce risk we have made the decision to revise our implementation approach, which will see Vanuatu go live in October 2020, PNG in April 2021 and the remaining Offshore branches thereafter.

Board Renewal

Board renewal remains a continuing process and in December we farewelled Freda Talao, who retired as a BSP Director. Freda joined the Board in April 2012 and most recently chaired BSP's Remuneration and Nomination Committee. I would like to thank Freda for her service, commitment and contribution to BSP over the past seven years.

Financial Performance

This year our revenue performance was slightly higher than last year, with only a small 0.3% increase in income to K2.17 billion. However, the result wasn't unexpected, given slow global growth, coupled with delays to key domestic resource projects, producing a challenging period for PNG, our largest market. Recognising this challenge, cost control measures were employed that reduced expenditure by 5.3% to K918.4m in 2019.

Given the latter, BSP Group's net profit after tax increased by 5.5% over the previous year, to reach K890.4 million, with 75% of Group profit contributed by the PNG bank. Furthermore, our 2019 profit result equates to a compound annual growth rate (CAGR) of 13.7% between 2014 and 2019, an outstanding achievement.

Outlook

With a stagnating global economy and uncertainty around the timing of PNG's key domestic resource projects, we expect challenging trading conditions to continue for the foreseeable future.

Despite this uncertainty the Board and myself are confident we have the team and financial strength to execute effectively against our strategy.

Finally, on behalf of the Board, I would like to thank our more than 4,300 staff for their hard work in challenging conditions that has benefited our customers, community and shareholders.

Sir Kostas Constantinou, OBE
BSP Group Chairman

KEY MILESTONES IN BSP'S DEVELOPMENT

1957
Commenced operations in Port Moresby in May 1957 as a branch of National Bank of Australasia Ltd.

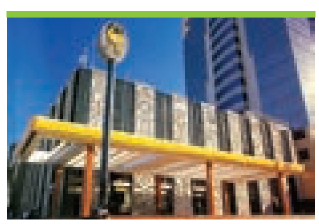
1974
BSP incorporated as Bank of South Pacific Ltd, a wholly owned subsidiary of the Australian parent.

1993
National Investment Holdings Ltd, a nationally owned company, acquired BSP from National Australia Bank.

2002
Merged with the state owned Papua New Guinea Banking Corporation (PNGBC).

2003
BSP is listed on the Port Moresby Stock Exchange.

2006
Established a presence in Fiji through the acquisition of Habib Bank Ltd's Fiji operations, which were rebranded to BSP.



A BRIEF HISTORY OF BSP

BSP is the leading bank in PNG and has a long and proud track record of serving the needs of customers in PNG and other countries across the South Pacific. BSP's operations date back to 1957, when it was founded in Port Moresby as a branch of National Bank of Australasia Ltd. In 1993, a consortium of PNG businesses acquired the bank and created the first and only PNG private sector owned bank at that time.

BSP merged with the state-owned Papua New Guinea Banking Corporation (PNGBC) in 2002, creating the largest bank in PNG. Other acquisitions followed, including Habib Bank in Fiji in 2006, National Bank of Solomon Islands in 2007 and Colonial Bank and Colonial Fiji Life Insurance Ltd in 2009. In 2015 and 2016, BSP completed the acquisition of Westpac's operations in Cook Islands, Samoa, Solomon Islands, Tonga and Vanuatu, significantly expanding and strengthening BSP's geographic reach. In 2014, BSP Finance was launched in PNG and Fiji, followed by Cambodia and Solomon Islands in 2017. We expect BSP Finance Lao to commence its operations in early 2020.

BSP Life PNG commenced its operations in January 2018.

Today, BSP continues to be a leading force in PNG and the South Pacific markets with the largest branch network, and is a pioneer in bringing financial innovation and technology to the region.

2007
Acquired the National Bank of Solomon Islands Ltd and rebranded to BSP.

2014-2015
Commenced BSP Finance (Fiji) Ltd in 2014 and commenced BSP Finance (PNG) Ltd in 2015.

2017
Commenced Asset Finance operations in May 2017, in Cambodia (rebranded to BSP Finance Cambodia Ltd in January 2018) and commenced BSP Finance (Solomon Islands) Ltd in September 2017.

2009
Acquired Colonial Bank and Colonial Fiji Life Insurance Ltd from Commonwealth Bank of Australia and rebranded to BSP and BSP Life, respectively.

2015-2016
Acquired Westpac's operations in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu for A$125 million.

2018
- Commenced a life insurance business in Papua New Guinea on 2nd January, 2018.
- Provisional licence issued in 2017 for a life insurance company (BSP Life (PNG) Ltd).

OUR REACH IN THE ASIA-PACIFIC REGION

- 80+ Branches
- 50 Sub-Branches
- 500 ATMs
- 350 Agents
- 11,000+ EFTPoS
- 4,000+ Staff

Board of Directors

SIR KOSTAS G. CONSTANTINOU, OBE

Chairman. Director since April 2009. Appointed Chairman February 2011.

Sir Kostas is a prominent business figure in Papua New Guinea (PNG), holding a number of high level public sector and private sector appointments. He is Chairman of various companies, including Airways Hotel and Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Bank of South Pacific Ltd and Air Niugini Limited. He is a Director of Alotau International Hotel, Gazelle International Hotel in Kokopo, Loloata Island Resort Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, OPH Ltd, Rangeview Heights Ltd in Papua New Guinea, Heritage Park Hotel in Honiara, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Oil Search Ltd. Sir Kostas is also Vice President of the Employers Federation of PNG, Honorary Consul for Greece and Cyprus in Papua New Guinea and Trade Commissioner of Solomon Islands to PNG.

ROBIN FLEMING, CSM, MBA, MMGT

Chief Executive Officer. Director since April 2013.

Robin Fleming was appointed CEO of Bank of South Pacific Ltd in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNGBC, Mr Fleming held senior management roles with PNGBC. He has worked in PNG for over 35 years and holds an MBA and a Master of Management from Charles Sturt University. Mr Fleming was made a Companion of the Star of Melanesia (CSM) in 2015 by the PNG Government for services to banking and the community.

ERNEST BRIAN GANGLOFF, CPA, MAICD, MIIA, PNGID

Non - Executive Director. Director since November 2013.

Ernest Gangloff is an Accountant, registered with CPA PNG and the Accountants' Registration Board. Ernest has extensive experience in the areas of risk management, internal audit and corporate governance. He has over 30 years professional experience with over 15 years in senior management positions. Mr. Gangloff retired as Partner with Deloitte in May 2013, and established Gangloff Consulting in June 2013.

Mr Gangloff is an Adjunct Professor of Accounting at the University of Papua New Guinea and specialises in Risk Management and Governance.

ROBERT BRADSHAW, LLB

Non-executive Director. Director since September 2017

Robert Bradshaw was appointed to the BSP Board in September 2017. He is a Lawyer by profession, admitted to practice law in Papua New Guinea (PNG) in 1995. Mr Bradshaw holds a Bachelor of Laws from the University of PNG and has practised law for over 20 years. He was formerly a Partner in the firm Blake Dawson Waldron (now Ashurst). He commenced practice on his own as Bradshaw Lawyers in 2005. Mr Bradshaw has been involved in different areas of law, particularly in resource development, industrial relations, banking and finance and commercial litigation.

GEOFFREY J. ROBB, BA, MBA, OAM, MAICD, GAICD

Non - Executive Director. Director since April 2012.

Geoffrey Robb is a highly qualified and experienced banker, having occupied several senior executive positions including Head of Resource Finance at Bank of America, Global Head of Acquisition Finance and Head of Complex and Strategic Transactions with ANZ Banking Group. As Head of Bank of America in Melbourne, he led resource financings with BHP, CRA, Elders Resources, Bougainville Copper, Ok Tedi and Porgera. He holds MBAs from the International Management Institute Geneva and Macquarie University. Mr Robb has travelled extensively in emerging markets and has received the Medal of the Order of Australia for his services to mountaineering and charity. He is also on the Board of BSP Capital Ltd and Bank South Pacific Tonga Ltd.

Board of Directors
(continues)

ARTHUR SAM, BComm, CPA, MAICD, GAICD
Non- Executive Director. Director since 2016.

Arthur Sam is a qualified and experienced accountant, registered under CPA PNG. He holds a Bachelor of Commerce from the University of Papua New Guinea, and a Graduate of the Australian Institute of Company Directors. He is the Audit and Managing Partner of Sam Kiak Tubangliu Certified Practising Accountants. Mr Sam previously worked with global accounting firms - PricewaterhouseCoopers, Deloitte and Ernst & Young, in managerial roles specialising in external and internal audit and risk management. Prior to joining the Board of BSP, he served on the NASFUND Board Audit and Risk Committee and the PNG Accountants Registration Board. Mr Sam has also been a member of the BSP Board Audit & Risk Compliance Committee since June 2013.

STUART DAVIS, LLB, GAICD
Non-executive Director. Director since August 2017

Stuart Davis is currently a Non-Executive director and Chairman of the Audit and Risk Committee of ASX 200 company NextDC Ltd, which builds and operates Data Centres in Australia, Non-Executive Director and Chairman of the Risk Committee of PayPal Australia Ltd, and Non-Executive Director and member of the Audit and Risk Committee of Bank South Pacific. Mr Davis previously was CEO of HSBC Bank in India from 2009 to 2012, one of the largest foreign banks in India with staff of 8,000 and pretax earnings in excess of USD800 million. Prior to that appointment, he was CEO of HSBC Bank in Australia from 2002 to 2009 and CEO of HSBC in Taiwan from 1999 to 2002, having joined the HSBC Group in 1981. Mr Davis previously served as a member of the Australia Bankers Association from 2003 to 2009, being Deputy Chairman from 2006 to 2009, was Chairman of the British India Chamber of Commerce in Mumbai and Chairman of the Taiwan British Chamber of Commerce in Taipei. He holds a Bachelor of Law Degree from the University of Adelaide and is a Graduate of the AICD.

AUGUSTINE MANO, BEcon, MSc

Non - Executive Director. Director since August 2014.

Mr Augustine Sanga Mano was appointed the Managing Director & CEO of Mineral Resources Development Company in March 2008. MRDC is a state-owned entity that manages all Royalties and Equities for Landowners and Provincial Governments in Petroleum and Mining Projects in PNG. Mr Mano graduated with double Degrees in Economics and Arts majoring in Environmental Science from the University of Papua New Guinea and holds Master of Science in Petroleum Economics from Dundee University, Scotland in the United Kingdom. Prior to his appointment, Mr Mano has been involved in the civil construction, real estate, transport and insurance. He has been involved with the Petroleum industry in various capacities before his appointment as Managing Director. He currently serves as Director on the board of MRDC, Mineral Resources Star Mountains, Mineral Resources Ok Tedi No. 2, Mineral Resources Ramu, Petroleum Resources Kutubu, Petroleum Resources Moran and Petroleum Resources Gobe and many other subsidiaries of MRDC in Mining and Petroleum Projects in PNG by virtue of his position. He is Chairman of the Pearl South Pacific Resort in Fiji, Star Mountains Plaza and Taumeasina Resort in Samoa. He is also serving as a Director on the boards of Hevilift, PNG Air, Bank South Pacific and Ok Tedi Mining Limited. He is also a Director in other private companies.

FAAMAUSILI DR. MATAGIALOFI LUA'IUFI, BA, MSC, PhD

Non-Executive Director. Director since December 2016.

Faamausili Dr M. Lua'iufi is an experienced Public Sector practitioner and consultant. She holds a PhD in Management, an MSc in Management Sciences and a BA in Sociology and Political Science. Prior to establishing her own consultancy firm in late 2008, she worked in the Samoa Public Service Commission Office for 25 years, almost 12 of those years as Chief Executive Officer. Under her stewardship, the Samoa Public Service undertook various change management programmes to improve service delivery. Fa'amausili served in many Government SOE Boards in her capacity as CEO.

Since becoming a consultant in late 2008, she has performed more than 50 consultancy assignments in the domains of Human Resources Management, Organisational Development, Performance Management and Governance. She has performed consultancies in just about every Pacific island country and also worked very closely with most Pacific Island countries when she was a CEO. Currently a Councilor, member of the Executive Committee and member of the Finance Committee of the National University of Samoa. She is a Director of the Bank of the South Pacific Board and a member of the Remuneration and Nominations Committee. Is a member of the Australian Institute of Company Directors, member of the PNG Institute of Directors, Samoa Institute of Director and Samoa Human Resource Institute. She was the Pacific Residential Scholar (2007-2012) of the Australia New Zealand School of Government (ANZSOG) responsible for the development of emerging young Pacific Public Sector leaders.

FREDA TALAO, LLB, LLM, MPHIL, MAICD

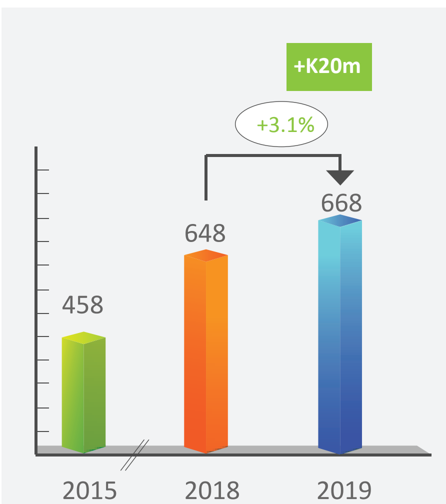
Non - Executive Director. Director since April 2012. Resigned December 2019

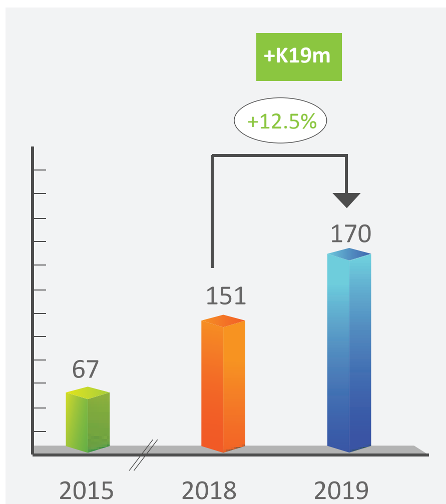
Freda Talao is a lawyer and development specialist. Previously she was a member of the External Stakeholders Advisory Panel (ESAP) to the Hidden Valley Joint Venture (HVJV) Mine owned by Newcrest Ltd and Harmony Gold in Wau, PNG, Deputy Registrar National Court, Executive Director, PEACE Foundation Melanesia and Senior Development Specialist with AUSAID. She was formally a consultant to Australian Law Firm Holding Redlich in Brisbane. Ms Talao's previous Board roles includes Director on former Civil Aviation Authority (CAA), PNG Mama Graun Conservation Trust Fund, National Airports Corporation (NAC), Airport City Development Limited (ACDL) Board and the Individual and Community Rights Advocacy Forum (ICRAF). She was one of six PNG women nominated for the Nobel Peace Prize in 2005 as part of the 1000 Peace Women Project and awarded for her work with women, children, youth and communities. Ms Talao holds a Law Degree from University of Papua New Guinea, a Masters in Law from Bond University, Qld (LLM), a Master of Philosophy in Law from University of Queensland (MPHIL) and a Diploma in Business from the Southern Cross University. She is also a member of the Australian Institute of Company Directors (AICD).

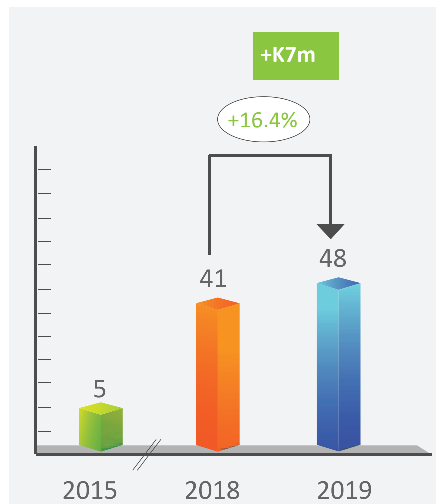
Group CEO's Report

Robin Fleming, CSM
Group Chief Executive Officer

I am extremely pleased to report to our shareholders that 2019 was another successful year financially for the BSP group, with a record net profit after tax (NPAT) of K890.4m. Our Group Chairman Sir Kostas Constantinou OBE mentioned in his report a number of the headline financial metrics BSP achieved in 2019 including profit growth of 5.5% and a "Compound Average Growth Rate" (CAGR) of 13.7% over the past 6 years. Equally pleasing was the positive contributions from every one of the seven countries in which BSP operates and each of our business lines of banking, asset finance, life insurance and capital advisory.







Improved profitability was achieved notwithstanding that economic conditions were somewhat more difficult in a number of countries. PNG's GDP growth for 2019 was estimated at 5.0%, which in part reflected a full year of uninterrupted gas production following a number of months of disruptions to gas in 2018 following the devastating earthquake in February 2018. Growth in the non mining sector was forecast at 2.9% with lower outputs in palm oil due to volcanic activity in West New Britain contributing.

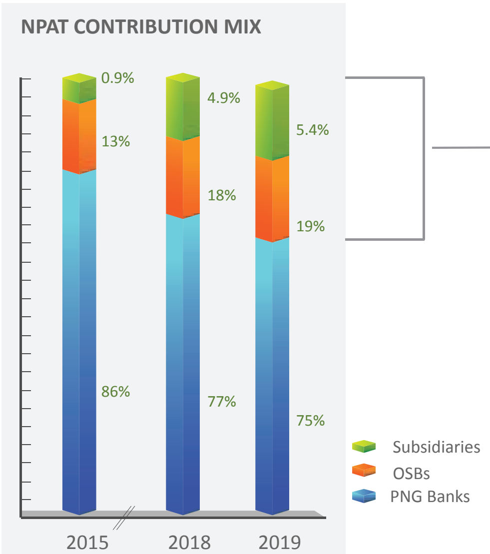
Across the region most economies in which BSP operates experienced positive growth. Samoa's GDP remained at around 3.4%, Tonga's moderated to 3.5%, Cook Islands was strong at 4.2%, Solomon Islands moderated to around 2.8%, and Vanuatu's was steady at 3.2%. Fiji's economy contracted to around 1.7%. Whilst the region continues to be more susceptible to extreme weather events, in 2019 there was no cyclone or other weather event of national significance. Although, Samoa did suffer from a measles epidemic in the last quarter of 2019, which sadly saw the loss of life of many children and from an economic perspective impacted visitor arrivals. Our prayers are with those families who lost loved ones.

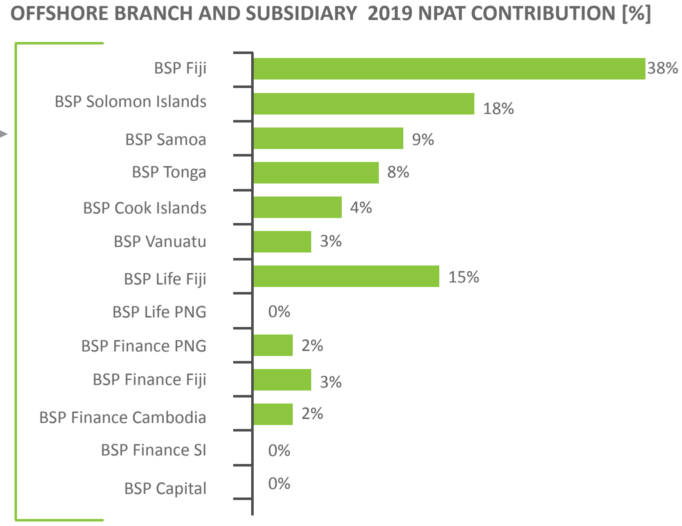
BSP's financial performance was both positive and pleasing when viewed in the context of the economic activity in our home market, Papua New Guinea. At a group level NPAT increased by 5.5% to K890.4m with PNG profit increasing by 3.1%to K668m.

Net interest income continued to increase with growth in lending in all countries. A combination of lower non mining GDP growth over a number of years, foreign exchange availability and an absence of a headline resource project that would provide external stimulus to the economy with foreign direct investment, has seen more borrowers experience credit stress. Our NPL's as a percentage of total loans increased slightly to 1.9%. Furthermore, BSP is IFRS 9 compliant and our provisions to NPL coverage is still conservative at 4.9%.

Customer acquisition activities saw continued increases in overall customer numbers and consequent uplift in transaction numbers. Pleasingly, and whilst there is still much more work required in relation to changing customer behaviours, the number of banking transactions undertaken outside of our branch network increased by approximately 20% to an average of 12m per month. Continued focus will be placed on moving more of our customers to digital channels.

	2019	2019 vs 2018
Profit [NPAT, Km]	890	+5.5%
Net assets [Kb]	24.5	+6.2%
Cost-to-income ratio [%]	37.7	-323bps
Capital adequacy ratio [%]	22.0	-91bps
Earnings per share [toea]	191	+5.5%
Dividend per share [toea]	139	+9.4%
Market Capitalisation [Kb]	5.5	+14.8%





The board has maintained its dividend policy of 70% to 75% of prior year earnings, to the extent that this does not impact capital adequacy nor put growth at risk and a total of K653.94m was paid out in dividends in 2019 with the dividend yield a strong 12.2%. With a shareholder base that is 90% Papua New Guinean and includes Kumul Consolidated Holdings (18.2%), each of the four superannuation funds in PNG being Nambawan Super (12.3%), Nasfund (9.7%), Teachers Savings & Loans (3.3%), Comrade Trustees (2.7%) as well as Fiji National Provident Fund (6.5%), Solomon Islands National Provident Fund (0.5%) and Samoa Provident Fund (0.027%) a majority of workers around the Pacific benefit from BSP's financial performance and dividend distributions.

Our investment in our new banking system Flexcube continued, with commitment of more people to the project and an increase in our financial investment. This is a multi-year, multi-country task with the objective of migrating the three existing banking systems we operate across the Pacific to one common platform with integrated applications that will reduce our dependency on multiple vendors. As is often the case with projects of this magnitude and complexity, recognising that conversion involves seven different countries, the project has extended beyond the timeframe that was initially envisaged. Current planning anticipates a cut over date of October 2020 for Vanuatu and April 2021 for Papua New Guinea with other countries to follow. Senior executive and the board are provided with regular reports on progress with extensive focus on risks and issues, and as we move closer to conversion implementation plans that minimise impacts on our customers and risks to our business will be the priority.

Equal attention and management time was given to compliance and governance. This involved data integrity reviews across each country to ensure all fees and interest rates were aligned to products, regular publishing of interest rates publicly irrespective of any regulatory requirement to publish or otherwise, and if any discrepancy was identified that our customers were not disadvantaged. To support this work new compliance positions were established in every country, and a new Strategic Business Unit was created, Compliance SBU with AML, Compliance, Audit and Credit Inspection moving from Group Risk to Compliance. This was complemented by increased weightings in staff KPI's used for short term incentives for compliance, audit and AML related activities.

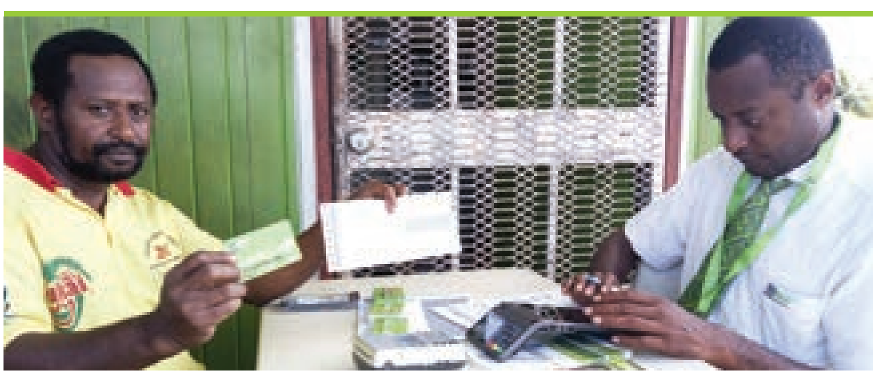
Staff training and development, and especially development of future leaders within BSP continued to be a key strategy objective. These investments include a graduate development program that has seen over 50 graduates join BSP over the past 5 years, and our marquee Leadership Management Development Program (LMDP). Our LMDP has been in place since 2014 and identifies future leaders in emerging, developing and senior role categories with development training in Australia, Singapore and internal secondments to provide participants with skills necessary to take on more senior roles within BSP.

The outlook for 2020 across the Group is for slower growth giving regard to economic conditions that remain challenged in most countries. Economic growth in PNG will be slower than previous years and will be dependent upon successful negotiation of a headline extractive industry project. Events of early 2020 related to the Coronavirus in China will also have an impact on the global economy and economies that are commodity based (PNG) and tourism based, (Fiji, Vanuatu and Cook Islands). Notwithstanding somewhat slower growth, key return on equity (ROE) and yield metrics are not expected to be challenged.

Our board led by our Chairman Sir Kostas Constantinou maintained effective oversight of BSP's operational performance, risk management systems and governance whilst also ensuring the board determined strategic objectives for BSP were actively monitored and managed. Their guidance and support greatly assisted with BSP's achievements in 2019.

In closing, our staff in all of our businesses and each of the countries in which we operate, are to be congratulated for their efforts and support in delivering these record results for our shareholders, and I look forward to their ongoing commitment in 2020.

Robin Fleming, CSM
Group Chief Executive Officer

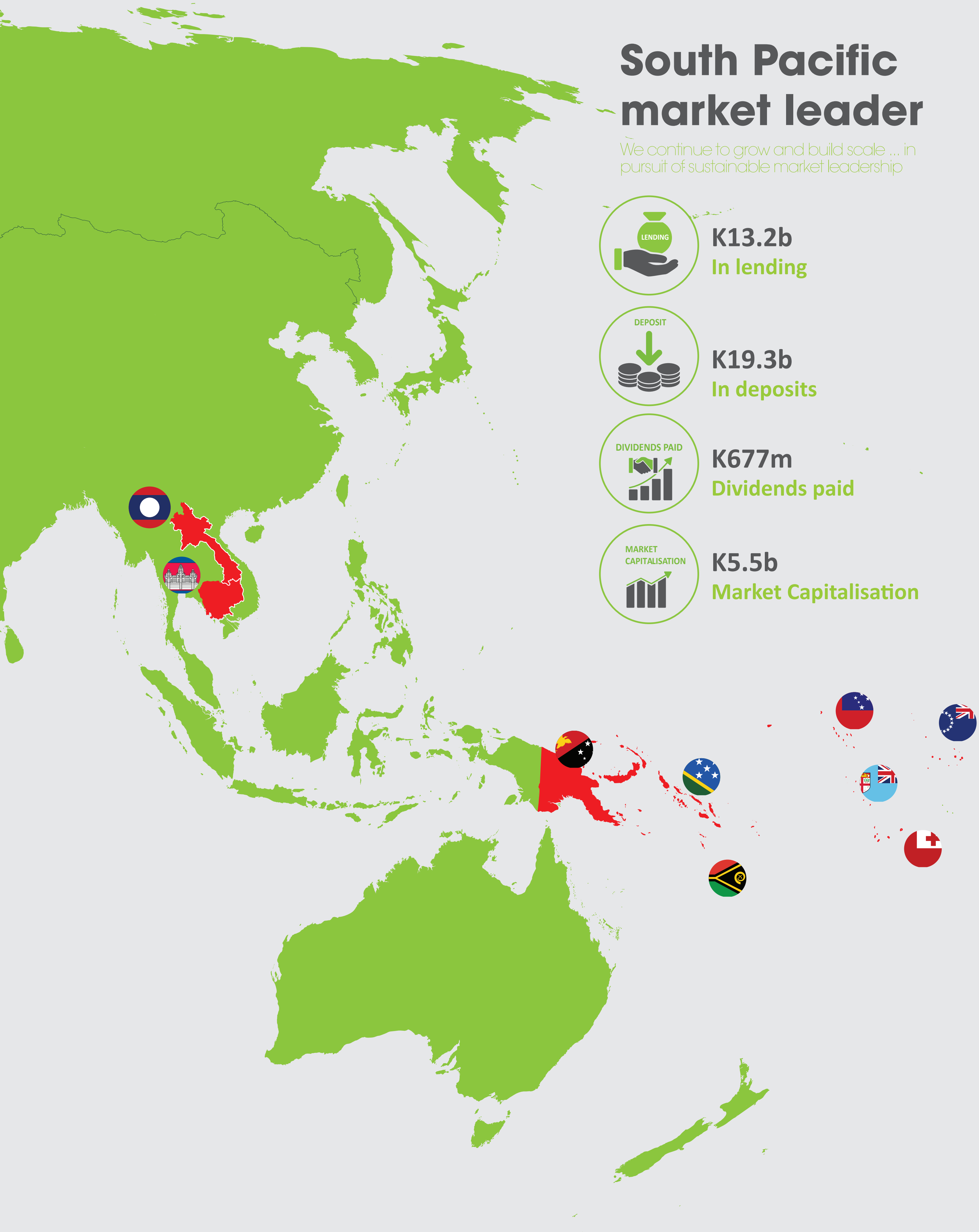


Customer acquisition activities saw continued increases in overall customer numbers and consequent uplift in transaction numbers.

Pictured customer opening his account at Kinim Sub-Branch in Madang, PNG.

South Pacific market leader

We continue to grow and build scale ... in pursuit of sustainable market leadership



LENDING

K13.2b
In lending

DEPOSIT

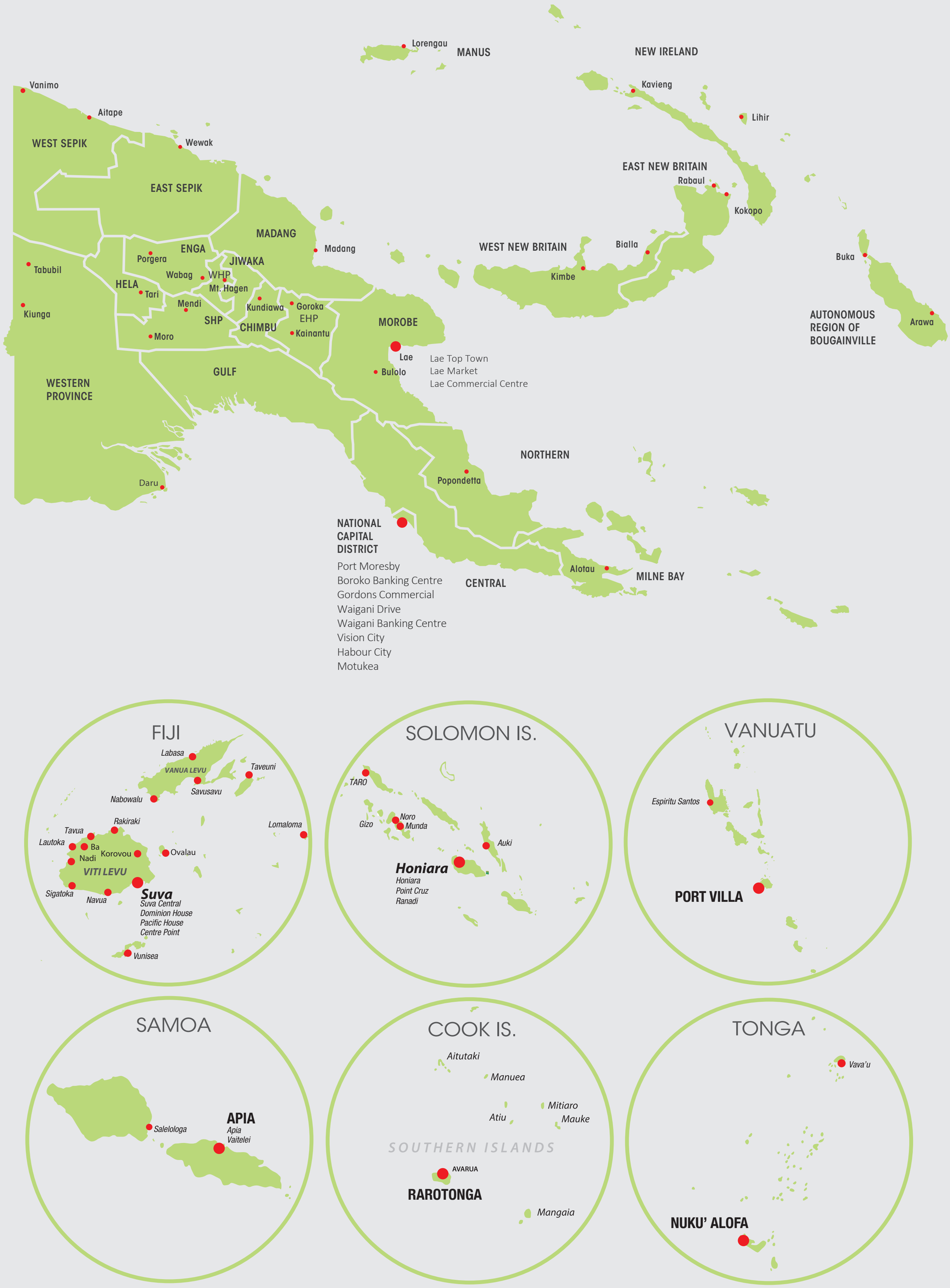
K19.3b
In deposits

DIVIDENDS PAID

K677m
Dividends paid

MARKET CAPITALISATION

K5.5b
Market Capitalisation



MAP KEY

BSP Branch

HISTORICAL SUMMARY

Historical Summary

BSP Group NPAT

K890.4m

5.5% Increased from 2018

Dividend paid per Share

K1.39

9.4% Increased from 2018

Expense/Income Ratio

37.7%

Reduced by 3.3% from 2018

Profit and Loss (K'000)	2016	2017	2018	2019
Net interest income	1,107,686	1,277,676	1,380,796	1,391,784
Non interest income	684,371	720,674	784,909	779,566
Bad and doubtful debt expense	(98,622)	(77,678)	(82,440)	(99,183)
Other operating expenses	(769,641)	(852,148)	(887,097)	(819,248)
Operating Profit	923,794	1,068,524	1,196,168	1,252,919
Profit before tax	923,794	1,068,524	1,196,168	1,252,919
Income tax (expense)	(280,343)	(311,521)	(352,096)	(362,556)
Profit/(loss) after tax	643,451	757,003	844,072	890,363
Dividends (toea)				
Dividends paid per share[1]	88.0	111.0	127.0	139.0
Balance Sheet (K'000)				
Net loans and advances	10,102,909	11,209,493	12,530,649	13,200,807
Total assets	20,831,803	22,369,861	23,081,223	24,527,118
Deposits	16,912,349	17,901,692	18,232,766	19,339,056
Capital	2,314,337	2,628,335	2,872,135	3,117,033
Performance Ratios				
Return on Assets	3.3%	3.5%	3.7%	3.7%
Return on Equity	29.6%	30.6%	30.7%	29.7%
Expense/Income	42.9%	42.6%	41.0%	37.7%
Key Prudential Ratios				
Capital adequacy	23.1%	24.5%	22.9%	22.0%
Liquid Asset Ratio	35.8%	36.9%	33.6%	30.0%
Leverage ratio	9.3%	10.0%	10.3%	10.5%
Exchange rates (One (1) PNG Kina buys):				
US Dollar	0.3150	0.3095	0.2970	0.2935
AUS Dollar	0.4354	0.3965	0.4208	0.4188

[1]BSP has adopted the practice of paying an interim dividend based on half year results, in October of each year, and paying a final dividend based on audited full year results, after the end of the financial year, and no later than the end of the second quarter of the succeeding year.

Contributions by BSP to PNG

Taxes paid to PNG Government

K362m

Tax Payment (2019)

All Amounts are expressed in K'000	2016	2017	2018	2019
Company income taxes paid to PNG Government	292,443	257,210	354,947	361,987
Other taxes paid to PNG Government (IWT, FCWT,BWT)	10,226	8,214	10,018	16,872
GST paid and not able to be recouped	21,268	22,101	25,337	15,821
Donations, Sponsorships and Community Project	4,345	5,217	6,482	5,581
Total	**328,282**	**292,742**	**396,784**	**400,261**

Our Group Highlights

PROFESSIONALISM

We inspire, we change, and we live our values, and lead by example.

SALES

Channel Growth

12 Million
Digital Transactions

- **90%** of total transactions were via digital channels.
- **54%** via mobile phones.

2.5 Million
BSP Account Holders

- Over **25,000** SME Accounts
- **3 SME Banking Centres**

  The SME market, and emerging and vibrant sector in the PNG Economy.

  80+ Branches

BSP Treasury fosters and enhances relationships with clients, providing Financial Markets services, solutions and ensuring clients remain aware of the regulatory environment and its implications.

PNG Treasury foreign exchange (FX) earnings were above prior year levels even though 2019 was again challenging, as import demand exceeded export supply of foreign currency. These difficult trading conditions continued throughout the year.

The official Bank of Papua New Guinea (BPNG) rate of exchange fell by 1.2% gradually over the year, to finish at USD 0.2935. The Bank's PNG FX market share remained flat in 2019, increasing marginally to 43.5%. The Bank's FX turnover rose 5.8% in 2019, while PNG's FX market turnover rose 5.6%.

The Bank continued to invest surplus funds in government securities. Movements in the Government debt yield curve reflected evolving fiscal conditions. The 28 day Central Bank Bills were unchanged at 1.39%, 91 day Treasury Bills fell from 2.63% to 2.50%, 182 day Treasury Bills fell from 4.71% to 4.68%, whilst one (1) year Treasury fell from 7.93% to 7.06%. Yields on longer dated Government issued Inscribed Stock were generally stable.

Operationally, PNG Treasury continues to mitigate risk and is actively focused on providing technical training, empowering staff to continue their development journey. Treasury dealing staff training encompasses weekly technical training (Australian Financial Markets Association Foreign Exchange Markets Accreditation), regulatory and internal compliance training, on the job cross training and sales training. The strong focus on training will continue in 2020.

BSP's Corporate and Retail businesses maintained momentum in 2019 with growth in our core business of housing and personal lending segments. Overall lending market share in PNG was 63% and whilst other countries market share was not as dominant, BSP is still ranked number one (1) in four Pacific countries.

Corporate relationship teams remain located where our customers operate in Port Moresby, Lae, Mt Hagen, Madang and Kokopo. To meet the banking needs of all Papua New Guineans, Retail operates out of all provinces and districts.

Customer satisfaction is Corporate's top priority and once again we have achieved improved customer satisfaction scores in 2019. BSP's survey results highlight continued gains in customer satisfaction on the

Great emphasis is placed on Banking Education/Financial Literacy, offering deposit and savings products such as our Kid's Account for youngsters and the Sumatin Account for students.

Market Strength

44%

Increased FX Market Share in PNG

- Banks FX Turnover increased by 5.8% in 2019
- PNG's FX Market Turnover increased by 5.6%

63%

Overall Lending Market Share in PNG

- **#1 in lending in 5 countries**
- **#1 in deposits in 4 countries.**

Our loan and deposit portfolios are predominantly PNG domiciled.

key business drivers of: service, products, fees, charges and rates, premium branches and foreign exchange. Highlights were our BSP Digital Hub (Internet Banking) and Kundupei (electronic Payroll) and Relationship Managers fully meeting customers' expectations.

BSP's "icare" customer service culture remains the team's unwavering focus, leveraging all areas of the Bank through our "whole of BSP" network. Our People and leading Retail branch networks across Papua New Guinea and the South Pacific continue to provide solutions to enhance the financial health of our customers and communities.

Around 80% of PNG's population is rural based, and as PNG's economy is heavily weighted towards domestic and export driven agriculture as well as extractive resource industries that are located in rural areas of PNG, we have 1,400 staff providing banking services to 1.8 million account holders at 89 branches and sub branches located across the country. All BSP's points of representation provide real-time transaction banking services.

The cash economy in PNG is still quite significant and the population of PNG is relatively young, with 50% aged less than 25. Both aspects provide unique challenges and our response is to place great emphasis on Banking Education/Financial Literacy and offering deposit and savings products such as our Kid's Account for youngsters and the Sumatin Account for students. This is an investment in the future that it is already reaping rewards as the transactional volumes of our consumer customers increasing year on year.

We have 160 trained trainers, delivering financial literacy courses across PNG, and a substantial effort is also being made through our branch network to educated customers and the community about the legal requirements of Anti-Money Laundering obligations and laws as they transition away from cash and into the formal financial system.

The Small and Medium Enterprise (SME) market is also an emerging and vibrant sector of the PNG economy and BSP has more than 25,000 customers identifying themselves as part of this market segment. Specifically designed loan and transaction products are offered by BSP to our SME customers and we maintain three (3) dedicated branches in major centres in PNG to service this market. During 2019, BSP partnered with Australian Business Volunteers to support a "YES" program of training and mentoring SME customers of BSP to assist them develop their business activities. The program continues in 2020.

BSP's Corporate and Retail Sales Strategy was supported by the Digital SBU, which focuses on customer experience and the adoption of digital financial services as the better way to bank and make banking easier, quicker and more secure.

Continued efforts to move customers from branches to digital platforms, included the development of the All-Aboard App on a new technology Axium device with android and Point-of-Sale functionality. The app has improved branch and customer service delivery, by enabling new customers' pre-generated card transaction accounts with Mobile Banking, Internet Banking and Visa Debit card.

BSP continues to strive to be digital relevant in all our markets across the Pacific and apply technology to gain greater efficiency. This is also influencing a new demand for collaboration and partnership from central banks, fintech and BSP corporates for system integration to achieve improved services. To better leverage our digital platforms, development and enhancement projects during the year included the creation of a BSP Digital Sandbox and a number of published APIs that will be launched in early 2020 to improve our technology delivery and internal processes.

Banking 24/7 on your mobile, tablet or desktop computer gives the freedom to do everyday banking where and when you want, remains the focus for Digital. The BSP App and internet banking services, provide awareness and understanding for new banking self-service portals, expand financial inclusion in communities with the provision of Agency Banking services and contactless transactions with new Point-of-Sale devices at all retailers.

Our People and leading Retail Branches across PNG and the Pacific continue to provide solutions to enhance the financial health of our customers

OPERATIONS AND SUPPORT

Key Operations Summary

- **BSP Launched SWIFT GPI Payments**
  Enabled and improved cross border payments across corresponding banks.

- **Awarded Security Champion Award 2019 by Visa Australia**
  For demonstrated high standards of payment security excellence.

  The first bank from the South Pacific to win the award, and joins the Steller Group of Financial Institutions in Asia Pacific

- **Awarded Best Private Sector Employer 2019 , by the PNGHRI**
  BSP has been awarded this award consecutively since 2013.

BSP's operation extends across seven (7) different countries and significant effort is undertaken daily to maintain operating effectiveness.

Improvement included a common Payment Switch in the Cook Islands, Solomon Islands, Samoa and Tonga, similar to that in PNG. The new Payments Switch is EMV capable and with each installation old magnetic strip Visa cards are replaced with highly secure EMV chip cards, to enable secure payment at compatible point of sale (POS) terminals.

BSP's Operations SBU was awarded with the VISA Australasia Security Champion Award for 2019. The Award is presented to financial institution partners who have demonstrated the highest standards of payment security excellence, in line with international best practices. BSP is the first bank from the South Pacific to win the Award and joins a stellar group of financial institutions in Asia Pacific that have made significant contributions to the security and reliability of electronic payments.

In November 2019, BSP successfully launched SWIFT GPI – a new standard of global payments which allows BSP to send and receive funds quickly and securely to anyone, anywhere in the world with full transparency over where a payment is at any given moment. SWIFT GPI dramatically improves cross-border payments across the correspondent banking network, especially for corporates for which speed, certainty and a smooth international payments experience is an absolute must.

BSP also successfully deployed Retail Electronic Payments System (REPS) the interface between the Bank of Papua New Guinea (BPNG) and first round participants. This allows BSP cardholders to perform transactions on any

BSP was recognised as best Private Sector Employer by the PNG Human Resource Institute (PNGHRI) in 2019

ATM or EFTPoS devices throughout the country, regardless of which financial institution owns the hardware.

During 2019 BSP also worked on implementing a BSP Learning Portal to strengthen the new Core Banking Program (Compass), by implementing a software solution that drives enterprise opportunities and enhances business management processes with a tool that enables analysis of change impacts and equips our people with knowledge and competencies.

The ability to measure staff's awareness and understanding of BSP's policies, procedures and processes; it will provide targeted training on the Group's processes and links results to the new Learning & Development module in our Human Resource system. Systems support is complimented by supporting our people.

BSP was recognised as the "Best Private Sector Employer" by the PNG Human Resources Institute for the sixth consecutive year. This key achievement recognises BSP as a model organisation, leading in the best HR practices in PNG and the Pacific. This award has always been a testament of BSP's commitment to continuously supporting our employees with people initiatives that matter. An example of such an initiative is the introduction of the maternity leave, with 12 weeks full pay, for our female employees across the BSP Group in 2019.

HR focused on further strengthening BSP Group's approach to recruitment, which is merit-based, systematic, fair and transparent.

BSP recruited 19 Graduates to undergo the BSP Graduate Development Program (GDP). The one year GDP Program offers graduates the opportunity to experience several different areas of business within the BSP Group before choosing a final career path. The aim of the GDP is to provide training programmes that ease graduates into the world of work and give them the skills necessary to become part of the larger BSP team.

BSP also completed and developed a Group wide Engagement Survey and Group Performance appraisals and developed new key partnership with the Australian Business Volunteers (ABV). The ABV partnership pairs up staff in BSP's Leadership Development Program with experienced Australian mentors for our leadership group outside of PNG.

A major achievement for the BSP HR Team was the successful implementation of the new HR/Payroll System (iChris) in Fiji. Consequently, the whole of BSP's operations are now using the same HR information system. The addition of other iChris modules going forward, will ensure a lot of our manual processes are automated.

Effective risk management is necessary for the achievement of BSP's vision. BSP has a Board approved Group Risk Appetite Statement that reflects the level of aggregated risk that BSP is willing to assume and manage in the pursuit of its business objectives. The CEO and the Executive team are responsible for implementing BSP's Risk Management Strategy and frameworks, and for developing policies, controls, procedures and processes for identifying and managing risk in all activities.

BSP's Credit Business Unit is responsible for underwriting and monitoring of the BSP's loan portfolio within the Group Risk Appetite Statement. In addition to overall credit quality, Credit oversees compliance with credit policies, procedures and underwriting standards, monitoring sector concentration limits, implementation and management of Social and Environmental Management System and portfolio management reporting.

Retail Electronic Payments System (REPS) the interface between the Bank of Papua New Guinea and first round participants. This allows BSP cardholders to perform transactions on any ATM or EFTPoS devices throughout the country, regardless which financial institution owns the hardware.

OPERATIONS AND SUPPORT *(continued)*

BSP's credit risk strategy underpins our Credit culture, as well as providing the blueprint to grow the business within defined parameters, sustain a quality loan portfolio across a diversified range of economic sectors and countries in which BSP operates.

Key credit policies and procedures continue to be reviewed on an ongoing basis to ensure BSP is aligned with the banking, regulatory, compliance and industry environment and preserves prudent credit risk management standards.

Credit Risk training and staff development was a key focus during the year. Through investment in Training resources our staff benefited from comprehensive internal credit training program designed to enhance the, effective delivery of key policy and procedures and BSP's credit risk culture.
BSP's operational risk section focused on the identification, understanding and management of operational risks, reinforcement of existing controls and strengthening of the first and second line of defences in BSP. The Business Continuity Plans were also tested during the year to ensure that they operated as intended and where deficiencies had been identified that they were rectified appropriately across the Group.

Annual risk awareness training is provided to all employees via an online course (and assessment) that targets general operational risks, fraud detection and prevention. The Operational Risk Business Unit continued to provide support to the Operational Risk Committee and Board Risk Committee, facilitating analysis and regular reporting of operational risk issues.
Non-accrual loans for the Group increased to 2.0% (from 1.8% 2018) which reflects more subdued conditions in PNG and Solomon Islands in particular.

Defaulting unsecured consumer loans rate increased by 10%, while the recovery rate of unsecured consumer loans remained consistent.

BSP's Market and Liquidity functions were enhanced during 2019 with additional staff and a broader remit across the Group.

Market and Liquidity Risk Business Unit represents Group Risk at all Offshore Branches (OSB) and BSP Finance Asset and Liability Committees as well as Group Asset and Liability Committee for PNG and OSB's preparing stress testing on Market and Liquidity Risk for PNG and all Offshore Branches.

Market risk is focused on managing risk to BSP's earnings arising from movements in Foreign Currency Exchange Rates and Interest Rates Risk. Market Risk arises through BSP's trading and balance sheet activities and comprises general market risk and specific market risk. Liquidity risk captures the risk that BSP has capacity to fund increases in assets, or the risk of loss due to increased costs of ensuring that demands to meet financial obligations are met without disrupting normal day-to-day business.

In 2019 Group Compliance was established as its own Strategic Business Unit (after previously being a Business Unit under Risk Management) in recognition of the evolving significance and impact of compliance functions, the growing expectations of stakeholders, and the increased levels of regulatory complexity, scrutiny and reporting. Group Compliance consists of 3 business units: Compliance & Anti-Money Laundering (AML), Internal Audit, and Credit Inspection.

The Compliance & Anti-Money Laundering Business Unit ensures compliance risk is effectively managed and all applicable laws, regulations, standards,

The Compliance & Anti-Money Laundering Business Unit ensures compliance risk is effectively managed and all applicable laws, regulations, standards, guidelines and rules are adhered with.

The growing expectations of stakeholders and the increased regulatory complexity, scrutiny and report paved way for the BSP to establish a new Group Compliance SBU.

guidelines and rules are adhered with. In addition it ensures compliance with all AML/CTF laws and guidelines to avoid criminal and regulatory sanctions and to minimise the risk of the Bank being used for money laundering and terrorist financing. In line with the increased domestic and international focus in compliance and AML/CTF, BSP has further strengthened this function throughout 2019 by more than doubling its team size, all of whom are ACAMS trained, and introducing industry leading technology to detect and prevent financial crime. A major focus has been developing a compliance culture through the organisation with all staff required to complete at least two AML trainings during the year.

The Internal Audit Business Unit independently evaluates and reports the effectiveness of BSP Group's risk management, controls, and governance processes. It does this by conducting regular risk-based audits of BSP's Papua New Guinea and offshore branch, sub-branch and agency network, and it's technology, operations and support functions. Ninety-four (94) audits were completed across all countries and subsidiaries in 2019 with a major focus on adherence to AML/CTF policies and Central Bank requirements. Key areas audited throughout included various human resources functions, business continuity management and disaster recovery testing, the procurement to payables process, and transaction and channel.

This Credit Inspection Business Unit independently assess loan submissions, compliance with credit policies & procedures, and portfolio quality assurance in order to enhance the standard of credit decisioning by detecting any material shortcomings in the assessment, approval, management, control, and reporting of credit and counterparty risk. Credit Inspection continues to review material credits and its coverage in 2020 will increase across all loan portfolios within the BSP Group.

BSP's Financial Reporting continued to improve/streamline the processes and now finalises PNG Bank results by the first working day of the month. It is also delivering cleaner reconciliations, reduced Group consolidation completion times, financial statements for both half year and annual reporting, and improved Subsidiary Reporting and Budgeting. In addition, the team has improved the capitalisation of fixed assets from work in progress, through increased cooperation with Business Units. Despite the recent efficiency gains, the team will continue to identify and address improvement areas where required in 2020.

The Finance team has continued to support the Core Banking team with the data migration exercises and other modules. The successful implementation of IFRS 16 within the Bank and the Group was a major achievement.

Key Operations Summary

Training Focus

Credit Risk training and staff development was a key focus during the year.

2.0% increase Group Non-accrual loans

Reflecting more subdued conditions in PNG and Solomon Islands in particular.

Meeting AML/CTF policies

Ninety-four (94) audits were completed across all countries and subsidiaries in 2019 with a major focus on adherence to AML/CTF policies and Central Bank requirements.

Broader Group

PEOPLE

We respect and value our people and our customers.


Access your
funds worldwide

BROADER GROUP

Key Metrics

NPAT
NZ$3.3m
Net Profit After Tax 11.1% increase from 2018

DEPOSITS
NZ$231.1m
18.5% increase from 2018

COOK ISLANDS

BSP Cook Islands has delivered a good financial result in 2019, a Net Profit After Tax (NPAT) of NZD3.3m was achieved, representing an 11.1% increase on 2018. The performance was underpinned through loan growth of 2.1% in 2019, resulting in a gross loan position of NZD94.3m and a digital banking focus returning uplift in merchant revenue of 7.2%.

Strong deposit growth has continued in 2019, BSP Cook Islands finished with total deposits of NZD231.1m, an 18.5% increase on 2018. Increases in Government and wholesale funds and general economic activity has underpinned the result. Overall, 2019 has been a good year and staff should be congratulated for their efforts. Further investment has been made to expand services and reach throughout the Pa Enua, with all Southern Group Islands now represented with BSP agents. Participation in BSP financial literacy programs continues to increase with over 1,300 completing the program in 2019.

BSP's strategic focus for 2020 continues to be based around customer e-channel experience and we expect to introduce several new initiatives to promote merchant activity and assist with online payments. Preparation in anticipation of project compass, diligent management of the balance sheet, including placements, and maximising cost reduction opportunities will be also is key focuses, to drive continual improvement in income and overall financial returns.

BSP's strategic focus for 2020 continues to be based around the customer's e-channel experience.

Overall for BSP Cook Islands, 2019 has been a good year and staff should be congratulated for their efforts.

FIJI

BSP Fiji delivered another strong year of financial performance in 2019, with Net Profit after Tax (NPAT) of $52.1m, representing a substantial increase of 23.2% over the prior year's result. The favourable result was underpinned by continued growth in the loan portfolio resulting in a further uplift in market share from 25.2% in December 2018 to 25.9% in December 2019, while operating expenses were tightly controlled through diligent cost management.

This result was achieved in a challenging business environment and reflects the high-level commitment of BSP's staff. The Fijian economy recorded its lowest growth rate in a decade (GDP growth forecast between 1.0% and 1.7% for 2019). The banking system liquidity dropped from an average of $650m in 2018 to around $300m in 2019 putting pressure on deposit rates. As a consequence, lending interest rates had to be increased by all Banks to counter the increased Cost of Funds.

The business remained highly focused on good risk management practices by aligning operating policies, procedures and processes to that of the 'Group' and also on compliance with high Corporate Governance standards set by the Group Board.

In 2019, BSP Fiji launched an EMV chip enabled Visa Debit card, whereby customers can use a combination of a 'Touch & Go', 'Touch & PIN' and 'Insert & PIN' payment methods depending on the number of transactions and the values.

BSP's strategic focus for 2020 will be to further improve our Digital capabilities and the overall customer experience through product enhancements and high service standards, as we strive to become the number one Bank in Fiji.

Key Metrics

NPAT

FJ$52.1m

Net Profit After Tax 23.2% increase from 2018

LOAN PORTFOLIO

25.9%

Uplift in market share from 25.2% in December 2018 to 25.9% in December 2019

The business remained highly focused on good risk management practices by aligning operating policies, procedures and processes to that of the 'Group' and also on compliance with high Corporate Governance standards set by the Group Board.

BROADER GROUP
(CONTINUES)

Key Metrics

NPAT

SB$94.1m

2% decrease from 2018

SAMOA

BSP Samoa had a strong year in 2019. In a stable economic environment and despite the impact of the measles outbreak in the last quarter of the year, we achieved record financial results, reflecting strong underlying performance across our business. The strength of our balance sheet and a prudent growth strategy has led to the Bank maintaining strong market shares in both lending and deposits.

In 2019, the Bank grew Net Profit After Tax (NPAT) by 46% to ST$15.4m, which generated a return on assets of 2.8% and return on equity of 17.5%. Loans grew 12% to $363m, while deposits grew 21% to $447m. Total assets rose to $553m, which was a 19% increase over the prior period. These results were achieved whilst maintaining focus on strong asset quality. Customer retention had been achieved by quicker credit decisions, efficient drawdown processes and an expanded electronic footprint that included 20+ ATMs, 30+ agencies and over 420 EFTPoS terminals. The introduction of BSP EMV chip enabled Visa Debit Cards with added security levels that match world class standards, also reaffirms our commitment to innovative and technology solutions that provide convenience and security for our customers.

We grew our commitment to our community via numerous events, placing priority on health and quality of life projects, renewable energy, the environment, financial literacy, youth and sports development and education. BSP's main community project in 2019, involved the installation of water tanks for 3 villages and the funding of dining facilities for the Samoa Victim Support Group's School of Hope. BSP in support of the seven (7) staff members who were affected by the measles outbreak, donated $1,000 plus supplies to each member. In addition, the bank joined the national efforts to provide much needed resources for the hospitals, by donating $60,000 in cash and supplies to the Government of Samoa.

Our success is predicated upon the dedication and talent of BSP people delivering superior services to our customers, and the strength of our culture has been reflected in the way we embed a values-driven approach to our work. Staff are to be acknowledged for their ongoing commitment, making possible strong results in 2019.

As we move through 2020 and beyond, BSP is well positioned to execute our long-term strategic vision.

Key Metric

NPAT

ST$15.4m

46% increase from 2018

SOLOMON ISLANDS

BSP Solomon Islands increased its loan portfolio by 5%, which is a very good result in the context of our overall market share. Market share reduced slightly from 55.5% in 2018 to 54.8% in 2019. While our deposits decreased by 0.03% in 2019, our market share increased to 53.3% from 52.2% in 2018.

BSP Solomon Islands financial result for 2019 was a Net Profit After Tax (NPAT) of SBD$94.1m, which represented a 2% decline on the prior year. The result was impacted by a number of operational issues, which have now been resolved with improved processes and controls in place. A Disaster recovery site was established and tested during the year.

This year also saw BSP Solomon Islands introduce EMV Chip Cards technology to provide our customers greater protection and enhanced capability through tap and go functionality.

With eight (8) branches and seven (7) official agents and 55 Branchless Agents, all BSP staff are to be proud of serving the majority of the Solomon Islands.

The 2019 result for BSP Solomon Islands could not have been achieved without the efforts of all of our 260 staff and they are thanked for their continued commitment to ensuring BSP remains the Premier Bank in the Solomon Islands.

With eight (8) Branches and seven (7) official agents and 55 Branchless Agents, BSP is the only Bank that is serving the majority of the Solomon Islands.

Pictured, official opening of SIPA' ATM.

NPAT

TOP$11.2m

5% increase from 2018

NPAT

VUV186.5m

Behind budget due to lower income generation and credit quality

TONGA

BSP Tonga Ltd has delivered another strong year of financial performance in 2019, with a Net Profit after Tax of T$11.2m, representing growth of 5% over the prior year. The favourable result was underpinned by continued growth in the loan portfolio of 6%, solidifying our No 1 position in the market, at 42% in loans and 40% in deposits. In addition, operating expenses were tightly controlled.

February 2019 saw the completion of Nuku'alofa Branch refurbishment, offering customers and staff a spacious and modern banking experience. This was received extremely well by the Tongan market, reflected in positive feedback and by our excellent customer survey results.

BSP also successfully installed its backup Disaster Recovery site and upgraded its electronic channels network by introducing EMV Chip Card technology, which provides increased enhanced security for customers and touch and go capabilities on our EFTPoS machines.

The other highlight of 2019 was the first visit by the BSP Group Board to Tonga in July, which was greatly appreciated by staff and customers alike.

In addition to this, BSP has continued to expand its agency network with one (1) new MoneyGram agent and four (4) new BSP agents. The Island of Nomuka, situated in the Ha'apai group of islands was one of these new agents - BSP is the first bank to provide banking services to these islands.

BSP Tonga continued its commitment to the community with our digital financial literacy program delivered to over 8,000 people throughout the Kingdom of Tonga. BSP Tonga also supported various community initiatives, including the upgrade our netball court and children's playground, as well as major sponsorships to Open Heart International, SPAW, Heilala Festival, One Tonga, Kolomotu'a Rugby 7s, Vava'u Tourist Association and Tonga Diabetes Association.

Finally, I would like to acknowledge the staff both in Tonga and the support provided by PNG in their commitment to the business and in making the 2019 result possible.

VANUATU

Vanuatu will be the first BSP country to implement the new Core Banking System (Oracle FLEXCUBE) in October 2020. The benefits of the new Core Banking System will include standardisation of business processes within the group, improved timelines through automated regulatory and management reporting, web based solution, common training across the group, greater level of customer centricity, operational control, product flexibility and operating efficiency whilst reducing the overall cost of maintaining the infrastructure.

BSP Vanuatu continues to focus on expanding its banking services and being an active corporate member in the community. With 27 ATMs, 30+ active agents and over 450 EFTPoS terminals, BSP Vanuatu works to support communities and bring banking services to all Vanuatu population segments. Our expanding footprint also allows us to work in conjunction with government initiatives, to bring financial inclusion to a greater portion of the population. This is reflected in the opening of three (3) new agencies in 2019 and plans for further expansion of the agency business in 2020. In March 2019, the second Port Vila Branch located at Freswota was officially opened. This additional presence in Port Vila enabled BSP to meet the needs and expectations of our growing customer base. In December 2019, our disaster recovery site was installed and operational.

BSP Vanuatu actively participates in the community as one of the major investors and employers in Vanuatu. With a strong focus on corporate responsibility, BSP Vanuatu plays an active role in supporting the broader business community, including backing government led initiatives and promoting go green projects within schools and communities. In September 2019, BSP Vanuatu appointed its first ever Ni-Vanuatu female independent Director.

Financially, BSP Vanuatu declared a Net Profit after Tax of VUV186m in 2019, with performance behind budget due to lower income generation and credit quality, given more trying economic conditions. The outlook for 2020 is more positive and the business will look to further increase its profitability and market share through various strategic and growth initiatives.

Our expanding footprint also allows us to work in conjunction with government initiatives, to bring financial inclusion to a greater portion of the population in the Pacific.

Subsidiaries

TEAMWORK

We work with, and for, each other; we progress together.

Subsidiaries

Key Highlights

BSP FINANCE

PGK4.3m
Full Year Profit

FJ$4.4m
Full Year Profit

- **US$2.9m**
  Full Year Profit
- **US$47m**
  Loan Portfolio

BSP CAPITAL

PGK876k Profit
Compared to a loss of K803k in 2018

BSP FINANCE

Papua New Guinea

BSP Finance PNG achieved a full year profit of K4.3m in 2019. Delays in key resource projects in the country meant marginal growth in profitability compared to the prior year. However, the loan book quality improved significantly, with the business reporting a lower level of defaults when compared to prior years.

The next 12 months will be spent expanding our footprint in the country, by leveraging off the wider BSP network and establishing relationships with key personnel involved in major resource projects. Internally, the business will continue to review all its procedures from an efficiency standpoint, whilst ensuring that available technologies and systems are utilised more effectively.

Fiji

BSP Finance Fiji continued to perform well in 2019, recording a profit of FJ$4.4m despite a somewhat subdued economy.

Depressed liquidity in the market threatened to derail operations in 2019, however the business was able to successfully navigate through this with support from BSP Bank Fiji. The opening of the Lautoka branch in 2019 was well received by the local community and reaffirmed the commitment of the company to offering financial products and services to as many Fijians as possible.

Cambodia

The business reported a profit of USD2.9m in 2019 that exceeded budget expectations. With a loan portfolio of USD47m, the business has fast established itself as one of the leading asset finance companies in Cambodia, despite a very competitive market. Internally, the business will continue to work closely with the BSP Group to develop a compliance focused culture and strong internal controls. While there will be some short term liquidity challenges until funding arrangements are finalised in 2020, the business is poised to experience another year of strong growth in a fast growing economy with great potential.

Solomon Islands

The establishment of procedures and improvement of processes were the main activities in 2019. With the business now stabilised, the team is focused on growing market share and increasing brand presence in 2020. Our speed to market will continue to be the key selling point amongst target customers in Honiara, with a view to increasing penetration in locations outside of the capital as well. Similarly, the company will continue to leverage off the BSP Group to maximise sales opportunities. From a resourcing perspective, the business will continue to invest in its people in 2020 through training and provision of support from PNG Head Office.

BSP CAPITAL

In 2019, BSP Capital delivered a significant turnaround with improvements across its business, resulting in a profit of K876k, compared to a loss of K803k in 2018. Funds under Management grew by 7.4% from K6.8bn to K7.2bn as at 31 December 2019.

During the year BSP Capital entered into an agreement to sell its stockbroking business to JMP Securities (a subsidiary of Pertusio Capital). The sale was contingent on the PNG Securities Commission granting Securities licenses as well as PNGX granting membership to JMP Securities. Both conditions

Key Highlights

BSP LIFE

FJ$46.9m

Investment portfolio grew by $46.9m in 2019, exceeding $760m

Launch

Wantok Group Term Life in March 2019

were satisfied in late 2019 and we are now in the process of transitioning the business to JMP Securities.

Advisory transactions were also mired by the slow economic environment experienced during 2019. Nonetheless, we remain positive that a number of advisory initiatives will be progressed in 2020.

BSP LIFE

Fiji

2019 was the first full year of operations for BSP Life Fiji's new core system. With the new system in place, it allowed the business to re-focus initiatives to support strategic goals and financial targets.

The year started with our new managing director Michael Nacola replacing Malakai Naiyaga, who had built the BSP Life brand since acquisition from Colonial in 2010. Malakai's term marked a significant chapter in BSP Life's history, transitioning the Life and Health Insurance businesses from turbulent waters to a steady growth state. Sound financial outcomes through the decade are testament to Malakai's leadership, laying the foundation for future growth.

A new program on work-place culture called "The BSP Life Way" was introduced to invigorate our Vision and Values and strengthen our service excellence focus. Under the BSP Life Way, a number of strategic initiatives were implemented including developing a stronger risk and compliance culture; streamlining processes to optimise resources and improve customer outcomes; heightened focus on cost management; broadening our markets; improving our on-line presence through a website re-design and introduction of a customer self-service portal; development of a new endowment product for Life and new suite of Medical products for Health; new marketing positioning to support the brand; support for the rollout of BSP Life in PNG; plus strategic investments to support the growing investment portfolio. The year culminated with a new organisation structure to support the strategic focus for the next decade.

BSP Life also continued its financial literacy education, advocating life and health insurance as integral parts of strengthening financial futures for all Fijians.

Financially, 2019 delivered above budget profit outcomes for the Health and Life businesses. Group shareholder profit was $20.6m, above budget by 40%. The Life business recorded a profit of $20.4m, above budget by 41%. The Health business recorded a profit of $1.5m, above budget by 22% and doubling 2018 profit. These were positive outcomes considering the subdued economic environment and competitive landscape.

New Business for both Companies improved by 19% over the prior year. Inforce growth (total premiums received) for the Life business was 12% above budget and a 60% improvement on the prior year's growth. Industry data indicates BSP Life's market share on Life inforce (annual premium) at 54%, Medical market share at 54% market and Term Life at 42%.

The investment portfolio grew by $46.9m in 2019, exceeding $760m and placing BSP Life as Fiji's largest institutional investor, outside of the Fiji National Provident Fund.

The favorable investment returns experienced in 2018 continued in 2019. The strong performance of our listed equities contributed significantly to the overall portfolio performance. Our private equities comprising the Sofitel Resort and Spa, Rooster Poultry and the Oceania Hospital in Suva, performed satisfactorily and are poised for further growth in 2020. New key investments included a 15% share acquisition in Port Denarau Marina, further strengthening our presence in the growing tourism sector; a property earmarked for a mixed retail and commercial development in Nadi; and a major refurbishment of the Sofitel Resort and Spa of approximately $40m.

Returns from the portfolio supports dividends to our parent Company, BSP, and provides sustainable bonuses to policyholders. BSP Life will undertake further substantive investments in 2020 and will also explore opportunities to increase offshore investments and the private equities portfolio.

The outlook for 2020 is challenging with only 1.7% GDP growth anticipated, however the business is well positioned to expand, focussing on developing stronger relationships with key partners to grow value for shareholders and policyholders.

PNG

BSP Life PNG Limited (BSP Life PNG) is the youngest subsidiary of the BSP Group which commenced operations in PNG in January 2018 and 2019 was a continuation of the businesses establishment phase.

In March 2019, BSP Life PNG launched its second life insurance product called "Wantok Group Term Life", which is largely distributed via the Broker channel. This product is mainly targeted towards employer based groups and associations who want to provide life insurance cover to their employees or members. At the end of 2019, BSP Life PNG had inforce premium of K2.5m from this product. BSP Life PNG successfully implemented its Life Insurance System (BLIS) – Phase 1 for the Group Term Life product in May 2019 and Phase 2 in December 2019 for the anticipated endowment product (AEP).

A new Sales Unit was established at Level 1 Boroko Banking Centre in November 2019.

BSP Life's strategic focus for 2020 is to deliver rapid premium income growth from the Wantok Group Term Life and Wantok Delite, endowment product and continue capacity building for staff and agents through regular training programs.

Corporate Governance Report

LEADERSHIP

We inspire, we change, and we live our values, and lead by example.

BSP has adopted an approach to corporate governance that is underpinned by our Core Values of Integrity, Leadership, People, Professionalism, Quality, Teamwork and Community.

This approach is supported by a comprehensive framework of corporate governance principles and policies. The BSP Board has demonstrated its commitment to developing and maintaining a standard of corporate governance that seeks to match global practice. The Board ensures that it complies with the requirements of the PNG Exchange Markets (PNGX).

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea and the various countries that BSP operates in. The Board has adopted a statement of Corporate Governance Principles which outlines the approach BSP has adopted to corporate governance. These Corporate Governance Principles provide a framework that helps to ensure that BSP deals fairly and openly with all its stakeholders – regulators, shareholders , customers and staff alike.

BSP's Corporate Governance Principles are available in the Investor Relations section of BSP's website at www.bsp.com.pg.

BSP also complies with the Prudential Standards/Statements dealing with corporate governance issued by the regulators/central banks in the various countries that it operates in. These Prudential Standards/Statements currently include: -

- The Bank of Papua New Guinea (BPNG) introduced its new Banking Prudential Standard BPS300: Corporate Governance (issued under Section 27 of the Banks and Financial Institutions Act 2000) in August 2016. The Effective Date of this Prudential Standard was 1 January, 2017, with full compliance by 31 December, 2018.
- The Reserve Bank of Fiji Banking Supervision Policy Statement No. 11: Governance (Oct 2007).
- The National Reserve Bank of Tonga Prudential Statement No. 9 (revised 2014): Governance.

Corporate Governance Report

THE BOARD OF DIRECTORS

Roles and Responsibility of the Board

The roles and responsibilities of the Board are defined in the Board Charter. This document also details the matters reserved for the Board and matters that have been delegated to management with oversight by the Board.

The Board, with the support of its Committees, is responsible to the Shareholders for the overall performance of BSP, including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising BSP performance and increasing shareholder value. The key functions of the Board are:

- setting overall strategy of BSP, including operating, financial, dividends, and risk management;
- appointing the Chief Executive Officer and setting an appropriate remuneration package;
- appointing General Managers and setting appropriate remuneration packages;
- appointing the Company Secretary and setting an appropriate remuneration package;
- endorsing appropriate policy settings for management;
- reviewing Board composition and performance;
- reviewing the performance of management;
- approving an annual strategic plan and an annual budget for BSP and monitoring results on a regular basis;
- ensuring that appropriate risk management systems are in place, and are operating to protect BSP's financial position and assets;
- ensuring that BSP complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour;
- approving acquisitions and disposals material to the business;
- establishing authority levels;
- setting Directors' remuneration via the Remuneration and Nomination Committee;
- selecting, with the assistance of the Board Audit Committee, and recommending to Shareholders, the appointment of external auditors; and
- approving financial statements.

A number of these responsibilities have been delegated by the Board to various Committees. The Committees and their responsibilities are detailed in Section 2, Board Committees.

The Board has delegated to management responsibility for:

- developing the annual operating and capital expenditure budgets for Board approval, and monitoring performance against these budgets;
- developing and implementing strategies within the framework approved by the Board, and providing the Board with recommendations on key strategic issues;
- appointing management below the level of General Manager and preparing and maintaining succession plans for these senior roles;
- developing and maintaining effective risk management policies and procedures; and
- keeping the Board and the market fully informed of material developments.

Membership, Expertise, Size and Composition of the Board

The Corporate Governance Principles affirm that the majority of the Board should be independent.

Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interest in advance, and absenting themselves from any consideration of matters where a conflict might arise. The BSP's Corporate Governance Principles require Directors to disclose any new directorships and equity interests at each Board Meeting.

The maximum number of Directors, as prescribed by the Constitution approved by Shareholders, is ten. At the date of this report there are nine Directors, with eight Non - Executive all of whom (including the Chairman) are considered by the Board to be independent; and the Chief Executive Officer who is not considered to be independent by reason of being an Executive of BSP. BSP in the ordinary course of business conducts transactions with Directors, their spouses, parents and children and/or parties which any of them control. These transactions include loans, deposits, and foreign currency transactions. Such transactions are carried out on commercial terms at market rates and do not require shareholder approval under Papua New Guinea Company Law. Where they involve loans, procedures follow BSP's standard credit approval and review processes which do not have any involvement of Directors, and BSP holds security in accordance with its standard procedures. As a result, BSP considers that Directors are able to maintain their independence even where a Director is a party to a transaction of this kind because they would not have been involved in the approval process for that transaction.

Under the Constitution, at each Annual General Meeting (AGM) one-third of the BSP's Directors, in addition to any Director appointed during the year, excluding the Chief Executive Officer, must offer themselves for re-election by the Shareholders.

A Director is normally appointed for an initial term of three years. At the end of the term of three years, the Director will become eligible for reappointment by the Shareholders for a further term of three years and, if not reappointed, retires automatically. A Director is not permitted to hold office for a period exceeding three terms of three years or nine years, whichever is the lesser. Details regarding the length of service of each Director are set out in the "Board of Directors" section.

The Board has undertaken a renewal and succession planning process in recent years with the aim of maintaining a proactive and effective Board in line with the directions of the BSP Group. The Board has implemented an independent Board evaluation process to underpin the assessment of its performance.

Consistent with Recommendation 2.2, BSP has a Board skills matrix process. These skills include Risk Management, Regulatory/ Government Policy, business and financial acumen, experience as a Non-Executive Director, remuneration and corporate governance.

The Board, therefore, has a broad range of skills, experience and expertise that enables it to meet its objectives. Details of the Directors' business backgrounds and experience are provided on pages 8 - 11. The Board accepts that it has a responsibility to Shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership.

Consequently, the Board gives careful consideration to setting criteria for new appointments it may recommend to Shareholders in accordance with the Constitution. It has delegated the initial screening process involved to its Remuneration and Nomination Committee which, in accordance with its Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

Consistent with Recommendation 1.2, BSP undertakes appropriate checks before appointing a person as a Director or offering them to Shareholders as a candidate for election, and has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in notices of meeting provided to Shareholders.

Nominees of the Board and/or Shareholders must meet the 'fit and proper person' criteria outlined in BPNG Banking Prudential Standard BPS310: Fit and Proper Requirements before they can take their place on the Board.

Consistent with Recommendation 2.6, BSP has a program for inducting new Directors and providing appropriate professional development opportunities for Directors.

On joining the Board, new Directors are provided with an Appointment Letter setting out the terms of the appointment, a Board induction pack and undertake a comprehensive induction program. In particular, the Appointment Letter specifies the term of appointment, BSP's expectations in relation to time commitment and Committee work, the Director's remuneration arrangements, the Director's disclosure and confidentiality obligations, the Director's insurance and indemnity entitlements, and BSP's key corporate governance policies.

BSP's Senior Management also enter into employment contracts which set out their terms of employment, including their position, duties, reporting lines, remuneration and termination arrangements.

Role and Selection of the Chairman

The Chairman is elected by the Directors and holds the position for a maximum of six consecutive years unless in a certain exceptional instance. The role includes:

- ensuring all new Board members are fully aware of their duties and responsibilities;
- providing effective leadership on BSP's strategy;
- presenting the views of the Board to the public;
- ensuring the Board meets regularly throughout the year, and that minutes are taken and recorded accurately;
- setting the agenda of meetings and maintaining proper conduct during meetings; and
- reviewing the performance of Non-Executive Directors.

Director Independence and Conflict of Interest

Directors are determined to be independent if they are judged to be free from any material or other business relationship with BSP that would compromise their independence.

Prior to appointment, Directors are required to provide information to the Board for it to assess their independence.

In assessing the independence of Directors, the Board will consider a number of criteria including:

- the Director is not an executive of the Group;
- the Director is not a substantial shareholder of BSP or otherwise associated directly with a substantial shareholder of BSP;
- the Director has not within the last three years been a material consultant or a principal of a material professional adviser to BSP, or an employee materially associated with a service provider;
- the Director is not a material supplier to BSP, or a material consultant to BSP, or an employee materially associated with a material supplier or customer;
- the Director has no material contractual relationship with BSP other than as a Director of BSP;
- the Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of BSP.

This information is assessed by the Board to determine whether on balance the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director's responsibilities. Materiality is assessed on a case-by-case basis.

As noted earlier, the Board is cognisant of the need to avoid conflicts of interest and it has in place policies and procedures for the reporting of any matter, which may give rise to a conflict between the interests of a Director and those of BSP. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

BSP fully complies with the requirements of the BPNG Prudential Standard 4/2003 – Limits on Loans to Related Parties.

Related Party Transactions are summarised in Financial Note 30. The Directors' information on page 106 provides details of the Directors' Interests.

Meetings of the Board and Attendance

Scheduled meetings of the Board are held at least six times a year, and the Board meets on other occasions as necessary to deal with matters requiring attention. Meetings of Board Committees are scheduled regularly during the year. The Board has a policy of rotating its meetings between locations where the Group has a significant presence. On these occasions the Board also visits company operations and meets with local management and key customers.

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess BSP's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board members one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Financial Note 27, Directors' and Executive remuneration, provides attendance details of Directors at Board meetings during 2019.

Review of Board Performance

Consistent with Recommendation 1.6, BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The key findings of the 2019 Performance Review are available in Investor Relations section of BSP's website at www.bsp.com.pg.

The Remuneration and Nomination Committee reviews at least annually the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director. The Board is cognisant of the need to continually identify areas for improvement; to ensure that it meets the highest standards of corporate governance; and for the Board and each Director to make an appropriate contribution to the Group's objective of providing value to all its stakeholders. The performance review is facilitated annually by an external consultant.

The Board with the assistance of the Remuneration and Nomination Committee sets the targets for the Chief Executive Officer and Senior Management members under BSP's employee incentive arrangements described below. These incentive arrangements are administered by the Remuneration and Nomination Committee. Performance against the relevant targets is assessed periodically throughout the year and a formal evaluation is undertaken annually.

Board Access to Information and Advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties.

The General Managers of each PNG Strategic Business Unit, Country Managers and General Managers of subsidiaries make regular presentations to the Board on their areas of responsibility.

The Chairman and the other Non-Executive Directors have the opportunity

Corporate Governance Report

to meet with the Chief Executive Officer, General Managers, Heads of Subsidiaries and Country Heads for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

The Board recognises that in certain circumstances, individual Directors may need to seek independent professional advice, at the expense of BSP, on matters arising in the course of their duties. Any advice so received is made available to other Directors. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice.

Company Secretary

The Company Secretary, through the Chairman, is directly accountable to the Board for proper functioning of the Board. Each Director may seek the advice of the Company Secretary. Under the Constitution, the Company Secretary may only be appointed or removed by the Board.

BOARD COMMITTEES

Board Committees and Membership

During 2019, four Committees of the Board were in operation whose functions and powers were governed by their respective charters. These Committees were the Board Audit Committee (BAC), Board Risk and Compliance Committee (BRCC), the Remuneration and Nomination Committee (RNC) and the Disclosure Committee. Membership of the Committees and a record of attendance at Committee meetings during the year are detailed in table below.

Remuneration details are provided in Financial Note 28.

Membership of Board Committees during 2019:

Board Audit & Compliance Commitee *	
Geoff Robb	5/6
Ernest Gangloff	6/6
Arthur Sam	6/6
Stuart Davis	6/6
Frank Bouraga[1]	6/6

Board Risk Committee *	
Geoff Robb	5/6
Ernest Gangloff	6/6
Arthur Sam	6/6
Stuart Davis	6/6
Charles Lee[1]	6/6
Priscilla Kevin[1]	6/6

Remuneration and Nomination Committee	
Freda Talao (Chairperson)	7/7
Faamausili Dr Matagialofi Lua'iufi	6/7
Robert Bradshaw	7/7

[1]Charles Lee, Frank Bouraga and Priscilla Kevin are non executive and non directors, appointed by the board for board development purposes.
* Board members who attend BAC to discuss the year end and half year accounts.

* During the year the Board allocated the responsibility of compliance to the BAC which was renamed BACC with BRCC now BRC focusing on risk issues the amendment was to provide enhanced monitoring of BSP's Compliance Risk, AML/CTF & regulatory requirements.

Sir Kostas G. Constantinou and Augustine Mano are not members of any Board committees.

The names and relevant qualifications and experience of Committee members, and the number of times the Committees met and the number of meetings each member attended, are set out in the "Board of Directors" section.

Board and Committee Charters

BSP's Board and Committee Charters are available in the Investor Relations section of BSP's website at www.bsp.com.pg. The BRCC and BRC Charters were updated to reflect the changed responsibilities.

Committee Structure

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. At the next Board meeting following each Committee meeting, the Board is given a report by the Chairman of the respective Committees and minutes of the meeting are tabled.

Board Audit & Compliance Committee

The BACC assists the Board to discharge its responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of the BACC include monitoring:

- the integrity of BSP's financial statements and their independent audit;
- the financial reporting principles and policies, controls and procedures;
- BSP's internal audit process;
- the effectiveness of internal controls;
- monitor the controls and effectiveness of BSP's compliance obligations;
- the systems for ensuring operational efficiency and cost control;
- the systems for approval and monitoring of expenditure including capital expenditure; and
- review and monitor the processes for monitoring compliance with laws and regulations (both in PNG and in overseas jurisdictions, where BSP operates) and the implementation of Board decisions by management.

Membership of the BACC is formed amongst the Non-Executive Directors, excluding the Chairman. The BACC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BACC additional individuals who are not executives or members of the Board who have specialised skills to assist the BACC. The chairman of the BACC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BACC must meet at least four times annually and special meetings may be convened as required. All meetings must be minuted and tabled at the subsequent BACC meeting. The BACC regularly reports to the Board at the earliest possible Board meeting after each BACC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

Board Risk and Compliance Committee

The BRC (formerly BRCC) assists the Board to discharge its responsibilities of oversight and governance in relation to the implementation of BSP's risk management framework and for the management of BSP's compliance obligations. The responsibilities of the BRC are to:

- review and monitor the principles, policies, strategies, processes and control frameworks for the management of risk (such as credit risk, market risk, liquidity risk, operational risk, compliance risk, reputational risk and other risks);

- oversee BSP's risk profile and risk management strategy, and recommend BSP's risk appetite statement; and

Membership of the BRC is formed amongst the Non-Executive Directors, excluding the Chairman. The BRC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BRC additional individuals who are not executives or members of the Board who have specialised skills to assist the BRC. The chairman of the BRC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BRC must meet at least four times annually and special meetings may be convened as required. All meetings must be minuted and tabled at the subsequent BRC meeting. The BRC regularly reports to the Board at the earliest possible Board meeting after each BRC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

Remuneration and Nomination Committee

The RNC assists BSP in fulfilling its oversight responsibilities regarding the remuneration, succession and recruitment of Directors, Executives and other BSP employees. The responsibilities of the RNC are:

- to oversee the selection and appointment of a Chief Executive Officer, and setting of an appropriate remuneration and benefits package for recommendation to the full Board;
- to determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- in conjunction with the Chief Executive Officer, to identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly; and
- to ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfill its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

The RNC is comprised of three Non-Executive Directors. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board.

Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the Board.

A review of the performance of Committee members will form part of the Board's performance review.

Disclosure Committee

The Board has established a new disclosure committee comprising of the Chairman (or in his absence another Non-Executive Director), the CEO, the Chief Financial Officer of BSP, the Chief Risk Officer and the Company Secretary (Disclosure Committee). The chairman of the Disclosure Committee is the most senior Director present. The members of the Disclosure Committee may vary from time to time, but will consist of at least a Non-Executive Director, two Executive Employees (not including the Company Secretary) and the Company Secretary.

The Disclosure Committee is responsible for, among other things:
(a) approving the release of any announcement to PNGX, other than:
   (i) an announcement that relates to a matter which is both material and strategically important, which will require approval by the Board; or
   (ii) procedural matters such as notice of changes to equity securities or directors' holdings, which will require approval by the Disclosure Officer;
(b) considering whether BSP is obliged or is required to respond to a market rumour or media speculation; and
(c) overseeing the Disclosure Officer's administration of the Continuous Disclosure Policy.

Annual Financial Statements

The BACC reviews the annual financial statements to determine whether they are complete and consistent with the information known to Committee members and to assess whether the financial statements reflect appropriate accounting principles. In particular it:

- pays attention to complex and/or unusual transactions;
- focuses on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies;
- meets with management and the external auditors to review the financial statements and the results of the audit; and
- satisfies itself as to the accuracy of the financial accounts, and signs off on the financial accounts of BSP before they are submitted to the Board.

External Audit

The BACC is responsible for making recommendations to the Board on appointment and terms of engagement of BSP's external auditors. The selection is made from appropriately qualified auditors in accordance with Board policy.

The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. In line with the Prudential Standard of the BPNG, the signing partner in the external audit firm must be rotated every five years.

The Committee reviews annually the performance of the external auditors and, where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the BPNG's Prudential Standard No. 7/2005 - External Auditors, while ensuring their independence is in line with Board policy.

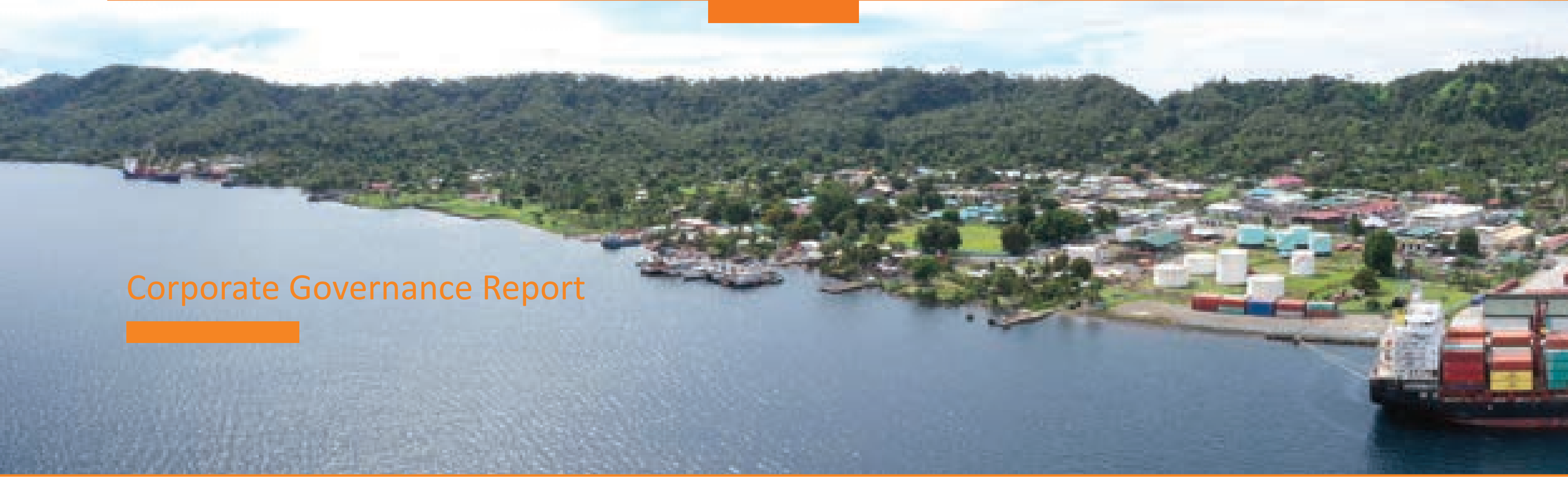
There is a review of the external auditor's proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditors to discuss any matters that the Committee or the external auditors believe should be discussed privately. The external auditor attends meetings of the BACC at which the external audit and half yearly review are agenda items.

The Committee ensures that significant findings and recommendations made by the external auditors are received and discussed promptly, and that management responds to recommendations by the external auditors in a timely manner.

The duly appointed external audit firm may not be engaged by BSP to provide specialist advisory or consultancy services to a bank while that same auditor/ audit firm is engaged for services to conduct BSPs annual audit and related services. Services related to the preparation of a bank's corporate tax return are not prohibited. The external auditor is invited to the Annual General Meeting of Shareholders and is available to answer relevant questions from Shareholders.

The BPNG Prudential Standards provide for a tri-partite meeting between BPNG, the external auditors, and BSP, if required.

BSP's external audit firm is currently PricewaterhouseCoopers (PwC). Representatives of PwC will attend the next Annual General Meeting in May 2020, and be available to answer shareholder questions regarding the audit.



Corporate Governance Report

Internal Audit

BSP has an internal audit function. The BACC approves, on the recommendation of management, the appointment of the Head of Internal Audit. The Committee meets regularly with the Head of Internal Audit.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the Internal Audit Business Unit. The BACC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

The BACC meets separately with the internal auditors to discuss any matters that the Committee, or the internal auditors, believe should be discussed privately. The internal auditor has direct access to the BACC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Compliance

The BACC reviews the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations and the Constitution. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts, or non-compliance.

The Committee obtains regular updates from management and BSP's legal officers regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the BACC has the right to approach a regulator directly in the event of a prudential issue arising.

RISK MANAGEMENT

Approach to Risk Management

The Group's Risk Management activities are aligned to the achievement of the Group's Objectives, Goals and Strategy. The Board, in consultation with the Executive Committee, determines the Group's risk appetite and risk tolerance and this is expressed in the Group Risk Appetite Statement. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

Consistent with Recommendation 7.2, the Board or a Committee reviews the risk management framework at least annually.

BSP recognises the following major risks:

Credit Risk: The potential for financial loss where a customer or counter party fails to meet its financial obligation to the Group.

IT Risk: The current and potential threat to earnings, capital or reputation as a result of a failure of information systems managed, maintained and operated by the Bank.

Market Risk: The potential financial loss arising from the Group's activities in financial, including foreign exchange, markets.

Liquidity Risk: The risk of failure to adequately meet cash demand in the short term.

Interest Risk: Risk to earnings from movement in interest rates.

Compliance Risk: The risk of loss or penalties imposed by a regulator for non compliance with regulations, prudential standards and policies.

Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal.

The Credit Committee monitors credit risk. The Group Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and operational risk is monitored by the Operational Risk Committee. Compliance and AML is monitored by the recently established Compliance and AML business unit, including the maintenance of a risk register system that has been implemented across the Group. The Executive Committee and the Board overview the highest tier of risks within these risk registers.

The Group's Risk Management Policy ensures that the Group has in place acceptable limits for the risks identified by employees. The risk management approach encompasses the following:

- defining the types of risks that will be addressed by each functional or policy area (i.e. credit risk, interest rate risk, liquidity risk, operational risk;
- ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organisation-wide risk management;
- developing information systems to provide early warning, or immediate alert, of events or situations that may occur, or already exist, that could create one or more types of risk for the Group;
- creating and maintaining risk management tools, including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, management and training, and planning;
- instituting and reviewing risk measurement techniques that Directors and management may use to establish the Group's risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes;
- developing processes for those areas that represent potential risks; and
- establishing appropriate management reporting systems regarding these risks so individual managers are provided with a sufficient level of detail to adequately manage and control the Group's risk exposures.

Risk Management Roles and Responsibilities

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the Group's activities. Therefore, responsibility for overall risk management in BSP is vested with the Board. However, every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.

There is a formal system of financial and operational delegations from the Board to the Chief Executive Officer, and from the Chief Executive Officer to the General Managers. These delegations reflect the Group's risk appetite, and are cascaded down to managers who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval/ control authorities/limits) and reporting/monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the SBU Risk Registers, is used to determine the approval/control authorities/limits. The Board undertakes an annual review of the Group's Enterprise Risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Group is able and willing to assume. These guidelines are detailed in the Group's Risk Appetite Statement and Risk Policy and Procedures Manual which have been approved by the Board. The Board has also delegated to the BRC responsibility for overview of loss control and for overseeing the risk management function.

The BRC is responsible for receiving reports and providing regular updates and recommendations to the Board on the risk management activities of the Group, especially relating to risk issues that are outside of the authority of the Group's Executive Committee and other delegated Committees to approve.

Management Assurance

The Board is provided with regular reports about BSP's financial condition and its operating performance. Annually, the Chief Executive Officer and the Chief Financial Officer certify to the Board that:

- in their opinion, the financial records of the Group have been properly maintained;
- in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSP; and
- their opinions above have been formed on the basis of a sound system of risk management and internal control applying to BSP, which is operating effectively;
- Additionally all General Managers and Country Managers provide bi-annual statements attesting that;
- they have assessed and documented the risks and internal control procedures in their Strategic Business Unit;
- they have identified any changes in business, operations and computer systems and the risks that may arise from those changes;
- the risk management and internal compliance and control systems are appropriate and operating efficiently and effectively; and
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

ETHICAL BEHAVIOUR

BSP acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking BSP business. To this end, the Board has adopted:

- a Code of Conduct for both Directors and members of the Executive Management Team of the Group and stipulated that each Director comply with the Code; and
- a Corporate Mission, Objectives, and Core Values Statement which establishes principles to guide all employees in the day to day performance of their individual functions within the Group.

While BSP's Corporate Governance Principles provides that the Board must ensure it maintains an appropriate mix of skills and experience without gender bias, BSP has not adopted a standalone Board diversity policy, which complies with Recommendation 1.5.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board encourages Senior Management to periodically issue staff Toksaves to reinforce both the Code and Core Values Statements. All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues.

BSP is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct. The Group has adopted a whistle-blowing policy that is designed to support and encourage staff to report in good faith matters such as:

- unacceptable practices;
- irregularities or conduct which is an offence or a breach of laws of the countries in which BSP operates in (actions and decisions against the laws of relevant countries including non-compliance);
- corruption;
- fraud;
- misrepresentation of facts;
- decisions made and actions taken outside established BSP policies & procedures;
- sexual harassment;
- abuse of Delegated Authorities;
- misuse of Group assets;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other employees;
- damage to the environment;

Corporate Governance Report

- other unethical conduct;
- failure to comply with appropriate professional standards;
- abuse of power, or use of the Group's powers and authority for any unauthorised purpose or personal gain; and
- breach of statutory codes of practice.

BSP's Code of Conduct for Employees and Directors is available at www.bsp.com.pg in the Investor Relations section.

Directors and management of the Group are subject to Securities Act 1997 restrictions for buying, selling or subscribing for securities in the Group if they are in possession of inside information, i.e. information which is not generally available and, if it were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Group.

Further, Directors and management may only trade in the securities of the Group, subject to the foregoing insider trading restrictions, during each of the eight weeks following the announcements of half yearly profit and yearly profit or the date of issue of a prospectus. Management should discuss proposed share trades with the Chief Executive Officer in advance, who in turn will keep the Chairman of the Board appraised of management activities. Directors should discuss proposed share trades with the Chairman in advance.

In addition, Directors and management must not trade in any other entity if inside information on such entity comes to the attention of the Director or management by virtue of holding office as an Officer of the Group.

BSP's Code of Conduct also requires its employees to act with high standards of honesty, integrity, fairness and equity in all aspects of their employment with BSP.

MARKET DISCLOSURE

The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities. An important aspect of the Group's shareholder communication policy is to comply with the continuous disclosure regime and to implement best practice disclosure policy. BSP has adopted a Continuous Disclosure Policy. This is available at www.bsp.com.pg in the Investor Relations section.

Market announcements are posted to BSP's website immediately after release to the market. All market announcements made by BSP since 2012 are currently available on the website. Where BSP provides financial results' briefings to analysts or media, these briefings are published on the website as soon as possible after the event. In any event, no material information which has not been previously released to the market is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

The Group's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that Shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its continuous disclosure policies and the dealing rules applying to its employees and Directors. BSP has adopted a Securities Dealing Policy. This is available at www.bsp.com.pg in the Investor Relations section.

SHAREHOLDER COMMUNICATIONS

BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

Our Shareholder Communication Policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. Our framework for communicating with Shareholders is to concisely and accurately communicate:

- the BSP strategy;
- how we implement that strategy; and
- the financial results consequent upon our strategy and its implementation.

The Group uses shareholder forums such as the Annual General Meeting, and quarterly investor briefings, within disclosure policies, to communicate financial performance and strategies.

BSP's Shareholder Communication Policy is available at www.bsp.com.pg in the Investor Relations section.

Consistent with Recommendation 6.4, BSP gives Shareholders the option to send and receive communications from BSP and its share registry electronically. From 2017, BSP and its share registry will use technology to facilitate the participation of Shareholders in meetings consistent with Recommendation 6.3.

To facilitate effective communication between BSP and its Shareholders, potential investors, analysts and other financial markets participants, BSP conducts periodic market briefings, including half and full year results announcements and attendance at conferences. Shareholders, potential investors, analysts and other financial markets participants are given access to BSP Directors and Senior Management at these events, and the presentation material provided at these events announcement to the market prior to commencement and subsequently uploaded to BSP's website.

REMUNERATION

Executive Remuneration

BSP remuneration policy for Senior Management (including the Chief Executive Officer and the Chief Financial Officer) is comprised of a fixed component and an at risk component that is a combination of short term rewards and long term incentives.

Remuneration packages are approved by the Remuneration and Nomination Committee, and details are provided by the Committee to the Board.

Fixed remuneration is reviewed at the time of contract renewal taking into account the nature of the role, comparable market pay levels, and individual and business performance.

Members of Senior Management who serve as Directors of subsidiaries of BSP receive no fees for their service as a Director.

Non-Executive Director Remuneration

Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool approved periodically by Shareholders.

Under the Constitution, the Board determines the total amount paid to each Non-Executive Director as remuneration, subject to the aggregate amount not exceeding the amount fixed by the Shareholders in the Annual General Meeting. Shareholders are required to approve any change to this aggregate amount. In 2018, the Shareholders approved an increase in the pool to PGK 4.5 million.

Directors may also be reimbursed their reasonable travel and other expenses incurred in attending to BSP business. Directors may also receive additional remuneration if they, perform any additional services at the request of the Board.

Non-Executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share or share option programs or the employee incentive schemes described below.

A table of fees paid to Directors during 2019 is produced on page 77.

Employee Incentive Schemes

BSP has established the following incentive arrangements to assist in the recruitment, retention and motivation of Senior Management and employees, and to directly link performance and behaviour to long term financial results and shareholder value.

BSP does not currently have any equity-based remuneration schemes. Under BSP's employee incentive arrangements below, participants are not currently entitled to receive grants of shares or share options.

Long Term Incentive Plan

BSP also has a Long Term Incentive Plan (LTIP) for certain senior employees. The LTIP is currently in use.

While performance rights are calculated by reference to earnings per share (EPS), participants are not entitled to receive grants of shares or share options. Rather, participants are entitled to receive an amount up to 10%, 15% or 30% of their fixed annual remuneration depending on their level of seniority.

The LTIP runs on a two year performance cycle, commencing on 1 January in the first year and ending on 31 December the following year.

The LTIP is administered by the Remuneration and Nomination Committee, who reviews and endorses the proposed EPS performance target, employee participation, employee awards and any planned changes to the Board for approval.

If the EPS target for a cycle is achieved, the matrix set out below is used to determine the award at the end of that cycle.

Exercising the performance rights is subject to the condition that BSP's net profit after tax (NPAT) for the vesting year is above BSP's NPAT in the issuing year.

Participants are personally responsible for any income tax liability in respect of payments made under the LTIP.

If a participant resigns their employment for health reasons or retires prior to vesting, awards may be made in full or pro rata at the time of exit, at the discretion of the Board. If a participant resigns or their employment is terminated on disciplinary grounds prior to the vesting, awards are not granted.

WEBSITE

Shareholders can access BSP's financial reports, market announcements, corporate governance policies and various other shareholder resources from the "Investor Relations" tab of its website at www.bsp.com.pg.

Shareholders can also access details of BSP's history, business and structure from the "About Us" tab of the website.

SUSTAINABILITY RISKS

BSP identifies and manages its material exposures to economic, environmental and social sustainability risks within the risk management framework described above. In particular, BSP has a separate Social and Environmental Management Systems Policy which identifies and manages these risks. This policy applies to all Directors and employees of BSP.

Under the Social and Environmental Management Systems Policy, BSP has adopted performance standards, completes due diligence and risk assessments, and undertakes incident and grievance reporting. BSP will not support or assist any project that causes or is likely to breach social or environmental regulation in the countries in which it operates.

#	Approved EPS Hurdles	EPS target to achieved	Target NPAT	Percentage of Performance Rights to exercise
1	107.5% >	As recommended by RNC and approved by Board each LTIP cycle.	As recommended by RNC and approved by Board each LTIP cycle	150% of Performance Rights
2	102.5% >			100% of Performance Rights
3	97.5% >			50% of Performance Rights

Financial Statements

INTEGRITY

We are honest, committed, trustworthy and reliable in our dealings with our customers and each other.

Directors' Report

for the year ended 31 December 2019

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 2019. In order to comply with the provisions 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 fund management and life business services throughout Papua New Guinea and the Asia Pacific region. BSP is a company listed on the PNG Exchange Markets (PNGX), 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 Group is also licensed to operate in the Solomon Islands, Fiji, Cook Islands, Samoa, Tonga, Vanuatu and Cambodia. The registered office is at Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Port Moresby.

Review of operations

For the year ended 31 December 2019, the Group's profit after tax was K890.363 million (2018: K844.072 million). The Bank's profit after tax was K845.828 million (2018: K787.446 million).

The Directors are of the view that 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 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.

The results of the Bank and the Group 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.

Dividends

Dividend totalling K653.940 million were paid in 2019 (2018: K597.364 million). A detailed breakup of this is provided in Note 24.

Directors and officers

The following were directors of the Bank of South Pacific Limited at 31 December 2019:

Sir K Constantinou, OBE	Mr. R Fleming, CSM	Mr. S Davis
Mr. E B Gangloff	Mr. A Mano	Mr. R Bradshaw
Mr. G Robb, OAM	Dr. F Lua'iufi	Mr. A Sam

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 28 of the Notes to the Financial Statements. The CEO Robin Fleming is the only executive director.

The company secretary is Mary Johns.

Directors' Report *(continued)*

for the year ended 31 December 2019

Independent auditor's report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 98. 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 and sponsorships

Donations and sponsorship by the Group during the year amounted to K5.581 million (2018:K8.004 million).

Change in accounting policies

Changes to accounting policies that impacted the Group's result during the year are included in Note 1(A) of the Notes to the Financial Statements.

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 26th day of February 2020.

Sir Kostas G. Constantinou, OBE Chairman	Robin Fleming, CSM Group Chief Executive Officer/Managing Director

STATEMENTS OF COMPREHENSIVE INCOME

for the Year Ended 31 December 2019

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2019**	**2018**	**2019**	**2018**
Interest income	2	1,585,773	1,561,691	1,477,235	1,460,484
Interest expense	2	(193,989)	(180,895)	(180,464)	(166,090)
Net interest income		**1,391,784**	**1,380,796**	**1,296,771**	**1,294,394**
Fee and commission income	3	384,761	382,508	346,951	347,892
Other income	4	364,130	363,488	373,366	353,528
Net banking operating income		**2,140,675**	**2,126,792**	**2,017,088**	**1,995,814**
Net insurance premium income		152,233	143,097	-	-
Investment revenue		168,829	156,547	-	-
Increase in policy liabilities	40(b)	(59,746)	(71,616)	-	-
Policy maintenance and investment expenses		(119,138)	(111,385)	-	-
Claims, surrender and maturities		(116,927)	(97,295)	-	-
Share of profits from associates and jointly controlled entities		5,424	19,565	-	-
Net insurance operating income	40(a)	30,675	38,913	-	-
Net operating income before impairment and operating expenses		2,171,350	2,165,705	2,017,088	1,995,814
Impairment on financial assets	5	(99,183)	(82,440)	(88,092)	(71,639)
Impairment on subsidiary	8	-	-	-	(803)
Operating expenses	5	(819,248)	(887,097)	(740,729)	(806,833)
Profit before income tax		**1,252,919**	**1,196,168**	**1,188,267**	**1,116,539**
Income tax expense	6	(362,556)	(352,096)	(342,439)	(329,093)
Net profit for the year		**890,363**	**844,072**	**845,828**	**787,446**
Other comprehensive income *Items that may be subsequently reclassified to profit or loss:*					
Translation of financial information of foreign operations to presentation currency	25	10,620	1,052	5,493	1,267
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve	25	3,642	4,948	3,664	5,435
Fair value gain on remeasurement of investment securities	25	(14)	8	(14)	8
Net movement in asset revaluation	25	(5,719)	1,624	(5,714)	-
Other comprehensive income, net of tax		**8,529**	**7,632**	**3,429**	**6,710**
Total comprehensive income for the year		**898,892**	**851,704**	**849,257**	**794,156**
Earnings per share - basic and diluted (toea)	**24**	**190.6**	**180.6**	**181.0**	**168.5**

The attached notes form an integral part of these Financial Statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2019**	**2018**	**2019**	**2018**
ASSETS					
Cash and balances with Central Bank	10	1,816,564	1,253,449	1,510,406	966,707
Treasury and Central Bank bills	11	2,459,497	2,494,700	2,420,088	2,480,356
Amounts due from other banks	12	1,022,469	854,019	997,816	796,180
Statutory deposits with Central Banks		1,766,601	1,685,544	1,693,300	1,622,035
Other financial assets	17	2,121,071	2,555,443	1,572,755	2,073,873
Loans, advances and other receivables from customers	13	13,200,807	12,530,649	11,819,970	11,232,725
Property, plant and equipment	14	879,942	693,277	698,755	538,181
Assets subject to operating lease	14	48,133	52,433	48,133	52,433
Investment in joint ventures	9	202,040	175,579	20,787	20,038
Investment in subsidiaries	8	-	-	378,263	347,597
Intangible assets	7	196,206	174,623	177,601	152,551
Investment properties	16	168,360	153,665	-	-
Deferred tax assets	6	250,846	239,607	246,086	234,391
Tax receivable	6	27,588	12,753	30,275	17,020
Other assets	18	366,994	205,482	276,618	162,293
Total assets		**24,527,118**	**23,081,223**	**21,890,853**	**20,696,380**
LIABILITIES					
Amounts due to other banks	19	83,931	51,539	162,145	116,019
Customer deposits	20	19,339,056	18,232,766	17,981,756	16,959,170
Subordinated debt securities	21	-	75,525	-	75,525
Other liabilities	22	1,751,894	1,623,992	759,755	766,981
Deferred tax liabilities	6	31,542	31,163	-	-
Other provisions	23	203,662	194,103	186,574	177,799
Total liabilities		**21,410,085**	**20,209,088**	**19,090,230**	**18,095,494**
SHAREHOLDERS' EQUITY					
Ordinary shares	24	372,310	372,364	372,310	372,364
Retained earnings	25	2,394,382	2,156,873	2,173,836	1,976,138
Other reserves	25	346,513	339,320	254,477	252,384
Equity attributable to the members of the company		**3,113,205**	**2,868,557**	**2,800,623**	**2,600,886**
Minority interests		3,828	3,578	-	-
Total shareholders' equity		**3,117,033**	**2,872,135**	**2,800,623**	**2,600,886**
Total equity and liabilities		**24,527,118**	**23,081,223**	**21,890,853**	**20,696,380**

The attached notes form an integral part of these Financial Statements.

for the Year Ended 31 December 2019

All amounts are expressed in K'000	Note	Share capital	Reserves	Retained earnings	Minority Interests	Total
Bank						
Balance as at 1 January 2018		**373,001**	**260,374**	**1,777,627**	**-**	**2,411,002**
IFRS 9 transition provisions		-	-	(10,221)	-	(10,221)
Restated balance as at 1 January 2018		**373,001**	**260,374**	**1,767,406**	**-**	**2,400,781**
Net profit		-	-	787,446	-	787,446
Other comprehensive income		-	6,710	-	-	6,710
Total comprehensive income		**-**	**6,710**	**787,446**	**-**	**794,156**
Dividends paid during the year	25	-	-	(593,414)	-	(593,414)
Share buyback	24	(637)	-	-	-	(637)
Total transactions with owners		**(637)**	**-**	**(593,414)**	**-**	**(594,051)**
Transfer from asset revaluation reserve	25	-	(18,116)	18,116	-	-
BSP Life policy reserve	25	-	3,416	(3,416)	-	-
Balance at 31 December 2018		**372,364**	**252,384**	**1,976,138**	**-**	**2,600,886**
Net profit		-	-	845,828	-	845,828
Other comprehensive income		-	3,429	-	-	3,429
Total comprehensive income		**-**	**3,429**	**845,828**	**-**	**849,257**
Dividends paid during the year	25	-	-	(649,466)	-	(649,466)
Share buyback	24	(54)	-	-	-	(54)
Total transactions with owners		**(54)**	**-**	**(649,466)**	**-**	**(649,520)**
Transfer from asset revaluation reserve	25	-	(4,933)	4,933	-	-
BSP Life policy reserve	25	-	3,597	(3,597)	-	-
Balance at 31 December 2019		**372,310**	**254,477**	**2,173,836**	**-**	**2,800,623**
Group						
Balance as at 1 January 2018		**373,001**	**346,388**	**1,904,462**	**4,484**	**2,628,335**
IFRS 9 transition provisions		-	-	(9,903)	-	(9,903)
Restated balance as at 1 January 2018		**373,001**	**346,388**	**1,894,559**	**4,484**	**2,618,432**
Net profit		-	-	844,072	-	844,072
Other comprehensive income		-	7,632	-	-	7,632
Total comprehensive income		**-**	**7,632**	**844,072**	**-**	**851,704**
Dividends paid during the year	25	-	-	(597,364)	-	(597,364)
Share buyback	24	(637)	-	-	-	(637)
Loss attributable to minority interests	25	-	-	906	(906)	-
Total transactions with owners		**(637)**	**-**	**(596,458)**	**(906)**	**(598,001)**
Transfer from asset revaluation reserve	25	-	(18,116)	18,116	-	-
BSP Life policy reserve	25	-	3,416	(3,416)	-	-
Balance at 31 December 2018		**372,364**	**339,320**	**2,156,873**	**3,578**	**2,872,135**
Net profit		-	-	890,363	-	890,363
Other comprehensive income		-	8,529	-	-	8,529
Total comprehensive income		**-**	**8,529**	**890,363**	**-**	**898,892**
Dividends paid during the year	25	-	-	(653,940)	-	(653,940)
Share buyback	24	(54)	-	-	-	(54)
Gain attributable to minority interests	25	-	-	(250)	250	-
Total transactions with owners		**(54)**	**-**	**(654,190)**	**250**	**(653,994)**
Transfer from asset revaluation reserve	25	-	(4,933)	4,933	-	-
BSP Life policy reserve	25	-	3,597	(3,597)	-	-
Balance at 31 December 2019		**372,310**	**346,513**	**2,394,382**	**3,828**	**3,117,033**

The attached notes form an integral part of these Financial Statements.

STATEMENTS OF CASH FLOWS

for the Year Ended 31 December 2019

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2019**	**2018**	**2019**	**2018**
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,605,387	1,544,691	1,480,232	1,442,960
Fees and other income		779,565	784,910	719,567	680,110
Interest paid		(167,913)	(183,137)	(153,354)	(169,364)
Amounts paid to suppliers and employees		(776,812)	(722,282)	(646,339)	(628,865)
Operating cash flow before changes in operating assets & liabilities	29	**1,440,227**	**1,424,182**	**1,400,106**	**1,324,841**
Increase in loans, advances and other receivables to customers		(737,195)	(1,377,537)	(644,594)	(1,188,543)
Increase in statutory deposits with the Central Banks		(81,058)	(87,166)	(71,265)	(80,939)
Increase in bills receivable and other assets		(201,387)	(121,256)	(98,089)	(103,872)
Increase in customer deposits		1,106,290	446,549	1,022,586	250,889
Movement in bills payable and other liabilities		(184)	232,175	(207,231)	152,467
Net cash flow from operations before income tax		**1,526,693**	**516,947**	**1,401,513**	**354,843**
Income taxes paid	6	(383,287)	(420,430)	(363,837)	(402,213)
Net cash flow from/(used in) operating activities		**1,143,406**	**96,517**	**1,037,676**	**(47,370)**
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease in government securities		429,961	695,907	561,386	785,053
Expenditure on property, plant and equipment		(82,780)	(32,766)	(79,249)	(25,804)
Expenditure on software development costs		(52,108)	(79,163)	(49,979)	(75,468)
Proceeds from disposal of property, plant and equipment		7,076	966	7,076	966
Additional funding of subsidiaries	8	-	-	(30,666)	(10,000)
Net cash flow used in investing activities		**302,149**	**584,944**	**408,568**	**674,747**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	24	(54)	(637)	(54)	(637)
Dividends paid	25	(653,940)	(597,364)	(649,466)	(593,414)
Principal repayments of borrowings	22	(61,153)	(102,866)	(61,153)	(102,866)
Proceeds from borrowings	22	33,670	80,273	33,670	80,273
Subordinated debt securities matured	21	(75,525)	-	(75,525)	-
Net cash flow used in financing activities		**(757,002)**	**(620,594)**	**(752,528)**	**(616,644)**
Net (decrease)/increase in cash and cash equivalents		**688,553**	**60,867**	**693,716**	**10,733**
Effect of exchange rate movements on cash and cash equivalents		10,620	1,052	5,493	1,267
Cash and cash equivalents at the beginning of the year	29	2,055,929	1,994,010	1,646,868	1,634,868
Cash and cash equivalents at the end of the year	29	**2,755,102**	**2,055,929**	**2,346,077**	**1,646,868**

The attached notes form an integral part of these Financial Statements.

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 Statements of Financial Position.

A(i) Basis of Presentation and General Accounting Policies

The 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 International Financial Reporting Standards.

Standards, amendments and interpretations effective in the year ended 31 December 2019

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2019.

- IFRS 16, 'Leases' removes the previous IAS 17 distinction between finance leases and operating leases and now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets.

- Amendment to IFRS 9 on prepayment features with negative compensation. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

- IFRIC 23, 'Uncertainty over income tax treatments' clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. A subsequent IC agenda decision also provided guidance on the presentation of uncertain tax positions.

- Annual improvements 2015 – 2017. These amendments include minor changes to:
  - IFRS 3 'Business combination' – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11 'Joint arrangements' – a company does not remeasure its previously held interest in a joint operation when it obtains control of the business.
  - IAS 12 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23 'Borrowing costs' – a company treats as part of general borrowings any borrowings originally made to develop an asset when the asset is ready for its intended use or sale.

- Amendments to IAS 28 'Investments in associates' on long term interests in associates and joint ventures. These amendments clarify that long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. This includes the impairment requirements in IFRS 9.

- Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement. These amendments require an entity to:
  - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2019 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 2020 or later periods, but the entity has not early adopted them:

- Amendments to IFRS 3 – definition of a business (effective 1 January 2020). This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- Amendments to IAS 1 and IAS 8 on the definition of 'material' (effective 1 January 2020). These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
  - use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting
  - clarify the explanation of the definition of material; and
  - incorporate some of the guidance in IAS 1 about immaterial information.

- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform (effective 1 January 2020). Following the financial crisis, the replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. These amendments relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement under both IAS 39 and IFRS 9. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2019

- IFRS 17 'Insurance contracts' (effective 1 January 2022) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

  It requires a current measurement model where estimates are re-measured at each reporting period. Contracts are measured using the building blocks of:
  - Discounted probability-weighted cash flows
  - An explicit risk adjustment; and
  - A contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual services margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investments contracts with discretionary participation features. The group is in the process of assessing the impact of IFRS 17 to its insurance entities: BSP Life (Fiji) Limited and BSP Life PNG Limited.

A (ii) IFRS 16 Transitional Impact effective 1st January 2019

The Group adopted IFRS 16 Leases as issued by the IASB with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt IFRS 16 in previous periods.

As permitted by the transition provisions of IFRS 16, the Group elected not to restate comparative figures. On the initial application of IFRS 16, no adjustments had to be made to the opening retained earnings as at 1 January 2019 as the right of use assets were recognised at the amount equal to the corresponding lease liabilities. Consequently, for note disclosures, the consequential amendments have only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.25%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

All amounts are expressed in K'000	**2019**
Operating lease commitments disclosed as at 31 December 2018	117,370
Discounted using the lessee's incremental borrowing rate of at the date of initial application	107,048
(Less): short-term leases recognised on a straight-line basis as expense	(2,381)
Add/(less): adjustments as a result of a different treatment of extension and termination options	93,207
Lease liability recognised as at 1 January 2019	**197,874**
Of which are:	
Current lease liabilities	24,435
Non-current lease liabilities	173,439
	197,874

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the commercial and residential properties, and also considered dataline leases totaling K200,325. The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase to K197,874.
- lease liabilities – increase to K197,874.

The net impact on retained earnings on 1 January 2019 was nil.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2019, 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 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 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.

D. Revenue

Interest income and expense
Interest income and expense are recognised in the Statement of Comprehensive Income on an accrual basis using the effective interest rate ("EIR") 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.

Interest income and interest expense for all financial instruments measured at amortised cost is recognised using the effective interest rate method. Interest income is recognised for Stage 1 and Stage 2 financial assets measured at amortised cost by applying the EIR to gross carrying amounts of the financial instruments. For Stage 3 financial instruments, interest income is recognised by applying EIR on the net carrying value of the financial instrument.

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 40.

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

Foreign exchange income or losses
Realised and unrealised gains or losses from foreign currency trading, or from changes in the fair value of the trading assets and liabilities are recognised as income in the Statement of Comprehensive Income in the period in which they arise.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2019

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 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.

Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 34 provides more detail of how the expected credit loss allowance is measured.

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 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 to eight years using the straight-line method. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

J. Property, plant and equipment

Land and buildings are carried at revalued amounts, being their fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Fair value is determined on the basis of regular independent valuations prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings are 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 buildings (premises) upon completion.

Depreciation is provided on property, plant and equipment, including 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% pa
Plant and equipment	Straight line basis	10 - 25% pa
Equipment under operating lease	Straight line basis	3 - 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

(i) The Group's leasing activities and how these are accounted for

The Group leases various offices and branches for its retail operations. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options as described in (iii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(ii) Variable lease payments
The Group does not have any property leases that contain variable payment terms that are linked to sales generated from a branch.

(iii) Extension and termination options
Extension and termination options are included in a number of property leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

(iv) Critical judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options did not have an impact on recognised lease liabilities and right-of-use assets.

(v) Residual value guarantees
The Group does not provide residual value guarantees in relation to its leases.

L. Cash and cash equivalents

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

M. Financial assets & Liabilities

M(1) Financial Assets

Classification and subsequent measurement
The Group classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

a) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 34.1.2. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the mortgage loan book is to hold to collect contractual cash flows, for this portfolio there has been no history of prior period sales and no intention of future sales, hence the classification is amortised cost. Another example is debt securities held within the insurance entities of the bank which are held at FVPL to prevent an accounting mismatch with the associated insurance contract liabilities which are held at fair value through income statement.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

b) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss. Gains and losses on equity investments at FVPL are included in the 'Investment revenue' line in the statement of profit or loss.

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, as described in note 34.1.2, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

De-recognition other than on a modification
Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

M(2) Financial Liabilities

Classification and subsequent measurement
Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities arising from the transfer of financial assets which did not qualify for de-recognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

De-recognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments
Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in note 34.1.2);
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Expected credit loss on loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 34.1.2). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

N. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be recognised and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

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

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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 Group has no further payment obligations for post-employment benefits from the date an employee ceases employment with 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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group 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 Financial Statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these 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 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 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

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 Group's control and the Group remains committed to a sale.

U. Investment Property

Property held for long-term rental yields is classified as investment property. Investment property comprises freehold land and buildings. It is carried at fair value. The fair values have been arrived at on the basis of the valuations carried out by Rolle and Associates and Pacific Valuations Limited, independent valuers not related to the group. The valuers have appropriate qualifications and recent experience in the valuation of properties in Fiji. The valuations were arrived at by reference to current net rental income and capital expenditure and external factors in the Fiji commercial and residential environment such as current supply and demand and expected growth.

Changes in fair values are recorded in profit or loss.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by more than 50% by the companies in the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. The property is carried at fair value after initial recognition.

V. Derivative financial instruments and acceptances

Forward foreign exchange contracts entered into for trading purposes are initially recognised at fair value 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 Group to pay bills of exchange drawn on customers. 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 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.

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.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

The areas involving significant estimates of judgments are:

- Estimated impairment of financial or non-financial assets – note 1(g) and 1(s)
- Estimated goodwill impairment – note 1(h) and 7(a)
- Estimated insurance liability – note 1(d), note 22 and note 40
- Estimation of fair value of financial assets and liabilities – note 1(m) and note 39
- Estimation of fair value of non-financial assets - note 39

Measurement of credit loss allowance for financial assets measured at amortised cost in line with IFRS 9 is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 34.1.2.3, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas are set out in note 34.

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for the Year Ended 31 December 2019

2. NET INTEREST INCOME

Net interest income	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Interest income				
Loans, advances and other receivables from customers[1]	1,238,453	1,156,426	1,125,395	1,053,335
Other financial assets - inscribed stock	198,484	205,333	198,164	205,051
Treasury and Central Bank bills	141,573	194,816	140,086	193,322
Cash and balances with Central Bank	6,189	4,042	9,714	5,664
Other	1,074	1,074	3,876	3,112
	1,585,773	**1,561,691**	**1,477,235**	**1,460,484**
Less: **Interest expense**				
Customer deposits	178,053	152,008	162,912	135,167
Other banks	12,396	20,330	14,012	22,366
Subordinated debt securities	3,540	8,557	3,540	8,557
	193,989	**180,895**	**180,464**	**166,090**
	1,391,784	**1,380,796**	**1,296,771**	**1,294,394**

[1]Group interest income includes K13.079m (Bank K12.957m) recognised on impaired loans (Stage 3) to customers. The Group takes up required provisions on such interest income as detailed in the accounting policy in note 1D.

3. FEE AND COMMISSION INCOME

Fee and commission income				
Product related	182,220	198,017	169,131	185,188
Trade and international related	21,259	18,900	20,366	18,073
Electronic banking related	143,801	129,829	132,861	118,927
Other	37,797	37,098	24,904	27,004
	385,077	**383,844**	**347,262**	**349,192**
Less: **Fee and commission expenses**				
Agencies	181	687	176	651
International Finance Corporation fees	135	649	135	649
	316	**1,336**	**311**	**1,300**
	384,761	**382,508**	**346,951**	**347,892**

4. OTHER INCOME

Foreign exchange related[1]	327,705	313,785	291,308	281,205
Operating lease rentals	7,503	8,473	7,503	8,473
Other[2]	28,922	41,230	74,555	63,850
	364,130	**363,488**	**373,366**	**353,528**

[1]Foreign exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets.
[2]2018 other income includes K19m insurance recovery for an aircraft destroyed by fire.

5. (A) OPERATING EXPENSES

	Consolidated		Bank	
All amounts are expressed in K'000	2019	2018	2019	2018
Administration	95,246	118,334	90,694	114,897
Computing	125,412	136,973	111,245	119,599
Depreciation	107,906	81,000	90,352	64,572
Amortisation of computer development	28,173	27,399	22,577	22,546
Non-executive directors costs	3,639	5,044	3,044	4,559
Non-lending losses[1]	2,318	33,226	1,654	33,094
Fixed asset impairment expenses	1,975	13,888	1,975	13,888
Premises and equipment	60,993	88,924	56,495	80,795
	425,662	**504,788**	**378,036**	**453,950**
Staff costs				
Defined contribution plans	15,531	15,262	14,133	14,021
Statutory benefit contributions	10,929	12,168	10,320	11,216
Wages and salaries	312,239	296,885	286,004	272,331
Other staff benefits	54,887	57,994	52,236	55,315
	393,586	**382,309**	**362,693**	**352,883**
	819,248	**887,097**	**740,729**	**806,833**

[1]Non-Lending losses for 2018 included K13.5m loss on aircraft destroyed by fire, offset by insurance recovery.

(B) IMPAIRMENT ON FINANCIAL ASSETS

Loans and advances (note 13)	101,882	82,380	90,861	71,599
Treasury and Central Bank Bills (note 11)	(1,865)	40	(1,865)	40
Other Financial Assets (note 17)	(834)	20	(904)	-
	99,183	**82,440**	**88,092**	**71,639**

6. INCOME TAX

Income tax expense				
Current tax	368,467	365,551	348,760	347,673
Deferred tax	(8,675)	(12,443)	(9,510)	(20,623)
Current year	359,792	353,108	339,250	327,050
Adjustment to prior year estimates	2,764	(1,012)	3,189	2,043
	362,556	**352,096**	**342,439**	**329,093**
Tax calculated at 30% of profit before tax (2018:30%)	344,898	341,712	356,480	334,961
Tax calculated at respective subsidiary tax rates	22,341	14,798	-	-
Expenses not deductible for tax	6,072	4,453	995	5
Tax loss not recognised	5,548	5,379	-	-
Income not recognized for tax purposes[1]	(19,067)	(13,234)	(18,225)	(7,916)
Adjustment to prior year estimates	2,764	(1,012)	3,189	2,043
	362,556	**352,096**	**342,439**	**329,093**

[1]Income not recognised for tax purpose for the Bank includes dividends received from Subsidiaries which are eliminated upon consolidation whilst the Group number represents actuarial liabilities deductions allowable for BSP Life Fiji Limited.

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for the Year Ended 31 December 2019

6. INCOME TAX (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Tax receivable				
At 1 January	12,753	(31,708)	17,020	(25,231)
Income tax provision	(368,467)	(365,551)	(348,760)	(347,256)
Adjustment to prior year estimates	579	(10,418)	1,004	(12,706)
Other tax related items	(564)	-	(2,826)	-
Tax payments made	383,287	420,430	363,837	402,213
At 31 December	**27,588**	**12,753**	**30,275**	**17,020**
Deferred taxes				
Specific allowance for losses on loans, advances and other receivables from customers	56,215	48,186	53,558	45,011
General allowance for losses on loans, advances and other receivables from customers	137,768	132,757	131,960	127,518
Employee related provisions	26,721	23,983	25,944	23,103
Prepaid expenses	(1,349)	(1,361)	(1,323)	(1,337)
Other provisions	47,422	46,690	45,396	45,017
Property, plant and equipment	(70,969)	(70,128)	(30,223)	(30,338)
Unrealised foreign exchange gains	(1,876)	659	(1,876)	659
Accruals	25,372	27,658	22,650	24,758
At 31 December	**219,304**	**208,444**	**246,086**	**234,391**
Represented by:				
Deferred tax asset	250,846	239,607	246,086	234,391
Deferred tax liability	(31,542)	(31,163)	-	-
At 31 December	**219,304**	**208,444**	**246,086**	**234,391**
Deferred taxes movement:				
At 1 January	208,444	181,934	234,391	200,021
Current year movement	8,675	12,443	9,510	20,623
Adjustment to prior year estimates	2,185	9,823	2,185	9,367
Other movements	-	4,244	-	4,380
At 31 December	**219,304**	**208,444**	**246,086**	**234,391**

7. INTANGIBLE ASSETS

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
7(a) Goodwill				
At 1 January	45,307	45,307	41,051	41,051
Net movement	-	-	-	-
Gross carrying amount	**45,307**	**45,307**	**41,051**	**41,051**

To assess whether goodwill is impaired, the carrying amount of a cash-generating unit is compared to the recoverable amount. The recoverable amount is determined based on fair value less cost to sell, primarily using an earnings multiple applicable to that cash-generating unit. The category of this fair value is Level 3 as defined in Note 39.

Earnings multiples used in the impairment assessment for Non PNG Banks are sourced from publicly available data associated with operations displaying similar characteristics to the Non PNG Banks plus a control premium, and are applied to the current forecast earnings. The key assumption is the Price-Earnings (P/E) multiple observed, which for the Non PNG Banks were in the range of 8.3x – 13.6x (2018: 8.3x – 13.6x).

The goodwill allocated to the Non Bank Entities is not significant.

7(b) Computer development cost				
At 1 January	129,316	62,511	111,500	59,699
Additions	52,108	95,326	49,978	75,469
Disposals	(2,352)	(1,122)	(2,351)	(1,122)
Amortisation expense	(28,173)	(27,399)	(22,577)	(22,546)
At 31 December	**150,899**	**129,316**	**136,550**	**111,500**
Computer development cost	291,324	245,186	256,417	212,614
Accumulated amortisation	(140,425)	(115,870)	(119,867)	(101,114)
At 31 December	**150,899**	**129,316**	**136,550**	**111,500**
Total intangible assets	**196,206**	**174,623**	**177,601**	**152,551**

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for the Year Ended 31 December 2019

8. INVESTMENTS IN SUBSIDIARIES

Name of Subsidiary	Principal activity	Place of Incorporation and Operation	Ownership %	Balance of Investment	
				2019	2018
BSP Capital Limited	Fund Management/ Investment Banking	PNG	100%	2,448	2,448
BSP Life (Fiji) Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Life (PNG) Limited	Life Insurance	PNG	100%	25,000	15,000
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	82,503	61,837
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,610	71,610
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,712	70,712
Bank South Pacific Vanuatu Ltd	Bank	Vanuatu	100%	38,020	38,020
At 31 December				**378,263**	**347,597**

Represented by:

All amounts are expressed in K'000	2019	2018
At 1 January	347,597	338,400
Additional capital	30,666	10,000
Provision for impairment of BSP Capital Limited	-	(803)
At 31 December	**378,263**	**347,597**

9. INVESTMENT IN JOINT VENTURES

Entity	Joint Venture/ Associate	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
				2019	2018
Suva Central Ltd	Joint Venture	Property rental	Fiji	50%*	50%*
Richmond Ltd	Joint Venture	Hotel operation	Fiji	61.3%**,50%***	61.3%**,50%***
BSP Finance Cambodia Plc	Joint Venture	Finance	Cambodia	50%*	50%*

The investments above are accounted for using the equity method in the Financial Statements.
**Both ownership and voting power held, **ownership, ***voting power held.*

9. INVESTMENT IN JOINT VENTURES (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Joint ventures				
Investment in joint ventures	175,579	154,135	20,038	19,157
Investments during the year	14,458	-	-	-
Translation movement	1,812	137	219	(40)
Share of profit for the year	10,191	21,307	530	921
Net investment at 31 December	**202,040**	**175,579**	**20,787**	**20,038**
Summarised financial information of joint ventures:				
Total assets	444,720	340,266	85,039	81,740
Total liabilities	(212,455)	(159,450)	(43,464)	(43,426)
Net assets	**232,265**	**180,816**	**41,575**	**38,314**
Share of profits	10,449	14,354	530	921
Group fair value alignment	(258)	6,953	-	-
Share of profit in Group	**10,191**	**21,307**	**530**	**921**

10. CASH AND BALANCES WITH CENTRAL BANK

Notes, coins and cash at bank	513,241	509,588	496,694	500,332
Balances with Central Bank other than statutory deposit	1,303,323	743,861	1,013,712	466,375
Total cash and balances with Central Bank	**1,816,564**	**1,253,449**	**1,510,406**	**966,707**

11. TREASURY AND CENTRAL BANK BILLS

Treasury and Central Bank bills – face value	2,517,999	2,553,051	2,478,589	2,538,706
Discount for interest receivable	(50,788)	(48,772)	(50,787)	(48,771)
Less allowance for impairment	(7,714)	(9,579)	(7,714)	(9,579)
At 31 December	**2,459,497**	**2,494,700**	**2,420,088**	**2,480,356**
Allowance for impairment				
At 1 January	9,579	9,539	9,579	9,539
Provision/(release) for impairment	(1,865)	40	(1,865)	40
At 31 December	**7,714**	**9,579**	**7,714**	**9,579**

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 as assets held to maturity and carried at amortised cost by the Banking businesses.

12. AMOUNTS DUE FROM OTHER BANKS

Items in the course of collection	29,692	35,426	29,693	35,426
Placements with other banks	992,777	818,593	968,123	760,754
At 31 December	**1,022,469**	**854,019**	**997,816**	**796,180**

The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks includes deposits of K31.275 million held with counter-party Banks that are not available for use by the Group.

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13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Overdrafts	1,008,876	912,057	933,819	848,196
Lease financing	295,381	252,293	258,659	205,744
Term loans	9,903,563	9,510,991	9,114,411	8,767,253
Mortgages	2,605,311	2,403,278	2,159,668	2,000,770
Policy loans	88,280	85,597	-	-
Gross loans, advance and other receivables due from customers net of reserved interest	**13,901,411**	**13,164,216**	**12,466,557**	**11,821,963**
Less allowance for losses on loans, advances and other receivables from customers	(700,604)	(633,567)	(646,587)	(589,238)
At 31 December	**13,200,807**	**12,530,649**	**11,819,970**	**11,232,725**

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 in Note 34. Allowance for losses includes K29.976m (Bank K28.192m) provision taken up for interest recognized on stage 3 loans.

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:

Gross investment in finance lease receivable				
Not later than 1 year	23,152	34,358	19,241	29,746
Later than 1 year and not later than 5 years	309,154	252,531	269,514	200,775
	332,306	**286,889**	**288,755**	**230,521**
Unearned future finance income				
Not later than 1 year	(1,319)	(1,961)	(1,116)	(1,713)
Later than 1 year and not later than 5 years	(35,606)	(32,635)	(28,980)	(23,064)
	(36,925)	**(34,596)**	**(30,096)**	**(24,777)**
Present value of minimum lease payments receivable	**295,381**	**252,293**	**258,659**	**205,744**
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	21,833	32,397	18,125	28,033
Later than 1 year and not later than 5 years	273,548	219,896	240,534	177,711
At 31 December	**295,381**	**252,293**	**258,659**	**205,744**

13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	2019	2018	2019	2018
Provision for impairment				
Movement in allowance for losses on loans, advances and other receivables from customers:				
Balance at 1 January	633,567	577,186	589,238	538,949
Net new and increased provisioning	79,064	66,073	65,049	57,277
Loans written off against provisions / (Write back of provisions no longer required)	(12,027)	(9,692)	(7,700)	(6,988)
At 31 December	**700,604**	**633,567**	**646,587**	**589,238**
Provision for impairment is represented by				
Collective provision	477,305	454,345	439,866	423,965
Individually assessed or specific provision	223,299	179,222	206,721	165,273
At 31 December	**700,604**	**633,567**	**646,587**	**589,238**
Loan impairment expense				
Net collective provision funding	17,552	15,034	13,478	11,526
Net new and increased individually assessed provisioning	61,512	51,039	51,571	45,751
Total new and increased provisioning	**79,064**	**66,073**	**65,049**	**57,277**
Recoveries during the year	(64,042)	(58,936)	(58,178)	(57,508)
Net (write back/write off)	86,860	75,243	83,990	71,830
At 31 December	**101,882**	**82,380**	**90,861**	**71,599**

14. PROPERTY, PLANT AND EQUIPMENT

Carrying value				
Capital Work in Progress	**51,290**	**39,295**	**45,930**	**32,540**
Premises	635,068	646,574	498,827	523,923
Accumulated depreciation	(109,191)	(108,905)	(94,309)	(96,809)
	525,877	**537,669**	**404,518**	**427,114**
Equipment	397,817	366,593	296,823	266,170
Accumulated depreciation	(277,449)	(250,280)	(207,875)	(187,643)
	120,368	**116,313**	**88,948**	**78,527**
Right of Use Assets	209,354	-	184,608	-
Accumulated depreciation	(26,947)	-	(25,249)	-
	182,407	**-**	**159,359**	**-**
At 31 December	**879,942**	**693,277**	**698,755**	**538,181**

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Reconciliation is as follows:				
Capital Work in Progress				
At 1 January	39,295	70,711	32,540	51,065
Additions	129,033	118,851	120,758	108,347
Transfers	(117,038)	(150,267)	(107,368)	(126,872)
At 31 December	**51,290**	**39,295**	**45,930**	**32,540**
Premises				
At 1 January	537,669	560,019	427,114	451,281
Additions	26,067	20,492	13,479	14,355
Disposals	(4,720)	(12,049)	(4,478)	(12,049)
Revaluation gains/ (losses)	(5,416)	(488)	(6,419)	-
Depreciation expense	(27,723)	(30,305)	(25,178)	(26,473)
At 31 December	**525,877**	**537,669**	**404,518**	**427,114**
Equipment				
At 1 January	116,313	107,940	78,527	71,959
Additions	53,562	55,789	46,465	41,258
Disposals	(571)	(1,465)	(419)	(1,335)
Depreciation expense	(48,936)	(45,951)	(35,625)	(33,355)
At 31 December	**120,368**	**116,313**	**88,948**	**78,527**
Right of Use Assets				
At 1 January	-	-	-	-
Additions	209,354	-	184,608	-
Depreciation expense	(26,947)	-	(25,249)	-
At 31 December	**182,407**	**-**	**159,359**	**-**
Assets subject to operating lease				
Carrying value				
Aircraft	59,600	59,600	59,600	59,600
Accumulated depreciation	(11,467)	(7,167)	(11,467)	(7,167)
At 31 December	**48,133**	**52,433**	**48,133**	**52,433**
Reconciliation of carrying value of aircraft is set out below:				
Aircraft				
At 1 January	52,433	70,689	52,433	70,689
Depreciation	(4,300)	(4,743)	(4,300)	(4,743)
Disposal of aircraft	-	(13,513)	-	(13,513)
At 31 December	**48,133**	**52,433**	**48,133**	**52,433**

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	2019	2018	2019	2018
Future minimum lease receipts				
Not later than 1 year	8,253	8,253	8,253	8,253
Later than 1 year and not later than 5 years	2,751	11,004	2,751	11,004
At 31 December	**11,004**	**19,257**	**11,004**	**19,257**

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

Land	21,695	20,865	20,319	20,312
Buildings	148,514	155,727	140,871	146,989
Aircraft	9,274	11,165	9,274	11,165
At 31 December	**179,483**	**187,757**	**170,464**	**178,466**

Land and buildings carried at fair value
Independent valuations of the Bank's land and buildings were performed by 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 30 November 2017 for all properties except for PNG Bank residential properties which were revalued at 30 November 2019.

Assets subject to operating lease – aircraft
An independent valuation of the Bank's aircrafts was performed by Charles Taylor Aviation Asset Management 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 May 2017.

15. LEASES

i) Amounts recognised in the balance sheet				
Right of use assets[1]				
Properties	178,290	-	155,979	-
Equipment	4,117	-	3,380	-
At 31 December	**182,407**	**-**	**159,359**	**-**

[1]Included in the line item 'Property, plant and equipment' in the balance sheet.

Lease liabilities[2]				
Current	30,493	-	24,099	-
Non-Current	159,671	-	139,163	-
At 31 December	**190,164**	**-**	**163,262**	**-**

[2]Included in the line item 'other liabilities' in the balance sheet. In the previous year, the group only recognized lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. These were presented as part of the group's borrowings. For adjustments recognized on adoption of IFRS 16 on 1 January 2019, please refer to note 1.

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for the Year Ended 31 December 2019

15. LEASES (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Additions to the right of use assets during the 2019 financial year	**11,026**	**-**	**10,143**	-
ii) Amounts recognised in the statement of profit or loss				
The statement of profit or loss shows the following amounts relating to leases:				
Depreciation charge of right of use assets				
Properties and equipment	28,239	-	25,359	-
				-
Interest expense (included in finance cost)	4,572	-	3,943	-
Expense relating to short-term leases(included in administrative expenses)	22,225	-	21,717	-
Expense relating to leases of low value assets that are not short term leases (included in administrative expenses)	35	-	-	-
Total cash outflow for leases in 2019	48,432	-	45,173	-

16. INVESTMENT PROPERTIES

Opening net book value	153,665	134,020	-	-
Additions	6,619	13,930	-	-
Translation movement	1,632	(299)	-	-
Gain on revaluation	6,444	6,014	-	-
At 31 December	**168,360**	**153,665**	**-**	**-**

Investment properties have been accounted for in accordance with Note 1 (u).

17. OTHER FINANCIAL ASSETS

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Inscribed stock – issued by Central Bank	1,870,869	2,373,104	1,577,701	2,079,723
Less allowance for impairment	(5,170)	(6,004)	(4,946)	(5,850)
	1,865,699	**2,367,100**	**1,572,755**	**2,073,873**
Financial assets carried at fair value through profit and loss:				
Equity securities	255,372	188,343	-	-
At 31 December	**2,121,071**	**2,555,443**	**1,572,755**	**2,073,873**
Allowance for impairment				
At 1 January	6,004	5,984	5,850	5,850
Provision/(release) for impairment	(834)	20	(904)	-
At 31 December	**5,170**	**6,004**	**4,946**	**5,850**

18. OTHER ASSETS

Funds in transit and other assets	194,315	48,466	146,054	41,863
Accrued interest income	101,066	99,785	93,535	92,532
Intercompany account	-	-	6,960	3,067
Outstanding premiums	17,681	14,954	-	-
Inventory	17,837	12,263	-	-
Prepayments	32,524	25,656	27,815	22,201
Accounts receivable	3,571	4,358	2,254	2,630
At 31 December	**366,994**	**205,482**	**276,618**	**162,293**

19. AMOUNTS DUE TO OTHER BANKS

Vostro account balances	47,083	29,375	66,786	62,465
Other borrowings	36,848	22,164	95,359	53,554
At 31 December	**83,931**	**51,539**	**162,145**	**116,019**

20. CUSTOMER DEPOSITS

On demand and short term deposits	15,322,280	13,903,428	14,605,182	13,168,693
Term deposits	4,016,776	4,329,338	3,376,574	3,790,477
At 31 December	**19,339,056**	**18,232,766**	**17,981,756**	**16,959,170**

The majority of the amounts are due to be settled within 12 months of the balance sheet date as shown in the maturity analysis table on note 35. The deposits are diversified across industries and region.

21. SUBORDINATED DEBT SECURITIES

Outstanding debt securities of K75.525m were settled in May 2019. The notes were issued during 2009, with a maturity date in May 2019, and interest payable semi-annually at 11% per annum. They were valued at amortised cost. There were no defaults of interest or other breaches with respect to these debt securities since issue.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2019

22. OTHER LIABILITIES

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2019**	**2018**	**2019**	**2018**
Policy liability	40(b)	890,147	818,198	-	-
Items in transit and all other liabilities		532,684	431,950	520,720	447,460
Borrowings		116,817	144,300	116,817	144,300
Creditors and accruals		184,941	202,789	122,218	175,221
Premiums received in advance		6,329	5,895	-	-
Outstanding claims		18,679	18,429	-	-
Claims incurred but not reported (IBNR)		2,297	2,431	-	-
At 31 December		**1,751,894**	**1,623,992**	**759,755**	**766,981**

Reconciliation of changes in liabilities arising from financing activities

A loan amounting to K253.969 million (USD80 million) was obtained in 2016 with principal repayment to commence in 2018. During 2019, the Bank paid K69.493 million and an additional loan of K33.670 million was received. Foreign currency gain of K8.340 million was recognised arising from translation, offset by depreciation of the counter party loan.

23. OTHER PROVISIONS

Staff related	99,629	89,674	84,934	76,543
Provision for non-lending loss	57,726	65,217	57,726	65,215
Provisions – other	46,307	39,212	43,914	36,041
At 31 December	**203,662**	**194,103**	**186,574**	**177,799**
Staff related provisions:				
At 1 January	89,674	88,071	76,543	75,233
Provisions charge	76,227	74,525	71,812	69,787
Payouts	(66,272)	(72,922)	(63,421)	(68,477)
At 31 December	**99,629**	**89,674**	**84,934**	**76,543**

24. ORDINARY SHARES

Number of shares in '000s, Book value in K'000	**Number of shares**	**Book value**
At 31 December 2017/1 January 2018	**467,312**	**373,001**
Share buyback	(66)	(637)
At 31 December 2018 / 1 January 2019	**467,246**	**372,364**
Share buyback	(6)	(54)
At 31 December 2019	**467,240**	**372,310**

In May 2014, the Directors introduced 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. As at 31 December 2019, a total of K9.192m has been bought back under this scheme.

24. ORDINARY SHARES (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	2019	2018	2019	2018
Earnings per ordinary share				
Net profit attributable to shareholders (K'000)	890,363	844,072	845,828	787,446
Weighted average number of ordinary shares in use ('000)	467,242	467,279	467,242	467,279
Basic and diluted earnings per share (expressed in toea)	**190.6**	**180.6**	**181.0**	**168.5**

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.

Dividends paid on ordinary shares				
Interim ordinary dividend (2019: 38 toea; 2018:36 toea)	177,551	169,341	177,551	168,210
Final ordinary dividend (2018:101 toea; 2017:91 toea)	476,389	428,023	471,915	425,204
	653,940	**597,364**	**649,466**	**593,414**

25. RETAINED EARNINGS AND OTHER RESERVES

Retained earnings				
At 1 January	2,156,873	1,904,462	1,976,138	1,777,627
IFRS 9 transition provisions	-	(14,147)	-	(14,601)
Tax impact on IFRS 9 transition provisions	-	4,244	-	4,380
Restated balance as at 1 January 2019	**2,156,873**	**1,894,559**	**1,976,138**	**1,767,406**
Net profit for the year	890,363	844,072	845,828	787,446
Dividends paid	(476,389)	(428,023)	(471,915)	(425,204)
Interim Dividends paid	(177,551)	(169,341)	(177,551)	(168,210)
Disposal of assets – Asset revaluation	4,933	18,116	4,933	18,116
BSP Life policy reserve	(3,597)	(3,416)	(3,597)	(3,416)
(Gain)/loss in minority interest	(250)	906	-	-
At 31 December	**2,394,382**	**2,156,873**	**2,173,836**	**1,976,138**

Other reserves comprise				
Revaluation reserve	142,819	149,829	130,725	137,708
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	44,503	40,920	44,503	40,920
Exchange reserve	136,978	126,358	78,614	73,121
At 31 December	**346,513**	**339,320**	**254,477**	**252,384**

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25. RETAINED EARNINGS AND OTHER RESERVES (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	149,829	161,373	137,708	150,389
Asset revaluation increment/(decrement)	(5,719)	1,624	(5,714)	-
Transfer asset revaluation reserve to retained earnings	(4,933)	(18,116)	(4,933)	(18,116)
Deferred tax on disposal of properties	3,642	4,948	3,664	5,435
At 31 December	**142,819**	**149,829**	**130,725**	**137,708**
Capital reserve				
At 1 January	635	635	635	635
At 31 December	**635**	**635**	**635**	**635**
General reserve				
At 1 January	40,920	37,496	40,920	37,496
BSP Life policy reserve	3,597	3,416	3,597	3,416
Fiji Government green bond revaluation	(14)	8	(14)	8
At 31 December	**44,503**	**40,920**	**44,503**	**40,920**
Exchange reserve				
At 1 January	126,358	125,306	73,121	71,854
Movement during the year	10,620	1,052	5,493	1,267
At 31 December	**136,978**	**126,358**	**78,614**	**73,121**

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.

26. CONTINGENT LIABILITIES AND COMMITMENTS

Off balance sheet financial instruments				
Letters of credit	121,600	135,219	117,057	133,560
Guarantees and indemnities issued	366,170	473,748	341,373	433,978
Commitments to extend credit	2,088,924	1,626,879	2,003,881	1,497,722
At 31 December	**2,576,694**	**2,235,846**	**2,462,311**	**2,065,260**

26. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2019. Based on information available at 31 December 2019, the Group estimates a contingent liability of K15.8 million (2018: K21.1 million) in respect of these proceedings.

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Commitments for capital expenditure				
Amounts with firm commitments not reflected in the accounts	**55,829**	**21,017**	**51,313**	**19,702**
Operating lease commitments (premises)				
Not later than 1 year	34,603	38,848	28,238	36,341
Later than 1 year and not later than 5 years	105,573	56,210	89,486	52,491
Later than 5 years	115,811	22,312	78,861	20,226
At 31 December	**255,987**	**117,370**	**196,585**	**109,058**

27. FIDUCIARY ACTIVITIES

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

28. DIRECTORS AND EXECUTIVE REMUNERATION

Directors remuneration
Directors of the company received remuneration including benefits during 2019 as detailed below:

All amounts in Kina			Total remuneration			
			2019			2018
Name of Director	**Meetings attended /total held**	**Appointed/ (Resigned)**	**Bank**	**Subsidiaries**	**Total**	**Total**
Sir K. Constantinou, OBE**	8/8	-	561,304	360,000	921,304	1,311,304
R. Fleming, CSM*	8/8	-	-	-	-	-
G. Robb, OAM**	7/8	-	343,152	120,000	463,152	613,152
F. Talao	8/8	(Dec 2019)	318,152	60,000	378,152	378,152
E. B Gangloff	8/8	-	343,152	60,000	403,152	403,152
A. Mano**	6/8	-	280,652	60,000	340,652	490,652
A. Sam	8/8	-	330,652	-	330,652	330,652
Dr. F Lua'iufi	8/8	-	305,652	-	305,652	305,652
S. Davis	8/8	-	330,652	-	330,652	330,652
R. Bradshaw	8/8	-	305,652	-	305,652	305,652
			3,119,020	**660,000**	**3,779,020**	**4,469,020**
Shareholder Approved Cap					**4,500,000**	**4,500,000**

* 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.

** The 2018 remuneration included backdated allowances from 2015 to 2017 paid to directors for BSP Subsidiary boards as follows: Constantinou - K390,000, Robb - K150,000 and Mano K150,000.

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28. DIRECTORS AND EXECUTIVE REMUNERATION (continued)

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	2019	2018	Remuneration	2019	2018	Remuneration	2019	2018
K'000	No.	No.	K'000	No.	No.	K'000	No.	No.
100 – 110	53	72	500 – 510	3	2	960 – 970	1	1
110 – 120	61	53	510 – 520	2	-	980 – 990	1	-
120 – 130	47	41	520 – 530	4	-	990 – 1000	-	1
130 – 140	31	22	530 – 540	2	1	1000 – 1010	1	1
140 – 150	29	30	540 – 550	-	1	1010 – 1020	-	2
150 – 160	17	21	550 – 560	1	-	1020 – 1030	1	2
160 – 170	20	21	560 – 570	-	2	1040 – 1050	-	1
170 – 180	23	14	570 – 580	2	2	1050 – 1060	-	1
180 – 190	16	20	580 – 590	1	2	1060 – 1070	2	2
190 – 200	11	10	590 – 600	2	3	1070 – 1080	1	1
200 – 210	15	10	600 – 610	1	-	1090 – 1100	-	1
210 – 220	14	11	610 – 620	3	2	1110 – 1120	1	1
220 – 230	9	11	620 – 630	1	2	1120 – 1130	1	1
230 – 240	8	9	630 – 640	-	1	1130 – 1140	1	1
240 – 250	16	6	640 – 650	1	-	1140 – 1150	1	-
250 – 260	4	2	650 – 660	2	-	1150 – 1160	-	1
260 – 270	4	1	660 – 670	2	1	1180 – 1190	1	1
270 – 280	5	2	670 – 680	-	1	1220 – 1230	1	-
280 – 290	-	4	680 – 690	1	-	1260 – 1270	1	-
290 – 300	5	2	690 – 700	-	1	1280 – 1290	1	1
300 – 310	4	2	700 – 710	1	-	1290 – 1300	-	1
310 – 320	5	1	720 – 730	1	2	1300 – 1310	2	-
320 – 330	-	3	730 – 740	1	-	1400 – 1410	1	1
330 – 340	2	3	740 – 750	1	-	1430 – 1440	1	1
340 – 350	1	2	750 – 760	1	-	1470 – 1480	-	1
350 – 360	2	7	770 – 780	2	-	1480 – 1490	1	-
360 – 370	2	-	780 – 790	3	2	1490 – 1500	1	-
370 – 380	5	4	790 – 800	3	1	1550 – 1560	1	-
380 – 390	-	3	810 – 820	-	1	1740 – 1750	1	-
390 – 400	1	4	820 – 830	1	1	1750 – 1760	1	1
400 – 410	2	1	840 – 850	1	1	1760 – 1770	1	1
410 – 420	1	7	860 – 870	1	2	1770 – 1780	-	1
420 – 430	11	3	870 – 880	2	-	1850 – 1860	1	-
430 – 440	2	4	880 – 890	1	-	1870 – 1880	-	1
440 – 450	3	1	890 – 900	1	1	2150 – 2160	1	-
450 – 460	1	4	900 – 910	1	1	2190 – 2200	-	1
460 – 470	4	2	910 – 920	-	2	2500 – 2510	1	-
470 – 480	3	4	920 – 930	-	1	2580 – 2590	-	1
480 – 490	2	2	930 – 940	2	-	5960 – 5970	-	1
490 – 500	4	1	950 – 960	-	1	6280 – 6290	1	-
						Total	**523**	**487**

28. DIRECTORS AND EXECUTIVE REMUNERATION (continued)

The specified executives during the year received these remuneration:

2019							
Officer	**Salary**	**Short Term Incentive**	**Non - monetary**	**Super-annuation**	**Long term incentive**	**Benefits**	**Total**
R Fleming CSM	4,148	929	43	-	1,112	49	6,281
R Loggia	1,501	267	113	-	439	188	2,508
E Ruha	1,321	323	67	-	387	54	2,152
P Beswick	1,095	268	68	-	320	103	1,854
R George	1,080	264	68	-	316	37	1,765
M Hallinan	1,095	247	66	-	320	30	1,758
P Thornton	1,095	262	30	-	320	40	1,747
D Faunt	887	168	67	75	260	40	1,497
C Michaud	901	217	66	-	264	39	1,487
N Kulu	739	208	153	62	219	28	1,409
H Rabura	747	139	111	63	219	22	1,301
A M Fenech	255	-	4	-	-	15	274
Total	**14,864**	**3,292**	**856**	**200**	**4,176**	**645**	**24,033**

2018							
Officer	**Salary**	**Short Term Incentive**	**Non - monetary**	**Super-annuation**	**Long term incentive**	**Benefits**	**Total**
R Fleming CSM	3,823	1,053	21	-	1,039	27	5,963
R Loggia	1,513	356	102	-	444	174	2,589
E Ruha	1,332	365	57	-	391	48	2,193
P Beswick	1,104	296	57	-	324	96	1,877
R George	1,088	282	57	-	320	23	1,770
P Thornton	1,104	283	21	-	324	36	1,768
M Hallinan	984	246	57	-	247	18	1,552
C Michaud	908	205	57	-	267	36	1,473
H Rabura	752	180	75	62	210	9	1,288
D Faunt	871	-	57	41	-	27	996
N Kulu	507	-	21	41	70	15	654
A Baliki	335	-	10	29	-	20	394
Total	**14,321**	**3,266**	**592**	**173**	**3,636**	**529**	**22,517**

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29. RECONCILIATION OF OPERATING CASH FLOW

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	890,363	844,072	845,828	787,446
Add: Tax expense	362,556	352,096	342,439	329,093
Operating profit before income tax	**1,252,919**	**1,196,168**	**1,188,267**	**1,116,539**
Major non cash amounts				
Depreciation	107,906	81,000	90,352	64,572
Amortisation of deferred acquisition and computer development costs	28,173	27,399	22,577	22,546
Net (Gain)/loss on sale of fixed assets	(2,088)	1,879	33	1,879
Movement in forex income accrual	10,620	1,052	5,493	1,267
Impairment on financial assets	99,183	82,440	88,092	71,639
Movement in payroll provisions	9,956	1,603	8,391	1,310
Impairment of subsidiary	-	-	-	803
Impairment of fixed assets	1,975	13,888	1,975	13,888
Net effect of other accruals	(68,417)	18,753	(5,074)	30,398
Operating cash flow before changes in operating assets & liabilities	**1,440,227**	**1,424,182**	**1,400,106**	**1,324,841**
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)	1,816,564	1,253,449	1,510,406	966,707
Amounts due from other banks (note 12)[1]	1,022,469	854,019	997,816	796,180
Amounts due to other banks (note 19)	(83,931)	(51,539)	(162,145)	(116,019)
At 31 December	**2,755,102**	**2,055,929**	**2,346,077**	**1,646,868**

[1]The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. There is also a cash and cash equivalent of K31.275 million held with counter-party Banks that are not available for use by the Group.

30. SEGMENT INFORMATION

The Bank and the Group comprise 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 services in Papua New Guinea, Banking Services in other jurisdictions outside Papua New Guinea, insurance operations, stock broking, fund management and asset financing activities. The Bank and Group's business segments operate in Papua New Guinea, Fiji, Solomon Islands, Cook Islands, Tonga, Samoa, Vanuatu and Cambodia. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations included funds transfer pricing.

Consolidated *All amounts are in K'000*	**PNG Bank**	**Non PNG Bank**	**Non Bank Entities**	**Adjust Inter Segments**	**Total**
Analysis by segments					
Year ended 31 December 2019					
Net interest income	1,115,454	241,808	30,772	3,750	1,391,784
Other income	542,027	243,347	18,496	(54,979)	748,891
Net insurance income	-	-	34,999	(4,324)	30,675
Total operating income	**1,657,481**	**485,155**	**84,267**	**(55,553)**	**2,171,350**
Operating expenses	(582,740)	(220,439)	(20,393)	4,324	(819,248)
Impairment expenses	(58,555)	(36,244)	(4,384)	-	(99,183)
Profit before income tax	**1,016,186**	**228,472**	**59,490**	**(51,229)**	**1,252,919**
Income tax	(297,480)	(58,085)	(6,991)	-	(362,556)
Net profit after income tax	**718,706**	**170,387**	**52,499**	**(51,229)**	**890,363**
Year ended 31 December 2018					
Net interest income	1,118,342	232,513	27,707	2,234	1,380,796
Other income	532,234	228,731	11,735	(26,704)	745,996
Net insurance income	-	-	40,512	(1,599)	38,913
Total operating income	**1,650,576**	**461,244**	**79,954**	**(26,069)**	**2,165,705**
Operating expenses	(632,386)	(236,598)	(18,624)	511	(887,097)
Impairment expenses	(56,190)	(22,227)	(4,023)	-	(82,440)
Profit before income tax	**962,000**	**202,419**	**57,307**	**(25,558)**	**1,196,168**
Income tax	(287,802)	(51,409)	(12,885)	-	(352,096)
Net profit after income tax	**674,198**	**151,010**	**44,422**	**(25,558)**	**844,072**

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31. RELATED PARTY TRANSACTIONS

Related parties are considered to be enterprises or individuals with whom 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 Group, by virtue of being able to control, dominate or participate in a fiduciary capacity, in decision-making functions or processes. The Group conducted transactions with the following classes of related parties during the year:

- Directors and/or 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 2019, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

	Consolidated	
All amounts are expressed in K'000	**2019**	**2018**
Customer Deposits		
Opening balances	30,925	17,731
Net movement	14,295	13,194
Closing balance	**45,220**	**30,925**
Interest paid	17	24
Loans, advances and other receivables from customers		
Opening balances	899,451	631,650
Loans issued[1]	61,750	458,213
Interest	66,032	44,390
Charges	3,869	3,376
Loan repayments	(116,634)	(238,178)
Closing balance	**914,468**	**899,451**

[1]2018 included Air Niugini Limited loan following Director Constantinou's appointment to the Board of Air Niugini Limited during 2018. Air Niugini Limited has been a customer of BSP since inception and had pre-existing facilities with BSP prior to 2018.

Subsidised transactions are provided for staff. Such transactions include marginal discounts on interest rates, and specific fee concessions. These benefits 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 2019, staff account balances were as follows:

Housing loans	192,749	169,858
Other loans	68,197	43,826
At 31 December	**260,946**	**213,684**

Cheque accounts	6,643	7,533
Savings accounts	20,824	13,532
At 31 December	**27,467**	**21,065**

32. 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 Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These 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 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

32. BANK OPERATIONS, RISKS AND STRATEGIES IN USING FINANCIAL INSTRUMENTS (continued)

periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

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 Group also enters into guarantees and other commitments such as letters of credit, performance bonds, and other bonds.

The Group also enters into transactions denominated in foreign currencies. This activity generally requires 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 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 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 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 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.

33. CAPITAL ADEQUACY

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, Cook Islands, Samoa, Tonga ,Vanuatu and Cambodia 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), National Reserve Bank of Tonga (NRBT), Reserve Bank of Vanuatu (RBV)and the National Bank of Cambodia (NBC). 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 Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2019, 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.

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.

	Balance sheet / notional amount		Risk-weighted amount	
All amounts are expressed in K'000	2019	2018	2019	2018
Balance sheet assets (net of provisions)				
Currency	3,583,165	2,938,993	69,942	19,502
Loans, advances and other receivables from customers	13,230,783	12,530,649	10,539,279	9,813,150
Investments and short term securities	4,580,568	5,050,143	224,510	188,343
All other assets	3,132,602	2,530,275	1,839,673	1,444,738
Off-balance sheet items	2,576,694	2,235,846	286,666	322,716
Total	**27,103,812**	**25,285,906**	**12,960,070**	**11,788,449**

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2019	2018	2019	2018
a) Tier 1 capital	2,526,509	2,338,587	19.5%	19.8%
Total capital	2,848,723	2,694,901	22.0%	22.9%
b) Leverage capital ratio			10.5%	10.3%

34. CREDIT RISK AND ASSET QUALITY

34.1 Credit Risk

The Group 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 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.

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 Group assigns quality indicators to its credit exposures to determine the asset quality profile.

Group Internal Scale	S&P Letter Grade	Description
1	BBB+	Standard Monitoring
2	BBB	
3	BBB-	
4	BB+	
5	BB	
6	BB-	
7	B+	
8	B	
9	B-	
10	CCC+	Special Monitoring
11	CCC	
12	CCC-	Substandard
13	D-I	Doubtful
14	D-II	Loss

34.1.1 Credit Risk Measurement

Loans and advances (incl. loan commitments and guarantees)
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

Credit risk grading
The Group uses an internal credit risk grading system that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Chief Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group's rating method comprises 11 rating levels for instruments not in default (1 to 11) and three default classes (12 to 14). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

34.1.2 Expected Credit Loss Management

IIFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 34.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 34.1.2.2 for a description of how the Group defines credit-impaired and default.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 34.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. Note 34.1.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

34. CREDIT RISK AND ASSET QUALITY (continued)

The following diagram summarises the impairment requirements under IFRS 9.

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

34.1.2.1 Significant Increase in Credit Risk (SICR)

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Qualitative Criteria - if the instrument meets one or more of the following criteria:
  - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
  - Actual or expected forbearance or restructuring
  - Actual or expected significant adverse change in operating results of the borrower
  - Significant change in collateral value (secured facilities only) which is expected to increase risk of default
  - Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

- Quantitative criteria - applies to performing loans risk graded at 10 or 11 as per BSPs credit rating system which are 'watch list' categories. By definition, these have experienced a SICR event since inception hence needs to be classified as Stage 2, with lifetime PDs applicable. This criteria applies regardless of whether loans in these two RGs are in arrears or not.

- Backstop - A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instrument in the year ending 31 December 2019.

34.1.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:
Quantitative criteria
The borrower is more than 90 days past due on its contractual payments.
Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

34.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses is the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by

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34. CREDIT RISK AND ASSET QUALITY (continued)

product type. Refer to note 34.1.2.4 for an explanation of forward- looking information and its inclusion in ECL calculations. Model adjustments are also included within the ECL allowance. Model adjustments are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic, microeconomic factors, changes to parameters or credit risk data not incorporated current parameters are examples of such circumstance.

The Group used statistical models to convert historical PDs into forward looking lifetime PDs. The conversion process looks at the historical relationship between long-term PDs for a particular year and the observed (annual) default rate for the same year (called the 'Z-factor') and a set of systematic factors for the year. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses which are as follows:

- GDP Growth (%)
- Change in Unemployment (%)
- Change in Equity Index (%)
- Change in Energy Index (%)
- Change in Non-Energy Index (%)
- Change in the Proportion of Downgrades (%)

These are then compared to the expected systematic factors and long-term PDs for a future year to estimate the PiT PDs for that future year. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Strategy team and provide the best estimate view of the economy over the next five years. Z-factors are estimated for five years based on forecast systematic data and all future years from year 6 are adjusted using Z- factors which diminish in magnitude from the one estimated for year 5.

Economic variable assumptions
The period-end assumptions used for the ECL estimate as at 31 December 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Economic Variable	Scenario	2019	2020	2021	2022	2023
GDP Growth (%)	Base	2.60%	2.70%	2.80%	2.80%	2.80%
	Upside	3.60%	3.20%	3.50%	3.50%	3.50%
	Downside	2.10%	2.20%	2.30%	2.30%	2.30%
Change in Unemployment (% total lab force) (%)	Base	0.40%	0.00%	0.00%	0.00%	0.00%
	Upside	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
	Downside	5.00%	5.00%	5.00%	5.00%	5.00%
Change in Equity Index (%)	Base	-6.69%				
	Upside	-5.69%				
	Downside	-7.69%				
Change in Energy Index (%)	Base	-7.26%	-2.90%	-1.04%	-1.05%	-1.06%
	Upside	-6.76%	-2.40%	-0.54%	-0.55%	-0.56%
	Downside	-7.76%	-3.40%	-1.54%	-1.55%	-1.56%
Change in Non-Energy Index (%)	Base	-4.06%	-0.25%	-0.37%	-0.38%	-0.38%
	Upside	-3.56%	0.25%	0.13%	0.12%	0.12%
	Downside	-4.56%	-0.75%	-0.87%	-0.88%	-0.88%
Change in the Proportion of Downgrades (%)	Base	0.45%				
	Upside	-1.00%				
	Downside	10.00%				

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

Scenario	Base	Upside	Downside
Weight	60.00%	10.00%	30.00%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Sensitivity Analysis
The most significant assumptions affecting the ECL allowance are as follows:

i) GDP given the significant impact on business performance and collateral valuations; and

ii) Change in proportion of downgrades given that it is "BSP specific" and addresses potential signs of stress both within credit markets in general and in client specific portfolios.

34. CREDIT RISK AND ASSET QUALITY (continued)

Set out below are the changes to the ECL as at 31 December 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

All amounts are expressed in K'000	2019		2018	
	[-20%]	[+10%]	[-20%]	[+10%]
GDP Growth Rate	42,060	(19,342)	48,446	(17,586)

(GDP growth rate assumptions tested at 80% and 110% for all 3 scenarios)

All amounts are expressed in K'000	2019		2018	
	[-7%]	[+20%]	[-5%]	[+20%]
Change in proportion of downgrades	(1,088)	5,662	(1,451)	4,391

(Upside scenario increased from -1% to-7% (2018:-5%), downside scenario increased from 10% to 20%)

All amounts are expressed in K'000	2019	2018
Change in Scenario weighting	(32,714)	(30,002)

(Upside scenario increased from 10% to 30%, downside scenario decreased from 30% to 10%).

34.1.2.4 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

Retail – Groupings for collective measurement

- Loan to value ratio band
- Risk Grade
- Product type (e.g. Residential/Buy to Let mortgage, Overdraft, Credit Card)
- Repayment type (e.g. Repayment/Interest only)
- Utilisation band

Notwithstanding the grouping detailed above, all stage 3 loans are individually assessed.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

34.1.3 Credit Risk Exposure

34.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2019				2018
ECL staging	**Stage 1**	**Stage 2**	**Stage 3**		
(PGK'000)	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**	**Total**
Credit grade					
Standard monitoring	15,423,086	160,322	-	15,583,408	14,457,564
Special monitoring	-	503,009	-	503,009	588,756
Default	-	-	391,688	391,688	350,285
Gross carrying amount	**15,423,086**	**663,331**	**391,688**	**16,478,105**	**15,396,605**
Loss allowance	(277,795)	(199,510)	(223,299)	(700,604)	(633,567)
Carrying amount	**15,145,291**	**463,821**	**168,389**	**15,777,501**	**14,763,038**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 34.1.2 'Expected credit loss measurement'. The gross carrying amount includes off balance sheet items which are in scope for impairment.

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34. CREDIT RISK AND ASSET QUALITY (continued)

34.1.3.2 Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

Maximum exposure to credit risk *(PGK000's)*	2019	2018
Trading assets		
Equity Securities	255,372	188,343

34.1.3.3 Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

31 December 2019	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	PGK'000	PGK'000	PGK'000	PGK'000
Loans to individuals:				
• Overdrafts	6,588	1,437	5,151	11,739
• Credit cards	-	-	-	-
• Term loans	18,112	3,263	14,849	23,739
• Mortgages	99,008	40,295	58,713	165,415
Loans to corporate entities:				
• Large corporate customers	197,754	142,074	55,680	127,761
• Small and medium-sized enterprises (SMEs)	67,172	33,771	33,401	79,439
• Others	3,054	2,459	595	5,745
Total credit-impaired assets	**391,688**	**223,299**	**168,389**	**413,838**

31 December 2018				
Total credit-impaired assets	**350,285**	**179,222**	**171,063**	**301,488**

34. CREDIT RISK AND ASSET QUALITY (continued)

34.1.4 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:
- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

31 December 2019	Stage 1	Stage 2	Stage 3	
Expected Credit Loss	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	PGK'000	**PGK'000**	**PGK'000**	**PGK'000**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(3,790)	25,930	-	22,140
Transfer from Stage 1 to Stage 3	(857)	-	18,171	17,314
Transfer from Stage 2 to Stage 1	4,316	(22,327)	-	(18,011)
Transfer from Stage 2 to Stage 3	-	(3,993)	12,451	8,458
Transfer from Stage 3 to Stage 2	-	76	(83)	(7)
Transfer from Stage 3 to Stage 1	7	-	(100)	(93)
New financial assets originated or purchased	118,207	14,232	8,168	140,607
Changes in PDs/LGDs/EADs/others	(81,067)	(33,183)	22,906	(91,344)
Total net P&L charge during the period	**36,816**	**(19,265)**	**61,513**	**79,064**
31 December 2018				
Total net P&L charge during the period	**(19,446)**	**34,480**	**51,039**	**66,073**

The movement in gross carrying amounts between the beginning and the end of the annual period are included in the table below:

31 December 2019	Stage 1	Stage 2	Stage 3	
Gross Carrying Amount	**12-month Balance**	**Lifetime Balance**	**Lifetime Balance**	**Total**
	PGK'000	**PGK'000**	**PGK'000**	**PGK'000**
Movements in gross carrying amount with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(146,559)	188,204	-	41,645
Transfer from Stage 1 to Stage 3	(66,009)	-	61,607	(4,402)
Transfer from Stage 2 to Stage 1	128,598	(153,149)	-	(24,551)
Transfer from Stage 2 to Stage 3	-	(35,089)	32,205	(2,884)
Transfer from Stage 3 to Stage 2	-	848	(1,238)	(390)
Transfer from Stage 3 to Stage 1	396	-	(398)	(2)
New financial assets originated or purchased	4,774,634	82,056	5,606	4,862,296
Changes in PDs/LGDs/EADs/others	(3,554,951)	(176,397)	(58,864)	(3,790,212)
Total movement in gross carrying amount with P&L impact	**1,136,109**	**(93,527)**	**38,918**	**1,081,500**
31 December 2018				
Total movement in gross carrying amount with P&L impact	1,325,422	138,738	90,154	1,554,314

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34. CREDIT RISK AND ASSET QUALITY (continued)

34.1.5 Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

34.1.6 Credit Quality – Prudential Guidelines

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 gradings.

An analysis by credit quality of loans outstanding at 31 December 2019 is as follows:

Consolidated (PGK'000)	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
Neither past due nor impaired	**917,146**	**9,182,602**	**2,266,451**	**281,535**	**88,280**	**12,736,014**
Past due but not impaired						
- Less than 30 days	78,078	315,403	135,827	3,334	-	532,642
- 30 to 90 days	2,703	259,078	73,368	1,311	-	336,460
	80,781	**574,481**	**209,195**	**4,645**	**-**	**869,102**
Individually impaired loans						
- Less than 30 days	3,183	4,160	3,641	328	-	11,312
- 30 to 90 days	169	9,173	10,711	2,064	-	22,117
- 91 to 360 days	1,504	31,535	28,139	1,339	-	62,517
- More than 360 days	6,093	101,612	87,174	5,470	-	200,349
	10,949	**146,480**	**129,665**	**9,201**	**-**	**296,295**
Total gross loans, advances and other receivables from customers	**1,008,876**	**9,903,563**	**2,605,311**	**295,381**	**88,280**	**13,901,411**
Less impairment provisions						(700,604)
Net Loans and Advances						**13,200,807**

34.1.7 Credit related commitments

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

Guarantees and standby letters of credit, which represent irrevocable assurances that 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 Group on behalf of a customer, authorising a third party to draw drafts on 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 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.

34. CREDIT RISK AND ASSET QUALITY (continued)

34.1.8 Economic sector risk concentrations

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

Consolidated as at 31 December				
All amounts are expressed in K'000	**2019**	**%**	**2018**	**%**
Commerce, finance and other business	7,159,863	54	6,824,314	54
Private households	2,987,459	23	2,569,986	21
Government and public authorities	252,134	2	356,166	3
Agriculture	327,151	2	277,228	2
Transport and communication	1,311,306	10	1,393,929	11
Manufacturing	332,344	3	231,717	2
Construction	830,550	6	877,309	7
Net loan portfolio balance	**13,200,807**	**100**	**12,530,649**	**100**

34.1.9 Ownership risk concentrations

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

Corporate / Commercial	7,703,341	58	7,206,355	58
Government	2,510,817	19	2,661,688	21
Retail	2,986,649	23	2,662,606	21
Net loan portfolio balance	**13,200,807**	**100**	**12,530,649**	**100**

35. 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 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 2019
The maturity profile of material Assets and Liabilities as at 31 December 2019 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 Group, and does not impair the ability of the Group to meet its financial obligations as they fall due. The Directors are also of the view that the Group is able to meet its financial obligations as they fall due for the following additional reasons:

- The Bank and the Group complies with the 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 and Group complies with this daily requirement on an ongoing basis.

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35. LIQUIDITY RISK (continued)

Maturity of assets and liabilities

Consolidated *All amounts are expressed in K'000*						
As at 31 December 2019	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with Central Bank	3,171,384	-	-	-	411,781	3,583,165
Treasury and Central Bank bills	380,142	688,229	1,429,812	14,760	-	2,512,943
Amounts due from other banks	745,062	229,336	48,071	-	-	1,022,469
Loans, advances and other receivables from customers	1,648,820	1,057,253	3,022,749	5,510,377	5,077,068	16,316,267
Other financial assets	2,163,885	95,236	663,474	1,160,027	772,329	4,854,951
Total assets	**8,109,293**	**2,070,054**	**5,164,106**	**6,685,164**	**6,261,178**	**28,289,795**
Liabilities						
Amounts due to other banks	-	81,468	2,463	-	-	83,931
Customer Deposits	14,019,851	1,109,765	1,794,963	719,301	1,912,151	19,556,031
Other liabilities	1,761,480	2,750	5,048	472	105,141	1,874,891
Other provisions	258,809	159	35	188	4,153	263,344
Total liabilities	**16,040,140**	**1,194,142**	**1,802,509**	**719,961**	**2,021,445**	**21,778,197**
Net liquidity gap	**(7,930,847)**	**875,912**	**3,361,597**	**5,965,203**	**4,239,733**	**6,511,598**
As at 31 December 2018						
Total assets	8,381,534	1,336,540	5,201,238	6,137,115	6,076,958	27,133,385
Total liabilities	15,069,532	1,013,223	2,073,361	274,900	1,969,331	20,400,347
Net liquidity gap	**(6,687,998)**	**323,317**	**3,127,877**	**5,862,215**	**4,107,627**	**6,733,038**

36. OPERATIONAL RISK

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which 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 organisation.

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 Risk and Compliance Committee.

37. 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 Group is to minimise the impact on earnings of any such movement.

The Group accepts foreign currency denominated transactions and therefore has exposure to movements in foreign currency. 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 Group and material loss is not envisaged.

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

Consolidated *All amounts are expressed in K'000*						
As at 31 December 2019	**PGK**	**FJD**	**SBD**	**USD**	**Other**	**Total**
Assets						
Cash and balances with Central Bank	2,211,457	478,799	439,403	6,488	447,018	**3,583,165**
Treasury & Central Bank bills	2,252,907	15,702	157,886	-	33,002	**2,459,497**
Amounts due from other banks	146,354	110,404	8,788	234,437	522,486	**1,022,469**
Loans, advances and other receivables from customers	7,740,010	3,161,274	526,566	499,203	1,273,754	**13,200,807**
Other financial assets	1,578,722	507,057	258	-	35,034	**2,121,071**
Other assets	1,277,703	667,813	60,500	352	133,741	**2,140,109**
Total assets	**15,207,153**	**4,941,049**	**1,193,401**	**740,480**	**2,445,035**	**24,527,118**
Liabilities						
Amounts due to other banks	(22,119)	(59,412)	(2,400)	-	-	**(83,931)**
Customer Deposits	(12,739,985)	(3,180,962)	(907,317)	(538,226)	(1,972,566)	**(19,339,056)**
Other liabilities	(564,135)	(1,183,690)	(37,080)	(117,512)	(84,681)	**(1,987,098)**
Total liabilities	**(13,326,239)**	**(4,424,064)**	**(946,797)**	**(655,738)**	**(2,057,247)**	**(21,410,085)**
Net on - balance sheet position	**1,880,914**	**516,985**	**246,604**	**84,742**	**387,788**	**3,117,033**
Off - balance sheet net notional position	**798**	**-**	**-**	**(139,868)**	**140,009**	**939**
Credit commitments	**1,873,731**	**512,960**	**60,433**	**-**	**118,418**	**2,565,542**
As at 31 December 2018						
Total Assets	14,553,848	4,576,805	1,213,537	614,523	2,122,510	**23,081,223**
Total Liabilities	(12,839,667)	(4,043,203)	(940,514)	(534,160)	(1,851,544)	**(20,209,088)**
Net on - balance sheet position	**1,714,181**	**533,602**	**273,023**	**80,363**	**270,966**	**2,872,135**
Off - balance sheet net notional position	**(3,263)**	**-**	**-**	**(171,679)**	**174,006**	**(936)**
Credit commitments	**1,274,345**	**522,309**	**76,059**	**-**	**176,890**	**2,049,603**

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:

All amounts are expressed in K'000	**At 31 December 2019**		**At 31 December 2018**	
	Impact on profit or loss	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
USD strengthening by 1% (2018 – 1%)	356	356	613	613
USD dollar weakening by 1% (2018 – 1%)	(349)	(349)	(601)	(601)
AUD strengthening by 1% (2018 – 1%)	(36)	(36)	(37)	(37)
AUD dollar weakening by 1% (2018 – 1%)	35	35	36	36

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38. 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 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 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 2019 and prevailing rates of interest, a 1% increase in markets rates will result in a K45 million increase in net interest income, whilst a 1% decrease in rates will result in a K52.2 million decrease in net interest income.

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

Consolidated
All amounts are expressed in K'000

As at 31 December 2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Assets						
Cash and Central Bank assets	-	-	-	-	-	1,816,564
Treasury and Central Bank bills	347,001	705,379	1,401,412	5,081	624	-
Amounts due from other banks	867,654	46,543	6,016	-	-	102,256
Statutory deposits - Central Bank	-	-	-	-	-	1,766,601
Loans, advances and other receivables from customers	11,355,031	211,132	813,765	656,055	164,824	-
Other financial assets	437,339	151,520	559,890	800,520	211,415	162,427
Other assets	-	-	-	-	-	1,938,069
Total assets	**13,007,025**	**1,114,574**	**2,781,083**	**1,461,656**	**376,863**	**5,785,917**
Liabilities						
Amounts due to other banks	16,678	7,612	-	-	-	59,641
Customer deposits	8,678,235	1,071,740	1,628,037	299,468	10	7,661,566
Other liabilities	8,248	2,720	-	-	73,009	1,699,459
Other provisions	6,193	-	-	-	-	197,469
Total liabilities	**8,709,354**	**1,082,072**	**1,628,037**	**299,468**	**73,019**	**9,618,135**
Interest sensitivity gap	**4,297,671**	**32,502**	**1,153,046**	**1,162,188**	**303,844**	**(3,832,218)**
As at 31 December 2018						
Assets						
Cash and Central Bank assets	-	-	-	-	-	1,253,449
Treasury and Central Bank Bills	501,889	617,953	1,344,620	30,238	-	-
Amounts due from other banks	451,160	-	8,435	1,560	-	392,864
Statutory deposits - Central Bank	-	-	-	-	-	1,685,544
Loans, advances and other receivables from customers	10,754,609	192,658	806,643	557,100	219,639	-
Other financial assets	435,077	51,591	536,149	1,265,005	267,621	175,579
Other assets	-	-	-	-	-	1,531,840
Total assets	**12,142,735**	**862,202**	**2,695,847**	**1,853,903**	**487,260**	**5,039,276**
Liabilities						
Amounts due to other banks	17,338	16,885	-	-	-	17,316
Customer deposits	8,058,906	925,624	1,761,696	156,585	4	7,329,951
Other liabilities	-	-	-	-	105,525	1,625,155
Other Provisions	5,637	-	-	-	-	188,466
Total liabilities	**8,081,881**	**942,509**	**1,761,696**	**156,585**	**105,529**	**9,160,888**
Interest sensitivity gap	**4,060,854**	**(80,307)**	**934,151**	**1,697,318**	**381,731**	**(4,121,612)**

39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

There is no material difference between the fair values and carrying values of the financial assets and liabilities of 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).

Consolidated
All amounts are expressed in K'000

At 31 December 2019	Level 1	Level 2	Level 3	Total
(a) Financial assets				
Equity securities	-	177,313	3,095	180,408
Non-financial assets				
Land & buildings	-	708,284	-	708,284
Assets subject to operating lease	-	-	48,133	48,133
Total Assets	**-**	**885,597**	**51,228**	**936,825**
(b) Financial liabilities				
Policy liabilities	-	-	890,147	890,147
Total liabilities	**-**	**-**	**890,147**	**890,147**
At 31 December 2018				
(a) Financial assets				
Equity securities	-	118,831	2,696	121,527
Non - financial assets				
Land & buildings	-	537,669	-	537,669
Assets subject to operating lease	-	-	52,433	52,433
Total Assets	**-**	**656,500**	**55,129**	**711,629**
(b) Financial liabilities				
Policy liabilities	-	-	818,198	818,198
Total liabilities	**-**	**-**	**818,198**	**818,198**

Financial asset at fair value through profit & loss			2019	2018
Opening balance			54,570	72,825
Total gains and losses recognized in:				
- Profit & loss			(3,342)	(18,255)
- Other comprehensive income			-	-
Closing balance			**51,228**	**54,570**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2019. Property, plant and equipment represents commercial land and buildings owned by the Group based on valuations provided by independent valuers. The valuation is based on the capitalisation method with an assessment of the property based on its potential earning capacity. Disposal cost for properties classified as held for sale is not expected to be material.

In the normal course of trading, the Group enters into forward exchange contracts. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2019

39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Forward exchange contracts outstanding at 31 December 2019 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 2019		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Other**	**Total**
Selling	FCY	(49,183)	(2,529)	(900)	(21)	(181,179)	(2,110)	-
	Kina	(15,371)	-	-	-	-	-	(15,371)
Buying	FCY	8,132	14,800	20	1,200	137,500	34,444	-
	Kina	16,169	-	-	-	-	-	16,169
As at 31 December 2018								
Selling	FCY	(55,913)	(958)	-	-	(149,380)	(1,000)	-
	Kina	(8,793)	-	-	-	-	-	(8,793)
Buying	FCY	4,924	55,700	-	-	5,000	15,353	-
	Kina	5,530	-	-	-	-	-	5,530

40. INSURANCE

(a) Net insurance operating income

	Consolidated		Bank	
All amounts are expressed in K'000	**2019**	**2018**	**2019**	**2018**
Net insurance income	30,675	38,913	-	-

(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 Patricipating Feature (DPF), the discount rate used is linked to the assets which back those contracts. For 31st December 2019 this was 6.097% per annum (31st December 2018: 6.005% 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 4.80% per annum was used at 31st December 2019 (31st December 2018: 4.80% per annum). These rates were based on the 10 year government bond rate as published by the Reserve Bank of Fiji.

Investment and maintenance expenses
Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.5% per annum (31st December 2018: 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 65% (31st December 2018: 65%) 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 were the same as last year.

	2019	**2018**
Whole of Life and Endowment Insurance	14%	14%
Term Insurance	16%	16%
Accident Insurance	17%	17%

40. 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.

All amounts are expressed in K'000	2019	2018
Policy Liabilities		
Opening balance	818,198	749,876
Translation movement	11,221	(3,227)
Increase in policy liabilities	59,746	71,616
Increase in policy liabilities on revaluation of land	982	(67)
Total policy liabilities	**890,147**	**818,198**

41. EVENTS OCCURRING AFTER BALANCE SHEET DATE

On February 7, 2020, the Bank acquired 50% shares in Devco Lao Leasing Company Limited for a consideration of USD2 million. The acquired entity will be renamed BSP Lao Leasing Company, an asset finance business which will be treated as a joint venture in the Group accounts.

42. REMUNERATION OF AUDITOR

	Consolidated		Bank	
All amounts are expressed in K'000	2019	2018	2019	2018
Financial statement audits	4,347	3,326	3,126	2,363
Other services	514	1,031	463	818
	4,861	**4,357**	**3,589**	**3,181**

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

To the shareholders of Bank of South Pacific Limited

Report on the audit of the financial statements of the Bank and the Group

Our opinion

We have audited the financial statements of Bank of South Pacific Limited (the Bank), which comprise the statements of financial position as at 31 December 2019, and 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 which include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2019 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Bank and the Group as at 31 December 2019, and their financial performance and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our opinion.

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

Independence

We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of audit-related and tax advice services. The provision of these other services has not impaired our independence as auditor of the Bank and the Group.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Bank and the Group, their accounting processes and controls and the industries in which they operate.

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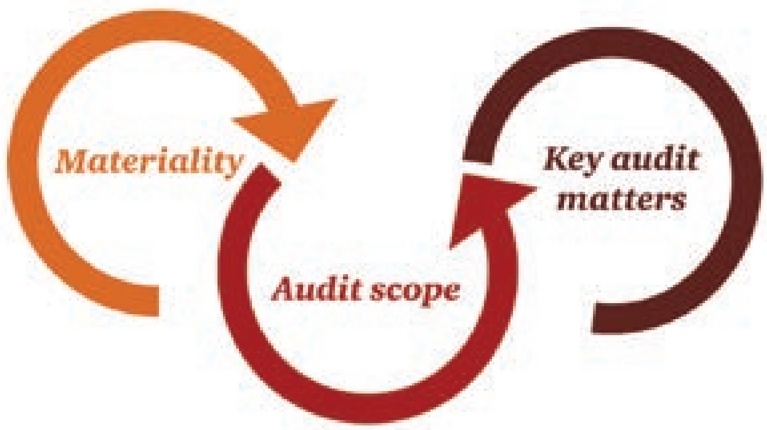
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, www.pwc.com/pg



Materiality	*Audit Scope*	*Key Audit Matters*

• For the purpose of our audit of the Group we used overall group materiality of K60.8 million which represents approximately 5% of the Group's profit before taxes.
 	
• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.
 	
• We chose Group profit before taxes as, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark.
 	
• We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds.
	• We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea (PNG) and Solomon Islands, which are the most significant to the Group, and directed the scope of the audit of other subsidiaries included in the Group financial statements sufficient to express an opinion on the financial statements as a whole.
	
	• For the Group's activities in Fiji, Samoa, Tonga, Cambodia, Cook Islands, and Vanuatu the audit work was performed by other PwC network firms or other firms operating under our instructions. In addition we visit significant overseas operations and this year we met with management in the Solomon Islands.
	
	• Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
		• Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee:
		  • Loan loss provisioning
		  • IT systems and controls
		
		• These matters are further described in the Key audit matters section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report.

Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	*How our audit addressed the key matter*
Loan loss provisioning - Refer to Note 1G & M of the financial statements for a description of the accounting policies and to Note 34 for an analysis of credit risk Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, impairment of loans and advances is an area of significance in the current year audit of the Bank and its subsidiaries. IFRS 9 Financial Instruments (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application. The key areas of judgement included: • The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables (refer to Note 13 and Note 34) • The identification of exposure for which there has been a significant increase in credit risk • Assumptions used in the expected credit loss model such as valuation of collateral and assumptions made on future values, financial condition of counterparties, expected future cash flows and forward looking macroeconomic factors • The need to apply additional model adjustments to reflect current or future external factors that are not appropriately captured by the expected credit loss model	The procedures we performed to support our audit conclusions, included: • Consideration of the appropriateness of accounting policies and assessment of the loan impairment methodology applied, compared to the requirements of IFRS 9. This included obtaining an understanding and assessment of the reasonableness of the key outputs of the model, as well as key judgements and assumptions used by management in implementation of the model. • Reviewing the design and operating effectiveness of key controls around the credit origination processes, the credit monitoring processes and the credit inspection unit's customer loan file reviews. • Review of the impairment methodology to establish the critical fields used in the computation of Stage 1 and Stage 2 provisions. On a sample basis tested the critical fields identified to have an impact on the expected credit loss provision by agreeing this back to source documentation. • For loans and advances in Stage 1 and Stage 2, critically examining the model methodology for consistency and appropriateness. This included evaluation of the appropriateness of the estimates made on the Probability of Default, Loss Given Default and Exposure at Default. This also included assessing the appropriateness of probability-weighted and staging criteria. • For Stage 3 loans and advances, audit procedures were carried out over the completeness of the credit watch list and delinquencies, assumptions made in the valuation of collateral and recovery cash flows and mathematical accuracy of the IFRS 9 provisioning model. • For model adjustments, we considered the basis for and data used to determine the adjustments. This included making an independent assessment of both the credit environment and the macro- environment in which the Group operates. • For IFRS 9 related disclosures in the financial statements, we reviewed the accuracy and completeness in line with BSP accounting policies and IFRS 9 requirements.

Key audit matter	*How our audit addressed the key matter*
IT systems and controls We focused on this area because the Group is heavily dependent on complex IT systems for the capture, processing, storage and extraction of significant volumes of transactions. There are some areas of the audit where we seek to place reliance on system functionality including certain automated controls, system calculations and reports. Our reliance on these is dependent on the Group's IT General Control (ITGC) environment, in particular, user access maintenance and changes to IT systems being authorised and made in an appropriate manner.	For significant financial statement line items, we gained an understanding of the business processes, key controls and IT systems used to generate and support those line items. Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key ITGCs which support the continued integrity of the in-scope IT systems. Our procedures over ITGCs focused on user access and change management and we also carried out tests, on a sample basis, of system functionality that was key to our audit approach. Where we identified design or operating effectiveness matters relating to ITGCs and system functionality relevant to our audit, we performed alternative or additional audit procedures.

Information other than the financial statements and auditor's report

The directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the financial statements and the auditors' report thereon), which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available after that date. Our opinion on the financial statements does not cover the other information and we do not, and will not, express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Bank for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or the Group or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 2019:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Bank as far as appears from an examination of those records.

Who we report to

This report is made solely to the Bank'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 Bank'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 Bank and the Bank's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Peter Buchholz
Engagement Leader

Christopher Hansor
Partner
Registered under the Accountants Act 1996

Port Moresby
26 February 2020

Shareholder Information

QUALITY
We are committed to excellence whilst striving for continuous improvement in products and services

SHAREHOLDER INFORMATION

The following is a summary of pertinent issues relating to shareholding in the Group. The Constitution of BSP may be inspected during normal business hour at the Registered Office.

RIGHTS ATTACHING TO ORDINARY SHARES

The rights attaching to shares are set out in Bank of South Pacific Limited's Constitution and in certain circumstances, are regulated by the Companies Act 1997, the PNGX Listing Rules and general law. There is only one class of share. All shares have equal rights. Other rights attached to ordinary shares include:

General meeting and notices

Each member is entitled to receive notice of, and to attend and vote at, general meetings of BSP and to receive all notices, accounts and other documents required to be sent to members under BSP's constitution, the Companies Act or the Listing Rules.

Voting rights

At a general meeting of shareholders, every holder of fully paid ordinary shares present in person or by an attorney, representative or proxy has one vote on a show of hands (unless a member has appointed two proxies) and one vote per share on a poll.

A person who holds a share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Where there are two or more joint holders of a share and more than one of them is present at a meeting and tenders a vote in respect of the share, the Company will count only the vote cast by the member whose name appears first in BSP's register of members.

Issues of further shares

The Directors may, on behalf of BSP, issue, grant options over, or otherwise dispose of unissued shares to any person on the terms, with the rights, and at the times that the Directors decide. However, the Directors must act in accordance with the restrictions imposed by BSP's constitution, the PNGX Listing Rules, the Companies Act and any rights for the time being attached to the shares in any special class of those shares.

Variation of rights

Unless otherwise provided by BSP's constitution or by the terms of issue of a class of shares, the rights attached to the shares in any class of shares may be varied or cancelled only with the written consent of the holders of at least three-quarters of the issued shares of that class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

Transfer of shares

Subject to BSP's constitution, the Companies Act and the PNGX Listing Rules, ordinary shares are freely transferable.

The shares may be transferred by a proper transfer effected in accordance with the PNGX Business Rules, by any other method of transferring or dealing with shares introduced by PNGX and as otherwise permitted by the Companies Act or by a written instrument of transfer in any usual form or in any other form approved by either the Directors or PNGX that is permitted by the Companies Act.

The Directors may decline to register a transfer of shares (other than a proper transfer in accordance with the PNGX Business Rules) where permitted to do so under the PNGX Listing Rules or the transfer would be in contravention of the law. If the Directors decline to register a transfer, BSP must give notice in accordance with the Companies Act and the PNGX Listing rules, give the party lodging the transfer written notice of the refusal and the reason for refusal. The Directors must decline to register a transfer of shares when required by law, by the PNGX Listing Rules or by the PNGX Business Rules.

Partly paid shares

The Directors may, subject to compliance with BSP's constitution, the Companies Act and the PNGX Listing Rules, issue partly paid shares upon which there are outstanding amounts payable. These shares will have limited rights to vote and to receive dividends.

Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests. The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, each share in a class of shares in respect of which a dividend has been declared will be equally divided. Each share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (excluding any amount paid in advance of calls) bears to the total issue price of the share.

Dividend payouts over the last six years are disclosed in the schedule of Historical Financial Performance elsewhere in this Annual Report.

Liquidation

Subject to the terms of issue of shares, upon liquidation assets will be distributed such that the amount distributed to a shareholder in respect of each share is equal. If there are insufficient assets to repay the paid-up capital, the amount distributed is to be proportional to the amount paid-up.

Directors

BSP's Constitution states that the minimum number of directors is three and the maximum is ten.

Appointment of directors

Directors are elected by the shareholders in general meeting for a term of three years. At each general meeting, one third of the number of directors (or if that number is not a whole number, the next lowest whole number) retire by rotation. The Board has the power to fill casual vacancies on the Board, but a director so appointed must retire at the next annual meeting.

Powers of the Board

Except otherwise required by the Companies Act, any other law, the PNGX Listing Rules or BSP's constitution, the Directors have the power to manage the business of BSP and may exercise every right, power or capacity of BSP to the exclusion of the members.

Shareholder Information (Continues)

Share buy backs

Subject to the provisions of the Companies Act and the PNGX Listing Rules, BSP may buy back shares by itself on terms and at times determined by the Directors.

Officers' indemnities

BSP, to the extent permitted by law, indemnifies every officer of BSP (and may indemnify any auditor of BSP) against any liability incurred by the person, in the relevant capacity, to another person unless the liability arises out of conduct involving lack of good faith.

BSP may also make a payment in relation to legal costs incurred by these persons in defending an action for a liability, or resisting or responding to actions taken by a government agency or a liquidator.

Twenty largest registered fully paid ordinary shareholders.

As at 31 December 2019, the twenty largest registered fully paid shareholders of the Company were:

			Share Held	%
1	Kumul Consolidated Holdings Limited		84,811,597	18.15%
2	Nambawan Super Limited		57,592,261	12.33%
3	Petroleum Resources Kutubu Limited		46,153,840	9.88%
4	NASFUND		45,318,417	9.70%
5	Credit Corporation (PNG) Limited		36,294,081	7.77%
6	Motor Vehicles Insurance Limited		31,243,736	6.69%
7	Fiji National Provident Fund		30,461,552	6.52%
8	PNG Sustainable Development Program Limited		29,202,767	6.25%
9	Teachers Savings and Loans Society		15,317,366	3.28%
10	Comrade Trustee Services Limited		12,456,052	2.67%
11	IFC Capitalization (Equity) Fund LP		7,440,464	1.59%
12	International Finance Corporation		7,440,464	1.59%
13	Lamin Trust Fund		3,518,132	0.75%
14	Capital Nominees Limited		3,054,729	0.65%
15	Mineral Resources OK Tedi No. 2 Limited		2,890,000	0.62%
16	Solomon Islands National Provident Fund		2,500,001	0.54%
17	Nominees Niugini Limited		2,369,495	0.51%
18	Catholic Diocese of Kundiawa		2,217,798	0.47%
19	Southern Highlands Provincial Government		2,000,000	0.43%
20	Mineral Resources Star Mountains Ltd		1,975,799	0.42%
	Other Shareholders		42,981,083	9.20%
			467,239,634	**100%**

Distribution of shareholding

As at 31 December 2019, the Company had 5,580 shareholders. The distribution of shareholdings is as follows:

Range (number)		Number of Shareholders	Number of Shares
1 to 1000		4,621	38,027
1001 to 5,000		581	2,356,469
5,001 to 10,000		99	747,752
10,001 to 100,000		186	6,965,871
100,001 and above		93	457,131,515
		5,580	**467,239,634**

Unmarketable Parcels:

As at 31 December 2019, the BSP Share Price was K11.78. There were 621 shareholders (0.1% of total shareholders) who held less than a marketable parcel of BSP shares, being holdings of K1,000 or less in market value.

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
R Fleming	93,000	0.00

Registered Office

Section 34, Allotment 6 & 7,
Klinki Street, Waigani Drive, Port Moresby.
National Capital District, PAPUA NEW GUINEA
Telephone: +675 322 9700

Australian Registered Office

Level 26
181 William Street, Melbourne
VIC 3000

Home Exchange for BSP Shares

PNG Exchange Markets (PNGX)
PO Box 1531
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 320 1980

Home Exchange for BSP Convertible Notes

South Pacific Stock Exchange
GPO Box 11689
SUVA, FIJI
Telephone: +679 330 4130

Share Registry

PNG Registries Ltd
PO Box 1265,
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 321 6377

Australian Share Registry

Link Market Services Ltd
Level 12, 680 George Street, Sydney
NSW 2000

APRA Disclaimer:

BSP is not authorised under the Banking Act 1959 (Commonwealth of Australia) and is not supervised by the Australian Prudential Regulation Authority (APRA). BSP's products are not covered by the depositor protection provisions in section 13A of the Banking Act 1959 and will not be covered by the financial claims scheme under Division 2AA of the Banking Act 1959

DIRECTORS' INFORMATION

Name	Nature of Interest	
Sir K. Constantinou, OBE	Director	Bank of South Pacific Ltd, BSP Capital Ltd, BSP Finance Ltd, Bank South Pacific (Tonga) Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, Southern Seas Investments Ltd, Texas Chicken South Pacific Ltd, Loloata Island Resort, OPH Ltd, Rangeview Heights Ltd in Papua New Guinea, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand, K G Property Ltd, Air Niugini and Anglicare Foundation
	Shareholder	Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Texas Chicken South Pacific Ltd and K G Property Ltd
	Patron	Burnet Institute and Kokoda Track Foundation
	Member	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
R. Fleming, CSM, MBA, MMGT	Director	Bank of South Pacific Ltd, BSP Capital Ltd, BSP Convertible Notes Ltd, BSP PNG Holding Ltd, BSP Life (Fiji) Ltd, BSP Saleco Ltd, Capital Nominees Ltd, BSP Nominees Ltd, BSP Finance Ltd, BSP Finance (PNG) Ltd, BSP Finance (Fiji) Ltd, BSP Services (Fiji) Ltd, BSP Health Care (Fiji) Ltd, Bank South Pacific (Tonga) Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, 3 Kundu Pte Ltd, BSP Finance (Solomon) Ltd, BSP Life PNG Ltd, BSP Finance (Cambodia) Plc
	Shareholder	Bank of South Pacific Ltd, BSP Saleco Ltd
	Member/Trustee	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
A. Sam, BComm, CPA, MAICD, GAICD	Director	Bank of South Pacific Ltd, Sam Kiak Tubangliu Certified Practising Accountants, Silver Dawn Holdings Ltd
	Shareholder	Sam Kiak Tubangliu Certified Practising Accountants, Silver Dawn Holdings Ltd
	Member/Graduate	CPA PNG, PNG Institute of Directors, Australian Institute of Company Directors
S. Davis, LLB	Director	Bank of South Pacific Ltd, Next DC Ltd, PayPal Australia Ltd, NextDC Ltd, Asia Society of Australia, Australia India Business Council
	Graduate/Member	Australian Institute of Company Directors, Avondale Golf Club Ltd
R. Bradshaw, LLB	Director	Bank of South Pacific Ltd, Kumul Agriculture Ltd
	Member	Papua New Guinea Law Society

Name	Nature of Interest	
G. Robb, BA, MBA, OAM, MAICD, GAICD	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Bank of South Pacific Tonga Ltd
	Member/Graduate	Australian Institute of Company Directors
F. Talao, LLB, LLM, MPHIL, MAICD (Resigned December, 2019)	Director	Bank of South Pacific Ltd, Director Partnership Pacifica, Chayil Investment ltd, Human Rights PNG
	Member	Papua New Guinea Law Society, Australian Institute of Company Directors
E. B. Gangloff, CPA, MAICD, MIIA, PNGID	Director	Bank of South Pacific Ltd, Gangloff Consulting Ltd, New Britain Palm Oil Ltd, Sir Theophilus Constantinou Foundation, BSP Finance (Fiji) Ltd, Pacific Training Consortium Ltd, Highlands Pacific Ltd
	Member	Institute of National Affairs (President), MSME Council Inc. (Vice President), Australian Institute of Company Directors, Papua New Guinea Institute of Directors (Founding member), CPA PNG, Institute of Internal Auditors, School of Business and Public Administration, University of Papua New Guinea (Adjunct Professor).
A. Mano, BEcon, MSc.	Director	Bank of South Pacific Ltd, Mineral Resources Development Company Ltd, Pearl Resort (Fiji) Ltd, Speedy Hero Ltd, Insurance Pacific Ltd, Civpac Ltd, Handy Group Ltd, SMA Investments Ltd, Hevi Lift Group Ltd, PNG Air Ltd, Gobe Freight Ltd, Mineral Resource Ok Tedi Ltd, Mineral Resources Star Mountain Ltd, Petroleum Resources Kutubu Ltd, Petroleum Resources Moran Ltd, Petroleum Resources Gobe Ltd, Mineral Petroleum Resources Madang Ltd, Mineral Resources Ramu Ltd, Gas Resources Hides Ltd, Gas Resources Hides 4 Ltd, Gas Resource Angore Ltd, Gas Resource Juha Ltd, Bank South Pacific (Samoa) Ltd, Star Mountain Plaza, Taumeasima Island Resort in Samoa, Davara Estate, Bogasi Investments Ltd, Terra Resources Ltd
	Shareholder	SMA Investments Ltd, INSPAC Ltd
	Employee	Mineral Resources Development Company Ltd
Faamausili Dr. M. Lua'iufi, BA, MSc, PhD	Director	Bank of South Pacific Ltd, Paradise Consulting, National University of Samoa
	Shareholder	Paradise Consulting
	Member	Executive Committee of the National University of Samoa, Samoa Institute of Directors, British Institute of Consulting, Technical Advisor to the newly establsihed Samoa Human Resources Institute (November 2018), Australian Institute of Company Directors

Management Teams

PROFESSIONALISM

We inspire, we change, and we live our values, and lead by example.

Management Team

Executive Management

Robin Fleming, CSM
Group Chief Executive Officer

Robin Fleming was appointed CEO of Bank of South Pacific Ltd in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNGBC, Mr Fleming held senior management roles with PNGBC. He has worked in PNG for over 35 years and holds an MBA and a Master of Management from Charles Sturt University. Mr Fleming was made a Companion of the Star of Melanesia (CSM) in 2015 by the PNG Government for services to banking and the community.

Roberto Loggia
Group Chief Operating Officer

Roberto Loggia joined BSP in April 2011 after having been CEO of State Bank, Mongolia in its initial stages of development wherein the sound assets of two failed institutions were consolidated into a new viable state sponsored bank with the support of EBRD, London. After having obtained his Bachelor of Commerce degree in Finance from McGill University, Montreal and initiation into banking at Toronto Dominion Bank, he eventually became a career banker with more than thirty years' experience working mostly throughout Asia but also in emerging markets in Central Europe, South America and Africa. In terms of scope of responsibility, most of his assignments have been as Chief Operating Officer responsible for middle and back office functions supporting businesses in Retail Banking, Corporate & Investment Banking and Private Banking. Mr Loggia has also participated as a key Manager in Greenfield Banks in Japan, Indonesia, Laos and Angola. Lastly, he has held senior line management responsibility within Retail Banking in Nigeria as well as consulting assignments within Retail Banking in China and Risk Management in Thailand.

Eddie Ruha
Group Chief Financial Officer

Eddie Ruha was appointed to Group Chief Financial Officer on the 3rd April 2017, after the resignation of Mr Johnson Kalo. Prior to that Mr Ruha joined BSP on the 1st of November 2012, as the Chief Financial Officer – PNG. Previously he worked for Steamships Trading Company here in PNG for 22 years, commencing there in 1990, working in the Steamships Merchandising Division for eight years, before transferring to Head Office as Group Systems Accountant and then Group Accountant, General Manager Finance and then from 2008 to 2012 as Finance Director and Company Secretary. In New Zealand Mr Ruha initially worked for KPMG Auckland office as an Auditor. Mr Ruha is a commerce graduate from Auckland University in New Zealand (1984) and has a Master of Business Administration from Charles Sturt University (2000) and is a member of CPA Papua New Guinea and a member of the Chartered Accountants Australia and New Zealand as well as a graduate of the Australia Institute of Company Directors.

Paul Thornton
Group General Manager Retail Banking

Paul Thornton was appointed General Manager Retail in August 2013 and brings to the position 44 years of retail banking experience, 36 years of which have been in Papua New Guinea. Mr Thornton was previously the Executive Manager Strategic Planning with the PNG Banking Corporation and was the founding Managing Director of PNG Microfinance Limited. Since returning to BSP in 2010, he has held the positions of Head of BSP Rural, Deputy General Manager Retail and General Manager Network before being appointed to this current position.

Peter Beswick
Group General Manager Corporate Banking

Peter Beswick was appointed General Manager of BSP Corporate Banking in June 2011. He has over 25 years Banking and Finance experience, covering Australia and South East Asia with Commonwealth Bank of Australia, National Australia Bank and Bank of New Zealand; holding senior executive positions in Risk Management and Business Development. Mr Beswick's most recent appointment has been CEO of a national wholesale, import and retail business in Australia. He has extensive experience in the Finance, Government, Retail, Wholesale, Telecommunications and Property sectors, with extensive knowledge in foreign exchange, risk management and governance. Mr Beswick qualified as a Chartered Accountant with PWC and most recently completed an MBA with Macquarie University in Australia.

Mike Hallinan
Group Chief Risk Officer

Mike Hallinan, was appointed Group Chief Risk Officer, following Haroon Ali's move to Fiji as Country Head in 2018. Mr Hallinan, commenced employment with BSP in 2013, as Chief Credit Officer. His professional career expands over 40 years in Banking and Finance holding various senior positions in Risk Management and Senior Relationship Executive roles with Commonwealth Bank of Australia, specifically managing corporate and institutional relationships including government departments, both domestically and internationally. Recent experience prior to joining BSP included the financial industry group and infrastructure project financing. Mike is familiar with PNG having previously worked for the former Papua New Guinea Banking Corporation holding the position of Executive Manager Lending Division. Mike is a qualified CPA and is a Fellow of the Australian Bankers Institute.

Management Team

Executive Management (continued)

Rohan George
General Manager Treasury

Rohan George was appointed General Manager Treasury in February 2015. Mr George has extensive knowledge in developed and emerging financial markets. His experience spans over 30 years, covering fixed income, foreign exchange, commodities and structured derivatives markets. He is passionate about financial markets, managing market risk, liquidity risk and providing value add solutions for clients. Prior to joining BSP, Mr George worked at ANZ as Head of Global Markets, Cambodia & Laos (5 years), at Westpac as Treasurer PNG & Pins (8 years), and at BNP Paribas Investment Management in Sydney, as Head of Fixed Income. Mr George holds a Master of Applied Finance degree from Macquarie University and is accredited by both the Australian Financial Markets Association and the Sydney Futures Exchange.

Christophe Michaud
General Manager and Director BSP Finance Ltd

Christophe Michaud was appointed General Manager and Director of BSP Finance Ltd in May 2015. Prior to this appointment, he spent 4 years with BSP in corporate banking as Senior Relationship Manager then Deputy General Manager. Prior to joining BSP, Mr Michaud held various positions in the banking industry in corporate banking, project finance, private banking with BNPParibas, Banque Indosuez and Crédit Agricole in France, India, Pakistan, Turkey, Indonesia, Singapore. He brings with him more than 35 years of banking experience. Christophe holds a Master of Business Administration from Neoma Business School in France.

Hari Rabura
General Manager Human Resources

Hari Rabura was appointed General Manager Human Resource in April 2016. She first joined BSP as a graduate trainee in 2001 and worked in various positions within HR in BSP and various private firms. Ms Rabura is the first female employee to reach executive management level as a General Manager in one of the key Strategic Business Unit (SBU) within the organisation. She is experienced in implementing and delivering HR strategies, policies, and services that create, support and sustain a high performance culture in BSP. As a former member of the Leadership and Management Development Program (LMDP) in BSP, she has undergone General Management training in INSEAD Business School in France and Melbourne Business School in Australia.

Daniel Faunt
General Manager Offshore Branches and Director BSP Finance Ltd

Daniel was appointed to General Manager Offshore Branches in 2018 with responsibility over banking operations in Fiji, Solomon Islands, Tonga, Samoa, Vanuatu and the Cook Islands. Faunt has 20 years of banking experience in PNG, Australia and the Pacific and has held senior management roles in Corporate and Commercial Banking, Retail Banking and Operations. Mr Faunt holds a Masters of Business Administration in Economics from Deakin University and Bachelor of Business in Banking from the Queensland University of Technology.

Nuni Kulu
General Manager Digital

Nuni Kulu was appointed as General Manager Digital effective as of 1st January, 2019. Her appointment makes her the second female to be appointed to the Executive of BSP as she joins Hari Rabura, General Manager Human Resources. Nuni joined the former PNG Banking Corporate (PNGBC) as a graduate and has undertaken numerous roles in Treasury and Retail Banking during the course of her career. She was a member of the BSP's Leadership Development Program and has benefited from leadership and management training at Melbourne Business School and Insead College in France. Nuni hails from Manus Province and holds a Bachelor of Commerce attained at the Australian National University with many years of experience with PNGBC / BSP. She is now the President of the Business Council of PNG.

Adam Fenech
Group General Manager Compliance

Adam Fenech was appointed to Group General Manager Compliance in October 2019. Mr Fenech oversees BSP's Anti-Money Laundering & Compliance; Internal Audit; and Credit Inspection business units to ensure BSP continues to meet its ongoing regulatory requirements and advancements in industry standards. Mr Fenech has over 22 years' diverse leadership experience in Australia and Papua New Guinea including senior roles at Bankers Trust, Commonwealth Bank of Australia, and more recently at PwC as Director of Advisory Services, and Kina Bank as General Manager Wealth and Chief Operating Officer. He holds a Bachelor of Commerce from the University of New England, an MBA and Master of Project Management from the University of Southern Queensland, and has attended leadership programs at the Harvard Business School and the National University of Singapore. He is also a member of the Association of Certified Anti-Money Laundering Specialists (ACAMS) and both the Australian and PNG Institute of Company Directors.

Management Teams

Broader Group

COOK ISLANDS

Middle [front]
David Street – Country Head

Left to Right [back]
Henry Napa – Head of Operations
Tokoa Harmon – Branch Manager
Chris Doran – Head of Corporate
Grace Tangata – Operational Risk and Compliance Manager
Gabe Raymond – Head of Finance
Achaal Narayan – Manager Digital
Tutu Inamata – Business Manager

FIJI

Standing (L-R):
Omid Saberi – Chief Information Officer
Sunil Rohit – Head of Credit
Ravindra Singh – General Manager Retail Bank
Haroon Ali – Country Head
Maikash Ali – General Manager Corporate
Alvina Ali – General Manager Legal & Compliance
Esala Halafi – Head of Operational Risk & Compliance
Rajeshwar Singh – General Manager Corporate Services & Chief Financial Officer

Not in photo:
William Wakeham – Chief Operating Officer

SAMOA

Standing (L - R):
Maiava Ieli Tovia-Leota – Business Manager
Shirley Greed – Head of Retail Banking
Taitu'uga Maryann Lameko-Vaai – Country Manager
Peti Leiataua – Manager Operational Risk and Compliance
Jennifer Fruean – Head of Finance

Seated (L - R):
Epeli Racule – Operations Manager
Bharat Chovan – Head of Financial Markets
Edward Yee – Head of Business Banking
Rodney Greed – Manager Projects and Premises

SOLOMON ISLANDS

Left to Right [back]
Christopher Robertson – Head of Relationship Banking
Alphonse Taoti – Manager Retail Services
Joan Ramo – Manager International Operations
Dennis Suia – Manager Retail Operations Manager
Giddings Qiqo – Manager Operations and International Business
Sharneet Singh – Head of Finance
David Anderson – Country Head

Left to Right [front]
Freda Fa'aitoa – Manager Human Resources
Lucy Bonunga – Manager Operational Risk & Compliance
Lynnette Taoti – Manager Credit Administration
Genevieve Apusae – Senior Audit Officer

TONGA

Standing (L - R):
Marcellina Wolfgramm Haapai – Country Head
Viliami Vailea – Head of Finance
Alvina Manu – Manager Operational Risk
Emele Hia – Head of Corporate
Meleana Fifita – Head of Operations
Mele Ikahihifo Latu – Head of Treasury
Mr Emilio Tapueluelu – Head of Retail

VANUATU

Left to Right [back]
Ronal Prasad – Head of Finance
Nik Regenvanu – Country Head
Bethy Nafuki – Business Manager

Left to Right [front]
Moana Korikalo – Head of Retail
Josiah Kalfabun – Manager Compliance
Irene Tabi – Head of Treasury
Edmond Williamson – Manager Operational Risk
Teresa Jordan – Head of Operations

Management Teams

Subsidiaries

BSP FINANCE HOLDING

Standing (L - R):
Pochon Sauriroa Lili – Financial Controller
Susan Asi – Assistant Compliance & ORM Officer
Anna Puri – Credit Manager
Christophe Michaud – General Manager
Bernadette Name'a – Finance Officer
Janet Seta – Quality Assurance Manager
Remu Ruape – AML/CTF Compliance Officer

BSP FINANCE - PAPUA NEW GUINEA

Standing (2nd from Left):
Brett Tayler – Country Manager with Management and staff of BSP Finance PNG

BSP FINANCE - FIJI

Standing (L - R):
Sanjeet Narsey – Finance Manager
Vimal Raj – Senior Lending Officer
Shelvina Sharon Lata – Accountant
Shirraz Narayan – Collections Supervisor
Krishna Raju – Country Manager
Shainesh Vikash Lal – Area Manager West
Animul Sheryn Khan – Supervisor Lending Support
Niranjan Singh – Compliance & Operational Risk Management Officer
Sudeshwar Ram – Area Manager East

BSP FINANCE - CAMBODIA

Standing (L - R):
Kou Polai – Senior Reovery Officer
Heng Brosoer – Finance Manager
Mom Sokhouch – Senior Admin Support
Seng Sokha – Sale Lending Manager
Khay Bunthoeun – Operation Manager

Sitting (L - R):
Im Boramey – Senior Compliance Officer
Buo Choeun – Country Manager
Phum Sreyneang – Sale Lending Coordinator

BSP CAPITAL LTD

Standing (L - R):
Willie Konga – Senior Manager (Funds Management)
Marie Sourimant – Senior Portfolio Officer
Theresa Kalivakoyo – Business Controller
Michelle Koredong – Senior Dealer Fixed Asset
Ruth Roandi – Research Analyst
Gheno Minia – General Manager

Broader Group

BSP LIFE - PNG

Standing (L - R):
Gynellevin Tanabi-Hemetsberger – Operations Manager
Jennifer Manimua – Administration Accountant
Nilson Singh – Country Manager
Matthew Hasu – Business Development Manager

BSP LIFE - FIJI

Standing (L - R):
Curtis Mar – General Manager Distribution & Marketing,
Pramesh Sharma – Chief Investments Officer
Michael Nacola – Managing Director
Munendra Naidu – Chief Financial Officer

Sitting (L - R):
Shayne Sorby – General manager Legal & Compliance
Atelina Muavono – Chief Operating Officer

OVERSEAS DIRECTORY

Cambodia

Country Manager	Buo Choeun	855 (0) 2388 52064

Cook Islands

Country Head	David Street	682 22829
Head of Corporate	Chris Doran	682 22014
Rarotonga Branch	Tokoa Harmon	682 22014
Aitutaki Branch	Rosa Henry	682 31714

Fiji

Country Head	Haroon Ali	679 3214454
Damodar City Branch	Sanjani Devi	679 3342333
Thomson St Branch	Shailendra Roy	679 3314400
Nausori Branch	Pio Vatanitawake	679 3478499
Pacific Harbour Branch(OIC)	Ravikashni Prakash	679 3452030
Pacific House Sales & Bus.Centre	Manjila Goundar	679 3314400
Samabula Sales & Bus. Centre(OIC)	Mereani Peters	679 3387999
Suva Central Branch	Shalit Kumar	679 3314400
Ba Branch	Reginald Kumar	679 6674599
Westfield Branch	Devendran Pillay	679 6661769
Nadi Branch	Ann Pesamino	679 6700988
Namaka Branch	Razia Tahir	679 6627320
Rakiraki Branch (OIC)	Ronica Prakash	679 6694200
Sigatoka Branch	Anupa Kumar	679 6500900
Tavua Branch (OIC)	Nacanieli Vadei	679 6681507
Labasa Branch	Eka Takayawa	679 8811888
Savusavu Branch (OIC)	Vineeta Prasad	679 8850199
Taveuni Branch	Anaseini Senivika	679 8880433

Samoa

Country Head	Maryanne Lameko - Vaai	685 66115
Retail Head	Shirley Greed	685 66170
Apia Branch	Siuli Aiono	685 66172
Vaitele Branch	Folototo Leaumoana	685 23005/685 23057
Salelologa Branch	Leilani Kelemete	685 51208/685 51066

Solomon Islands

Country Head	David Anderson	677 21874
Auki Branch	Lency Saeni	677 40484
Gizo Branch	Clotilda Londeka	677 60539
Heritage Park Branch	Joy Vave	677 21814
Honiara Central	Jeremy Bosukuru	677 21222
Munda Branch	Joseph Rabaua	677 62177
Noro Branch	Richard Bero	677 61222
Point Cruz Branch	Saverio Votu	677 21874
Ranadi Branch	Tricia Tura	677 39403

Tonga

Country Head	Marcellina Wolfgramm Haapai	676 20807
Nuku'alofa Branch	Melaia Tu'ipulotu	676 20879
Vava'u Branch	Sosefina Tangitau	676 71268
Ha'apai Sub Branch	Selu Lausii	676 60933
'Eua Sub Branch	Tokilupe Toe'api	676 50145

Vanuatu

Country Head	Nik Regenvanu	678 5580038
Head of Retail & Marketing	Moana Korikalo	678 5580009
Santo Branch	Edwige Wensi	678 5580034
Port Vila Branch	Danica Rapouel	678 5580016
Tanna Branch	Dolores Charlie	678 5580041
Freswota Branch	Lina Niatu	678 5580051

Management Team

PNG Branch Managers

Cliff Yoka
Aitape

Martin Gilo
Alotau

Rose Paula Seeto
Arawa

Dora Raphael
Bialla

Ruby Patu
Boroko

Julie Warren
Buka

Roslyne P. Kanini
Bulolo

Reuben Attai
Daru

Livikonimo Koki
Goroka

Antonia Dru
Gordons

Rawalo Rawalo
Harbour City

Marco Hamen
Kainantu

Mathias Manawo
Kavieng

Betty Posangat
Kimbe

Ivy David
Kiunga

Joe Makinta
Kokopo

Rita Singut
Kundiawa

Bevilon Homuo
Lae Top Town

Gabriel Ak
Lae Market

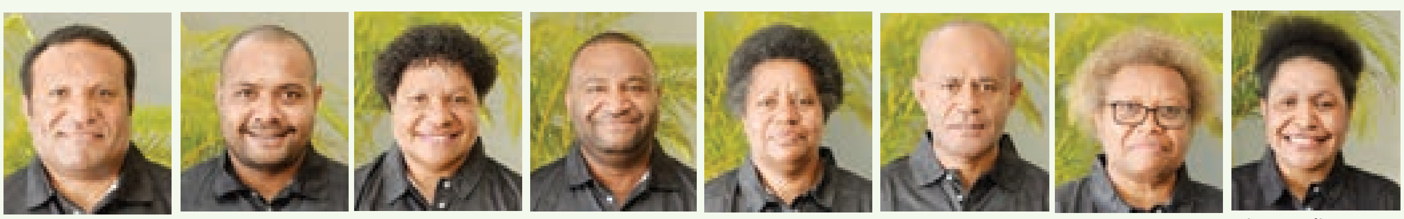
Robinson Panako
Lae Commercial

Johnson Tetaga
Lihir

Ruth Kagl
Lorengau

Barry Namongo
Madang

Philip Solala
Mendi



Meck Kaum
Moro

David Ila
Moro

Theresa Pilamp
Mt Hagen

Samuel Okti
Popondetta

Mary Koi
Porgera

Stanley Bole
Port Moresby

Kalat Tiriman
Rabaul

Dianne Rali
Tabubil

John Tomba
Tari

Delilah Kanit
Vanimo

Susie Yapen
Vision City

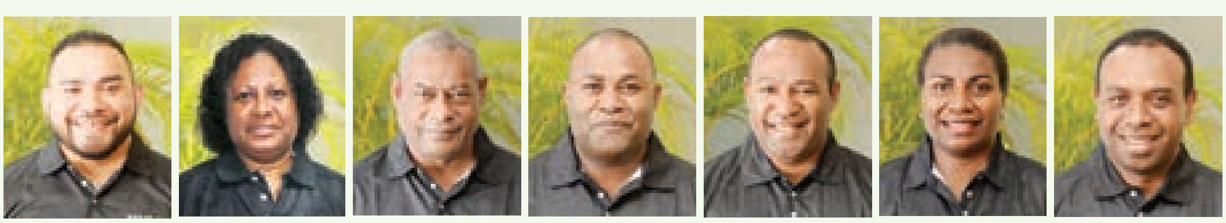
Thomas Tembil
Wabag

Alex Kuna
Waigani B/Centre

Madeleine Leka
Waigani Drive

Nelson Kerua
BSP First HC

Richard La'a
SME - Lae



Samuel Mulina
SME - Goroka

Carol Nokop
SME - Port Moresby

Reuben Elijah
Highlands Area
Manager

Dennis Lamus
Momase Area
Manager

Jeffrey Singer
NGI Area Manager

Natasha Sirimai
NCD Area Manager

Billy Veveloga
Southern Area
Manager

PAPUA NEW GUINEA BRANCH DIRECTORY

Aitape	Cliff Yoka	457 2042
Alotau	Martin Gilo	641 1284
Arawa	Rosemary Paula Seeto	276 9244
Bialla	Dora Raphael	983 1095
Boroko		
Branch	Ruby Patu	303 4320
Premium	Sheila John	303 4354
Buka	Julie Warren	973 9042
		7202 9203
Bulolo	Roselyn P. Kanini	474 5331
Daru	Ruben Attai	645 9416
Goroka	Livikonimo Koki	532 1633
Gordons		
BSP First		302 5245
Premium	Antonia Dru	302 5202
Harbour City		
Branch	Rawalo Rawalo	305 7135
Premium	Iru Tabe	305 6190
BSP First	Nelson Kerua	305 7935
Kainantu	Marco Hamen	537 1251
Kavieng	Mathias Manowo	9842082
Kimbe	Betty Posangat	983 5166
Kiunga	Ivy David	649 1313
Kokopo		
Branch	Joe Makinta	982 9088
Premium	Kessie Guboro	982 9068
Kundiawa	Rita Singut	535 1025
Lae		
Top Town	Bevilon Homuo	473 9876
Main Market	Gabriel Ak	473 9609
Commercial	Robinson Panako	472 9088
BSP First	Elizabeth Gavul	478 4949
Lihir	Johnson Tetaga	986 4062
Lorengau	Ruth Kagl	970 9244
Madang		
Branch	Barry Namongo	422 2477
Premium	Jennifer Passingan	422 2621
Mendi	Philip Solala	549 1070
Moro	Meck Kaum	276 1566
	David Ila	276 1569
Motukea	Stanley Geno	3217701
Mt Hagen		
Branch	Theresa Pilamp	542 1877
		542 2022
Premium	Maggie Wara	542 1877
Popondetta	Samuel Okti	629 7443
Porgera	Mary Koi	547 6900
Port Moresby		
Branch	Stanley Bole	305 7104
Premium	Imelda Konabe	305 7790
BSP First	Jessie Toran	305 7724
Rabaul	Kalat Tiriman	982 1744
Tabubil	Dianne Rali	649 9179
Tari	John Tomba	276 1651
Vanimo	Delilah Kanit	457 1025
SME		
Port Moresby	Carol Nokop	305 6400
Lae	Richard La'a	479 5676
Goroka	Samuel Mulina	532 1006
Vision City		
Branch	Susie Yapen	300 9103
Premium		
Wabag	Thomas Tembil	547 1237
Waigani Banking Centre		
Branch	Alex Kuna	305 6102
Premium	Pakar Tata	300 9131
Waigani Drive	Madeleine Leka	302 5301
Wewak	Robert Jomino	456 2344
REGIONAL AREA MANAGERS		
Highlands Region	Reuben Elijah	542 2002
Momase Region	Dennis Lamus	478 4998
NGI Region	Jeffrey Singer	982 9088
NCD Region	Natasha Sirimai	305 7195
Southern Region	Billy Veveloga	305 7886

SUB BRANCH DIRECTORY

AIYURA	Gomah Benson	7230 8313
BANZ	Kessy Elly	7100 9078
BUIN	Rosemary Paula Seeto	7106 3610
CHUAVE	Shandah Bai	7197 6001
DAULO	Kurai Gunurei	7100 6763
GEMBOGL	William Koima	7313 4177
GUSAP	Lee Sinemaue	7091 1396
HENGANOFI	Rachael Saime	7100 7859
HIGATURU	Stephanie Orovo	7275 1365
HOSKINS	Genevieve Sela	7031 2627
IALIBU	Philemon Kumi	7041 1624
KABWUM	Inna Buneng	7346 1426
KAMTAI	Josephine Kun	7243 4695
KEREMA	Toru Levo	7100 2889
KEREVAT	Minamar Mathew	7190 8231
KEROWAGI	Gariki Towa	7100 9077
KINIM	Malapun Bannick	7100 7861
KIKORI	Leah Kimave	7163 0597
KOMO	Mark Tom	7362 0760
KONOS	Helen Warange	7197 6006
KUPIANO	Andrew Baine Jnr	7288 4140
LABA	Auda Morea	7197 6008
LAKURUMAU	Lorraine Koma	7197 6005
LOSUIA	Lorna Solomon	7031 2617
MAPRIK	Christian Tatu	7168 7815
MINJ	James Mare	7100 9076
MUTZING	Gordon Robert	7100 2488
NAMATANAI	Mathew Tabakas	7197 6007
NAVO	Hennah Brunim	7090 4272
NINGERUM	Todin Kasi	7916 5583
OKAPA	Arafat Tovari	7055 0955
PADIPADI	Lelly Mick	7090 4463
PALMALMAL	Freda Nablup	7323 9181
PANGIA	Debra Poria	7197 6003
TAMBUL	Willie Yapi	7100 7863
TELEFOMIN	Jobartan Bickie	7255 8421
WAKUNAI	Melvin Kusa	7100 7856
WALIUM	Brenda Igusam	7031 2127
WAPENAMANDA	Feta Isin	7100 7862
YANGORU	Brendon Iromo	7127 0000
YONKI	Usik Asino	7185 5768

Corporate Social Responsibility

COMMUNITY

We respect, value and support the communities in which we operate.


BSP
BSP
BSP

Corporate Social Responsibility

Investing in PNG and the Pacific

BSP delivers more than just banking to the communities, customers and the countries that we operate in. We deliver balanced and sustainable outcomes for our customers, community, people and shareholders.

We respect, value and support the communities in which we operate in. At the core of our business, we know that, our people belong to a bigger community.

In 2019, BSP's Corporate Social Responsibility (CSR) contribution was over K5.5 million including sponsorships and donations as a group.

Corporate Social Responsibility

Sponsorships and Donations Groupwide including BSP Subsidiary

K5.5m

Corporate Social Responsibility

Total amount invested in CSR in 2019. This includes Sponsorships, Donations and Community Projects in

BSP Groupwide

Corporate Social Responsibility

Sponsorships and Donations in Papua New Guinea

K4.2m

Corporate Social Responsibility

Total amount invested in CSR in 2019. This includes Sponsorships, Donations and Community Projects in

Papua New Guinea

Corporate Social Responsibility
across the Pacific

K249k
CSR Spend in Cook Is.

K261k
CSR Spend in Samoa

K178k
CSR Spend in Tonga

K296k
CSR Spend in Fiji

K102k
CSR Spend in Solomon Is.

K237
CSR Spend in Vanuatu

BSP takes pride in supporting professional groups, organisations, and worthy causes that are important to our customers, employees and people throughout PNG and the Pacific.

BSP has built partnerships with various organising committees, events and charities who champion, cultural unity, professional development, environment sustainability, education, sports, health and well being.


BSP TONGA SPONSORS STUDENTS TO MEXICO


BSP TONGA SUPPORTS HAKULA SWIM CLUB


BSP SI SUPPORTS PINKTOBER


BSP SAMOA OFFERS SCHOLARSHIPS FOR STUDENTS


BSP SAMOA SUPPORTS INTERNATIONAL WOMEN'S DAY


BSP PNG SUPPORTS OPERATION OPEN HEART

Donations

K800k
for Donations in Papua New Guinea

Our Donations
Support Charities, Hospitals, Orphanages and other worthy causes.

CHARITY AND NGO
Rotary Club of Port Moresby
- Salvation Army Red shield Appe
- Gateway Children's Fund(PNG)Inc
- Sir Buri Kidu Heart Foundation
- City Mission PNG Ltd

HEALTH
Operation Open Heart Foundation
- Karama Health Limited
- Soroptomist International POM
- PNG Cancer Foundation
- Burnett Institute

EDUCATION
Buk Bilong Pikinini
- Kokoda Track Foundation Limited

COMMUNITY
- Bel isi Campaign
- Mt Ulevun Disaster
- Digicel Foundation - Man of Honour Community Leadership Award
- Tsak Valley Landslide Disaster
- Life PNG Care Inc
- Branch Hospital Donations (Lae, Rabaul, Kavieng, POM)

Everyday Donations

BSP Fiji supports the Walk on Walk Strong campaign by shaving their heads to raise funds for Cancer Awareness and children living with Cancer.

Each year, BSP staff volunteer to shave their heads for this worthy cause.

Sponsorship

K2.1m for Sponsorship in Papua New Guinea

K160k for Go Green in Papua New Guinea

SPORTS AND WELL BEING

- BSP School Cricket Programme
- WNB Rugby League Franchise Board
- Papua New Guinea Swimming Inc.
- PNG Volleyball Federation - Indoor
- Surfing Association of PNG Inc.
- Papua New Guniea Snooker Assoc
- Port Moresby Golf Club
- Port Moresby Tennis and Racquets Club
- Lloyd Robson Oval Trustee Limited
- Ramu Golf Club
- Port Moresby Game Fishing Club
- Bulolo Golf Club
- PNG Squash Racquets Federation
- Port Moresby Cricket Association
- Private Companies Netball club
- Port Moresby Corporate Touch
- PNG Olympic Committee Fundraising
- PNG Soccer Charity Trust Account
- POM Women's Softball Association
- Sportz Events Limited
- Rabaul Golf & Squash Club
- Lae Golf Club Inc.

CULTURAL FESTIVALS

- Sepik River Crocodile Festival
- Morobe Agriculture Show
- Motu Koita Festivals
- Goroka Show
- Mount Hagen Cultural Show
- 8th National Mask Festival
- National Kenu and Kundu Festival
- Tufi Tapa & Tattoo Festival
- Frangipani Festival
- Karimui Conseration, Agriculture & Cultural Show

Our Sponsorships

Investing in Sports, Environment, Corporate Events, Professional Development and Culture & Tourism.

CONFERENCES

- Australia PNG Business Council
- PNG Investment Week
- Haus Ples Home Loan Expo
- National Fisheries Authority
- CPA 2019 Conference
- CWC Group Limited
- Lowy Institute_Australia-PNG Networking
- 33rd Australia Papua New Guinea Business Forum
- PNG HR Institute
- POM Chamber Of Commerce
- Business Council Of PNG
- Demeter Resources - Security Congress
- Business Advantage International
- PNG Mining and Petroleum Conference
- Institute of Internal Auditors
- PNG Investment Conference
- PNG Institute of Directors
- UPNG MBBA Pinnacle
- Investment Promotion Authority
- Business & Professional Women
- Kokonas Indastri Koporesen
- PNG Digital & Communications Technology (ICT) Cluster
- PNG Law Society
- Kumul Petroleum Holdings Ltd

COMMUNITY

- Grass Skirt Project
- Port Moresby Golf Club
- Filipino Association of PNG Inc.
- India Association of PNG
- Moresby Arts Theartre Inc.
- National Capital District Comm
- PNG Tumbuna Visual Arts
- Business & Professional Women
- Rotary Club of Boroko
- Womens Leaders Network Inc.
- Divine Word University
- Quebri Media & Marketing PNG
- Namatanai RFL
- Transparency International
- Provincial Celebration Account
- Soroptimist International Lae
- Strategic Communications

BSP FIJI SUPPORTS THE SUVA MARATHON

BSP PNG JOINS THE BEL ISI WALK TO SAY NO TO VIOLENCE

BSP VANUATU PROVIDES SCHOLARSHIPS TO WOMEN

Giving Back to the Community

In celebrating the core value of community, staff visited the Mirigini Mustard Seed Early Childhood Learning Centre to donate books and sporting equipment. Part of the visit allowed staff to share the Go Green message and plant some trees.

Through our respected and valuable partnerships, we are able to reach more communities, more children, enhancing the lives of many, and contributing positively, through Community Projects and delivering Financial Literacy.

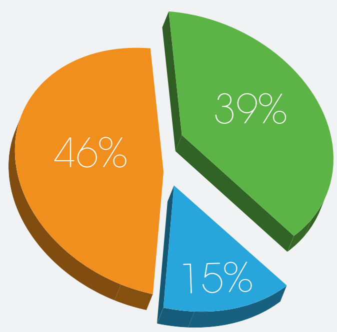
As part of our community, social responsibility, all staff are encouraged to lend a helping hand to deliver a community project. Community is one of the Bank's core values in which we respect, value and support the communities in which we operate.

Community Projects in Papua New Guinea

K10.06m
invested in community Projects
since 2009

K1.1m
invested in community Projects
in 2019

48 projects in total for PNG in 2019



Education
22 Projects

Community
22 Projects

Health
7 Projects

GO GREEN - BSP TRASH TO TREASURE

SUPPORTING WOMEN IN SPORTS - PNG WOMENS' SOCCER TEAM

CULTURE & TOURISM MOTU KOITA FESTIVALS

SUPPORTING THE PORT MORESBY RACQUETS CLUB

JUNIOR GOLF PROAM

PINK BREAKFAST FUNDRAISER

Lending a Helping Hand

Labasa Branch staff in Fiji volunteered to help with the refurbishment of the walkway at Naseakula District School.

As a part of the communities we live in, we would like to build these relationships and strengthen our community involvement. BSP's Community Projects initiative provided an avenue for each of our branch staff to contribute to make a difference. Since its inception in 2009, we're proud that every Branch Manager, Head of Department and Senior Manager and their teams have made a personal commitment to this program, devoting their own time, backed by all the resources of BSP.

- **Aitape**
  Lumi Primary School - Completion of Double Classroom
- **Alotau**
  Alotau Inclusive Education Resource Centre - Renovation of the Centre
- **Arawa**
  Arawa township - Repainting of bus stops and installation of rubbish bins
- **Bialla**
  Bialla market - Renovation & Extension of the Market shelter
- **Boroko**
  6 Mile Antenatel Clinic - Renovation & Extension of the Clinic Waiting Shelter
- **BSP Capital**
  Gordon Secondary School Library - Maintenance & Installation of Computers
- **BSP Finance**
  POM General Hospital - Renovation of the Children's Playground
- **BSP First**
  Murray Barracks- Renovation of the Basketball Courts
- **BSP Haus**
  Hohola Demonstration Elementary School - Maintenance of the Library
- **Buka**
  Buka branch past project sites - Repainting of all past projects sites
- **Bulolo**
  Sambio - Renovation of the Basketball Court
- **Lae Corporate & BSP Finance**
  Lae Salvation Army - Renovation of Hauswin
- **Corporate POM**
  Red Cross Special Education Centre building renovation
- **Daru**
  Daru town - Renovation of Sports Field Grandstand
- **F&P**
  Vabokori Village clinic - Maintenance of the Clinic
- **Gordons**
  Gerehu Primary School - Renovation of School library
- **Goroka**
  Sir Danny Leahy - Renovation of Grand Stand
- **HR**
  Sabusa Primary School - Cementing of 5x Classroom Floors
- **Kainantu**
  Kainantu township - Renovation & Maintenance of the main town bus stop
- **Kavieng**
  Kavieng Police Station - Renovation of Police Station, Family Sexual Violence Unit
- **Kimbe**
  Ruango Primary School - Replenishment of desks


RETAIL SBU


AITAPE BRANCH


KAINANTU BRANCH


MT HAGEN BRANCH


LAE TOP TOWN BRANCH


BOROKO BRANCH

Giving Back to the Environment

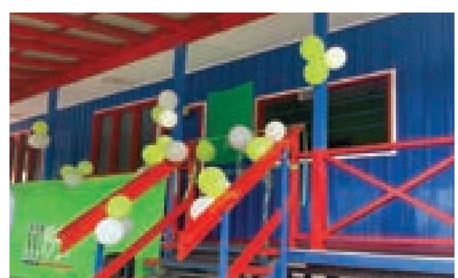
The BSP Go Green Campaign has continued to drive the message of awareness and education through schools and ensuring that our youngsters are more responsible in the communities that they live in.

The BSP Annual Go Green School Clean-up day, aims to put a practical aspect to the program where children across PNG, Vanuatu, Samoa, Fiji, Tonga, Solomon Islands and the Cook Islands can participate.

- **Kiunga**
  Kiunga town - Renovation & Maintenance of the town basketball & volleyball courts
- **Kokopo**
  Callen Disable centre, Kabaleo - Renovation & Maintenance of the Callen Disable Centre
- **Kundiawa**
  Prenorkwa Primary School - Renovation & Maintenance of the water tank foundation
- **Lae Commercial**
  Taraka Primary School - Repair & Maintenance of the Basketball Court
- **Lae Market**
  Lae Botanical Garden - Renovation of the Kids Recreational Area
- **Lae Top Town**
  Buimo CIS - Repair & Maintenance of Buimo Correctional Services Clinic
- **Lihir**
  Londolovit Elementary School & Kul Bus stop - Repair & Maintenance of double classroom & Bus stop
- **Lorengau**
  Lorengau General Hospital - Renovation & Maintenance
- **Madang**
  Madang town - Repair & Maintenance of Laiwaden Basketball Courts
- **Mendi**
  Mendi town - Installation of Rubbish bins
- **Moro**
  Primega Health Centre - Installation of Solar Lights
- **Mt Hagen**
  Mt Hagen Secondary School - Upgrade of the Basketball Court
- **Operations & IT**
  Hagara Primary School - Maintenance of School Water Fountain
- **Paramount & Risk Management**
  Morata Clinic - Maintenance & Extension of the Clinic waiting area
- **Port Moresby**
  Konedobu Clinic - Renovation & Maintenance of the Clinic
- **Popondetta**
  Resurrection Primary School - Maintenance of double classrooms
- **Porgera**
  Paiam Elementary School - Maintenance & Replenishment of desks and chairs
- **Rabaul**
  Rabaul Police Station - Renovation & Maintenance of Police Station
- **Retail**
  Waigani Elementary School - Renovation of Ablution block
- **Tabubil**
  Wangbin Primary School - Renovation & Maintenance of Ablution Block
- **Tari**
  Tari Secondary School - Renovation of School Basketball Court & Donation of Sporting Gear
- **Treasury**
  Boreboa Primary School - Maintenance to Water Tank
- **Vanimo**
  Dasi Elementary School - Renovation of the Double Classroom
- **Wabag**
  Sakin Ipalya Village - Provision of Relief Assistance to Sakin Ipalya village, Sak Valley
- **Waigani BC**
  RPNGC Bomana Training College Clinic - Maintenance of the Clinic
- **Waigani Dr**
  Cheshire Home - Renovation of the Hauswin
- **Wewak**
  Brandi Secondary School - Renovation of Boys Ablution Block


BSP FINANCE


WAIGANI BANKING CENTRE


RABAUL BRANCH


BSP PARAMOUNT & GROUP RISK TEAM


WAIGANI DRIVE


BSP HAUS

Community Projects in the Pacific

62 Community Projects
Delivered across the group

15 Projects delivered through Offshore Branches **in the Pacific**

2 Projects delivered through **BSP Subsidiaries**

9 Projects delivered through **SBUs**

37 Projects delivered through **PNG Branches**

TONGA

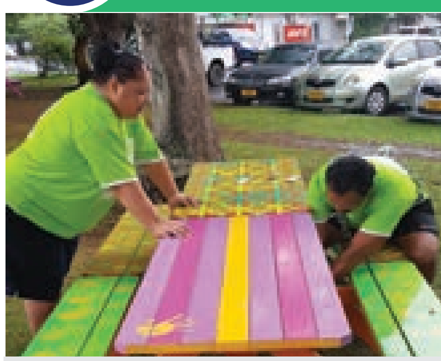
- 2 Project in Tonga

Renovation of children's playground

- Renovation of the main netball court and
- Renovation of children's playground

COOK ISLANDS

- 2 Project in Cook Is.



Installation of 6 x BBQ tables in Central Avarua

- Installation of 6 x BBQ tables in Central Avarua
- Distribution of non-woven shopping bags for Market use

SAMOA

- 2 Project in Samoa

Donation of tank by BSP Samoa to Lotofaga Primary School

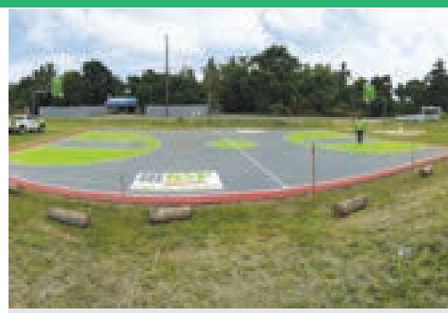
Samoa staff cleaning up the Monestry Carmelites

- Extension of roofing to the Samoa Victim Support Group Centre (SVSG) to shelter dining area
- Donation of 2 x 5000L Water Tanks to Lotofaga Primary School

VANUATU

- 3 Projects in Vanuatu

VILA CENTRAL
Hospital painting and donation



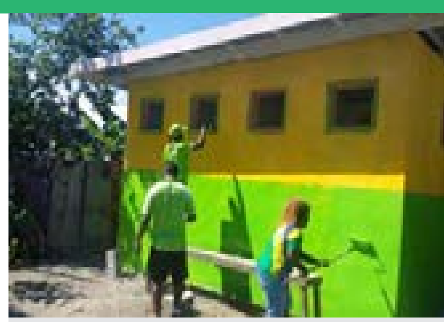
PORT VILA
Basketball court at No2 Lagoon

- No2 Lagoon Basketball Court renovation
- Vila Central Hospital interior design and donation of furniture
- Freswota School Special Needs Classroom Project

SOLOMON ISLANDS

- 4 Projects in Solomon Islands

DIGITAL & POINT CRUZ
Installation of Solar Powered Water tank to Auriligo Primary School, Guadal Canal Province



RANADI
Lunga School Ablution Block renovation

- **Auki Branch**
  Auki CHS Concrete base for water tank
- **Gizo Branch**
  Kukundu SDA College Basket Ball Court facelift
- **Ranadi**
  Lunga School Ablution Block renovation
- **Digital & Point Cruz**
  Installation of Solar Powered Water tank to Auriligo Primary School, Guadal Canal Province.

FIJI

- 4 Projects in Fiji

SAVUSAVU BRANCH
Maintenance and refurbishment of bridge walkway.

WESTFIELD BRANCH
General maintenance and installation of Solar lights for Golden Age Home

- **Labasa Branch**
  Naseakula District School
- **Savusavu Branch**
  Bridge refurbishment
- **Tauveni Branch**
  Wainkeli District Primary School building repairs to Kindergaten
- **Westfield Branch**
  Maintenance and Solar Installation for Golden Age Home

Financial Literacy and Banking Education

Delivering Financial Literacy in PNG

18,775

Individuals participated in Financial Literacy in PNG. 47% are women.

140

We have 140 qualified Financial Literacy Trainers in branches in PNG.

230

Communities and organisations reached since 2014

With growth, comes added responsibilities of ensuring that our people, shareholders and customers are empowered in financial literacy and banking education.

Our Education and Community reach to deliver financial literacy goes hand in hand with our reach, from the corporate business houses, the schools and to the more remote areas in PNG and the Pacific.

In 2019, our key focus areas are financial education, contributing to the community and good business practices.

BANKING EDUCATION AND FINANCIAL LITERACY

Financial Literacy Training delivered to Tusbab Secondary School students in Madang Province.

BANK OF SOUTH PACIFIC LIMITED 2019 ANNUAL REPORT

PNG FIJI SOLOMON IS. SAMOA TONGA COOK IS. VANUATU CAMBODIA

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