2018
ANNUAL REPORT
BANK OF SOUTH PACIFIC LIMITED

BSP

2018 Year of the APEC CEO Summit

"As a leading bank in the South Pacific, BSP raised its hand in supporting the series of APEC events including the APEC CEO Summit on 15th – 17th November, 2018, as Gold sponsor.

We supported and participated in discussions to forge good relations with our neighbours and the wider global community through our engagement in dialogue with APEC Economy Leaders, Ministers, and high-level government officials to discover business opportunities through networking during this time."

BSP Group Chief Executive Officer, Robin Fleming, CSM

Chairman's Report	5
A Brief History of BSP	7
Board of Directors	8
Group CEO's Report	11
Group Historical Summary	15
Contributions by BSP to PNG	15
Strategic Business Unit Reports	17
Offshore Branches	24
Subsidiaries	28
Corporate Governance	31
Financial Statements	39
• Directors' Report	40
• Statements of Comprehensive Income	43
• Statements of Financial Position	41
• Statements of Changes in Shareholders Equity	44
• Statements of Cash Flow	45
• Notes to the Financial Statements	46
Independent Auditor's Report	91
Shareholder Information	96
Directors' Information	98
Management Teams & Directories	102
Corporate Social Responsibility	114

Our Vision

To be the leading financial services provider in our chosen markets, helping customers, staff, shareholders and communities prosper.

Our Mission

To create value for our stakeholders by delivering innovative and cost effective financial services.

Key Features of BSP Strategy

- **A Focus on Sales & Service**
- **High Performing Teams**
- **Operational Excellence**
- **Profitable Growth**

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.*

PROFESSIONALISM — *We commit ourselves to continual self-developement to achieve standards of excellence in our performance.*

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.*

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

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

APEC Haus, Ela Beach, Port Moresby
Photo by Rocky Roe

OUR REACH IN THE ASIA-PACIFIC REGION

- 83 Branches
- 45 Sub-Branches
- 591 Agents
- 529 ATMs
- 13,042 EFTPoS
- 4,307 Staff

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.

Sir Kostas Constantinou, OBE
Chairman

CHAIRMAN'S REPORT

The BSP Group has again delivered a successful financial result for 2018, guided by our vision to be the leading financial services provider in our chosen markets, helping customers, staff, shareholders and communities to prosper.

In 2018, BSP provided services to 2.4 million account holders, employed 4,307 staff, paid K597.4 million in dividends to our shareholders compared to K521.9 million in 2017 and paid K390.3 million in taxes to the PNG government compared to K287.5 million in 2017.

BSP Group's audited net profit after tax for 2018 is K844.1 million, an increase of 11.5% on 2017's result of K757 million. Total assets have grown by 3% to K23.050 billion.

Satisfyingly each one of BSP's local and overseas businesses has delivered stronger profits in 2018, despite being presented various macroeconomic challenges. Our 2018 financial year marks the third successive year BSP has delivered double digit profit growth and since 2013 a compound annual growth rate of 14.2%.

Notwithstanding the strong growth in 2018, we maintained our commitment to financial strength across all capital, funding and liquidity metrics. We finished 2018 with a capital adequacy ratio of 22.9% compared to 24.5% in 2017 and a leverage ratio of 10.3% that remain well in excess of the 12% and 6% prudential requirements respectively.

With the global economy facing some headwinds as a consequence of the US and China trade war and Brexit uncertainties, coupled with the modest economic growth in most of the countries in which BSP operates we experienced challenging conditions during 2018. The Pacific subregion's growth is forecast to be 1.1% for 2018, well below the 2.9% outcome in 2017.

Pleasingly LNG prices rose by 35% over 2018, however crude oil prices did fall in late 2018. PNG's economy grew by an estimated 0.3% in 2018, well down on the 3.0% in 2017.

The decline was largely due to the negative effect of the Highlands earthquake which had a severe impact on the region's communities as well as on production in the oil and gas, mining and quarrying sectors. BSP donated K1 million to the Government appeal fund as well as ensuring our branches were still operating in the communities affected by the earthquake. The Board thanks staff in those areas who worked to great effort to make banking services available to the communities.

Encouragingly, PNG's economic growth is expected to rebound by between 3.0% and 5.1%, according to leading independent agencies such as the Asia Development Bank, World Bank and International Monetary Fund.

In 2018, Papua New Guinea also successfully hosted the APEC forum in Port Moresby in November, 2018, which was the first time since Papua New Guinea joined the APEC group of companies in 1993. At this meeting Australia, Japan, New Zealand and the United States agreed to work together with Papua New Guinea to support its enhanced connectivity and the goal of connecting 70% of its population to electricity by 2030. Currently only about 13% of Papua New Guinea's population have reliable access to electricity. The Papua New Guinea Electrification Partnership is intended to focus on the importance of principles-based, sustainable infrastructure development.

BSP Offshore Businesses 2019 growth expectations are on balance an improvement over 2018, given the projected material economic growth increases of Samoa and Tonga, which experienced little growth in 2018.

GDP REAL GROWTH PROJECTIONS

	2018				2019			
Country	World Bank	IMF	ADB	Avg.	World Bank	IMF	ADB	Avg.
PNG	0.3%	-1.1%	0.5%	-0.1%	5.1%	3.8%	3.0%	4.0%
Fiji	3.5%	3.2%	3.6%	3.4%	3.4%	3.4%	3.3%	3.4%
Vanuatu		3.8%	3.2%	3.5%		3.5%	3.0%	3.3%
Samoa		1.8%	0.5%	1.2%		3.2%	2.0%	2.6%
Tonga		2.9%	-0.3%	1.3%		5.5%	1.9%	3.7%
Solomon Islands	3.4%	3.4%	3.2%	3.3%	2.7%	2.9%	3.0%	2.9%
Cook Islands			3.5%	3.5%			3.0%	3.0%
Cambodia	7.1%	6.9%	7.0%	7.0%	6.8%	6.8%	7.0%	6.9%

Cambodia, Cook Islands, Fiji and Solomon Island reported relatively strong levels of growth, while Tonga, Samoa and Vanuatu reported moderate to low growth in 2018. Notwithstanding this, demand fundamentals and activity indicators remain positive hence BSP remains optimistic about its future growth prospects.

Standard & Poor's Global (S&P), in its ratings assessment of the BSP released on 30 April 2018, maintained BSP's stand-alone credit profile of 'b+', which is an endorsement of BSP's strong underlying performance. However, as a consequence of S&P's lowering of Papua New Guinea's sovereign rating to 'B', BSP's overall credit rating was also aligned to 'B'. S&P's rationale for BSP's overall 'B' rating reflects its view that BSP is exposed to PNG's economic and operating conditions.

As reported last year, BSP has embarked on two strategically important initiatives which will substantially shape the business of banking in the countries in which we operate for many years to come; the implementation of a new Core Banking System and Digital Banking.

The new Oracle FLEXCUBE system will see BSP having one common operating system, including ancillary systems for Treasury, loan origination, Mobile Banking, Internet Banking, etc. for the very first time since BSP commenced its expansion strategy. Further, it will underpin our digital product offering in the years to come, ensuring our market leading position in the markets we operate in.

The banking landscape globally is changing at a rapid pace as a result of advances in telecommunications and the ubiquitous availability of mobile phones. In response to this, technology companies and entrepreneurs are developing mobile applications that make it easier for individuals and businesses to make payments for goods and services, and provide other financial services which were until recently, only provided by licenced banks.

Recognising this change in the global payments and financial services landscape, the Board identified the need to establish dedicated Digital Banking Strategic Business Unit to ensure that BSP remains at the forefront of the financial services sector in our chosen markets. Consequently, Ms Nuni Kulu has been appointed as the General Manager Digital Banking effective as of 1 January 2019.

I would also like to congratulate Mr Aho Baliki, our General Manager Paramount Banking, who retired earlier this year after more than 43 years of service. Mr Baliki is the quintessence of a hardworking, committed and honest individual who earns the respect of all his peers including customers who are high ranking government officials, public and private sector executives. I thank Mr Baliki for his contribution to PNG banking and BSP. He has been a passionate advocate of citizen staff development and promoter of capabilities of promising staff. We wish him and his wife Veronica all the very best in their future endeavours.

I would also like to acknowledge the contribution of Kevin McCarthy, our Fiji Country Manager, who retired late last year after 9 years of service in Fiji. Under Kevin's leadership our Fiji operations has grown from strength to strength. Haroon Ali was selected to succeed Kevin, and returns to Fiji after serving as BSP's Group Chief Risk Officer since July 2013.

BSP Group has produced yet another year of very good results in 2018, at a time when economic conditions in our region have been somewhat lower than global GDP - especially in our home market of PNG. The BSP Group has once again outperformed its major competitors. Staff and management are commended for their efforts in producing these results and maintaining BSP Group's leading position in the South Pacific Region.

The coming year will continue to present challenges, however notwithstanding some challenging economic conditions, I remain confident that BSP will perform to expectations. The support of its stakeholders, its competitive operations, and the effective execution of our strategy will enable BSP Group to produce another successful year in 2019.

Sir Kostas Constantinou, OBE
Chairman

Chairman Sir Kostas and GCEO Robin Fleming
at the APEC CEO Summit 2018

A BRIEF HISTORY OF BSP

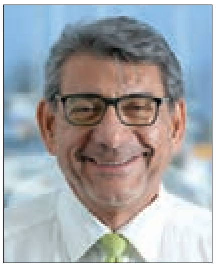
BSP is the leading bank in PNG and has a long and proud track record of serving the needs of customers in PNG and other countries across the South Pacific. BSP's operations date back to 1957, when it was founded in Port Moresby as a branch of National Bank of Australasia Ltd. In 1993, a consortium of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

KEY MILESTONES IN BSP'S DEVELOPMENT

1957	Commenced operations in Port Moresby on 1 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.
2005	Standard & Poor's issued an inaugural credit rating for BSP of B+.
2006	Established a presence in Fiji through the acquisition of Habib Bank Ltd's Fiji operations, which were rebranded to BSP.
2007	Acquired the National Bank of Solomon Islands Ltd and rebranded to BSP.
2009	Acquired Colonial Bank and Colonial Fiji Life Insurance Ltd from Commonwealth Bank of Australia and rebranded to BSP and BSP Life, respectively.
2014 - 2015	Commenced BSP Finance (Fiji) Ltd in 2014 and commenced BSP Finance (PNG) Ltd in 2015.
2015 - 2016	Acquired Westpac's operations in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu for A$125 million.
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. Provisional licence issued in November 2017 for a life insurance company (BSP Life (PNG) Ltd).
2018	Commenced a life insurance business in Papua New Guinea on 2nd January, 2018.

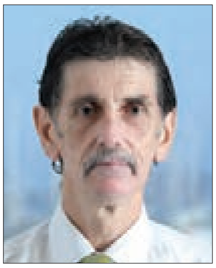
BOARD OF DIRECTORS



SIR KOSTAS G. CONSTANTINOU, OBE

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

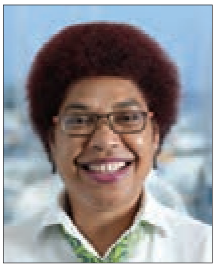
Sir Kostas is a prominent business figure in Papua New Guinea (PNG), holding a number of high level public sector and private sector appointments. He is Chairman of various companies, including Airways Hotel and Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd and Air Niugini Limited. He is a Director of Alotau International Hotel, Gazelle International Hotel in Kokopo, Loloata Island Resort Ltd, City Centre Development 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, Oil Search Ltd, Southern Seas Investments Ltd, Texas Chicken South Pacific Ltd & K G Property 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.

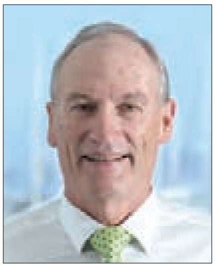
Robin Fleming was appointed CEO of Bank of South Pacific Ltd in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNG-BC, 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.



FREDA TALAO, LLB, LLM, MPHIL, MAICD

Non - Executive Director. Director since April 2012.

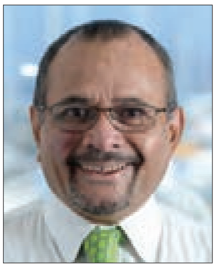
Freda Talao is a lawyer and development specialist. Previously she was a member of the External Stakeholders Advisory Panel (ESAP) to the Hidden Valley Joint Venture (HVJV) Mine owned by Newcrest Ltd and Harmony Gold in Wau, PNG, Deputy Registrar National Court, Executive Director, PEACE Foundation Melanesia 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).



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.



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.

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 constructions, 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.

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.

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

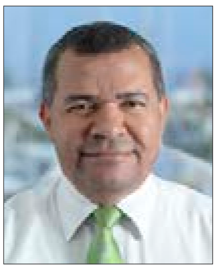
Non-Executive Director. Director since December 2016.

Faamausili Dr Lua'iufi holds a Doctorate in Philosophy in Management, a Master of Science (Management Sciences), a Bachelor of Arts, in Sociology and Political Science and Diplomas in Training and Management. She served in the Samoa Public Service for 28 years and close to 12 of those years as the Chief Executive Officer of the Public Service Commission.
Dr Lua'iufi is currently the Principal Director of Paradise Consulting established in 2008 after resigning from the CEO position of the Samoa Public Service Commission. As a full time consultant she specialises in the fields of Public Sector governance, organisation development and human resources management and to date has undertaken more than 50 assignments in Samoa, Solomon Islands, Niue, Tonga, Cook Island, Tuvalu, Tokelau, Papua New Guinea and Nigeria. Faamausili Dr Lua'iufi has extensive board experience and is a member of the Council and the Executive Committee of the National University of Samoa, Samoa Institute of Directors and the British Institute of Consulting. She has actively participated in many public sector Councils and Policy Committees in Samoa, Asia Eastern Region and the Commonwealth. She was the Pacific Residential Fellow of the Australia New Zealand School of Government (ANZSOG), responsible for the development of emerging young Pacific Public Sector leaders (PACE).

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.



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.

Robin Fleming, CSM
Group Chief Executive Officer

GROUP CEO'S REPORT

It is with great pleasure that I am able to report that 2018 has once again been a successful year for the BSP group with a record net profit after tax of K844 million. As indicated by our Group Chairman Sir Kostas Constantinou OBE, BSP's outcome for 2018 represented an increase of 11.5% on 2017 with improved performances in every country and every business. Viewed in isolation BSP's financial performance is impressive enough with a "Compound Average Growth Rate" (CAGR) of 14.2% over the past five (5) years. The results are all the more impressive when considered in light of the results of our competition, and BSP has outperformed our competitor banks in every country with our CAGR's exceeding that of our competitors in every market.

Sir Kostas has spoken in his report about the economic conditions in the countries in which BSP operates and whilst GDP growth was positive in all countries, growth in our region was lower than global GDP. Our home country, Papua New Guinea, was significantly affected, both in human terms and economic terms, by a devastating earthquake that measured 7.5 at the end of February 2018. The earthquake struck in the heavily populated highlands region and in addition to loss of life, with over 200 fatalities, destruction of homes and food gardens, damage to highways, roads and the Komo airport, PNG LNG facilities were shut down for almost two (2) months to permit a comprehensive assessment of damage and to ensure that production could recommence in a risk free and safe manner. Mines at Ok Tedi and Porgera were also affected but not to the extent of PNG LNG.

The PNG economy experienced both a contraction in revenue in the first half of 2018 as a consequence of the earthquake and also in relation to unbudgeted commitments of expenditure to facilitate emergency relief and reconstruction activities. BSP led the non-mining sector in its response to the earthquake and contributed K1 million to the Governments earthquake appeal, which recognised by the widespread nature of the earthquake and the number of people whose lives were affected by this natural disaster.


Earthquake disaster relief donation

On a much more positive note, PNG successfully hosted the 2018 APEC Forum in Port Moresby November 2018. This was the first time that PNG has hosted APEC since it joined the Asia Pacific Economic Co-Operation group of countries in 1993. Leaders from the majority of APEC countries attended the forum in Port Moresby and PNG hosted President Xi Jinping of China for a state visit immediately prior to the APEC forum. The Leaders' summit was the culmination of a year of events that included a number of APEC Business Council Advisory Board related meetings and the CEO summit. BSP was a Gold sponsor of this summit and congratulates everyone involved with the hosting of APEC and the ABAC summits.

Our financial performance in PNG was driven by increased net interest income as a result of growth in loans and advances, which also reflected in BSP's market share growth from 59% to 61%. Both Corporate and Retail contributed to the increase in our lending and our staff in those areas are to be commended for their efforts. The increase in our housing loan portfolio in particular, and especially our first home owner loans, was pleasing not so much for the quantum of the increase, or its contribution to interest income, but because home ownership in itself and more so in a developing economy is both an indicator of wealth creation for individuals; and it signals change in the nature of property rights, which is a precursor to diversified economic growth.

BSP has not increased its fees for over five (5) years and during 2018 an ongoing review of fees, and specifically a review associated with our retail product offerings, was undertaken which will see our Retail customers benefit from full year fee savings in 2019 of approximately K10 million. One of the more important changes from our retail customers' perspective was the product changes that eliminates the monthly maintenance fee that many retail transaction customers were charged irrespective of whether they used the account in the charging period or not. All retail customers now have products that charge a monthly packaged fee with all transactions part of the monthly fee, or a pay as you go account whereby they are only charged a fee when they transact on the account. Monthly loan service fees were also eliminated for our housing loan customers.

Feedback from our customers in every country continued the trend of positive improvement with all countries meeting or exceeding the customer satisfaction benchmark. A better understanding of fees and charges by our customers, improvements in service and being seen as trustworthy by our customers contributed to the good customer survey outcomes.


Customers visitng a branch in Tonga

Two major changes to our organisation structure were announced towards the end of 2018. With the retirement of one of BSP's longest serving employees, Aho Baliki OBE General Manager Paramount Banking in January 2019, a decision was made to collapse our Paramount Banking SBU into Retail SBU as one of Retail's business units, and concurrently to elevate Digital Business Unit to SBU status and appoint Nuni Kulu as General Manager Digital. Aho has served BSP for over 43 years in a distinguished career and the board and staff wish him all the best in retirement. Nuni becomes BSP's second female General Manager and her appointment further illustrates BSP's commitment to merit based diversity.

Nuni Kulu appointed as General Manager Digital

BSP Fiji farewelled their Country Manager, Kevin McCarthy, who has led the Fiji bank since BSP purchased the business in 2010. The group board, management and all our staff in Fiji wish Kevin all the best and thank him for his significant contributions to BSP in Fiji. He is succeeded by Haroon Ali, who had been Group Chief Risk Officer for five (5) years and returned to Fiji to assume the role as Country Manager Fiji.

With almost 4,300 staff, BSP is one of the largest private sector employers in the region. Almost half of the workforce is female and whilst there has always been a high proportion of females in supervisory roles and middle management (57% on average) the ratio reduces to 35% at senior management levels and to only 15% in Executive and Senior Executive roles. BSP's Leadership Management Development Program has the objective of identifying future leaders within BSP and providing them with leadership and specialist skills training to assist them meet their career goals and also to provide improve BSP's succession planning capabilities. Of the 42 staff who participated on the program in 2018, 26 are female and the larger numbers of females in the program will positively influenced the numbers of females in Executive roles in future years.

A staff engagement survey was also undertaken across the group and as with the customer survey, there was positive improvement on the previous year with good feedback on key areas of staff engagement such as satisfaction with BSP, advocacy, motivation and remuneration. Two key findings which reflect positively on BSP and its values was the strong sense of pride in working for BSP and BSP's commitment to its community.

BSP's ongoing commitment to compliance was recognised with the creation of an additional eight (8) Quality Assurance staff in each of our SBU's to provide senior management and the board with assurance of BSP's compliance with policies, procedures, legislation and regulator standards with specific detail on any areas that require more focus or increased allocation of resources. This complements our operational risk and audit functions within BSP and is designed to recognise the increasing need for assurance by senior management and boards.

Our support business units continued to assist with the implementation of BSP's strategic imperatives and contribute positively to BSP's operational effectiveness. Finance & Planning and Group Risk were instrumental in the body of work associated with BSP's preparedness for and implementation of the new financial standard for measurement and reporting of financial assets and liabilities, IFRS 9. As indicated in the financial statements, which form part of this annual report, BSP is compliant with the IFRS 9 requirements and standards. The work associated with IFRS 9 compliance spanned two (2) years and involved a significant amount of collaboration both internally and with our auditors PricewaterhousCoopers (PWC).

BSP committed to a number of projects at the beginning of 2018 that would improve our technology delivery and internal process improvements. These included an upgraded Smartphone app for our digital banking, an upgraded USSD mobile banking platform and an upgrade of our payments switches in Cook Islands, Solomon Islands, Samoa, Tonga and Vanuatu with the objective of having a common switch vendor across the pacific and to facilitate upgrades associated with EMV chip compliance, as a pre-requisite to introducing chip based cards in our off shore branches.

The Cook Islands switch upgrade was completed in the last quarter of 2018, which was behind our planned implementation time frame with a consequential impact on delivery to the other countries that will now occur before the end of the first half of 2019. The delays were disappointing as they also affected the timing of introduction of chip cards in each of those countries, but we are confident of achieving the revised timelines.

Our HR system was introduced in all countries outside of PNG during 2018, with Fiji being the final country to go live in the first quarter of 2019. This affords improved functionality and productivity with online leave management capability and centralised payroll from PNG.

The new core banking project progressed somewhat slower than had been contemplated in our project plan, with cut over now expected at the end of 2020 for PNG. Additional staff have been recruited and expertise has also been sought from firms with experience in large projects such as this to reduce the prospect of further slippage, or cost overruns that have not already been factored into our capital and operational expenditure budgets.

Launch of BSP Finance Cambodia 2018

We continued to upgrade and improve our bank premises in PNG and across the region. This included a new SME centre in Goroka, a new sub branch in Buin and a full renovation of Kiunga branch. Work commenced on a full renovation of our Nuku'alofa main branch and Head Office in Tonga, a renovation and refresh of our Honiara Central branch in Solomon Islands and construction of a second branch in Port Vila Vanuatu.

Every country contributed positively to our financial performance in 2018 with return on equity targets being achieved or exceeded. Our staff in each country are to be congratulated for their efforts with BSP outperforming our competitors in every country.

BSP Bank Contribution by Country

NPAT (PGK'000)	2014	2015	2016	2017	2018
PNG	474,411	447,544	517,232	591,229	647,812
Fiji	27,082	41,050	59,780	59,692	66,612
Cook Islands		1,823	2,934	4,801	6,781
Solomon Islands	11,398	15,333	27,133	33,498	39,854
Tonga		3,884	10,720	12,495	15,607
Samoa		4,732	7,306	7,982	13,537
Vanuatu			1,497	6,780	8,619

Market Share	2014 Loans	2014 Deposits	2015 Loans	2015 Deposits	2016 Loans	2016 Deposits	2017 Loans	2017 Deposits	2018 Loans	2018 Deposits
PNG	50%	56%	54%	55%	55%	57%	59%	60%	61%	61%
Fiji	21%	24%	22%	23%	22%	25%	24%	24%	25%	24%
Cook Islands			35%	35%	35%	36%	37%	37%	39%	43%
Solomon Islands	28%	38%	46%	58%	45%	54%	52%	54%	52%	55%
Tonga			35%	36%	38%	39%	42%	38%	42%	40%
Samoa			18%	20%	23%	23%	26%	29%	29%	30%
Vanuatu					12%	13%	14%	14%	16%	13%

BSP Finance reported good profit growth and has justified the support of the board in their decision to establish our BSP Finance franchise. Our Cambodia Joint Venture was officially rebranded as BSP Finance Cambodia in January 2018 and we are discussing with our JV partners the prospect of a BSP Finance Business in Lao.

BSP Finance NPAT				
NPAT (K'000)	2015	2016	2017	2018
BSPI PNG	(1,939)	(872)	(991)	4,170
BSPI Fiji	(490)	689	4,303	6,773
BSPF SI	0	0	(398)	(312)
BSPF Holdings	0	0	(80)	(772)
BSPI Cambodia	0	0	181	841
Total BSP Finance Group	(2,429)	(183)	3,015	10,700

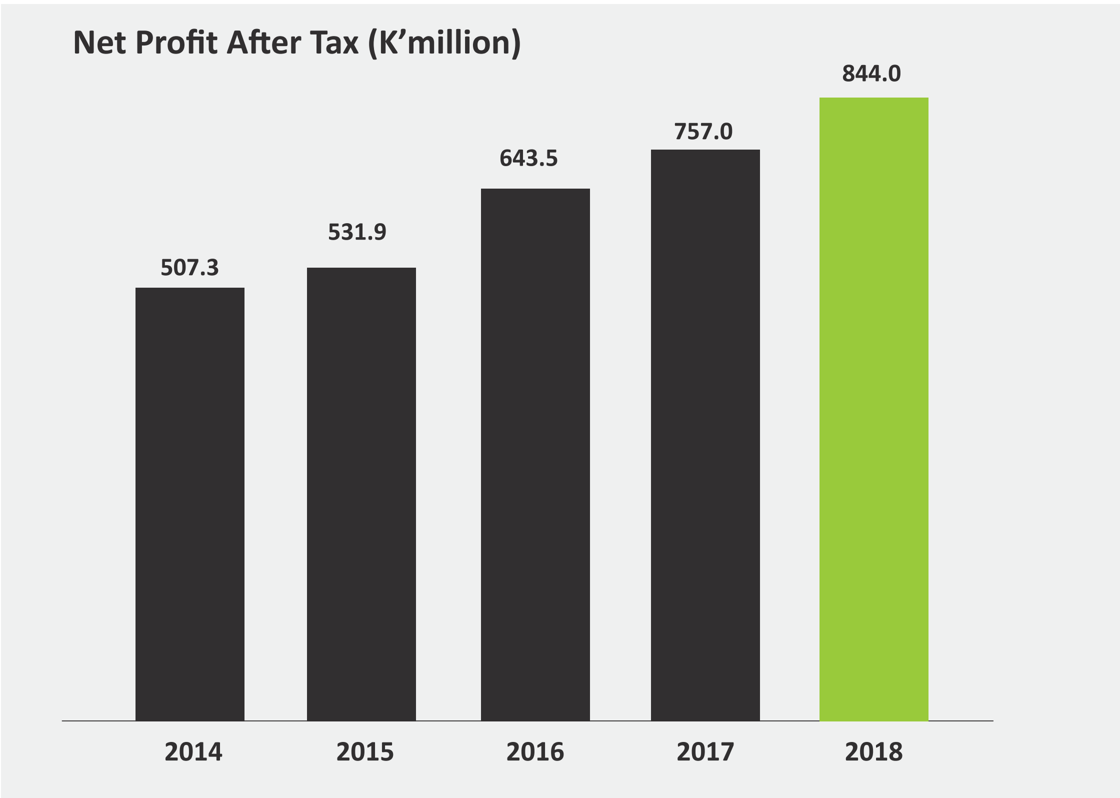
BSP Life in Fiji successfully completed its core system upgrade during 2018 and staff involved in the project are to be congratulated. The BSP Life business performed very well financially with the expectation that productivity improvements consequent to the introduction of the new system should start to be realised in 2019. BSP Life Fiji also farewelled their Managing Director Malakai Naiyaga who took over as Managing Director when BSP purchased the business in 2010. The board, management and staff wish him all the best in his retirement. He is succeeded by Michael Nacola who has been with BSP Life for over seven and a half years.

Our BSP Capital Business was successful in being awarded the licenced investment manager role for Nasfund during 2018, and undertook some internal restructuring in conjunction with a full business review. This involved the sale of BSP Capital's 62% shareholding in the Port Moresby Stock Exchange which was completed towards the end of 2018.

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 2018.

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 2019.

Robin Fleming,CSM
Group Chief Executive Officer



HISTORICAL SUMMARY

HISTORICAL SUMMARY

Profit and Loss (K'000)	2013	2014	2015	2016	2017	2018
Net interest income	740,857	884,761	1,006,251	1,107,686	1,277,676	1,380,796
Non interest income	793,487	613,970	540,888	684,371	720,674	784,909
Bad and doubtful debt (expense)/recovery	(78,573)	(76,796)	(89,905)	(98,622)	(77,678)	(82,380)
Other operating expenses	(833,849)	(703,085)	(691,084)	(769,641)	(852,148)	(887,157)
Operating Profit	621,922	718,850	766,150	923,794	1,068,524	1,196,168
Impairment of non-current asset	(14,967)	-	-	-	-	-
Profit before tax	606,955	718,850	766,150	923,794	1,068,524	1,196,168
Income tax (expense)	(170,127)	(211,511)	(234,271)	(280,343)	(311,521)	(352,096)
Profit/(loss) after tax	436,828	507,339	531,879	643,451	757,003	844,072
Dividends (toea)						
Dividends paid per share[1]	58.0	66.0	79.0	88.0	111.0	127.0
Balance Sheet (K'000)						
Net loans and advances	5,306,362	6,756,997	8,621,514	10,102,909	11,209,493	12,530,649
Total assets	15,761,420	15,816,507	18,196,303	20,831,803	22,369,861	23,050,060
Deposits	12,200,999	12,708,383	14,595,374	16,912,349	17,901,692	18,232,766
Capital	1,619,060	1,800,193	2,029,176	2,314,337	2,628,335	2,872,135
Performance Ratios						
Return on Assets	3.0%	3.2%	3.1%	3.3%	3.5%	3.7%
Return on Equity	28.3%	29.7%	27.8%	29.6%	30.6%	30.7%
Expense/Income	54.3%	46.9%	44.7%	42.9%	42.6%	41.0%
Key Prudential Ratios						
Capital adequacy	18.0%	24.0%	23.1%	23.1%	24.5%	22.9%
Liquid Asset Ratio	41.8%	34.3%	31.5%	35.8%	36.9%	33.6%
Leverage ratio	7.6%	9.0%	8.9%	9.3%	10.0%	10.3%
Exchange rates (One (1) PNG Kina buys):						
US Dollar	0.3905	0.3855	0.3325	0.3150	0.3095	0.2970
AUS Dollar	0.4369	0.4708	0.4552	0.4354	0.3965	0.4208

[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

All Amounts are expressed in K'000	2013	2014	2015	2016	2017	2018
Company income taxes paid to PNG Government	155,391	188,627	249,210	292,443	257,210	354,947
Other taxes paid to PNG Government (IWT, FCWT,BWT)	4,989	2,568	3,701	10,226	8,214	10,018
GST paid and not able to be recouped	14,082	11,024	16,793	21,268	22,101	25,337
Donations and Sponsorhips	9,267	9,358	8,218	4,345	5,217	6,482
Total	**183,729**	**211,577**	**277,923**	**328,282**	**292,742**	**396,784**

STRATEGIC BUSINESS UNIT REPORTS

The daily execution of BSP's business operations is the responsibility of the Strategic Business Units (SBUs). The SBUs are Corporate, Retail Banking, Treasury, Paramount Banking, Group Risk Management, Human Resources, Operations and Information Technology, Finance & Planning and Offshore Branches (OSBs). The 2018 reports and highlights of each SBU are presented below.

CORPORATE BANKING

Corporate maintained its growth momentum in 2018, through meeting the needs of its Papua New Guinean commercial, institutional and government customers.

BSP's Corporate services are delivered by experienced relationship teams and product specialists in Papua New Guinea, with expert knowledge in transactional banking, lending, infrastructure, digital and foreign exchange. Our relationship teams are located where our customers operate in Port Moresby, Lae, Mt Hagen, Madang and Kokopo.

Customer satisfaction remains BSP's top priority and once again we have achieved improved customer satisfaction scores. Our survey results highlight continued strong gains in customer satisfaction on all key drivers of service, relationship management, products, fees, charges and rates, premium branches and foreign exchange. Of note was the feedback on BSP as a whole and Relationship teams as being seen as trustworthy by our customers.

Our "icare" customer service culture remains a constant focus and we operate in an integrated way with all areas of the Bank through our "whole of BSP" culture, leveraging the largest retail branch network across Papua New Guinea and the South Pacific. Corporate's strong credit culture has a focus on prudent credit risks and maintains a strong partnership with Group Risk Management.

BSP's corporate business is the leading business partner of choice in the region. Accordingly, it remains extremely well positioned to deliver on its financial and customer service objectives for 2019, leveraging growth prospects in regional trade, infrastructure, mining and oil and gas projects.

RETAIL BANKING

Like Corporate, Retail experienced continued strong growth across its operations. Customer acquisition, system improvements, fee reductions and customer centricity were the catalysts for another successful operating performance by the Retail SBU during 2018.

A total of 218,600 new customers joined BSP in 2018, with this growth being consistent with that achieved in past years. A number of these customers were previously unbanked and became customers following financial literacy training delivered by BSP's Banking Education Unit. The growth was geographically widespread reflecting the fact that BSP operates the largest branch network in Papua New Guinea, with branches in every Province and most Districts. Our approach to financial inclusion has been the foundation for customer growth over a number of years.

During 2018, BSP upgraded its USSD Mobile Banking platform and our Mobile App platform. Customer transaction volumes through these channels increased 63% in 2018. Year-on-year growth in customer transaction across the BSP EFTPoS network increased 26%. ATM transaction volumes increased by 13% in 2018.

Overall, customer transactions volumes across all digital, electronic and "over-the-counter" channels increased 18% during 2018 with 88% of those transactions being through digital or electronic channels.

Lending activity also experienced strong growth during 2018. Outstanding Personal Loan balances increased 16% during 2018,with the growth being assisted by the inclusion of Consumer Credit Insurance cover for new and refinancing Personal Loan customers at no additional cost to the borrower.

Housing Loan finance growth was strong, with outstanding loan balances increasing by 28%. The growth was predominantly in the First Home Owners sector and reflects the strong commitment BSP has to contributing to Papua New Guinea's economic growth through home ownership.

Small business lending also increased significantly during 2018, with growth of 86%. BSP opened its third dedicated SME branch at Goroka in 2018. We continue to offer a "pathway" for Small Business operators to move from the cash economy into the formal financial sector and like all BSP operations, customer participation is spread across Papua New Guinea, including rural areas. The BSP SME segment also reflects strong participation by female entrepreneurs, many of whom are our most successful SME customers.

Fairness in pricing and looking at products and services through the eyes of our customers was a focus during 2018. A number of service fees were either removed entirely, or significantly reduced, during 2018. This will have a greater financial impact during 2019, however we anticipate that continued strong growth in the number of new customers will fuel increased transaction volumes - the latter will be an area of renewed focus for Retail.

Home loan finance was strong in 2018.
Customers at Hausples PNG Real Estate Expo.

PARAMOUNT BANKING

Paramount maintains a strong partnership with the PNG National Government and all other levels of Government in PNG. The Banking relationship with the Government has been and will continue to be a major focus of Paramount Banking's activities.

With our strong PNG National Government partnership, Paramount Banking was invited to deliver a key note speech at the Department of Finance conference that was held at Buin, South Bougainville, Autonomous Region of Bougainville. The conference was for all Department of Finance, Provincial and Local Level Government Senior Officers with the theme "Improving Financial Management Services at the Sub National Level through Reforms."

Paramount Bank's Community Liaison Officer is responsible for maintaining Landowner groups banking relationships (in conjunction with Retail staff) visited the following areas: Ramu Nickel project area, Alotau, Wau (Harmony Gold), Madang and Lae, which included beneficiaries of Ramu Agri Industries Ltd. As a consequence of the visits, about 118 new landowner group and 190 related accounts were established. Further, during the visits over 120 senior landowner people attended financial literacy and management training/workshops.

Paramount Banking continues to play an important role in the execution of the Group Strategy, with sustainable growth, while maintaining operations within budget forecast.

TREASURY

Treasury's role is to support client relationships, act as BSP Group's banker, and be a key part of the risk management process in terms of market, liquidity and capital risk.

In its client relationship role, Treasury fosters and enhances relationships with clients, providing financial markets services, and ensuring clients remain aware of the regulatory environment and its implications.

Treasury is also involved in managing foreign exchange flows, local and foreign currency liquidity flows, investing surplus funds prudently in the interbank, Treasury Bill and Inscribed Stock markets, funding foreign currency balance sheet operations across seven (7) countries, and complying with all regulatory and internal guidelines and limits.

The risk management role is discharged through management of market risk, liquidity risk, capital and capital planning, in line with prudential requirements, by the Group Asset and Liability Committee directives and delegated Board authorities.

PNG Treasury foreign exchange (FX) earnings were above prior year levels, even though 2018 was again challenging, as import demand exceeded export supply of foreign currency. The official Bank of Papua New Guinea (BPNG) rate of exchange fell gradually over the year to finish the USD 0.2970 (a decline of 4.2%).

The Bank's PNG FX market share remained stable, increasing slightly from 43.4% in 2017 to 43.5% in 2018. The Bank's FX turnover rose 17.2% in 2018, while PNG's FX market turnover rose 17.1%.

BSP continued to invest surplus funds in government securities. Movements in the Government debt yield curve reflected evolving fiscal conditions. 28 day Central Bank Bills fell from 1.41% to 1.39%, 91 day Treasury Bills fell from 2.85% to 2.63%, 182 day Treasury Bills fell from 4.73% to 4.71%, whilst 1 year Treasury Bills fell from 8.03% to 7.93%. Yields on longer dated Government issued Inscribed Stock were generally stable. A milestone event for the Government's debt management was the successful issue of PNG's inaugural Sovereign Bond of US$500 million over a 10 year term at 8.35%, which was seven (7) times over-subscribed.

Operationally, PNG Treasury continues to mitigate risk and is actively focused on providing technical training for our staff. Treasury dealing staff training encompasses weekly technical training associated with 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 2019.

OPERATIONS AND INFORMATION TECHNOLOGY

The key activities within the SBU revolved around the Core Banking Program – Project Compass, technology project deliveries, and cyber security.. The Compass Program continues to make progress, albeit not as rapidly as per initial expectations. Typical of large technology programs, unexpected challenges have been encountered which has resulted in delays and cost increases.

Despite this, we have gained traction, specifically within the areas of data migration from legacy systems to mock migration simulations, the setting of product parameters on the "to be" system, documentation of business and functional requirements for any customisations required for individual countries, completion of all functional and design documentation for interfaces as well as adoption of an automated test tool for more efficient and effective testing within the various phases of the project. Moreover, we are now undertaking business process reviews across the new core banking modules and related applications to gauge the extent of change management required and hence to develop the approach to staff training and customer education in preparation for go live.

In terms of other technology driven projects, with direct customer impact delivered during the year, we have implemented a new diagnostic tool enabling remote problem resolution on ATMs, thereby improving our average up time significantly. BSP also invested in high capacity card printing technology, reducing the time it takes to manufacture Visa and MasterCard scheme cards and deliver them to our customers. We upgraded our USSD Mobile Banking solution, offering increased functionality with greater security. We also completed the acquisition of China Union Pay transactions across ATMs and EFTPoS in anticipation of the November 2018 APEC meeting in Port Moresby as well as integration of our EFTPoS solution to participating high value merchants' POS systems, thereby eliminating duplicate transactional captures at their counters. Given the focus on customer data protection and cybercrime prevention, we have implemented new Information Security systems to better manage and monitor all data traffic (incoming and outgoing) through the BSP network. This includes potential security incident identification as well as real time threat monitoring, which has been bolstered by implementation of data classification standards for data generated within the Bank, such that any attempts to export sensitive data is identified and addressed. Moreover, in line with the ever more stringent security requirements mandate from SWIFT, we have implemented a number of security enhancements including a separate security environment for cross border transactions.

With regards to branch premises improvements, there has been significant investment within the Offshore Branches, with a completely refurbished Honiara Central branch, construction of a second branch in Port Vila, as well as refurbishments in the main branches in Apia and Nuku'alofa. All have led to a much improved customer experience levels within those locations.

Launch of Union Pay cards for BSP ATM

GROUP RISK MANAGEMENT

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.

Various Business Units within the Group Risk Management oversee risk measurement, monitoring and management against the group's risk appetite benchmarks.

Credit

Credit Business Unit undertakes key activities to manage credit risk within our Group Risk Appetite Statement. It is responsible for monitoring the overall credit quality of the Bank's loan portfolio, implementing, reviewing and compliance with credit policies, procedures and industry underwriting standards, monitoring sector concentration limits, implementation and management of Social and Environmental Management System, and portfolio management responsibilities.

Credit, in collaboration with Corporate and Retail Banking, defines and manages credit risk by developing a credit risk strategy that identifies the Bank's target market and risk tolerance.

The credit risk strategy provides a platform 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. The effective implementation and monitoring of credit risk strategy by Senior Management is a cornerstone of BSP's credit risk culture.

Economic conditions remained stable
2018 Financial Presentation

Overall performance of the Group loan portfolio, notwithstanding somewhat subdued economic conditions, remained largely stable. Non-performing loan levels increased through migration of a few single name exposures.

The Bank, with the assistance of Standard & Poor's Capital IQ, has recalibrated and revalidated the internal Risk Grade system aligning the resulting Probability of Defaults to S&P Global ratings.

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

Credit Risk training of our staff was a key focus during the year. Our staff benefited from availability of both external face-to-face and online training, as well as internal weekly credit related training topics designed to enhance capability, effective understanding of key policy and procedures and BSP's credit risk culture.

Operational Risk

During the year the Operational Risk Business Unit was restructured into two separate business units to provide a clear focus for the identification, understanding and management of operational risks and compliance risks in BSP. The "Operational Risk" and "Compliance & AML" Business Units have broad and independent operational risk management and compliance responsibilities across the Group.

Operational risk is defined as the risk of direct or indirect financial loss resulting from inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Bank's business activities and processes. To manage and mitigate these risks, this second line of defence provides oversight to the business through an operational risk framework. Tools to manage this include risk and control assessments and mitigation planning at both Business Units and enterprise levels, risk event management processes and new product approval processes.

BSP is cognisant that both domestic and foreign regulations shape the risk environment in which it operates. Hence, significant focus has been placed on the Compliance and Anti-Money Laundering (AML) function throughout the year, to ensure BSP's continuous adherence to laws, regulations, prudential standards and guidelines that govern its conduct.

Compliance & AML

Compliance & AML is a second line of defence function and its primary role is to identify and translate relevant compliance risk-related laws, regulations and standards into compliance obligations and assist Management to identify compliance risks and mitigate them based on BSP Group's risk appetite. During 2018, there has been great focus by international and supranational agencies on the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) regimes globally including Papua New Guinea, Vanuatu, Cook

Celebrating Papua New Guinea's Independence day.

Islands and Samoa. With the issuance of new and amended AML/CTF laws, BSP has had to translate those laws into specific compliance obligations and implement robust policies and procedures to manage the associated compliance risk.

Risk awareness workshops across BSP targeted general operational risks, compliance, sanctions, anti-money laundering and fraud detection. The Operational Risk and Compliance & AML Business Unit continued to provide support to the Operational Risk Committee and Board Risk and Compliance Committee, facilitating analysis and regular reporting of operational risk and compliance & aml issues.

Asset Management

Asset Management manages the non-performing asset portfolio. Non-accrual loans for the Group increased to 1.8% (from 1.1% 2017) which reflects more subdued conditions in PNG in particular. Defaulting unsecured consumer loans rates remained consistent in 2018. The recovery rate reduced from 84% to 71%, but remained within expected risk tolerance levels.

Credit Inspection

Credit Inspection provides an independent assessment of the Bank's compliance with credit policy and also of portfolio quality. Functionally, it has an independent and direct reporting line to the Board Risk & Compliance Committee and administratively to the Group Chief Risk Officer and Group Chief Executive Officer.

The primary role of the Credit Inspection Business Unit is to provide a professional, independent risk management function of the best practice standard and portfolio quality assurance which assists Senior Management and the Board via the Board Risk and Compliance Committee in the effective discharge of their responsibilities. The Unit performs independent analysis and objectively concludes on the quality of credit risk assessment, credit approval, credit risk management, compliance, risk control and credit portfolio reporting. It also makes recommendations to address weaknesses and improve compliance.

The unit's independent assessment activities are executed through "onsite" inspections, and where applicable, "off-site" inspections of the credit risk portfolio for the Bank and related entities, in all jurisdictions. The main objective is to achieve early detection of material shortcomings of credit risk and compliance with Group policies.

In 2018, Credit Inspection completed 4 reports for Retail Banking (Personal Lending) and 7 reports for Corporate Relationship teams and also BSP Finance (PNG) Ltd. Within Corporate approximately 47% of the Loan Portfolio was reviewed by Credit Inspection. The review of the BSPF (PNG) loan portfolio covered approximately 20% of new loans written in 2018. Credit inspection also reviewed General Insurance and Valuation service provider arrangements in Both PNG and the overseas Branches.

Audit

Audit undertakes regular risk based internal audits of processes and procedures to maintain compliance with regulations and BSP standards and retains an independent and direct reporting line to the Board Audit Committee. It provides the third element of defence in the business unit structure of Group Risk Management, and acts as the last line in BSP Group's Risk Management framework.

BSP has independent internal audit functions for the Group reporting, through the Head of Group Internal Audit, functionally to Board Audit Committee and administratively to the Group Chief Executive Officer.

Key audits during 2018 included Anti-Money Laundering, Payroll, Digital, Transaction Channel & Customer Support, BSP Finance Ltd, General Ledger Reconciliation, Treasury and all Retail branches. The Internal Audit teams also conduct audits for all countries and subsidiaries.

Legal

The Legal Services Unit provides, or sources, the legal services and advice required by the Bank in conducting its business, principally in the area of banking, commercial and securities law, litigation both for and against the Bank, regulatory compliance, employment law and property. To the extent possible, these services are provided by a team of in house lawyers with external lawyers being engaged where deemed necessary or prudent.

HUMAN RESOURCES

Human Resources provides a support role for BSP's operations through its core HR Management functions for employees in Papua New Guinea (PNG) and the Offshore Branches (OSBs). A major highlight for the year was BSP receiving the award for "Best Private Sector Employer" from the Papua New Guinea Human Resources Institute (PNGHRI) for the fifth year in a row. The award continues to recognise BSP as a model organisation, with the best Human Resource practices in PNG. This award is a testament

2018 PNGHRI Award Presentation

of BSP's commitment to continuously supporting its employees across our network with people initiatives that make a difference. Our Talent Management Business Unit in 2018 continued its HR Best Practise projects implementation, which was initially rolled out in 2016. The major undertaking was the build of the e-Recruitment platform via our iChris HR System, with the objective of making the recruitment process more efficient and user friendly. The Project will be finalised in 2019. The Talent Management team also continued to utilise our Assessment Centre capabilities again this year for the Graduate Development Program recruitment process, to ensure quality and high potential graduates are selected as part of BSPs talent pool of future leaders.

Graduate Trainees 2018

Employee Relations had a challenging but positive year, with respect to some of its major activities. BSP continued to assist a number of employees with medical referrals domestically (to Port Moresby) and overseas when further medical attention for serious conditions and urgent treatment is required. Furthermore, with the increase in lifestyle diseases affecting staff, a number of key awareness sessions were facilitated for employees in respect to key health issues such as TB, Polio and other life style diseases. HR mobilised support for staff who were affected by large scale natural disasters such as floods, cyclones, earthquakes and droughts and also staff who suffered personal loss from loss of homes by fire.

The Training and Development BU continued to deliver soft skill and computing courses to PNG as well as the OSBs, particularly in Vanuatu and Samoa. This year we also implemented the learning and development module in our HR system to enable all employees to apply for training via our HR Self Service platform. This has enhanced the enrolments, tracking and reporting of all training activities. The BSP Graduate Development Program was also a major success this year with 10 graduates successfully completing the program.

Better team work to improve service
BSP staff in Cook Islands

The Organisational Development Business Unit was created in October 2018, replacing what was previously the HR Strategy and Change BU. The main purpose of the restructure was to enable HR to better respond and adapt to industry/market changes and technological advances and in turn support the core HR functions and BSP. The BU is responsible for staff engagement surveys, Hay Job Evaluations and updating of Job Profiles and Organisation Charts for BSP Group; icare which coordinates BSPs in-house customer service culture program; and Career Development which coordinates the Performance Enhancement Process as well as the Leadership Management Development Program (LMDP).

Staff graduating at the Institute of
Banking & Business Management

The Remuneration and Benefits Business Unit continued to focus on supporting our national staff to own their own homes under the BSP's First Home Ownership scheme. Support was also given to the Solomon Islands to establish a First Home Buyer scheme policy for staff.

The Remuneration and Benefits team, in conjunction with Payroll in Finance & Planning, received an award on behalf of BSP from NASFUND Limited as runner up in the compliance category of benefits payment

FINANCE AND PLANNING

Finance & Planning had a challenging yet exciting year with the continuation of the core banking replacement project, adoption of the new accounting standard IFRS 9, while meeting the various day-to-day reporting and compliance requirements of the business.

Our subject matter experts seconded to the core banking team had another busy year, assisting with system design, initial testing and progressing to functional acceptance testing with our focus mainly on the General Ledger, Treasury and Analytical Applications.

The new accounting standard IFRS 9 "Financial Instruments", which replaces IAS 39 and effective for the 2018 financial year, significantly changes the way Banks do provisioning on loans and other financial assets. Models were developed to calculate the forward looking probability of default rates, were tested and implemented. The final outcome together with the adopted methodology was shared with regulators and the BSP Board, who were appreciative of BSP's efforts to adopt this fairly complex standard.

The Treasury Middle Office team has been actively involved in working with offshore branches in the rollout and implementation of the Liquidity Risk Policy across all countries. Compliance monitoring associated with liquidity management has also been strengthened. Group ALCO reporting was subject to continuous improvement reviews, with a focus on automation of reporting and upskilling of staff for the eventual migration to the bank's new core banking system.

The Procurement team focused on reviewing various supplier contracts as well as looking for cost effective solutions for various products and services, with an aim to provide greater cost savings for BSP. Our Accounts Payable team concentrated on improving supplier reporting and reconciliations and improving dialogue and relationships with external suppliers and internal stakeholders. Better team work provided a more consolidated approach in improving our invoice and payment processing to our suppliers.

The Strategy team continues to manage the strategic planning process, reporting cycles and coordinate the delivery of Board mandated strategic priorities across the Group. Processes for planning, monitoring and reporting of strategic initiatives were enhanced in 2018. While the team's analytical capabilities are continuously improving, we recognise the opportunity to deliver improved insights to our key business units. A notable achievement was the development of EFTPoS and ATM profitability reporting in 2018.

Head of Strategy & Investment Relations
giving a speech at the 2018 CPA Annual Conference

OFFSHORE BRANCHES
STRATEGIC BUSINESS UNIT

The Offshore Branches Strategic Business Unit was established in 2018 to bring all the offshore banking operations in Fiji, Solomon Islands, Tonga, Samoa, Vanuatu and Cook Islands together as a standalone business unit.

2018 was a strong year financially with each of the Offshore Branches delivering above budget performance. The Offshore Branches delivered 18.3% of the Groups net profit after tax in 2018, an improvement from 16.5% in 2017 and the increasing level of returns generated from these countries is a strong endorsement of the Groups expansion strategy.

This performance was driven by our focus on growing and cementing our leadership position in every country and 2018 saw market share growth in all countries but most notably in Samoa, where BSP attained number one (1) position, and in Fiji where BSP assumed number two (2) position. This has been achieved by ensuring we deliver great services by our committed staff, as well as our significant branch investment program. In 2018, we completed renovations to Apia Branch in Samoa, Honiara Central Branch in Solomon Islands and commenced renovation of Nuku'alofa Branch in Tonga as well as the construction of a second branch in Port Vila, Vanuatu.

Building a team in the Pacific

Across the region, BSP continues to support our vision of being the leading financial services provider in each of our chosen markets by participating in various community events throughout the year with particular focus on the environment, education and health. BSP also continues to focus on delivering our innovative Financial Literacy programs and on driving financial inclusion outcomes in every country in which we operate.

BSP's success during the year would not have been possible without the commitment of our people driven by our core values of Integrity, Professionalism, Leadership, Quality, People, Teamwork and Community. We continue to focus on developing the capability of our Pacific Islands staff in every country and this commitment was exemplified by the appointment of two (2) Pacific nationals into country leadership roles, Nik Regenvanu in Vanuatu and Haroon Ali in Fiji.

TONGA

In February 2018 Tonga's Islands of Tongatapu and 'Eua was hit by Cyclone GITA, which caused wide spread devastation and estimated damage of TOP356 million. Despite this devastation, BSP Tonga was one of the first businesses to open its doors within 24 hours of the cyclone. It was a difficult time, with many staff without electricity for up to one (1) month, yet despite this all staff went to great lengths to ensure BSP was open the day after the cyclone. BSP Tonga provided cyclone relief packages to customers to assist with the recovery and donated TOP30 thousand to the Tonga Red Cross.

Notwithstanding, the challenges in 2018, BSP Tonga reported a net profit after tax of TOP10.6 million, up 23% on 2017 and ahead of budget by 17%. Income was up in all the revenue lines, with interest income up 5%, foreign exchange 4% and lending fees 12% and other income 1%. The balance sheet continued to grow, with both lending up 10% and Deposits 15%.

BSP Tonga continued its commitment to the community, with our financial literacy program being delivered to over 10,000 people throughout Tonga. We also supported various community initiatives including Miss South Pacific, Miss Galaxy, Go Green bins for Vava'u, King's Military Tattoo in Ha'apai Island and computers for Tonga High School and their Robotic International School Competition in Mexico.

In addition to the above, Nuku'alofa branch is currently undergoing a major refurbishment, which will be completed in February 2019. This upgrade will deliver a modern and professional look to our main branch, providing a more customer friendly environment.

VANUATU

As BSP enters its third year of business in Vanuatu, we continue to focus on expanding our banking services and being an active corporate member in the community. With 20 ATMs, 28 active agents and over 400 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 the greater portion of the population. This is reflected in the opening of seven (7) new agencies in 2018 and plans for further expansion of the agency business in 2019. Following the Tanna Branch opening in 2017, the business is now in the final stages of completing our second Port Vila Branch, which will open in Quarter 1 2019. This added presence in Port Vila will enable BSP to meet the needs and expectations of our growing customer base.

Opening of new ATM in Vanuatu

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 lead initiatives. BSP Vanuatu assisted the government and regulatory authorities in achieving Vanuatu's removal from the Financial Action Task Force ("FATF") Grey List in June 2018.

Financially, BSP Vanuatu performed strongly in 2018 with above budget performance on income and prudent expense management. A Net Profit result of VUV287 million was a pleasing outcome for the year.

FIJI

In August, Mr Haroon Ali took over from the outgoing country manager Mr Kevin McCarthy, who served BSP with distinction since 2010. Mr Ali became the first local Fijian to hold the position of Country Head at BSP Fiji. Two General Managers were also farewelled. Mr Howard Politini (GM Human Resources) retired after 22 years of service and Mr Ashleigh Matheson (Chief Risk Officer) has returned to Australia after completing his assignment in Fiji.

Fiji delivered a Net Profit After Tax of FJD42.3 million against a budget of FJD39.5 million. This represents growth of 9.3% over 2017 profit (FJD38.7 million). In 2018, BSP's loan portfolio grew by 12% over 2017, led by growth in commercial, housing and personal loans. In addition to delivering another strong performance in terms of profit growth, BSP Fiji became the number two (2) bank in Fiji, measured by "loans and advances" market share.

The Corporate segment performed well, achieving loan portfolio growth of 13% in a highly competitive local market. Foreign exchange income grew by 20%, driven by the on boarding of new customers in 2018, coupled with a team of experienced personnel strengthening customer relationships.

Retail achieved 20% loan portfolio growth, largely driven by housing and personal loans. The strategy to focus on non-interest bearing accounts led to deposit growth of 32%. Revenue from electronic channels continued to grow, as did BSP's investments in these channels.

BSP Fiji launched its first ever state of the art Mobile Banking App. The Mobile App provides its customers with self-service banking solutions 24 hours a day. The Bank also successfully completed the upgrade of its electronic switch, enabling continued investment in future technology.

BSP supported its values by participating in various community projects throughout the year, placing priority on clean environment, provision of solar lights for schools and supporting the fight against cancer.

SOLOMON ISLANDS

BSP Solomon Islands reported another successful year, with a net profit after tax of SBD96.3 million in 2018, an increase of 16% on 2017.

During 2018 BSP grew its lending market share to 55.5%. Deposit market share reduced slightly to 52.2%, however we continued to retain the majority of surplus liquidity in the banking market.

This year we have also had great success in recovering some long outstanding loan accounts, which has seen a significant net recovery in problem loans.

2018 also saw the complete refurbishment of our Honiara Central Branch. The change has now quadrupled the customer space and supported by more staff who can deal directly with customers.

During 2018 BSP focused on educating our customers on the benefits of the various Electronic Banking channels we provide. Consequently, the 2018 growth in Electronic Banking has been close to 20% and this area will continue to be a major focus in 2019.

The continued growth of BSP in the Solomon Islands could not be achived without a great team behind it. BSP has 260 staff and only three (3) non-citizens. We are proud of the achievements of our staff and we are committed to continue to develop our Solomon Island national staff. Their development and corresponding gains in confidence have played a big part in the growth of the business over recent years.

Well done to all our staff for a great 2018 result and we look forward to another great performance in 2019.

COOK ISLANDS

BSP Cook Islands has delivered a strong financial result in 2018, with a NPAT of NZD3.0 million, representing a 47% increase on 2017. The performance was underpinned by solid loan growth of 4.5%, with 2018 finishing with a gross loan position of NZD92.3 million. The growth has been driven by strong results in the retail sector and a strengthening commercial pipeline. Cook Islands has delivered unprecedented growth in deposits, finishing the year with total deposits of NZD194.9 million a 31.7% increase on 2017. An increase in Government funds and improved general economic activity has underpinned the result. However, this growth is anticipated to normalise in 2019, with the Cook Island Government expected to increase spending on key infrastructure projects such as Te Mato Vai (water reticulation) and Mei Ti Vai Ki Te Vai (water sanitation) and the Manatua submarine cable. The ongoing focus on non-performing loans continues and efforts have been rewarded with a 22.8% total reduction in total non-accrual loans.

Overall, 2018 has been an exceptional year and staff are to be congratulated for their efforts. Further investments have been made in expanding delivery of financial literacy programs, Money Basics and Financial First Steps, to all schools and communities throughout Rarotonga and the Pa Enua. In addition, new electronic initiatives, including EMV chip technology, have been introduced to the market.

Our strategic focus in 2019 is based around customers e-channel experience and fortifying our position as the leading bank of choice for merchant and electronic solutions. Diligent management of the balance sheet, placements, maximising cost reduction opportunities and efficiencies will also be a focus, to improve financial returns.

Staff celebrating BSP's 3rd anniversary in Cook Islands

SAMOA

The 2018 financial period has delivered a strong financial performance that has been achieved in a stable local economic environment. Pleasingly, the strength of our balance sheet through a prudent growth strategy, has led to BSP Samoa becoming the leader in both lending and customer deposits market share.

Samoa's NPAT grew to ST$10.6 million, as a consequence of annual income growth of 26.8 % that was driven by an increase in net interest, foreign exchange and transactional income. During 2018, customer numbers grew by 15% to 55,800. Further, customer lending grew by 22% over the corresponding period. Our commitment to customer service was reflected in quicker credit decisions, efficient drawdown processes and an expansion of our electronic channel network that included 23 ATMs, 37 agencies and over 408 EFTPoS terminals across the country.

We supported our vision by participating in various community events throughout the year, placing priority on renewable energy and the environment, financial literacy, youth development via sports, education and health. BSP's main community project in 2018, in partnership with the Ministry of Natural Resources and Environment, involved the installation of solar lights for schools mainly in the rural areas.

The commitment of our staff and the strength of our culture have been reflected in the way we foster excellent customer relationships. Our values of integrity, professionalism, leadership, quality, people, teamwork and community are integral to our culture and this year we have been committed to embedding a values-driven approach to work, by demonstrating how we live these values every day. Staff are to be acknowledged for their ongoing dedication and commitment to our customers and business, making possible 2018's excellent result.


ISLAN
CRAFT

SUBSIDIARIES

Launch of BSP Finance Cambodia

BSP FINANCE

Papua New Guinea

BSP Finance PNG achieved an annual profit of PGK4.2 million, as a result of a strong focus on key sales drivers and enhanced service proposition to supplier networks. Loan volumes of PGK59 million were achieved, notwithstanding PNG's challenging market conditions.

The reengineering of key processes and default management, led to a significant reduction and stabilisation of arrears and the resulting improved efficiencies has seen profitability being maintained throughout the year.

Fiji

BSP Finance Fiji continued to perform well in 2018, finishing off with a profit for the year of FJD4.3 million, which was 57% above 2017. BSPF Fiji attained market share of 19.45% as of November 2018, with the business also achieving loan book growth of 28%. An additional branch will open in Lautoka in the first quarter of 2019.

Cambodia

2018 has been the first full operating year of BSP Finance Cambodia, with a profit of PGK841 thousand being reported. This profit result was underpinned by the portfolio doubling to almost US$30 million. The number of customers continues to grow and now exceeds 1,000. Full Integration of BSP Finance systems and procedures has been accomplished, allowing for operating efficiencies and positions the business well to face the expected strong growth in this very competitive, but dynamic market.

The market share of BSP Finance in Cambodia increased from 8% to 11% in 2018 and the key strategic imperative to grow market share carries into 2019.

Signing of BSP Finance Cambodia

BSP Finance in Cambodia aims to become a leader within the leasing market, by continuing to grow their support for SMEs' and agriculture's development, while maintaining its traditional markets support.

Solomon Islands

2018 was the first full year of operations for BSP Finance SI, with trading performance below expectation. 2019 will be a year of growth, as the business looks to increase its market share in a robust economy by ramping up its marketing campaign with speed to market and competitive interest rates being key selling points. More effective leveraging off the BSP Bank SI network will be one of the main aims in 2019, as this is considered key towards achieving sales targets.

BSP CAPITAL LIMITED

BSP Capital reported a loss of PGK803 thousand in 2018 which was a significant improvement on the loss of PGK3.2 million in 2017.

Trading on the local market remained subdued in 2018, with trading volumes on the Port Moresby Stock Exchange (POMSoX) declining significantly in comparison to 2017. A lack of institutional dealing weighed on stockbroking's financial result. The lower trading activity also saw the total market capitalisation of the POMSoX decline by 6.2%. During the year BSP Capital completed the sale of its shareholding of 62.5% in the POMSoX to Pacific Capital Markets Development Limited in order to comply with the new Capital Markets Act 2015, which precludes a listed entity's ownership of an exchange.

In 2018, BSP Capital originated several medium to large scale advisory transactions. Given their inception occurring throughout 2018, we expect momentum picking up for each of the respective mandates during 2019.

BSP Capital was pleased to see a significant increase in the Funds under Management (FuM), with 2018 growth of 376% to PGK6.9 billion (from PGK1.45 billion in 2017). FuM growth was driven mainly by the successful NASFUND Investment Management mandate tender in June 2018. We also experienced an increase in investments by large corporates investing in government securities.

BSP LIFE

PNG

BSP Life PNG Limited (BSP Life PNG), the newest wholly owned subsidiary of Bank South Pacific Limited (BSP PNG), is a registered Life Insurance Company which started operations on 2 January 2018. The Bank of Papua New Guinea (BPNG) issued a conditional life insurance license on 23 November 2017 to start operations, with the full approval and license received on 25 January 2018.

In compliance with the Life Insurance Act, BSP Life PNG has appointed a separate Board of Directors, chaired by an independent Director, and a qualified Life Insurance Actuary who have all been approved Fit and Proper by BPNG for their respective roles. BSP Life PNG operates on a model where back office support is provided by BSP PNG and life insurance operations and systems support is provided by BSP Life (Fiji) Limited, under a signed

BSP Life PNG Limited (BSP Life PNG), the newest BSP subsidiary

service level agreement. BSP Life PNG currently has four (4) employees, including a Country Manager, with numbers to increase once Group Term Life and Anticipated Endowment products are launched.

On commencement, BSP Life PNG offered its first life insurance product, "Consumer Credit Insurance" (CCI) to BSP Bank. This product covers all new and refinancing BSP Unsecured Personal loan customers from 2 January 2018. Under this policy, BSP Life PNG pays out the outstanding loan balance, up to a maximum of PGK50 thousand and provides a funeral assistance benefit of PGK Five thousand to the nominated administrator, if the borrower passes away prematurely.

The strategic focus for 2019 will include launch of Group Term Life and Endowment products and growing the business, with particular focus on upskilling and capacity building of our staff.

FIJI

The performance for BSP Life and BSP Health in 2018 was pleasing, with achievements generally in line with strategic and financial goals. The markets for Life and Health Insurance in Fiji remain competitive and 2018 had the added challenge of an election year, which caused some slowdown in the market.

The strong investment returns experienced in 2017 continued in 2018, positively impacting financial results once again. The investments portfolio now exceeds FJD700 million, making BSP Life one of Fiji's largest institutional investors. In 2018, we experienced strong performances in our subsidiary

BSP Life Bula Delite launch

businesses, particularly Richmond Limited (trading as Sofitel Fiji) on the back of improving tourism sector performance, and Future Farms Limited (trading as Rooster Poultry). Property returns and contributions from the remainder of the portfolio, including investments in listed entities were positive.

2018 marked an important chapter for BSP Life, with the successful implementation of our new core system (BLIS). The system has been operational for more than nine (9) months, with no major post implementation issues. BLIS passed the new product development implementation test in October, with significantly reduced development time when compared to the previous system.

The Insurance Group's 2018 profit was FJD21.8 million, 3% below 2017.

The Life insurance market continues to be dominated by endowment products. Life's new business for 2018 was 5% above 2017. The Life inforce portfolio increased by FJD3 million to FJD72.1 million, 4% growth, a positive outcome given various challenges. The 13-month persistency rate on annual policy premium of 77% was 0.8% higher than 2017. The focus on improving new business quality has seen improvement in the inforce position and this trends is expected to continue in future.

BSP Life leads the Life inforce annual premium market (excluding single premiums). The latest industry data indicates that BSP Life has 55% market share.

BSP Health Term Life's market share on premium income was 56%, while Medical market share was 48%.

BSP Life celebrating Fiji independence

The outlook for 2019 is positive and the business will look to further increase its market share through various growth initiatives that are underpinned by the capabilities of the new system. Looking ahead, our key strategic focus will be growing the Life and Health inforce books with quality new business, growing the Investment portfolio, and ensuring the retention of business to deliver profitable outcomes. An emphasis on optimal use of existing resources will continue to ensure good financial outcomes.

CORPORATE GOVERNANCE

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 Port Moresby Stock Exchange (POMSoX).

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 – 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.

The sections below explain how BSP complies with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations. These sections have been adopted by the Board as BSP's Corporate Governance Statement.

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 the company 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 ten Directors, with nine Non - Executives 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 normally 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 already 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 - 9. 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 98 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 2018.

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 2018 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 to meet with the Chief Executive Officer, General Managers, Heads of Subsidiaries and Country Managers 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 2018, 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 2018:

Board Audit Commitee	
Geoff Robb	6/6
Ernest Gangloff	5/6
Arthur Sam	6/6
Stuart Davis	5/6
Frank Bouraga[1]	4/6
Sir Kostas Constantinou*	2/2

Board Risk & Compliance Committee	
Geoff Robb	6/6
Ernest Gangloff	5/6
Arthur Sam	5/6
Stuart Davis	5/6
Charles Lee[1]	5/6
Priscilla Kevin	1/1
Remuneration and Nomination Committee	
Freda Talao (Chairman)	6/6
Faamausili Dr Matagialofi Lua'iufi	4/6
Robert Bradshaw	6/6

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.

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

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 Committee

The BAC assists the Board to discharge its responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of the BAC 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;
- the systems for ensuring operational efficiency and cost control; and
- the systems for approval and monitoring of expenditure including capital expenditure.

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

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

The BRCC 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 BRCC meeting. The BRCC regularly reports to the Board at the earliest possible Board meeting after each BRCC 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 Group 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 Group 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 fulfil its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

The Remuneration and Nomination Committee is comprised of three Non-Executive Directors, with the chairman being one of the independent Directors of the Board other than the Chairman.

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 POMSOX, 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 BAC 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 BAC 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 BAC 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 2019, and be available to answer shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. The BAC 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 BAC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

The BAC 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 BAC 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 BRCC 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 BAC 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.

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, Compliance and AML, etc.);
- 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 BRCC responsibility for overview of loss control and for overseeing the risk management function.

The BRCC 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;
- 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 are 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 2014, the Shareholders approved an increase in the pool to PGK 2.5 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 programmes or the employee incentive schemes described below.

A table of fees paid to Directors during 2018 is produced on page 65.

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.

Employee Share Option Plan

In 2014, the Board approved an employee share option plan. The options are paid out as cash and are fully taxed. Participants are not entitled to receive grants of shares or share options. This plan is available for use but is not currently in use.

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.

	EPS target	EPS target achieved	Performance Rights
1	[As recommended by the Remuneration and Nomination Committee and approved by the Board each LTIP cycle]	90–100%	100%
2		80–89%	50%
3		79% and below	0%

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.

FINANCIAL STATEMENTS

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 2018. 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 stock broking, fund management and life business services throughout Papua New Guinea and the Asia Pacific region. BSP is a company listed on the Port Moresby Stock Exchange (POMSoX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Group is also licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa, Tonga, Vanuatu and Cambodia. The registered office is at Douglas Street, Port Moresby.

Review of operations

For the year ended 31 December 2018, the Group's profit after tax was K844.072 million (2017 K757.003 million). The Bank's profit after tax was K787.446 million (2017: K720.953 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 payments totalling K597.364 million were paid in 2018 (2017: K521.858 million). A detailed breakup of this is provided in Note 23.

Directors and officers

The following were directors of the Bank of South Pacific Limited at 31 December 2018:

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

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

The company secretary is Mary Johns.

Independent Auditor's Report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 91. Details of amounts paid to the auditors for audit and other services are shown in Note 41 of the Notes to the Financial Statements.

Donations and Sponsorships

Donations and sponsorship by the Group during the year amounted to K8.004 million (2017: K6.457 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 27th day of February 2019.

Sir Kostas G. Constantinou, OBE
Chairman

Robin Fleming, CSM
Group Chief Executive Officer/Director

STATEMENTS OF COMPREHENSIVE INCOME

for the Year Ended 31 December 2018

		Consolidated		Bank	
All amounts are expressed in K'000	Note	2018	2017	2018	2017
Interest income	2	1,561,691	1,432,640	1,460,484	1,349,134
Interest expense	2	(180,895)	(154,964)	(166,090)	(141,106)
Net interest income		1,380,796	1,277,676	1,294,394	1,208,028
Fee and commission income	3	382,508	373,673	347,892	345,919
Other income	4	363,488	307,171	353,528	310,059
Net banking operating income		2,126,792	1,958,520	1,995,814	1,864,006
Net insurance premium income		143,097	131,022	-	-
Investment revenue		156,547	137,479	-	-
Increase in policy liabilities	39(b)	(71,616)	(64,813)	-	-
Policy maintenance and investment expenses		(111,385)	(95,078)	-	-
Claims, surrender and maturities		(97,295)	(90,393)	-	-
Share of profits from associates and jointly controlled entities		19,565	21,613	-	-
Net insurance operating income	39(a)	38,913	39,830	-	-
Net operating income before impairment and operating expenses		2,165,705	1,998,350	1,995,814	1,864,006
Impairment on loans and advances	13	(82,380)	(77,678)	(71,599)	(65,111)
Impairment on subsidiary	8	-	-	(803)	(6,749)
Operating expenses	5	(887,157)	(852,148)	(806,873)	(777,891)
Profit before income tax		**1,196,168**	**1,068,524**	**1,116,539**	**1,014,255**
Income tax expense	6	(352,096)	(311,521)	(329,093)	(293,302)
Net profit for the year		**844,072**	**757,003**	**787,446**	**720,953**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Translation of financial information of foreign operations to presentation currency	24	1,052	48,326	1,267	25,589
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve	24	4,948	(10,165)	5,435	(8,977)
Net movement in asset revaluation	24	1,632	38,064	8	30,314
Other comprehensive income, net of tax		**7,632**	**76,225**	**6,710**	**46,926**
Total comprehensive income for the year		**851,704**	**833,228**	**794,156**	**767,879**
Earnings per share - basic and diluted (toea)	23	**180.6**	**162.0**	**168.5**	**154.3**

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

		Consolidated		Bank	
All amounts are expressed in K'000	Note	2018	2017	2018	2017
ASSETS					
Cash and balances with Central Bank	10	1,253,449	1,205,196	966,707	985,803
Treasury and Central Bank bills	11	2,494,700	3,298,626	2,480,356	3,287,162
Amounts due from other banks	12	854,019	949,214	796,180	887,337
Statutory deposits with Central Banks		1,685,544	1,598,378	1,622,035	1,541,096
Other financial assets	16	2,555,443	2,457,327	2,073,873	2,062,341
Loans, advances and other receivables from customers	13	12,530,649	11,209,493	11,232,725	10,094,470
Property, plant and equipment	14	693,277	738,670	538,181	574,305
Assets subject to operating lease	14	52,433	70,689	52,433	70,689
Investment in associates and joint ventures	9	175,579	154,135	20,038	19,157
Investment in subsidiaries	8	-	-	347,597	338,400
Intangible assets	7	174,623	107,818	152,551	100,750
Investment properties	15	153,665	134,020	-	-
Deferred tax assets	6	208,444	181,934	234,391	200,021
Tax receivable	6	12,753	-	17,020	-
Other assets	17	205,482	264,361	162,293	202,142
Total assets		**23,050,060**	**22,369,861**	**20,696,380**	**20,363,673**
LIABILITIES					
Amounts due to other banks	18	51,539	160,400	116,019	238,272
Customer deposits	19	18,232,766	17,901,692	16,959,170	16,843,756
Subordinated debt securities	20	75,525	75,525	75,525	75,525
Other liabilities	21	1,623,992	1,382,888	766,981	596,633
Provision for income tax	6	-	31,708	-	25,231
Other provisions	22	194,103	189,313	177,799	173,254
Total liabilities		**20,177,925**	**19,741,526**	**18,095,494**	**17,952,671**
SHAREHOLDERS' EQUITY					
Ordinary shares	23	372,364	373,001	372,364	373,001
Retained earnings	24	2,156,873	1,904,462	1,976,138	1,777,627
Other reserves	24	339,320	346,388	252,384	260,374
Equity attributable to the members of the company		**2,868,557**	**2,623,851**	**2,600,886**	**2,411,002**
Minority interests		3,578	4,484	-	-
Total shareholders' equity		**2,872,135**	**2,628,335**	**2,600,886**	**2,411,002**
Total equity and liabilities		**23,050,060**	**22,369,861**	**20,696,380**	**20,363,673**

Sir Kostas G. Constantinou OBE
Chairman

Robin Fleming, CSM
Group Chief Executive Officer/Director

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the Year Ended 31 December 2018

BANK *All amounts are expressed in K'000*	Note	Share capital	Reserves	Retained earnings	Minority Interests	Total
Balance as at 1 January 2017		**373,101**	**209,375**	**1,576,974**	**-**	**2,159,450**
Net profit		-	-	720,953	-	720,953
Other comprehensive income		-	46,926	-	-	46,926
Total comprehensive income		-	46,926	720,953	-	767,879
Dividends paid during the year	23	-	-	(518,955)	-	(518,955)
Share buyback	23	(100)	-	-	-	(100)
Total transactions with owners		(100)	-	(518,955)	-	(519,055)
Recognition of deferred tax		-	-	3,739	-	3,739
Transfer from Asset Revaluation Reserve	24	-	(1,418)	407	-	(1,011)
BSP Life policy reserve	24	-	5,491	(5,491)	-	-
Balance at 31 December 2017		**373,001**	**260,374**	**1,777,627**	**-**	**2,411,002**
IFRS 9 transition provisions	24	-	-	(10,221)	-	(10,221)
Restated balance 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	23	-	-	(593,414)	-	(593,414)
Share buyback	23	(637)	-	-	-	(637)
Total transactions with owners		(637)	-	(593,414)	-	(594,051
BSP Life policy reserve	24	-	3,416	(3,416)	-	
Transfer from Asset Revaluation Reserve	24	-	(18,116)	18,116	-	-
Balance at 31 December 2018		**372,364**	**252,384**	**1,976,138**	**-**	**2,600,886**
GROUP						
Balance as at 1 January 2017		**373,101**	**266,090**	**1,670,595**	**4,551**	**2,314,337**
Net profit		-	-	757,003	-	757,003
Other comprehensive income		-	76,225	-	-	76,225
Total comprehensive income		-	76,225	757,003	-	833,228
Dividends paid during the year	23	-	-	(521,858)	-	(521,858)
Share buyback	23	(100)	-	-	-	(100)
Loss attributable to minority interests	24	-	-	67	(67)	-
Total transactions with owners		(100)	-	(521,791)	(67)	(521,958)
Recognition of deferred tax		-	-	3,739	-	3,739
Transfer from Asset Revaluation Reserve	24	-	(1,418)	407	-	(1,011)
BSP Life policy reserve	24	-	5,491	(5,491)	-	-
Balance at 31 December 2017		**373,001**	**346,388**	**1,904,462**	**4,484**	**2,628,335**
IFRS 9 transition provisions	24	-	-	(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	23	-	-	844,072	-	844,072
Other comprehensive income	24	-	7,632		-	7,632
Total comprehensive income		-	7,632	844,072	-	851,704
Dividends paid during the year	23	-	-	(597,364)	-	(597,364)
Share buyback	23	(637)	-	-	-	(637)
Loss attributable to minority interests	24/23	-	-	906	(906)	-
Total transactions with owners		(637)	-	(596,458)	(906)	(598,001)
Transfer from asset revaluation reserve	24	-	(18,116)	18,116	-	-
BSP Life policy reserve	24	-	3,416	(3,416)	-	-
Balance at 31 December 2018		**372,364**	**339,320**	**2,156,873**	**3,578**	**2,872,135**

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

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2018**	**2017**	**2018**	**2017**
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,544,691	1,432,265	1,442,960	1,330,842
Fees and other income		819,700	696,498	736,604	710,265
Interest paid		(183,137)	(145,505)	(169,364)	(135,083)
Amounts paid to suppliers and employees		(666,153)	(617,878)	(636,764)	(646,253)
Operating cash flow before changes in operating assets and liabilities	28	**1,515,101**	**1,365,380**	**1,373,436**	**1,259,771**
Increase in loans, advances and other receivables from customers		(1,377,537)	(1,164,516)	(1,188,543)	(887,123)
Increase in statutory deposits with the Central Banks		(87,166)	(123,723)	(80,939)	(100,566)
Increase in customer deposits		466,549	999,732	250,889	710,449
Net cash flow from operations before income tax		**516,947**	**1,076,873**	**354,843**	**982,531**
Income taxes paid	6	(420,430)	(293,697)	(402,213)	(282,645)
Net cash flow from operating activities		**96,517**	**783,176**	**(47,370)**	**699,886**
CASH FLOW FROM INVESTING ACTIVITIES					
(Increase)/decrease in government securities		695,907	(490,860)	785,053	(386,113)
Expenditure on property, plant and equipment		(32,766)	(118,518)	(25,804)	(72,321)
Expenditure on software development costs		(79,163)	(50,096)	(75,468)	(48,109)
Proceeds from disposal of property, plant and equipment		966	2,182	966	2,165
Additional funding of subsidiaries		-	-	(10,000)	(26,889)
Net cash flow used in investing activities		**584,944**	**(657,292)**	**674,747**	**(531,267)**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	23	(637)	(100)	(637)	(100)
Dividends paid	23	(597,364)	(521,858)	(593,414)	(518,955)
Proceeds from borrowings	21	80,273	33,127	80,273	33,127
Principal and interest repayments of borrowings	21	(102,866)	(101,973)	(102,866)	(101,973)
Net cash flow used in financing activities		**(620,594)**	**(590,804)**	**(616,644)**	**(587,901)**
Net (decrease)/increase in cash and cash equivalents		**60,867**	**(464,920)**	**10,733**	**(419,282)**
Effect of exchange rate movements on cash and cash equivalents		1,052	45,760	1,267	26,845
Cash and cash equivalents at the beginning of the year	28	1,994,010	2,413,170	1,634,868	2,027,305
Cash and Cash Equivalents at the end of the year	28	**2,055,929**	**1,994,010**	**1,646,868**	**1,634,868**

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 2018

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2018:

- IFRS 9, 'Financial Instruments' replaced the guidance in IAS 39 with a standard that is less complex and principles based. The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. IFRS 9's new impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model.

  Refer to notes A (ii) for further details of the impact of IFRS 9 on the Group's accounting policies and 2018 financial statements.

- IFRS 15 'Revenue from contracts with customers' replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The entity now adopts a new 5-step process for the recognition of revenue:
  - identify contracts with customers
  - identify the separate performance obligations
  - determine the transaction price of the contract
  - allocate the transaction price to each of the separate performance obligations, and
  - recognise the revenue as each performance obligation is satisfied

  The Bank has implemented IFRS 15 with effect from 1 January 2018 and assessed the impact of the new standard on its financial statements, including the presentation of certain revenue and expense items, the timing and measurement of revenue recognition, as well as additional qualitative and quantitative disclosures. The implementation of IFRS 15 has not resulted in a significant impact to the bank's operation and policies.

- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- Amendments to IFRS 4, 'Insurance contracts' regarding implementation of IFRS 9. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
  - give all companies that issue insurance contracts the option to recognise in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021, in which case they will continue to apply IAS 39.

- Amendments to IAS 40, 'Investment property' relating to transfers of investment property. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- Annual improvements 2014 – 2016 makes minor changes to IFRS 1 on first-time adoption of IFRS and IAS 28 regarding measuring an associate or joint venture at fair value.
- IFRIC 22, 'Foreign currency transactions and advance consideration' addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made.

All other amendments have not had a significant impact to the Group.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2018 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 2019 or later periods, but the entity has not early adopted them:

- IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 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. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. The Bank is currently assessing the new standard to reliably estimate the impact on the financial statements.

- Amendment to IFRS 9 on prepayment features with negative compensation (effective 1 January 2019). 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' (effective 1 January 2019) clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

- Annual improvements 2015 – 2017 (effective 1 January 2019). 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 (effective 1 January 2019). 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 (effective 1 January 2019). 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.

- 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:

  i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting. ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

- 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 and BSP Life PNG.

A (ii) IFRS 9 Transitional Impact effective 1st January 2018

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, 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 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes to accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in Note 33.

Classification and measurement of financial instruments
The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 for the Group are compared as follows:

	IAS 39		IFRS 9	
	Measurement Category	Carrying Amount	Measurement Category	Carrying Amount
Financial Assets		PGK'000		PGK'000
Cash and balances with central banks and other banks	Amortised cost (Loans and receivables)	3,752,788	Amortised cost	3,752,788
Loans and Advances	Amortised cost (Loans and receivables)	11,209,493	Amortised cost	11,210,870
Investment securities	Amortised cost (Held to maturity)	5,608,905	Amortised cost	5,593,381
	FVPL (Designated)	147,048	FVPL (Designated)	147,048
		20,718,234		**20,704,087**

There were no changes to the classification and measurement of financial liabilities.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9
The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount 1 January 2018
Amortised Cost	PGK'000	PGK'000	PGK'000	PGK'000
Cash and balances with central banks and other banks				
Opening balance under IAS 39 and closing balance under IFRS 9	3,752,788	-	-	3,752,788
Loans and Advances				
Opening balance under IAS 39	11,209,493	-	-	-
Re-measurement: ECL allowance		-	1,377	-
Closing balance under IFRS 9	-	-	-	11,210,870
Investment securities – amortised cost				
Opening balance under IAS 39	-	-	-	-
Addition: Financial assets held to maturity	-	5,608,905	-	-
Re-measurement: ECL allowance	-	-	(15,524)	-
Closing balance under IFRS 9	-	-	-	5,593,381
Investment securities – Held to maturity				
Opening balance under IAS 39	5,608,905	-	-	-
Subtraction: To amortised cost (IFRS 9)	-	(5,608,905)	-	-
Closing balance under IFRS 9	-	-	-	-
Fair value through profit or loss (FVTPL)				
Trading Assets				
Opening balance under IAS 39 and closing balance under IFRS 9	147,048	-	-	147,048

Total re-measurement loss of K14.147 million, net of deferred tax impact of K4.247million, was recognised in opening reserves at 1 January 2018.

Debt instruments previously classified as 'held to maturity' are now classified as 'measured at amortised cost' as the previous category under IAS 39 was 'retired'. There was no change to the measurement basis.

There were no other changes related to classification of financial assets.

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9
The following table reconciles the Group's prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39	Reclassification	Re-measure-ment	Loan loss allowance under IFRS 9
	PGK'000	PGK'000	PGK'000	PGK'000
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and balances with central banks	-	-	-	-
Loans and advances to Customers	577,186	-	(35,114)	542,072
Investment securities	-	-	(15,524)	(15,524)
Total loan loss allowance loans and receivables	**577,186**	**-**	**(50,638)**	**526,548**
Loan commitments and financial guarantee contracts				
Provisions (Letters of credit)	-	-	3,567	3,567
Provisions (Financial guarantees)	-	-	3,198	3,198
Undrawn Loans & others	-	-	29,726	29,726
Total loan loss allowance loan commitments and financial guarantee contracts	**-**	**-**	**36,491**	**36,491**
Total Loan loss allowance	**577,186**	**-**	**(14,147)**	**563,039**

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2018, 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.

The bank and its subsidiaries adopted IFRS 9 as at 1 January 2018. Under IFRS 9, interest income and interest expense for all financial instruments measured at amortised cost is recognised using the effective interest rate method which is similar to the requirements under IAS 39 for loans and receivables. Under IFRS 9, 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.

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/(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.

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

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

Insurance policy liabilities are further detailed in Note 39.

E. Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. All other risk related fees that constitute cost recovery are taken to income when levied. Loan origination fees are deferred over the expected term of the financial instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future payments and receipts through the expected life of the instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

F. Borrowing expenses

Expenses associated with the borrowing of funds are charged to the Statement of Comprehensive Income in the period in which they are incurred.

G. Provision for loan impairment

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

All loans, advances and other receivables from customers are subject to continuous management review. A specific provision for loan impairment is established if there is objective evidence that the 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
For the year commencing 1 January 2018, the Group adopted IFRS 9 and updated the accounting policy for impairment of financial assets held at amortised cost to comply with IFRS 9 requirements as detailed below;

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 33 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 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	6- 20% pa

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

K. Leases

Bank is lessee

All leases entered into by the Group are operating leases. Total payments made are charged to the Statement of Comprehensive Income using the straight line method.

Bank is lessor

Finance leases are included in Loans, Advances and Other Receivables from Customers and are accounted for under the finance method whereby income is recognised using the effective interest method. Assets subject to operating leases are separately disclosed in the Statements of Financial Position, according to the nature of the asset. These assets are stated at cost or revalued amount less accumulated depreciation. The assets are depreciated on a straight line basis over the life of the operating lease. Lease income is recognised on a straight line basis over the term of the lease.

L. Cash and cash equivalents

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

M. Financial assets & liabilities

M(1) Financial Assets
M(1)(i) IAS 39 Accounting Policy

Classification

Prior to 1 January 2018, the Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Held to maturity investments

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

Recognition and measurement

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

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

Offsetting financial instruments

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

M(1)(ii) IFRS 9 Accounting Policy

Classification and subsequent measurement
From 1 January 2018, the Group has applied IFRS 9 and 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 3.1.2. Interest income from these financial assets is included in 'Interest and similar 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 3.1.2, 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 de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, 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

In both the current and prior period, 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 33.1.2); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 33.1.2). 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.

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 value have been arrived at on the basis of the valuation 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 and 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 21 and note 39
- Estimation of fair value of financial assets and liabilities – note 1(m) and note 38
- Estimation of fair value of non-financial assets - note 38

The Group adopted IFRS 9 as at 1 January 2018, measurement of credit loss allowance for financial assets measured at amortised cost 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 33.1.2.3, 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 33.

2. NET INTEREST INCOME

Net interest income	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Interest income				
Loans, advances and other receivables from customers[1]	1,156,426	1,027,861	1,053,335	944,201
Other financial assets - inscribed stock	205,333	204,685	205,051	204,378
Treasury bills	194,816	195,093	193,322	194,093
Cash and balances with Central Bank	4,042	2,802	5,664	3,417
Central Bank bills	-	83	-	83
Other	1,074	2,116	3,112	2,962
	1,561,691	**1,432,640**	**1,460,484**	**1,349,134**
Less: **Interest expense**				
Customer deposits	152,008	134,381	135,167	120,177
Other banks	20,330	12,276	22,366	12,622
Subordinated debt securities	8,557	8,307	8,557	8,307
	180,895	**154,964**	**166,090**	**141,106**
	1,380,796	**1,277,676**	**1,294,394**	**1,208,028**

[1]Interest income includes K16.895m recognized 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 D.

3. FEE AND COMMISSION INCOME

Fee and commission income				
Product related	198,017	206,882	185,188	195,720
Trade and international related	18,900	18,542	18,073	17,800
Electronic banking related	129,829	114,181	118,927	106,657
Other	37,098	35,142	27,004	26,771
	383,844	**374,747**	**349,192**	**346,948**
Less: **Fee and commission expenses**				
Agencies	687	627	651	582
International Finance Corporation fees	649	447	649	447
	1,336	**1,074**	**1,300**	**1,029**
	382,508	**373,673**	**347,892**	**345,919**

4. OTHER INCOME

Foreign exchange related	313,785	275,576	281,205	249,538
Operating lease rentals	8,473	9,430	8,473	9,430
Other	41,230	22,165	63,850	51,091
	363,488	**307,171**	**353,528**	**310,059**

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

5. OPERATING EXPENSES

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Administration	118,394	136,209	114,937	121,797
Computing	136,973	121,922	119,599	104,682
Depreciation	81,000	72,331	64,572	61,701
Amortisation of computer development	27,399	27,427	22,546	26,359
Non-executive Directors costs	5,044	2,379	4,559	1,961
Non-lending losses[1]	33,226	20,156	33,094	26,780
Fixed asset impairment expenses	13,888	6,682	13,888	6,682
Premises and equipment	88,924	92,978	80,795	85,089
	504,848	**480,084**	**453,990**	**435,051**
Staff costs				
Defined contribution plans	15,262	13,943	14,021	12,890
Statutory benefit contributions	12,168	9,389	11,216	8,485
Wages and salaries	296,885	288,116	272,331	264,233
Other staff benefits	57,994	60,616	55,315	57,232
	382,309	**372,064**	**352,883**	**342,840**
	887,157	**852,148**	**806,873**	**777,891**

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

6. INCOME TAX

Income tax expense				
Current tax	365,551	326,675	347,673	313,512
Deferred tax	(12,443)	(11,845)	(20,623)	(17,396)
Current year	353,108	314,830	327,050	296,116
Adjustment to prior year estimates	(1,012)	(3,309)	2,043	(2,814)
	352,096	**311,521**	**329,093**	**293,302**
Tax calculated at 30% of profit before tax (2017:30%)	341,712	294,622	334,961	304,277
Tax calculated at respective subsidiary tax rates	14,798	16,770	-	-
Expenses not deductible for tax	4,453	4,069	5	1,494
Tax loss not recognised	5,379	4,681	-	-
Income not recognised for tax purposes[1]	(13,234)	(5,312)	(7,916)	(9,655)
Adjustment to prior year estimates	(1,012)	(3,309)	2,043	(2,814)
	352,096	**311,521**	**329,093**	**293,302**
Provision for Income Tax				
At 1 January	(31,708)	576	(25,231)	3,670
Income tax provision	(365,551)	(326,675)	(347,256)	(313,512)
Adjustment to prior year estimates	(10,418)	694	(12,706)	1,966
Tax payments made	420,430	293,697	402,213	282,645
At 31 December	**12,753**	**(31,708)**	**17,020**	**(25,231)**

[1]Income not recognized 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.

6. INCOME TAX (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Deferred taxes				
Specific allowance for losses on loans, advances and other receivables from customers	48,186	33,694	45,011	30,109
General allowance for losses on loans, advances and other receivables from customers	132,757	132,752	127,518	131,576
Employee related provisions	23,983	23,390	23,103	22,809
Prepaid expenses	(1,361)	(1,228)	(1,337)	(1,228)
Other provisions	46,690	32,294	45,017	31,604
Property, plant and equipment	(70,128)	(60,565)	(30,338)	(34,969)
Unrealised foreign exchange gains	659	(897)	659	(897)
Accruals	27,658	22,494	24,758	21,017
At 31 December	**208,444**	**181,934**	**234,391**	**200,021**
Represented by:				
Deferred tax asset	279,275	244,625	265,407	237,115
Deferred tax liability	(70,831)	(62,691)	(31,016)	(37,094)
At 31 December	**208,444**	**181,934**	**234,391**	**200,021**
Deferred taxes movement:				
At 1 January	181,934	170,089	200,021	182,625
Current year movement	12,443	27,798	20,623	32,161
Revaluation recognised in equity	4,244	(10,165)	4,380	(8,977)
Adjustment to prior year estimates	9,823	(5,788)	9,367	(5,788)
At 31 December	**208,444**	**181,934**	**234,391**	**200,021**

7. INTANGIBLE ASSETS

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
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**
Goodwill was tested for impairment as at 31 December 2018 and no impairment has been recognised in the Statement of Comprehensive Income.				
7(b) Computer development costs				
At 1 January	62,511	46,319	59,699	43,676
Additions	95,326	50,096	75,469	48,109
Disposals	(1,122)	(5,727)	(1,122)	(5,727)
Amortisation expense	(27,399)	(28,177)	(22,546)	(26,359)
At 31 December	**129,316**	**62,511**	**111,500**	**59,699**
Total intangible assets	**174,623**	**107,818**	**152,551**	**100,750**
Computer development cost	245,186	217,384	212,614	204,672
Accumulated amortisation	(115,870)	(154,873)	(101,114)	(144,973)
At 31 December	**129,316**	**62,511**	**111,500**	**59,699**

8. INVESTMENTS IN SUBSIDIARIES

All amounts are expressed in K'000	Principal activity	Place of Incorporation and Operation	Ownership %	Balance of Investment	
Name of Subsidiary				**2018**	**2017**
BSP Capital Limited	Share brokerage/Fund Management/Investment banking	PNG	100%	2,448	2,251
BSP Life (Fiji) Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Life PNG Limited	Life Insurance	PNG	100%	15,000	6,000
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	61,837	61,837
Bank of South Pacific Tonga Limited	Bank	Tonga	100%	71,610	71,610
Bank South Pacific Samoa Limited	Bank	Samoa	98.7%	70,712	70,712
Bank South Pacific (Vanuatu) Limited	Bank	Vanuatu	100%	38,020	38,020
At 31 December				**347,597**	**338,400**

Represented by:

All amounts are expressed in K'000	**2018**	**2017**
At 1 January	338,400	318,261
Additional capital	10,000	26,888
Provision for Impairment of BSP Capital Limited	(803)	(6,749)
At 31 December	**347,597**	**338,400**

Provision for Impairment of the Investment in BSP Capital Limited

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

9. INVESTMENT IN JOINT VENTURES

Entity	Joint Venture	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
				2018	2017
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.*

	Consolidated		Bank	
All amounts are expressed in K'000	2018	2017	2018	2017
Joint ventures				
Investment in joint ventures	154,135	112,762	19,157	16,513
Investments during the year	-	11,370	-	-
Translation movement	137	6,715	(40)	969
Share of profit for the year	21,307	23,288	921	1,675
Net investment at 31 December	**175,579**	**154,135**	**20,038**	**19,157**
Summarised financial information of joint ventures:				
Total assets	340,266	275,782	81,740	81,740
Total liabilities	(159,450)	(117,841)	(43,426)	(43,426)
Net assets	**180,816**	**157,941**	**38,314**	**38,314**
Share of profits	14,354	12,470	921	1,675
Group fair value alignment	6,953	10,818	-	-
Share of profit in Group	**21,307**	**23,288**	**921**	**1,675**

10. CASH AND BALANCES WITH CENTRAL BANK

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Notes, coins and cash at bank	509,588	475,020	500,332	461,827
Balances with Central Bank other than statutory deposit	743,861	730,176	466,375	523,976
Total cash and balances with Central Bank	**1,253,449**	**1,205,196**	**966,707**	**985,803**

11. TREASURY AND CENTRAL BANK BILLS

Treasury and Central Bank bills – face value	2,553,051	3,370,252	2,538,706	3,358,788
Discount for interest receivable	(48,772)	(71,626)	(48,771)	(71,626)
IFRS 9 transition provisioning	(9,579)	-	(9,579)	-
At 31 December	**2,494,700**	**3,298,626**	**2,480,356**	**3,287,162**

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	35,426	29,156	35,426	29,154
Placements with other banks	818,593	920,058	760,754	858,183
At 31 December	**854,019**	**949,214**	**796,180**	**887,337**

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 K31.451 million held with counter-party Banks that are not available for use by the Group.

13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS

Overdrafts	912,057	830,851	848,196	776,190
Lease financing	252,293	172,334	205,744	135,700
Term loans	9,510,991	8,675,849	8,767,253	8,016,448
Mortgages	2,403,278	2,054,173	2,000,770	1,705,081
Policy loans	85,597	53,472	-	-
Gross loans, advance and other receivables due from customers net of reserved interest	**13,164,216**	**11,786,679**	**11,821,963**	**10,633,419**
Less allowance for losses on loans, advances and other receivables from customers	(633,567)	(577,186)	(589,238)	(538,949)
At 31 December	**12,530,649**	**11,209,493**	**11,232,725**	**10,094,470**

The spread of the loans are detailed in the maturity analysis table on Note 34. The loans are well-diversified across various sectors and are further analysed on Note 33. Allowance for losses includes K16.895m provision taken up for interest recognized on stage 3 loans.

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

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:

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Gross investment in finance lease receivable				
Not later than 1 year	34,358	50,224	29,746	30,372
Later than 1 year and not later than 5 years	252,531	142,734	200,775	118,539
	286,889	**192,958**	**230,521**	**148,911**
Unearned future finance income				
Not later than 1 year	(1,961)	(6,212)	(1,713)	(2,595)
Later than 1 year and not later than 5 years	(32,635)	(14,412)	(23,064)	(10,616)
	(34,596)	**(20,624)**	**(24,777)**	**(13,211)**
Present value of minimum lease payments receivable	**252,293**	**172,334**	**205,744**	**135,700**
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	32,397	44,012	28,033	27,777
Later than 1 year and not later than 5 years	219,896	128,322	177,711	107,923
At 31 December	**252,293**	**172,334**	**205,744**	**135,700**
Provision for impairment				
Movement in allowance for losses on loans, advances and other receivables from customers:				
Balance at 1 January	577,186	523,661	538,949	488,241
Net new and increased provisioning	66,073	63,181	57,277	52,853
Loans written off against provisions / (Write back of provisions no longer required)	(9,692)	(9,656)	(6,988)	(2,145)
At 31 December	**633,567**	**577,186**	**589,238**	**538,949**
Provision for impairment is represented by:				
Collective provision	454,345	461,389	423,965	438,585
Individually assessed or specific provision	179,222	115,797	165,273	100,364
At 31 December	**633,567**	**577,186**	**589,238**	**538,949**
Loan impairment expense				
Net collective provision funding	15,034	40,926	11,526	38,386
Net new and increased individually assessed provisioning	51,039	22,255	45,751	14,467
Total new and increased provisioning	**66,073**	**63,181**	**57,277**	**52,853**
Recoveries during the year	(58,936)	(64,563)	(57,508)	(63,067)
Net write back/(write off)	75,243	79,060	71,830	75,325
At 31 December	**82,380**	**77,678**	**71,599**	**65,111**

14. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Carrying value				
Capital Work in Progress	39,295	70,711	32,540	51,065
Premises	646,574	650,409	523,923	532,564
Accumulated depreciation	(108,905)	(90,390)	(96,809)	(81,283)
	537,669	**560,019**	**427,114**	**451,281**
Equipment	366,593	355,667	266,170	265,504
Accumulated depreciation	(250,280)	(247,727)	(187,643)	(193,545)
	116,313	**107,940**	**78,527**	**71,959**
At 31 December	**693,277**	**738,670**	**538,181**	**574,305**
Reconciliation is as follows:				
Capital work in progress				
At 1 January	70,711	157,713	51,065	144,975
Additions	118,851	85,536	108,347	64,049
Transfers	(150,267)	(172,538)	(126,872)	(157,959)
At 31 December	**39,295**	**70,711**	**32,540**	**51,065**
Premises				
At 1 January	560,019	402,466	451,281	362,840
Additions	20,492	192,702	14,355	139,884
Disposals	(12,049)	(1,683)	(12,049)	(1,527)
Revaluation gains/ (losses)	(488)	(5,418)	-	(23,338)
Depreciation expense	(30,305)	(28,048)	(26,473)	(26,578)
At 31 December	**537,669**	**560,019**	**427,114**	**451,281**
Equipment				
At 1 January	107,940	123,319	71,959	61,353
Additions	55,789	24,099	41,258	40,401
Disposals	(1,465)	(1,485)	(1,335)	(962)
Depreciation expense	(45,951)	(37,993)	(33,355)	(28,833)
At 31 December	**116,313**	**107,940**	**78,527**	**71,959**

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	2018	2017	2018	2017
Assets subject to operating lease				
Carrying value				
Aircraft	59,600	74,267	59,600	74,267
Accumulated depreciation	(7,167)	(3,578)	(7,167)	(3,578)
At 31 December	**52,433**	**70,689**	**52,433**	**70,689**
Reconciliation of carrying value of aircraft is set out below:				
Aircraft				
At 1 January	70,689	44,668	70,689	44,668
Depreciation	(4,743)	(6,290)	(4,743)	(6,290)
Disposal of aircraft	(13,513)	-	(13,513)	-
Revaluation net increase	-	32,311	-	32,311
At 31 December	**52,433**	**70,689**	**52,433**	**70,689**
Future minimum lease receipts				
Not later than 1 year	8,253	3,334	8,253	3,334
Later than 1 year and not later than 5 years	11,004	-	11,004	-
At 31 December	**19,257**	**3,334**	**19,257**	**3,334**
The carrying amount of land and buildings and aircraft had they been recognised under the cost model are as follows:				
Land	20,865	18,951	20,312	18,363
Buildings	155,727	187,607	146,989	178,447
Aircraft	11,165	14,962	11,165	14,962
At 31 December	**187,757**	**221,520**	**178,466**	**211,772**

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.

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. INVESTMENT PROPERTIES

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Opening net book value	134,020	117,590	-	-
Additions	13,930	5,006	-	-
Translation movement	(299)	6,652	-	-
Gain on revaluation	6,014	4,772	-	-
At 31 December	**153,665**	**134,020**	**-**	**-**

16. OTHER FINANCIAL ASSETS

Inscribed stock – issued by Central Bank	2,373,104	2,310,279	2,079,723	2,062,341
IFRS 9 transition provisioning	(6,004)	-	(5,850)	-
Financial assets carried at fair value through profit and loss:				
Equity securities	188,343	147,048	-	-
At 31 December	**2,555,443**	**2,457,327**	**2,073,873**	**2,062,341**

17. OTHER ASSETS

Funds in transit and other assets	48,466	107,399	41,863	97,642
Accrued interest income	99,785	82,784	92,532	75,007
Intercompany account	-	-	3,067	10,665
Outstanding premiums	14,954	39,513	-	-
Inventory	12,263	12,749	-	-
Prepayments	25,656	19,664	22,201	17,851
Accounts receivable	4,358	2,252	2,630	977
At 31 December	**205,482**	**264,361**	**162,293**	**202,142**

18. AMOUNTS DUE TO OTHER BANKS

Vostro account balances	29,375	24,479	62,465	55,811
Other borrowings	22,164	135,921	53,554	182,461
At 31 December	**51,539**	**160,400**	**116,019**	**238,272**

19. CUSTOMER DEPOSITS

On demand and short term deposits	13,903,428	13,438,449	13,168,693	12,800,761
Term deposits	4,329,338	4,463,243	3,790,477	4,042,995
At 31 December	**18,232,766**	**17,901,692**	**16,959,170**	**16,843,756**

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

20. SUBORDINATED DEBT SECURITIES

At 31 December, there is K75.525 million of debt securities outstanding, expected to be settled in less than 6 months after the balance sheet date. The notes were issued during 2009, with a maturity date in May 2019, and interest is payable semi-annually at 11% per annum. They are valued at amortised cost. There have been no defaults of interest or other breaches with respect to these debt securities since issue.

21. OTHER LIABILITIES

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2018**	**2017**	**2018**	**2017**
Policy liabilities	39(b)	818,198	749,876	-	-
Items in transit and all other liabilities		431,950	259,582	447,460	271,407
Borrowings		144,300	199,294	144,300	199,294
Creditors and accruals		202,789	150,525	175,221	125,932
Premiums received in advance		5,895	6,327	-	-
Outstanding claims		18,429	15,060	-	-
Claims incurred but not reported (IBNR)		2,431	2,224	-	-
At 31 December		**1,623,992**	**1,382,888**	**766,981**	**596,633**

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 2017. During 2018, the Bank paid K94.121 million and an additional loan of K33.557 million was received. Foreign currency loss of K5.571 million was recognised arising from translation, offset by appreciation of the counter party loan.

22. OTHER PROVISIONS

Staff related	89,674	88,071	76,543	75,233
Provision for non-lending loss	65,217	64,310	65,215	64,260
Provisions – other	39,212	36,932	36,041	33,761
	194,103	**189,313**	**177,799**	**173,254**
Staff related provisions:				
At 1 January	88,071	76,684	75,233	65,206
Provisions charge	74,525	62,476	69,787	58,438
Payouts	(72,922)	(51,089)	(68,477)	(48,411)
At 31 December	**89,674**	**88,071**	**76,543**	**75,233**

23. ORDINARY SHARES

Number of shares in '000s, Book value in K'000	Number of shares	Book value
At 31 December 2016/1 January 2017	**467,325**	**373,101**
Share buyback	(13)	(100)
At 31 December 2017 / 1 January 2018	**467,312**	**373,001**
Share buyback	(66)	(637)
At 31 December 2018	**467,246**	**372,364**

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 2018, a total of K9.1m has been bought back under this scheme.

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Earnings per ordinary share				
Net Profit attributable to shareholders (K'000)	844,072	757,003	787,446	720,953
Weighted average number of ordinary shares in use ('000)	467,279	467,323	467,279	467,323
Basic and diluted earnings per share (expressed in toea)	**180.6**	**162.0**	**168.5**	**154.3**

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 (2018: 36 toea; 2017:32 toea)	169,341	149,541	168,210	149,541
Final ordinary dividend (2017:91 toea; 2016:79 toea)	428,023	372,317	425,204	369,414
	597,364	**521,858**	**593,414**	**518,955**

24. RETAINED EARNINGS AND OTHER RESERVES

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Retained earnings				
At 1 January	1,904,462	1,670,595	1,777,627	1,576,974
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 2018	**1,894,559**	**1,670,595**	**1,767,406**	**1,576,974**
Net profit for the year	844,072	757,003	787,446	720,953
Dividends paid	(597,364)	(521,858)	(593,414)	(518,955)
Disposal of assets – Asset revaluation	18,116	407	18,116	407
Recognition of deferred tax	-	3,739	-	3,739
BSP Life policy reserve	(3,416)	(5,491)	(3,416)	(5,491)
Loss in minority interest	906	67	-	-
At 31 December	**2,156,873**	**1,904,462**	**1,976,138**	**1,777,627**
Other reserves comprise				
Revaluation reserve	149,837	161,373	137,716	150,389
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	40,912	37,496	40,912	37,496
Exchange reserve	126,358	125,306	73,121	71,854
	339,320	**346,388**	**252,384**	**260,374**
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	161,373	134,892	150,389	130,470
Asset revaluation increment	1,632	38,064	8	30,314
Transfer assets revaluation reserve to retained earnings	(18,116)	(1,418)	(18,116)	(1,418)
Deferred tax on disposal of properties	4,948	426	5,435	426
Deferred tax on asset revaluation – current year	-	(10,591)	-	(9,403)
At 31 December	**149,837**	**161,373**	**137,716**	**150,389**
Capital reserve				
At 1 January	635	635	635	635
At 31 December	**635**	**635**	**635**	**635**
General reserve				
At 1 January	37,496	32,005	37,496	32,005
BSP Life policy reserve	3,416	5,491	3,416	5,491
At 31 December	**40,912**	**37,496**	**40,912**	**37,496**

24. RETAINED EARNINGS AND OTHER RESERVES (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Exchange reserve				
At 1 January	125,306	76,980	71,854	46,265
Movement during the year	1,052	48,326	1,267	25,589
At 31 December	**126,358**	**125,306**	**73,121**	**71,854**

Equity component of convertible notes

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

The notes mandatorily converted to Fiji Class Shares on 20 April 2013 based on a conversion ratio of 1:1. Key rights of Fiji Class Shareholders are as follows:

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

25. CONTINGENT LIABILITIES AND COMMITMENTS

Off-balance sheet financial instruments				
Letters of credit	135,219	116,608	133,560	114,920
Guarantees and indemnities issued	473,748	307,711	433,978	303,703
Commitments to extend credit	1,626,879	1,686,164	1,497,722	1,546,206
At 31 December	**2,235,846**	**2,110,483**	**2,065,260**	**1,964,829**

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2018. Based on information available at 31 December 2018, the Group estimates a contingent liability of K21.1 million (2017: K18.6 million) in respect of these proceedings.

Commitments for capital expenditure				
Amounts with firm commitments not reflected in the accounts	21,017	32,714	19,702	26,665
Operating lease commitments - (premises)				
Not later than 1 year	38,848	32,434	36,341	29,333
Later than 1 year and not later than 5 years	56,210	70,974	52,491	67,333
Later than 5 years	22,312	20,418	20,226	19,591
At 31 December	**117,370**	**123,826**	**109,058**	**116,257**

26. FIDUCIARY ACTIVITIES

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

27. DIRECTORS AND EXECUTIVE REMUNERATION

Directors remuneration
Directors of the company received remuneration including benefits during 2018 as detailed below:

All amounts in Kina					**Total remuneration**	
Name of Director	Meetings attended /total held	Appointed/ (Resigned)	2018 Bank	2018 Subsidiaries	2018 Total	2017 Total
Sir K. Constantinou, OBE	8/8	-	561,304	750,000	1,311,304	358,533
Dr. I. Temu	-	(25/08/17)	-	-	-	102,680
R. Fleming, CSM	8/8	-	-	-	-	-
G. Aopi, CBE	-	(13/09/17)	-	-	-	110,486
G. Robb, OAM	8/8	-	343,152	270,000	613,152	400,366
F. Talao	8/8	-	318,152	60,000	378,152	199,508
E. B Gangloff	7/8	-	343,152	60,000	403,152	175,366
A. Mano	5/8	-	280,652	210,000	490,652	122,881
A. Sam	8/8	-	330,652	-	330,652	161,488
Dr. F Lua'iufi	8/8	-	305,652	-	305,652	126,387
S. Davis	8/8	-	330,652	-	330,652	115,107
R. Bradshaw	8/8	-	305,652	-	305,652	36,627
			3,119,020	**1,350,000**	**4,469,020**	**1,909,429**
Shareholder Approved Cap					**4,500,000**	**2,500,000**

The 2018 remuneration includes 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. Non-payment in previous years was due to management oversight. Including these retrospective payments, shareholder approved cap has not been exceeded in any year.

* 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.

27. 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	2018	2017	Remuneration	2018	2017	Remuneration	2018	2017
K'000	No.	No.	K'000	No.	No.	K'000	No.	No.
100 – 110	72	58	500 – 510	2	-	960 - 970	1	1
110 – 120	53	41	510 – 520	-	2	970 – 980	1	-
120 – 130	41	24	520 – 530	-	2	1000 – 1010	1	1
130 – 140	22	35	530 – 540	1	-	1010 – 1020	2	1
140 – 150	30	22	540 – 550	1	1	1020 - 1030	2	-
150 – 160	21	14	550 – 560	-	1	1040 – 1050	1	-
160 – 170	21	20	560 – 570	2	-	1050 – 1060	1	1
170 – 180	14	11	570 – 580	2	-	1060 – 1070	3	1
180 – 190	20	15	580 – 590	2	-	1070 – 1080	1	-
190 – 200	10	14	590 – 600	3	-	1090 – 1100	1	-
200 – 210	10	5	610 – 620	2	-	1100 – 1110	-	2
210 – 220	11	9	620 – 630	2	1	1110 – 1120	1	-
220 – 230	11	5	630 – 640	1	-	1120 – 1130	1	1
230 – 240	9	9	650 – 660	-	1	1130 – 1140	1	1
240 – 250	6	3	660 – 670	1	4	1150 – 1160	1	-
250 – 260	2	2	670 – 680	1	2	1180 – 1190	1	1
260 – 270	1	5	680 – 690	-	1	1290 – 1300	1	1
270 – 280	2	-	690 – 700	1	-	1380 – 1390	-	1
280 – 290	4	2	700 – 710	-	1	1400 – 1410	1	1
290 – 300	2	3	710 – 720	-	1	1430 – 1440	1	-
300 – 310	2	9	720 – 730	2	2	1460 - 1470	-	1
310 – 320	1	6	740 – 750	-	1	1470 - 1480	2	-
320 – 330	3	1	750 – 760	-	2	1680 - 1690	1	1
330 – 340	3	3	760 – 770	-	2	1760 - 1770	1	-
340 – 350	2	5	780 – 790	2	1	1770 - 1780	1	-
350 – 360	7	9	790 – 800	1	1	1880 - 1890	1	-
360 – 370	-	4	810 – 820	1	-	2050 - 2060	-	1
370 – 380	4	2	820 – 830	1	2	2220 - 2230	-	1
380 – 390	3	4	830 – 840	-	1	2580 - 2590	1	-
390 – 400	4	5	840 – 850	1	-	4670 - 4680	-	1
400 – 410	1	2	850 – 860	-	2	5960 - 5970	1	-
410 – 420	7	2	860 - 870	2	-			
420 – 430	3	3	870 - 880	-	3			
430 – 440	4	1	880 – 890	-	1			
440 – 450	1	-	890 - 900	1	-			
450 - 460	4	-	900 – 910	1	-			
460 - 470	2	5	910 – 920	2	-			
470 – 480	4	4	920 - 930	1	2			
480 – 490	2	-	930– 940	-	1			
490 – 500	1	-	950 - 960	1	-			
						Total	**487**	**418**

27. DIRECTORS AND EXECUTIVE REMUNERATION (continued)

The specified executives during the year were:

Robin Fleming, CSM	Robert Loggia	Paul Thornton	Hari Rabura	Nuni Kulu	Peter Beswick
Rohan George	Christophe Michaud	Aho Baliki, OBE	Mike Hallinan	Edward Ruha	Daniel Faunt

Specified executives' remuneration in aggregate (K'000)

Year	Salary	Primary bonus	Non - monetary	Super	Post-employment prescribed benefits	Long term incentive	Other benefits	Total
2018	14,321	3,266	592	173	-	3,636	529	22,517
2017	14,163	3,802	426	33	1,955	-	401	20,780

28. RECONCILIATION OF OPERATING CASH FLOW

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	844,072	757,003	787,446	720,953
Add: Tax Expense	352,096	311,521	329,093	293,302
Operating profit before income tax	**1,196,168**	**1,068,524**	**1,116,539**	**1,014,255**
Major non-cash amounts				
Depreciation	81,000	72,331	64,572	61,701
Amortisation of deferred acquisition and computer development costs	27,399	27,427	22,546	26,359
Net loss on sale of fixed assets	1,879	-	1,879	-
Movement in forex income accrual	1,053	(436)	1,267	(436)
Impairment on loans and advances	56,380	53,525	50,289	50,708
Movement in payroll provisions	1,603	11,387	1,310	10,027
Impairment of subsidiary	-	-	803	6,749
Impairment of fixed assets	13,888	6,682	13,888	6,682
Net effect of other accruals	135,731	125,940	100,343	83,726
Operating cash flow before changes in operating assets & liabilties	**1,515,101**	**1,365,380**	**1,373,436**	**1,259,771**

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)	1,253,449	1,205,196	966,707	985,803
Amounts due from other banks (note 12)	854,019	949,214	796,180	887,337
Amounts due to other banks (note 18)	(51,539)	(160,400)	(116,019)	(238,272)
	2,055,929	**1,994,010**	**1,646,868**	**1,634,868**

29. 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 PNG, Banking Services in other jurisdictions outside PNG, 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 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	(632,446)	(236,598)	(18,624)	511	(887,157)
Impairment expenses	(56,130)	(22,227)	(4,023)	-	(82,380)
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**
Year ended 31 December 2017					
Net interest income	1,053,079	200,692	22,302	1,603	1,277,676
Other income	499,794	204,295	11,391	(34,636)	680,844
Net insurance income	-	-	41,266	(1,436)	39,830
Total operating income	**1,552,873**	**404,987**	**74,959**	**(34,469)**	**1,998,350**
Operating expenses	(626,860)	(212,647)	(20,937)	8,296	(852,148)
Impairment expenses	(44,633)	(24,732)	(8,313)	-	(77,678)
Profit before income tax	**881,380**	**167,608**	**45,709**	**(26,173)**	**1,068,524**
Income tax	(257,967)	(42,360)	(11,194)	-	(311,521)
Net profit after income tax	**623,413**	**125,248**	**34,515**	**(26,173)**	**757,003**

30. 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 2018, 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	**2018**	**2017**
Customer deposits		
Opening balances	17,731	65,503
Net movement	13,194	(47,772)
Closing balance	**30,925**	**17,731**
Interest paid	24	18
Loans, advances and other receivables from customers		
Opening balances	631,650	673,674
Loans issued[1]	458,213	84,939
Interest	44,390	27,901
Charges	3,376	3,752
Loan repayments	(238,178)	(158,616)
Closing balance	**899,451**	**631,650**

[1]Includes 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 2018, staff account balances were as follows:

All amounts are expressed in K'000	**2018**	**2017**
Housing loans	169,858	155,698
Other loans	43,826	51,819
At 31 December	**213,684**	**207,517**
Cheque accounts	7,533	6,097
Savings accounts	13,532	15,583
At 31 December	**21,065**	**21,680**

31. BANK OPERATIONS, RISKS AND STRATEGIES IN USING FINANCIAL INSTRUMENTS

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the 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 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.

32. 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 2018, 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.

The Group's capital adequacy level is as follows:

	Balance sheet/notional amount		Risk weighted amount	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Balance sheet assets (net of provisions)				
Currency	2,938,993	2,803,574	19,502	-
Loans, advances and other receivables from customers	12,530,649	11,209,493	9,813,150	8,333,566
Investments and short term securities	5,050,143	5,755,953	188,343	147,048
All other assets	2,530,275	2,600,841	1,444,738	1,611,670
Off-balance sheet items	2,235,846	2,110,483	322,716	303,195
Total	**25,285,906**	**24,480,344**	**11,788,449**	**10,395,479**

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2018	**2017**	**2018**	**2017**
a) Tier 1 capital	2,338,587	2,212,167	19.8%	21.3%
Tier 1 + Tier 2 capital	2,694,901	2,549,443	22.9%	24.5%
b) Leverage Capital Ratio			10.3%	10.0%

33. CREDIT RISK AND ASSET QUALITY

33.1 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.

33.1.1 Credit Risk Measurement

a) 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.

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

33.1.2 Expected Credit Loss Management

IFRS 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 33.1.2.1 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 33.1.2.2 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 33.1.2.3 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 33.1.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

33. 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:

33.1.2.1 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 2018.

33.1.2.2 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.

33.1.2.3 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 product type. Refer to note 33.1.2.4 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:

33. CREDIT RISK AND ASSET QUALITY (continued)

- GDP Growth (%)
- Change in Unemployment (%)
- Change in S&P 500 (%)
- 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 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Economic Variable	Scenario	2018	2019	2020	2021	2022
GDP Growth (%)	Base	3.10%	3.00%	2.90%	2.90%	2.90%
	Upside	3.90%	3.90%	3.80%	3.70%	3.70%
	Downside	2.60%	2.50%	2.40%	2.40%	2.40%
Change in Unemployment (% total lab force) (%)	Base	0.0%	0.0%	-0.1%	0.0%	0.0%
	Upside	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
	Downside	5.0%	5.0%	5.0%	5.0%	5.0%
Change in S&P 500 Index (%)	Base	3.12%				
	Upside	3.43%				
	Downside	2.81%				
Change in Energy Index (%)	Base	1.39%	2.20%	-0.54%	-0.14%	0.00%
	Upside	1.89%	2.70%	-0.04%	0.36%	0.50%
	Downside	0.89%	1.70%	-1.04%	-0.64%	-0.50%
Change in Non-Energy Index (%)	Base	-2.02%	-1.15%	-0.81%	-0.58%	-0.47%
	Upside	-1.52%	-0.65%	-0.31%	-0.08%	0.03%
	Downside	-2.52%	-1.65%	-1.31%	-1.08%	-0.97%
Change in the Proportion of Downgrades (%)	Base	0.90%				
	Upside	-1.00%				
	Downside	10.00%				

The weightings assigned to each economic scenario at 31 December 2018 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.

33. CREDIT RISK AND ASSET QUALITY (continued)

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

	[-20%] K'000	[+10%] K'000
GDP Growth Rate	48,446	(17,586)

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

	[-5%] K'000	[+20%] K'000
Change in proportion of downgrades	(1,451)	4,391

(Upside scenario increased from -1% to -5%, downside scenario increased from 10% to 20%).

	[K'000
Change in Scenario weighting	(30,002)

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

33.1.2.5 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.

33.1.3 Credit Risk Exposure

33.1.3.1 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.

	2018				2017
ECL staging	**Stage 1**	**Stage 2**	**Stage 3**		
(PGK'000)	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**	**Total**
Credit grade					
Standard monitoring	14,286,314	171,250	-	14,457,564	13,183,916
Special monitoring	-	588,756	-	588,756	397,673
Default	-	-	350,285	350,285	260,703
Gross carrying amount	**14,286,314**	**760,006**	**350,285**	**15,396,605**	**13,842,292**
Loss allowance	(256,545)	(197,800)	(179,222)	(633,567)	(577,186)
Carrying amount	**14,029,769**	**562,206**	**171,063**	**14,763,038**	**13,265,105**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 33.1.2 'Expected credit loss measurement'. The gross carrying amount includes off balance sheet items which are in scope for impairment.

33. CREDIT RISK AND ASSET QUALITY (continued)

33.1.3.2 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
Trading assets	PGK'000
Equity Securities	188,343

33.1.3.3 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:

	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	380	289	91	443
• Credit cards	75	25	50	465
• Term loans	9,454	3,657	5,797	13,229
• Mortgages	65,723	25,432	40,291	79,585
Loans to corporate entities:				
• Large corporate customers	183,836	101,974	81,862	84,167
• Small and medium-sized enterprises (SMEs)	90,817	47,845	42,972	123,599
Total credit-impaired assets	**350,285**	**179,222**	**171,063**	**301,488**

33. CREDIT RISK AND ASSET QUALITY (continued)

33.1.4 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;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- 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:

	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	(7,694)	70,388	-	62,694
Transfer from Stage 1 to Stage 3	(537)	-	9,933	9,396
Transfer from Stage 2 to Stage 1	2,372	(9,992)	-	(7,620)
Transfer from Stage 2 to Stage 3	-	(4,832)	9,607	4,775
Transfer from Stage 3 to Stage 1	-	21	(100)	(79)
Transfer from Stage 3 to Stage 2	37	-	(129)	(92)
New financial assets originated or purchased	63,851	29,384	37,579	130,814
Changes in PDs/LGDs/EADs/others	(77,475)	(50,489)	(5,851)	(133,815)
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:

	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	(388,467)	377,888	-	(10,579)
Transfer from Stage 1 to Stage 3	(50,774)	-	48,142	(2,632)
Transfer from Stage 2 to Stage 1	109,061	(98,313)	-	10,748
Transfer from Stage 2 to Stage 3	-	(37,591)	33,305	(4,286)
Transfer from Stage 3 to Stage 1	-	441	(645)	(204)
Transfer from Stage 3 to Stage 2	1,450	-	(1,787)	(337)
New financial assets originated or purchased	3,973,039	163,444	48,513	4,184,996
Changes in PDs/LGDs/EADs/others	(2,318,887)	(267,131)	(37,374)	(2,623,392)
Total movement in gross carrying amount with P&L impact	**1,325,422**	**138,738**	**90,154**	**1,554,314**

33. CREDIT RISK AND ASSET QUALITY (continued)

33.1.5 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.

33.1.6 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 2018 is as follows:

Consolidated (PGK'000)	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
Neither past due nor impaired	725,771	8,444,485	2,233,878	229,298	85,597	11,719,029
Past due but not impaired						
- Less than 30 days	188,425	630,420	110,356	12,339	-	941,540
- 30 to 90 days	9,673	160,904	54,015	7,144	-	231,736
- 91 to 360 days	1,280	17,186	4,266	756	-	23,488
- More than 360 days	2,772	511	662	-	-	3,945
	202,150	**809,021**	**169,299**	**20,239**	**-**	**1,200,709**
Individually impaired loans						
- Less than 30 days	2,236	8,295	1,755	558	20	12,864
- 30 to 90 days	3	38,814	12,990	215	-	52,022
- 91 to 360 days	3,025	23,102	42,947	1,747	-	70,821
- More than 360 days	1,329	45,504	55,867	6,071	-	108,771
	6,593	**115,715**	**113,559**	**8,591**	**20**	**244,478**
Total gross loans, advances and other receivables from customers	**934,514**	**9,369,221**	**2,516,736**	**258,128**	**85,617**	**13,164,216**
Less impairment provisions	-	-	-	-	-	(633,567)
Net Loans and Advances	**934,514**	**9,369,221**	**2,516,736**	**258,128**	**85,617**	**12,530,649**

33.1.7 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.

33. CREDIT RISK AND ASSET QUALITY (continued)

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

Consolidated				
All amounts are expressed in K'000	**2018**	**%**	**2017**	**%**
Commerce, finance and other business	6,824,314	54	5,910,485	53
Private households	2,569,986	21	2,421,546	22
Government and public authorities	356,166	3	374,109	3
Agriculture	277,228	2	249,295	2
Transport and communication	1,393,929	11	1,149,570	10
Manufacturing	231,717	2	226,427	2
Construction	877,309	7	878,061	8
Net loan portfolio balance	**12,530,649**	**100**	**11,209,493**	**100**

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

Corporate / Commercial	7,206,355	58	5,885,419	53
Government	2,661,688	21	2,728,957	24
Retail	2,662,606	21	2,595,117	23
Net loan portfolio balance	**12,530,649**	**100**	**11,209,493**	**100**

34. LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Board, through the Asset and Liability Committee, sets liquidity policy to ensure that the 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 2018
The maturity profile of material Assets and Liabilities as at 31 December 2018 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 complies with this daily requirement on an ongoing basis.

34. LIQUIDITY RISK (continued)

Maturity of assets and liabilities

Consolidated *All amounts are expressed in K'000* **As at 31 December 2018**	**Up to 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with Central Bank	2,938,993	-	-	-	-	2,938,993
Treasury and Central Bank bills	498,713	638,336	1,393,413	31,186	-	2,561,648
Amounts due from other banks	844,023	-	8,518	1,478	-	854,019
Loans, advances and other receivables from customers	2,360,949	516,769	3,088,318	4,451,618	5,360,176	15,777,830
Other financial assets	1,738,856	181,435	710,989	1,652,833	716,782	5,000,895
Total assets	**8,381,534**	**1,336,540**	**5,201,238**	**6,137,115**	**6,076,958**	**27,133,385**
Liabilities						
Amounts due to other banks	(30,193)	81,732	-	-	-	51,539
Customer Deposits	13,328,791	931,491	2,073,361	274,900	1,846,645	18,455,188
Other liabilities	1,576,831	-	-	-	122,686	1,699,517
Other provisions	194,103	-	-	-	-	194,103
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**
As at 31 December 2017						
Total assets	7,498,193	1,625,831	5,625,578	6,333,927	5,032,518	26,116,047
Total liabilities	14,218,853	1,287,110	2,247,610	477,601	1,672,447	19,903,621
Net liquidity gap	**(6,720,660)**	**338,721**	**3,377,968**	**5,856,326**	**3,360,071**	**6,212,426**

35. 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 organization.

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

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

36. FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings caused by a change in foreign exchange rates on open currency positions. The objective of foreign exchange risk management within the 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 2018**	**PGK**	**FJD**	**SBD**	**USD**	**Other**	**Total**
Assets						
Cash and balances with Central Bank	1,725,376	463,522	336,239	4,902	408,954	**2,938,993**
Treasury & Central Bank bills	2,256,890	29,441	197,659	-	10,710	**2,494,700**
Amounts due from other banks	137,665	95,411	123,792	145,900	351,251	**854,019**
Loans, advances and other receivables from customers	7,360,263	2,990,790	503,043	463,146	1,213,407	**12,530,649**
Other financial assets	2,075,712	443,881	-	-	35,850	**2,555,443**
Other assets	997,942	522,597	52,804	575	102,338	**1,676,256**
Total assets	**14,553,848**	**4,545,642**	**1,213,537**	**614,523**	**2,122,510**	**23,050,060**
Liabilities						
Amounts due to other banks	(32,540)	(18,218)	(781)	-	-	**(51,539)**
Customer Deposits	(12,207,879)	(2,938,510)	(914,361)	(384,912)	(1,787,104)	**(18,232,766)**
Other liabilities	(599,248)	(1,055,312)	(25,372)	(149,248)	(64,440)	**(1,893,620)**
Total liabilities	**(12,839,667)**	**(4,012,040)**	**(940,514)**	**(534,160)**	**(1,851,544)**	**(20,177,925)**
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**
As at 31 December 2017						
Total Assets	14,374,723	4,144,079	1,115,219	590,584	2,145,256	**22,369,861**
Total Liabilities	(12,431,015)	(3,760,162)	(886,515)	(714,752)	(1,949,082)	**(19,741,526)**
Net on - balance sheet position	**1,943,708**	**383,917**	**228,704**	**(124,168)**	**196,174**	**2,628,335**
Off - balance sheet net notional position	**(299)**	**-**	**-**	**(46,380)**	**30,583**	**(16,096)**
Credit commitments	**1,032,450**	**373,703**	**9,355**	**-**	**52,072**	**1,467,580**

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 2018**		**At 31 December 2017**	
	Impact on profit or loss	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
USD strengthening by 1% (2017 – 1%)	613	613	1,146	1,146
USD dollar weakening by 1% (2017 – 1%)	(601)	(601)	(1,123)	(1,123)
AUD strengthening by 1% (2017 – 1%)	(37)	(37)	(39)	(39)
AUD dollar weakening by 1% (2017 – 1%)	36	36	38	38

37. INTEREST RATE RISK

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the 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 2018 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 K61.8 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 2018	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	-	-	-	-	-	1,253,449
Treasury and Central Bank bills	501,889	617,953	1,344,620	30,238	-	-
Amounts due from other banks	451,160	-	8,517	1,478	-	392,864
Statutory deposits - Central Bank	-	-	-	-	-	1,685,544
Loans, advances and other receivables from customers	10,754,608	192,658	806,643	557,100	219,640	-
Other financial assets	435,077	51,591	536,149	1,265,005	443,200	-
Other assets	-	-	-	-	-	1,500,677
Total assets	**12,142,734**	**862,202**	**2,695,929**	**1,853,821**	**662,840**	**4,832,534**
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	1,593,992
Other provisions	5,637	-	-	-	-	188,466
Total liabilities	**8,081,881**	**942,509**	**1,761,696**	**156,585**	**105,529**	**9,129,725**
Interest sensitivity gap	**4,060,853**	**(80,307)**	**934,233**	**1,697,236**	**557,311**	**(4,297,191)**

As at 31 December 2017	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	-	-	-	-	-	1,205,196
Treasury and Central Bank Bills	502,496	848,977	1,911,632	35,521	-	-
Amounts due from other banks	483,195	5,305	9,712	-	-	451,002
Statutory deposits - Central Bank	-	-	-	-	-	1,598,378
Loans, advances and other receivables from customers	9,618,884	177,977	783,207	498,884	130,541	-
Other financial assets	115,710	163,685	509,298	1,346,239	476,530	-
Other assets	-	-	-	-	-	1,497,492
Total assets	**10,720,285**	**1,195,944**	**3,213,849**	**1,880,644**	**607,071**	**4,752,068**
Liabilities						
Amounts due to other banks	93,829	18,806	-	-	-	47,765
Customer deposits	7,928,614	1,196,875	2,148,215	153,629	65	6,474,294
Other liabilities	-	-	199,294	75,525	-	1,183,594
Other Provisions	-	-	-	-	-	221,021
Total liabilities	**8,022,443**	**1,215,681**	**2,347,509**	**229,154**	**65**	**7,926,674**
Interest sensitivity gap	**2,697,842**	**(19,737)**	**866,340**	**1,651,490**	**607,006**	**(3,174,606)**

38. 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 2018**	**Level 1**	**Level 2**	**Level 3**	**Total**
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	**-**	**656,500**	**55,129**	**711,629**
Financial liabilities				
Policy liabilities	-	-	818,198	818,198
Total liabilities	-	-	818,198	818,198
At 31 December 2017				
Financial assets				
Equity securities	-	144,911	2,137	147,048
Non - financial assets				
Land & buildings	-	560,019	-	560,019
Assets subject to operating lease	-	-	70,689	70,689
Total	**-**	**704,930**	**72,826**	**777,756**
Financial liabilities				
Policy liabilities	-	-	749,876	749,876
Total liabilities	-	-	749,876	749,876

Financial asset at fair value through profit & loss	**2018**	**2017**
Opening balance	72,825	46,491
Total gains and losses recognized in:		
- Profit & loss	(18,255)	(5,977)
- Other comprehensive income	-	32,311
Closing balance	**54,570**	**72,825**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2018. 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.

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

Forward exchange contracts outstanding at 31 December 2018 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 2018		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Other**	**Total**
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
As at 31 December 2017		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Other**	**Total**
Selling	FCY	(21,155)	(572)	-	(270)	(540,715)	(3,319)	-
	Kina	(10,189)	-	-	-	-	-	(10,189)
Buying	FCY	6,801	9,850	-	-	56,000	10,207	-
	Kina	9,890	-	-	-	-	-	9,890

39. INSURANCE

(a) Net insurance operating income

	Consolidated		Bank	
All amounts are expressed in K'000	**2018**	**2017**	**2018**	**2017**
Net insurance income	38,913	39,830	-	-

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

(b) Policy liabilities

Key assumptions used in determining this liability are as follows:

Discount rates
For contracts in Statutory Fund 1 which have a Discretionary Participating Feature (DPF), the discount rate used is linked to the assets which back those contracts. For 31st December 2018 this was 6.005% per annum (31st December 2017: 5.916% 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 2018 (31st December 2017: 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 2017: 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 2017: 70%) of the FJ90-94 Male table for participating business in Statutory Fund.

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.

39. INSURANCE (continued)

	2018	2017
Whole of Life and Endowment Insurance	14%	14%
Term Insurance	16%	16%
Accident Insurance	17%	17%

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	2018	2017
Policy Liabilities		
Opening balance	749,876	640,043
Translation movement	(3,227)	38,525
Increase in policy liabilities	71,616	64,813
Increase in policy liabilities on revaluation of land	(67)	6,495
Total policy liabilities	**818,198**	**749,876**

40. EVENTS OCCURRING AFTER BALANCE SHEET DATE

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

41. REMUNERATION OF AUDITOR

	Consolidated		Bank	
All amounts are expressed in K'000	2018	2017	2018	2017
Financial statement audits	3,326	2,871	2,363	2,137
Other services	1,031	1,350	818	1,130
	4,357	**4,221**	**3,181**	**3,267**

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 2018, 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 that 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 2018 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 2018, 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 report.

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, non-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.

PricewaterhouseCoopers, PWC Haus, Level 6, Harbour City, Konedobu, Port Moresby
PO Box 484, Port Moresby, Papua New Guinea
T: +675 321 1500, 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 K60.2 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 and the local audit team in Fiji and Vanuatu. • 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 1M of the financial statements for a description of the accounting policies and to Note 33 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. In addition, the Bank and its subsidiaries, are required under IAS 8 Accounting policies, Accounting Estimates and Errors (IAS 8) to disclose the impact of IFRS 9 financial instruments (IFRS 9) adoption for accounting periods from 1 January 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. The key areas of judgement included: • The interpretation of requirements to determine impairment under application of IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables of K633.567m (refer to Note 13 and Note 33) • 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 (eg unemployment rates, GDP, energy index, non-energy index) • 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 calculated by 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 files 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 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 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 macroeconomic scenario and staging criteria. • For model adjustments, we considered the basis for and data used to determine the adjustments. This included making our own 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 policy 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 processing and recording of significant volumes of transactions. In considering the complexity of the Group's processes and the design of the internal control environment, there are some areas of the audit where we seek to place reliance on automated controls, calculations or reports. The effective operation of these areas is dependent on the Group's IT General Control (ITGC) environment. For example: • change management internal controls are important because they help ensure that changes to applications and data are authorised and made appropriately; • IT operations are important as they help ensure errors in processing are resolved in a timely manner; and • user access controls are important to help ensure staff have appropriate access to IT systems and that access is monitored.	For significant financial statement balances we gained an understanding of the business processes, key controls and IT systems used to generate and support those balances. Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key controls which support the continued integrity of the in-scope IT systems. This involved considering, and where appropriate, testing the following ITGC domains:: • governance controls used to monitor and enforce internal control consciousness throughout the Group's technology team; • program change management controls used to test and authorise changes to the functionality of systems; • IT operations controls that help ensure errors in processing are resolved; and • user access security controls that help make sure that access to IT systems are adequately restricted to appropriate personnel, periodically reviewed and promptly removed when access is no longer required. In performing our procedures over in-scope IT systems, where appropriate, we also carried out direct tests of the operation of key programs to establish the accuracy of calculations, the reliability of reports, and to assess the operation of automated controls and technology-dependent manual controls across the financial year. We also performed additional compensating control tests and/or substantive audit procedures over key financial balances where required to support our audit.

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 it 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 financial statements 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 any of its subsidiaries, 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 2018:

- 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

Jonathan Seeto
Partner

Registered under the Accountants Act 1996
Port Moresby
28 February 2019

SHAREHOLDER INFORMATION

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 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 POMSoX 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 POMSoX 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 POMSoX Listing Rules, ordinary shares are freely transferable.

The shares may be transferred by a proper transfer effected in accordance with the POMSoX Business Rules, by any other method of transferring or dealing with shares introduced by POMSoX 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 POMSoX 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 POMSoX Business Rules) where permitted to do so under the POMSoX 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 POMSoX 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 POMSoX Listing Rules or by the POMSoX Business Rules.

Partly paid shares

The Directors may, subject to compliance with BSP's constitution, the Companies Act and the POMSoX 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 POMSoX 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.

Share buy backs

Subject to the provisions of the Companies Act and the POMSoX 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.

At the 31 December 2018, the twenty largest registered fully paid shareholders of the Company were:

		Share Held	%
1	Kumul Consolidated Holdings	84,311,597	18.04%
2	Nambawan Super Ltd	57,592,261	12.33%
3	Petroleum Resources Kutubu Ltd	46,153,840	9.88%
4	National Superannuation Fund Ltd	45,318,417	9.70%
5	Credit Corporation (PNG) Ltd	33,294,081	7.13%
6	Motor Vehicles Insurance Ltd	31,243,736	6.69%
7	PNG Sustainable Development Program Ltd	29,202,767	6.25%
8	Fiji National Provident Fund Board	23,787,366	5.09%
9	Teachers Savings & Loan Society Ltd	15,317,366	3.28%
10	Comrade Trustee Services Ltd	12,456,052	2.67%
11	IFC Capitalization (Equity) Fund LP	11,398,322	2.44%
12	International Finance Corporation	11,398,322	2.44%
13	Lamin Trust Fund	3,518,132	0.75%
14	Capital Nominees Ltd	3,137,166	0.67%
15	Credit Corporation (PNG) Ltd	3,000,000	0.64%
16	Mineral Resources Ok Tedi No 2 Ltd	2,890,000	0.62%
17	Solomon Islands National Provident Fund Board	2,500,001	0.54%
18	Nominees Niugini Ltd	2,369,495	0.51%
19	Catholic Diocese Of Kundiawa	2,217,798	0.47%
20	Southern Highlands Holdings Ltd	2,000,000	0.43%
	Other shareholders	44,138,923	9.45%
		467,245,642	**100%**

Distribution of Shareholding

At the 31 December 2018, the Company had 5,636 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1 to 1,000	4,677	1,200,505
1,001 to 5,000	588	1,195,377
5,001 to 10,000	96	701,391
10,001 to 100,000	179	6,752,184
100, 001 and above	96	457,396,185
	5,636	**467,245,642**

Unmarketable Parcels:

As at 31 December 2018, the BSP Share Price was K10.26. There were 764 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

Bank of South Pacific Ltd
PO Box 78,
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

Port Moresby Stock Exchange Ltd (POMSOX)
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

Website

www.bsp.com.pg

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

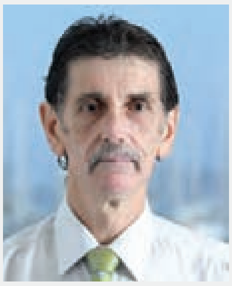
Name	Nature of Interest	
Sir K. Constantinou, OBE	Director	Bank of South Pacific Ltd, BSP Capital Ltd, BSP Finance Ltd, Bank South Pacific (Tonga) Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Heritage Park 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/Trustee	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
	Member	Australian Institute of Company Directors, Avondale Golf Club Ltd
Robert 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	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


BSP

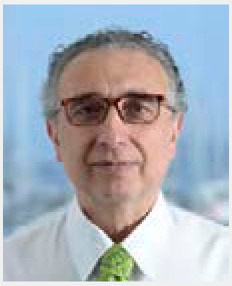
MANAGEMENT TEAMS & DIRECTORIES

SENIOR MANAGEMENT



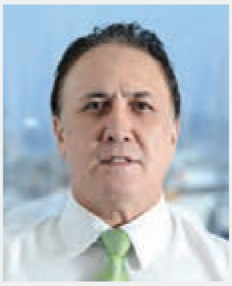
Robin Fleming, CSM
Group Chief Executive Officer

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 member of the Australia Institute of Company Directors.

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.

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.

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.

Aho Baliki, OBE
General Manager Paramount Banking

Aho Baliki is a career Banker having joined the Commonwealth Banking Corporation on 11th February 1974. Since joining the bank, he has progressed through the banking hierarchy to the position of Chief Executive Officer of the PNG Banking Corporation (PNGBC) in 1999. He was further appointed as General Manager Human Resources in 2000 when PNGBC merged with Bank of South Pacific Ltd (BSP). Mr Baliki currently holds the position of General Manager Paramount Banking since his appointment in 2002.

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.

Daniel Faunt
General Manager Offshore Branches

Mr Faunt 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. Mr 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.

WE ARE BSP
WE ARE PACIFIC

Leading Bank of the South Pacific, providing **Global Banking Solutions** locally.

PAPUA NEW GUINEA
FIJI
SOLOMON ISLANDS
COOK ISLANDS
SAMOA
TONGA
VANUATU
CAMBODIA

PAPUA NEW GUINEA
Lorengau
MANUS
NEW IRELAND
Vanimo
Kavieng
Aitape
Lihir
WEST SEPIK
Wewak
EAST NEW BRITAIN
Rabaul
EAST SEPIK
Kokopo
MADANG
Madang
WEST NEW BRITAIN
Bialla
ENGA
Porgera
JIWAKA
Buka
Tabubil
Wabag
WHP
Kimbe
HELA
Mt. Hagen
Tari
Mendi
Kundiawa
Goroka
Kiunga
SHP
EHP
CHIMBU
Kainantu
MOROBE
AUTONOMOUS REGION OF BOUGAINVILLE
Arawa
Moro
Lae
Lae Top Town
Lae Market
Lae Commercial Centre
Bulolo
GULF
WESTERN PROVINCE
NORTHERN
Cambodia
Daru
Popondetta
NATIONAL CAPITAL DISTRICT
MAP KEY
Branch
Port Moresby
Boroko Banking Centre
Gordons Commercial
Waigani Drive
Waigani Banking Centre
Vision City
Habour City
Motukea
CENTRAL
Alotau
MILNE BAY
PHNOM PENH
FIJI
Labasa
Taveuni
Savusavu
Nabowalu
Rakiraki
Lomaloma
Tavua
Lautoka
Ba
Korovou
Ovalau
Nadi
VITI LEVU
SUVA
Suva Central
Dominion House
Pacific House
Centre Point
Sigatoka
Navua
Vunisea
SOLOMON IS.
Taro
Gizo
Noro
Munda
Auki
HONIARA
Honiara Central
Heritage Park
Point Cruz
Ranadi
VANUATU
Espiritu Santo
PORT VILA
Tanna
SAMOA
Salelologa
APIA
Apia
Vaitelei
COOK IS.
SOUTHERN ISLANDS
RAROTONGA
TONGA
Vava'u
NUKU' ALOFA

COOK ISLANDS

Standing (L - R):
Achaal Narayan – Manager Digital
Gabe Raymond – Finance Manager
Tutu Inamata – Business Manager
Henry Napa – Manager of Operations

Seated (L - R):
Grace Tangata – Operational Risk and Compliance Manager
Chris Doran – Head of Business Banking
David Street – Country Manager
Tokoa Harmon – Branch Manager

FIJI

Standing (L-R):
Ravindra Singh - GM Retail Bank
Cecil Browne - GM Corporate & International
Alvina Ali - GM Legal
William Wakeham - Chief Operating Officer
Sunil Rohit - Senior Credit Officer
Rajeshwar Singh - Chief Financial Officer
Omid Saberi - Chief Information Officer

Seated (L - R):
Kevin McCarthy - GM Operations
Haroon Ali - Country Manager
Howard Politini - GM HR

SAMOA

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

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

Standing (L-R)
Alphonse Taoti – Manager Retail Banking Services
Winterford Maehau – Manager Information System
Dennis Suia – Manager Retail Banking Operations
Joan Ramo – Manager International Operations
Sharneet Singh – Financial Controller
Giddings Giqo – Manager Operations & International Business

Sitting(L-R)
Lynette Taoti – Manager Credit Administration
David Anderson – Country Manager
Christopher Robertson – Head of Relationship Banking
Freda Fa'aitoa – Manager Human Resources

TONGA

Standing (L - R):
Emilio Tapueluelu - Operations Manager
Emele Hia - Senior Relationship Manager
Salesi Fineanganofo - Business Manager

Seated (L - R):
Melaia Tu'ipulotu - Acting Bank Manager- Large
Daniel Henson - Country Manager
Mele'ana Fifita - Manager Channels
Viliami Vailea - Finance Manager

VANUATU

Standing (L - R):
Peter Dinsmore - Mgr Finance
Carol Veremaito - Business Mgr
Nik Regenvanu - Country Manager
Moana Korikalo - Head of Retail and Marketing
Teresa Jordan - Manager Operations
Charles Sileye - Head of Business Banking

BSP CAPITAL LTD

Standing (L - R):
Willie Konga – Senior Manager (Funds Management)
Gheno Minia – General Manager
Salaniet Mathew – Manager (Settlements & Nominees)
Theresa Kalivakoyo- Business Controller

BSP FINANCE - GROUP

Standing (L - R):
Pochon Lili - Financial Controller
Sharon Andoiye - Manager Operational Risk & Compliance
Bernadette Name'a - Business Analyst
Anna Puri - Credit Manager
Christophe Michaud - General Manager (not in photo)

BSP FINANCE - PAPUA NEW GUINEA

Standing (L - R):
Natasha Lagani - Manager Operations & Finance
Brett Tayler - Country Manager
Imelda Samba - Head of Lending Sales
Roger Kauk - Team Leader Operations

BSP FINANCE - FIJI

Standing (L - R):
Sudeshwar Ram (Area Manager – East),
Vimal Raj (Senior Lending Officer – SME/Hire Purchase), Sanjeet Narsey (Finance Manager)
Shainesh Vikash Lal (Area Manager – West)

Seated (L-R):
Shelvina Sharon Lata (Accountant),
Krishna Raju (General Manager)
Animul Sheryn Khan (Supervisor Lending Support

BSP FINANCE - CAMBODIA

Centre:
Etienne Kettenmeye (Country Manager), with Management and staff of BSP Finance Cambodia

BSP LIFE - PNG

Standing (L - R):
Joel Fareapo Koivi (Mr)- Group Policy Administrator
Jennifer Manimua (Miss)- Administration Accountant
Nilson Singh (Mr)- Acting Country Manager
Mathew Hasu (Mr)- Business Development Manager

BSP LIFE - FIJI

Standing (L - R):
Munendra Naidu - Chief Financial Officer
Atelina Muavono - Chief Operations Officer
Michael Nacola - General Manager Distribution & Marketing
Pramesh Sharma - General Manager Investments
Malakai Naiyaga - Managing Director

OVERSEAS DIRECTORY

Cambodia

Country Manager	Etienne Kettenmeye	855 (0) 2388 52064

Cook Islands

Country Manager	David Street	682 22014
Head of Business Banking	Chris Doran	682 22014
Rarotonga Branch	Tokoa Harmon	682 22014
Aitutaki	Rosa Henry	682 22014

Fiji

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

Samoa

Country Manager	Maryanne Lameko - Vaai	685 66115
Retail Head	Shirley Greed	685 66170
Savaii Branch	Leilani Kelemete	685 51208
Vaitele Branch	Amelia Iakopo	685 23005

Solomon Islands

Country Manager	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	Fred Osifelo	677 21874
Ranadi Branch	Tricia Tura	677 39403

Tonga

Country Manager	Daniel Henson	676 20807
Nuku'alofa Branch	Melaia Tu'ipulotu	676 20879
Vava'u Branch	Sosefina Tangitau	676 71268
Ha'apai Sub Branch	Mo'unga Akoteu	676 60933
'Eua Sub Branch	Tokilupe Toe'api	676 50145

Vanuatu

Country Manager	Nik Regenvanu	678 5580001
Head of Retail & Marketing	Moana Korikalo	678 5580009
Santo	Edwige Wensi	678 5580034
Port Vila	Danica Rapouel	678 5580016
Tanna Branch	Dolores Charlie	678 5580041

PAPUA NEW GUINEA BRANCH MANAGERS

Cliff Yoka
Aitape

Rose Paula Seeto
Arawa

Martin Gilo
Alotau

Ruby Patu
Boroko

Dora Raphael
Bialla

Nelson Kerua
BSP First HC

Julie Warren
Buka

Roslyne P. Kanini
Bulolo

Antonia Dru
Gordons

Reuben Attai
Daru

Livikonimo Koki
Goroka

Donna Gavu
Habour City

Marco Hamen
Kainantu

Mathias Manawo
Kavieng

Betty Posangat
Kimbe

Ivy David
Kiunga

Joe Makinta
Kokopo

Rita Singut
Kundiawa

Bevilon Homuo
Lae Top Town

Robinson Panako
Lae Commercial

Josephine Komuru
Lae Market

Johnson Tetaga
Lihir

Ruth Kagl
Lorengau

Barry Namongo
Madang

Philip Solala
Mendi

Meck Kaum
Moro

David Ila
Moro

Theresa Pilamp
Mt Hagen

Susie Yapen
Motukea

Diana Guria
Port Moresby

Eileen Goviro
Popondetta

Mary Koi
Porgera

Kalat Tiriman
Rabaul

Dianne Rali
Tabubil

Samuel Okti
Tari

Delilah Kanit
Vanimo

Rawalo Rawalo
Vision City

Rova Olemau
BSP First Gordons

Thomas Tembil
Wabag

Alex Kuna
Waigani B/Centre

Madeleine Leka
Waigani Drive

Gabriel Ak
Wewak

Tony Waningu
SME - Port Moresby

Richard La'a
SME - Lae

Reuben Elizah
Highlands Area
Manager

Dennis Lamus
Momase Area
Manager

Natasha Sirimai
NCD Area Manager

Jeffrey Singer
NGI Area Manager

Billy Veveloga
Southern Area
Manager

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		
Branch	Julie Warren	973 9042
Premium	Julie Warren	973 9042
Bulolo	Roselyn p. Kanini	474 5331
Daru	Ruben Attai	645 9416
Goroka	Livikonimo Koki	532 1633
Gordons		
BSP First	Rova Olemau	302 5245
Premium	Antonia Dru	302 5202
Harbour City		
Branch	Donna Gavu	305 6110
Premium	Merai Nureo	3056105
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	Jennifer Tiolam	982 9068
Kundiawa	Rita Singut	535 1025
Lae		
Top Town	Bevilon Homuo	473 9876
Main Market	Josephine Komoru	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	Ruth Makel	422 2621
Mendi	Philip Solala	549 1070
Moro	Meck Kaum	276 1566
	David Ila	276 1569
Motukea	Susie Yapen	3217699
Mt Hagen		
Branch	Theresa Pilamp	542 1877
Premium	Beverly Elizah	542 1877
Popondetta	Eileen Goviro	629 7443
Porgera	Mary Koi	547 6900
Port Moresby		
Branch	Diana Guria	305 7104
Premium	Bau Kiso	305 6189
BSP First	Jessie Toran	305 7724
Rabaul	Kalat Tiriman	982 1744
Tabubil	Dianne Rali	649 9179
Tari	Samuel Okti	276 1651
Vanimo	Delilah Kanit	457 1025
SME		
Port Moresby	Tony Waningu	305 6400
Lae	Richard La'a	479 5676
Goroka	Samuel Mulina	532 1006
Vision City		
Branch	Rawalo Rawalo	305 7135
Premium	Damaris Toran	300 9103
Wabag	Thomas Tembil	547 1237
Waigani Banking Centre		
Branch	Alex Kuna	305 6102
Premium	Lorraine Siaoa	300 9645
Waigani Drive	Madeleine Leka	302 5301
Wewak	Gabriel Ak	456 2344
REGIONAL AREA MANAGERS		
Highlands Region	Reuben Elijah	542 2002
Momase Region	Dennis Lamus	478 4998
NGI Region	Jeffrey Singer	982 9285
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	Melchior Tania	7106 3610
CHUAVE	Koiya Kupa	7197 6001
DAULO	Merolyn Sirifave	7100 6763
GEMBOGL	William Koima	7313 4177
GUSAP	Lee Sinemaue	7091 1396
HENGANOFI	Emos James	7100 7859
HIGATURU	Stephanie Orovo	7275 1365
HOSKINS	Ruddy Samson	7031 2627
IALIBU	Philemon Kumi	7041 1624
KABWUM	Inna Buneng	7346 1426
KAMTAI	Robert Kom	7243 4695
KEREMA	Aisi Aua	7100 2889
KEREVAT	Kilala Kindau	7190 8231
KEROWAGI	Leah Taia	7100 9077
KINIM	Malapun Bannick	7100 7861
KIKORI	Leah Kimave	7163 0597
KOMO	Mark Tom	7362 0760
KONOS	Clarinda Tangabe	7197 6006
KUPIANO	Andrew Baine Jnr	7288 4140
LABA	Heni Nao	7197 6008
LAKURUMAU	Lorraine Koma	7197 6005
LOUSIA	Lorna Solomon	7031 2617
MAPRIK	Christian Tatu	7168 7815
MINJ	Kui Tai	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	Karen James	7197 6003
TAMBUL	Joseph Paul	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

SPONSORSHIPS AND DONATIONS

BSP School Kriket Program Launch 2018, Wardstrip Primary School.

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. In 2018, BSP Corporate Social Responsibility (CSR) contribution was over K8 million including sponsorships and donations as a group.

Quick Facts | Sponsorships and Donations in PNG

Corporate Social Responsibility

K6.5
Million, total CSR

Donations

K2.7
Million in Donations

Sponsorships

K2.7
Million in Sponsorships

At BSP we respect, value and support the communities in which we operate in. Some of the organisations and activities we supported in 2018 in PNG included:

CHARITY AND NGO

- Buk Bilong Pikinini
- Burnett Institute
- Kokoda Track Foundation
- Operation Open Heart Program
- St. John Ambulance

SPORT AND CULTURE

- Brand Ambassadors
- Cricket PNG
- Game Fishing Club
- Milne Bay Tourism Bureau
- Morobe Agriculture Show
- Morobe Golf Open
- National Mask & Warwagira Festival
- PNG Darts Federation
- PNG Golf Open and Junior Pro-Am
- PNG Olympic Committee PM's Golf Challenge
- PNG Snooker and Billiards Nationals
- PNG Swimming Inc.
- Rabaul Frangipani Festival
- Ramu Agri- Golf Tournament
- Sepik River Crocodile and Arts Festival

CONFERENCES AND EVENTS

- A15th PNG Mining & Petroleum Conference
- 2018 National Planning Consultative Summit
- ABAC Secretariate of PNG - CEO's Summit
- Business & Professional Women Port Moresby
- Business Advantage PNG Investment Conference
- Business Advantage PNG Investment Conference
- Business Council of PNG - Speakers Investment Summit
- CPA PNG Annual Conferences
- Hausples Real Estate Show
- Institute of Internal Auditors Conference
- Law and Order Summit
- PNG Digital Commerce Assocaition
- PNG Human Resource Institute
- PNG Tourism Industry Association
- PNG Trade and Investment Summit
- UPNG EMBA Pinnacle Program

Our contributions to the Community across the Pacific.

Through our respected and valuable partnerships, we are able to reach more communities, more children, enhancing the lives of many, and contributing positively to the community.


Emergency relief - Samoa


GO Green - PNG


Scholarship awards - Samoa


Pinktober Donation - Tonga


Tourism Industry Support - PNG


Va'a Challenge - Tonga

Scholarship Grant - Vanuatu


BSP Fiji donates to Sigatoa Community

Cook Island Basketball Team

Supporting Worthy Causes

General Manager - Digital Banking, Nuni Kulu presenting the cheque to Operation Open Heart Program Coordinator, Kathy Johnston (second left)

Core Value of Community

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 in.

Installation of Solar Lights and Renovation for Kwikila Secondary School
Project by Finance & Planning, Retail SBU and BSP First

Community Projects delivered through Branches in Papua New Guinea

- **Aitape/ Wewak**
  Relief Assistance to the people of Kadovar & Biem
- **Alotau**
  James Chalmers Memorial High School - Installation of solar lights
- **Arawa**
  Koromira Technical High School - Installation of solar lights
- **Bialla**
  Bialla Secondary School - Installation of solar lights
- **Boroko**
  Konepoti Primary School - Installation of solar lights
- **BSP Haus**
  Redscar High Schoo l- Installation of solar lights
- **Buka**
  Burunotui Secondary School - Installation of solar lights
- **Bulolo**
  Buang High School - Installation of solar lights
- **Daru**
  Daru Secondary School - Installation of solar lights
- **Gordons**
  Kupiano Secondary School - Installation of solar lights
- **Goroka**
  Rintebe Lutheran High School - Installation of solar lights
- **Kainantu**
  Aiyura National High School - Installation of solar lights
- **Kavieng**
  Utu Secondary School - Installation of solar lights
- **Kimbe**
  Cenaka High School - Installation of solar lights
- **Kiunga**
  Aiambak High School - Installation of solar lights
- **Kokopo**
  Utmei Secondary School - Installation of solar lights

Quick Facts | Community Projects in PNG

K8.96 Million since 2009

- **381** Community Projects delivered since 2009

K1.16 Million in 2018

- **45** Project Delivered in 2018

100% Funded by BSP

- In PNG and across the Pacific


Kimbe Branch


Wewak & Aitape Branch


Kundiawa Branch

Community Projects delivered through Branches in Papua New Guinea

Kundiawa
Neragaima High School - Installation of solar lights

Lae Commercial
Gabensis Adventist Primary School - Installation of solar lights

Lae Market
Nawae Lutheran High School - Installation of solar lights

Lae Top Town
Salamaua High School - Installation of solar lights

Lihir
Palie Vocational School - Installation of solar lights

Lorengau
Papitalai Secondary School - Installation of solar lights

Madang
Transgogol High School - Installation of solar lights

Mendi
Mendi General Hospital - Purchase of medical equipment

Moro
Relief assistance for Yalanda Village

Mt Hagen
Kombolopa Secondary School - Installation of solar lights

Port Moresby
New Erima Primary School - Installation of solar lights

Popondetta
Martyrs High School - Installation of solar lights

Porgera
St Joseph Kasap Primary - Installation of solar lights

Rabaul
Boisen Secondary School - Installation of solar lights

Tabubil
Okma & Sisimakam Aid Post - Installation of solar lights

Tari
Distribution of solar generators for Halogali and Pureni Health Centre

Vanimo
Holy Trinity Baro Primary School - Installation of solar lights

Wabag
Pilakambi High School - Installation of solar lights

Waigani BC
Mainohana Secondary School - Installation of solar lights

Waigani Dr
Kupiano Elementary School - Installation of solar lights


Buka Branch


Rabaul Branch


Daru Branch


Lae Corporate & Lae BSP Finance


Port Moresby Branch


Waigani Drive

57 Community Projects in 2018

10 | Strategic Business Units

35 | PNG Branches

12 | Pacific Island Countries


BSP Fiji staff working with contractors to install solar lights
Nailuva District School

12 K187, 600 worth of Communty Projects

A total of 12 completed community projects handed over to communities across the Pacific Island Countries in which BSP operates in.

6 Projects in Fiji
Installation of Solar Lights

Rakiraki Branch
Nailuva District School

Labasa Branch
Seaqaqa Distrct School

Savusavu Branch
Tunuloa Catholic School

Sigatoka Branch
Natutale District School

Microfinance
Yasawa High School

Westfield Branch
Somolevu Catholic School

4 Projects in Solomon Islands

Auki Branch
Donated Water Tank to Schools

Heritage Park Branch
Donated Water Tanks to Schools

Gizo Branch
Supported Tennis Competition

Ranadi, Point Cruz, Honiara Central Branch - Built Rove Bus Stop

1 Project in Tonga

1 Project in Cook Islands

Delivering Financial Literacy

Financial Literacy Training and Banking Education is an important part of our contribution to the community. Whether its teaching people how to manage money or helping them to use the right banking product and service, we have reached some of the most remote communities to deliver Financial Literacy Training.

24,123

Individuals participated in Financial Literacy. 48% are women.

Reaching Customers

More informed citizens

137

We have 137 qualified Financial Literacy Trainers in branches in PNG.

Education and Training

Financial inclusion

126,953

We have delivered financial literacy traning to over 120,000 people since 2014.

FLT Certification

Reaching the rural areas

BANKING EDUCATION AND FINANCIAL LITERACY

Financial Literacy Training in Lae, Morobe Province

BSP trained an additional 143 Financial Literacy Trainers

FINANCIAL LITERACY AND BANKING EDUCATION IN PAPUA NEW GUINEA

Financial Inclusion for all **Fee Free Accounts**

That means that **more BSP customers** in PNG do not have monthly fees and earn a higher interest on their savings. BSP continues to champion Financial Inclusion for all Papua New Guineans.

1 Million Plus **Kundu Account** in **2018**

Over 1 Million Customers in PNG use their BSP KunduCards linked to their Kundu Accounts to make payments. BSP continues to ensure that basic banking services **reach the unbanked**, through our branch, sub branches and Agents.

Reaching More **Customers** in **Papua New Guinea**

In 2018, **218, 600 new Retail customers** joined BSP. A number of these accounts were previously unbanked, but are now customers following Financial Literacy Trainings that were delivered through BSP's Banking Education team. BSP has not increased its fees in the last 5 years, and continue to improve its product offering to suit customer transaction needs.

Local Knowledge, Global Solutions

"BSP has been the market leader in electronic and digital banking for many years, being the first bank to launch electronic cards, commit to an unprecedented rollout of ATM's and EFTPoS terminals to support electronic transactions, develop tablet-based customer acquisition, making mobile phone banking available with its USSD phone banking and its smartphone app and of course internet banking. BSP will continue this ongoing commitment to enhancing and increasing our digital services and new female General Manager – Digital, Nuni Kulu, will have the responsibility for rolling out an even more aggressive digital product strategy in 2019 and beyond."

BSP Group Chief Executive Officer, Robin Fleming, CSM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SAMOA
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