

# Bank of South Pacific Limited and Subsidiaries

## Half-year financial report

For the half-year ended

**30 June 2014**



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## Directors' Report

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The Directors of Bank of South Pacific Limited ("the Bank") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2014.

### Directors and officers

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

Mr K Constantinou, OBE	Mr R Fleming
Mr T E Fox, OBE	Sir N Bogan, KBE
Mr G Aopi, CBE	Ms F Talao
Mr G Robb, OAM	Mr E B Gangloff
Dr I Temu	Mr C C Procter (Resigned 23 May 2014)

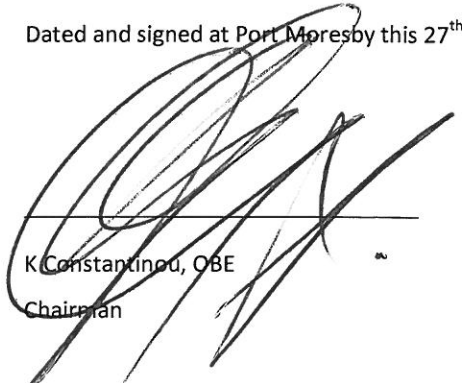
### Principal activities

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

### Review of operations

The net profit of the Group for the half year ended 30 June 2014, after tax and non-controlling interests was K262.464 million (Half year ended 30 June 2013: K204.525 million).

Dated and signed at Port Moresby this 27<sup>th</sup> day of August 2014.



K Constantinou, OBE  
Chairman



R Fleming  
Chief Executive Officer/Managing Director



## ***Independent Auditor's Review Report*** to the Directors of Bank of South Pacific Limited

### ***Report on the half-year condensed financial statements***

We have reviewed the accompanying half-year condensed financial statements of Bank of South Pacific Limited (the Company), which comprise the condensed statements of financial position as at 30 June 2014, and the condensed statements of comprehensive income, statements of changes in equity and statements of cash flows for the half-year then ended, and other explanatory notes for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2014 or from time to time during the half-year.

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

### ***Directors' responsibility for the half-year condensed financial statements***

The Directors of the Company are responsible for the preparation of these financial statements such that they present fairly the matters to which they relate in accordance with generally accepted accounting practice in Papua New Guinea and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year condensed financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the half-year condensed financial statements do not present fairly the matters to which they relate. As the auditor of the Company, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

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

matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year condensed financial statements of the Company, which have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' complying with generally accepted accounting practice in Papua New Guinea, do not present fairly the financial position of the Company and Group as at 30 June 2014 and their financial performance and cash flows for the half-year ended on that date.

**Restriction on distribution or use**

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



PricewaterhouseCoopers



Jonathan Seeto  
Partner  
Registered under the Accountants Act 1996

Port Moresby  
27 August 2014

## STATEMENT BY THE DIRECTORS

### FOR THE HALF YEAR ENDED 30 JUNE 2014

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The directors declare that:

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

Dated and signed in accordance with a resolution of the directors at Port Moresby this 27<sup>th</sup> day of August 2014.

  
K Constantinou, OBE  
Chairman

  
R Fleming  
Chief Executive Officer/Managing Director



**CONDENSED CONSOLIDATED STATEMENT OF PROFIT & LOSS AND  
OTHER COMPREHENSIVE INCOME**  
FOR THE HALF YEAR ENDED 30 JUNE 2014

	Note	Group		Bank	
		Half Year Ended		Half Year Ended	
		30 June		30 June	
<i>All amounts are expressed in K'000</i>		2014	2013	2014	2013
Interest income	2(a)	437,864	382,955	437,863	382,955
Interest expense	2(a)	(29,904)	(26,339)	(29,904)	(25,923)
<b>Net interest income</b>		<b>407,960</b>	<b>356,616</b>	<b>407,959</b>	<b>357,032</b>
Fee and commission income	2(b)	152,144	130,947	152,144	130,947
Other income	2(c)	265,020	228,184	232,055	158,516
<b>Net banking operating income</b>		<b>825,124</b>	<b>715,747</b>	<b>792,158</b>	<b>646,495</b>
Net insurance premium income		47,110	35,902	-	-
Increase in policy liabilities		(6,625)	(6,101)	-	-
Claims, surrender and maturities		(36,494)	(25,418)	-	-
<b>Net insurance operating income</b>		<b>3,991</b>	<b>4,383</b>	<b>-</b>	<b>-</b>
<b>Total net operating income before impairment and operating expenses</b>		<b>829,115</b>	<b>720,130</b>	<b>792,158</b>	<b>646,495</b>
Loan impairment expense	2(d)	(33,003)	(48,533)	(33,003)	(48,533)
Other operating expenses	2(e)	(426,780)	(390,443)	(373,276)	(318,950)
<b>Operating profit before tax</b>		<b>369,332</b>	<b>281,154</b>	<b>385,879</b>	<b>279,012</b>
Income tax expense		(106,868)	(76,629)	(107,159)	(76,440)
<b>Profit for the period</b>		<b>262,464</b>	<b>204,525</b>	<b>278,720</b>	<b>202,572</b>
<b>Other comprehensive income</b>					
Exchange difference - translation of foreign operations/subsidiaries		(17,620)	(5)	(17,620)	(5)
Recognition of deferred tax on asset revaluation		(23,051)	-	(23,051)	-
Net value gain on revaluation of share options		-	900	-	900
<b>Other comprehensive income, net of tax</b>		<b>(40,671)</b>	<b>895</b>	<b>(40,671)</b>	<b>895</b>
<b>Total comprehensive income for the period</b>		<b>221,793</b>	<b>205,420</b>	<b>238,049</b>	<b>203,467</b>
<b>Earnings per share (toea per share)</b>					
Earnings per share – Basic and diluted (toea per share)		56.0	43.7		

*See accompanying Notes to the condensed consolidated financial statements*

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2014

<i>All amounts are expressed in K'000</i>	Note	Group		Bank	
		Half Year	Year Ended	Half Year	Year Ended
		Ended	31 December	Ended	31 December
		30 June 2014	2013	30 June 2014	2013
<b>ASSETS</b>					
Cash and balances with Central Bank		2,344,554	2,030,800	2,299,445	1,992,970
Treasury & Central Bank bills		2,507,084	3,283,432	2,507,084	3,283,432
Amounts due from other banks		996,868	1,116,139	996,868	1,116,139
Loans and advances to customers	4	5,966,818	5,306,362	5,906,978	5,244,188
Other financial assets		2,377,237	2,170,798	2,181,039	1,924,536
Other assets		399,264	437,313	329,200	381,737
Investment properties		64,258	65,429	-	-
Property, plant and equipment		670,568	623,360	638,100	589,623
Assets subject to operating lease		57,644	61,505	57,644	61,505
Investment in associates & joint ventures		112,940	116,821	41,556	43,690
Investment in subsidiaries		-	-	96,929	96,929
Intangible asset		105,682	133,399	105,582	133,198
Deferred tax assets		136,717	134,372	129,388	127,151
<b>Total assets</b>		<b>15,739,634</b>	<b>15,479,730</b>	<b>15,289,813</b>	<b>14,995,098</b>
<b>LIABILITIES</b>					
Amounts due to other banks		359,075	456,975	379,357	456,975
Amounts due to customers		12,562,771	12,200,999	12,692,917	12,296,226
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		874,524	936,369	335,874	435,124
Provision for income tax		54,847	33,395	54,680	33,222
Deferred tax liabilities		69,938	47,370	61,335	38,698
Other provisions		117,577	110,037	113,240	105,016
<b>Total liabilities</b>		<b>14,114,257</b>	<b>13,860,670</b>	<b>13,712,928</b>	<b>13,440,786</b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2014

	Note	Group		Bank	
		Half Year Ended	Year Ended	Half Year Ended	Year Ended
		30 June	31 December	30 June	31 December
<i>All amounts are expressed in K'000</i>		2014	2013	2014	2013
<b>SHAREHOLDERS EQUITY</b>					
Ordinary shares		381,498	381,498	381,498	381,498
Retained earnings		1,067,783	1,035,290	1,040,117	991,368
Other reserves		176,096	202,272	155,270	181,446
<b>Total shareholders' equity</b>		<b>1,625,377</b>	<b>1,619,060</b>	<b>1,576,885</b>	<b>1,554,312</b>
<b>Total equity and liabilities</b>		<b>15,739,634</b>	<b>15,479,730</b>	<b>15,289,813</b>	<b>14,995,098</b>

*See accompanying Notes to the condensed consolidated financial statements*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2014

	Notes	Share capital	Reserves	Retained earnings	Total
<i>All amounts are expressed in K'000</i>					
<b>GROUP</b>					
<b>Balance at 1 January 2014</b>		<b>381,498</b>	<b>202,272</b>	<b>1,035,290</b>	<b>1,619,060</b>
Profit for the period		-	-	262,464	262,464
Other comprehensive income		-	(40,671)	-	(40,671)
Dividend paid		-	-	(215,476)	(215,476)
BSP Life Policy reserve		-	24,054	(24,054)	-
Disposal of property – asset revaluation		-	(9,559)	9,559	-
<b>Balance at 30 June 2014</b>		<b>381,498</b>	<b>176,096</b>	<b>1,067,783</b>	<b>1,625,377</b>
<b>GROUP</b>					
<b>Balance at 1 January 2013</b>		<b>384,814</b>	<b>210,931</b>	<b>870,148</b>	<b>1,465,893</b>
Profit for the period		-	-	204,525	204,525
Other comprehensive income		-	895	-	895
Dividend paid		-	-	(170,199)	(170,199)
Share buy-back		(3,316)	-	-	(3,316)
<b>Balance at 30 June 2013</b>		<b>381,498</b>	<b>211,826</b>	<b>904,474</b>	<b>1,497,798</b>
<b>BANK</b>					
<b>Balance at 1 January 2014</b>		<b>381,498</b>	<b>181,446</b>	<b>991,368</b>	<b>1,554,312</b>
Profit for the period		-	-	278,720	278,720
Other comprehensive income		-	(40,671)	-	(40,671)
Dividend paid		-	-	(215,476)	(215,476)
BSP Life Policy reserve		-	24,054	(24,054)	-
Disposal of property –Asset revaluation		-	(9,559)	9,559	-
<b>Balance at 30 June 2014</b>		<b>381,498</b>	<b>155,270</b>	<b>1,040,117</b>	<b>1,576,885</b>
<b>BANK</b>					
<b>Balance at 1 January 2013</b>		<b>384,814</b>	<b>260,625</b>	<b>838,292</b>	<b>1,483,731</b>
Profit for the period		-	-	202,572	202,572
Other comprehensive income		-	895	-	895
Dividend paid		-	-	(170,199)	(170,199)
Share buy-back		(3,316)	-	-	(3,316)
<b>Balance at 30 June 2013</b>		<b>381,498</b>	<b>261,520</b>	<b>870,665</b>	<b>1,513,683</b>

See accompanying Notes to the condensed consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE HALF-YEAR ENDED 30 JUNE 2014

<i>All amounts are expressed in K'000</i>	Notes	Group		Bank	
		Half Year Ended 30 June		Half Year Ended 30 June	
		2014	2013	2014	2013
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Interest received		433,781	372,861	433,913	372,861
Fees and other income		447,679	349,888	361,937	289,379
Interest paid		(31,122)	(24,746)	(31,277)	(24,058)
Amounts paid to suppliers and employees		(395,127)	(288,851)	(317,330)	(244,625)
<b>Operating cash flow before changes in operating assets</b>		<b>455,211</b>	<b>409,152</b>	<b>447,243</b>	<b>393,557</b>
Increase in loans		(635,293)	(478,537)	(637,585)	(480,138)
Increase in other assets		(82,556)	(127,739)	(82,557)	(127,739)
Increase in deposits		400,671	1,070,675	396,690	1,080,179
Increase in other liabilities		12,547	201,160	12,547	201,160
<b>Net cash flow from operations before income tax</b>		<b>150,580</b>	<b>1,074,711</b>	<b>136,338</b>	<b>1,067,019</b>
Income taxes paid		(74,181)	(56,254)	(74,094)	(57,460)
<b>Net cash flow from operating activities</b>		<b>76,399</b>	<b>1,018,457</b>	<b>62,244</b>	<b>1,009,559</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Decrease/(Increase) in Government securities		534,265	(482,384)	519,845	(479,869)
Payments for property, plant & equipment		(134,477)	(90,063)	(130,102)	(86,620)
Proceeds from disposal of property, plant & equipment		15,688	18	15,610	33
Proceeds / (Costs) from other investments		18,101	(1,590)	-	-
Movement in share trading activities		(7,153)	(14,503)	-	-
<b>Net cash flow from/(used in) investing activities</b>		<b>426,424</b>	<b>(588,522)</b>	<b>405,353</b>	<b>(566,456)</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

### FOR THE HALF-YEAR ENDED 30 JUNE 2014

<i>All amounts are expressed in K'000</i>	Notes	Group		Bank	
		Half Year Ended 30 June 2014	Half Year Ended 30 June 2013	Half Year Ended 30 June 2014	Half Year Ended 30 June 2013
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Share buy back		-	(3,282)	-	(3,282)
Client Management Trust		5,956	15,085	-	-
Dividends paid		(215,476)	(170,500)	(215,476)	(170,199)
<b>Net cash flow used in financing activities</b>		<b>(209,520)</b>	<b>(158,697)</b>	<b>(215,476)</b>	<b>(173,481)</b>
<b>Net increase in cash and cash equivalents</b>		<b>293,303</b>	<b>271,238</b>	<b>252,121</b>	<b>269,622</b>
Effect of exchange rate movements on cash and cash equivalents		(920)	(2,692)	12,701	(2,692)
Cash and cash equivalent at the beginning of the period		2,689,964	2,061,385	2,652,134	2,001,010
<b>Cash and Cash Equivalents at the end of the year</b>	10	<b>2,982,347</b>	<b>2,329,931</b>	<b>2,916,956</b>	<b>2,267,940</b>

*See accompanying Notes to the condensed consolidated financial statements*

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

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## 1. Statement of significant accounting policies

### Statement of compliance

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

### Basis of preparation

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

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Papua New Guinea Kina (K), unless otherwise noted.

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2013 financial report for the financial year ended 31 December 2013. These accounting policies are consistent with International Financial Reporting Standards (IFRS).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

### 2. Operating profit before income tax

Operating profit before income tax is determined after including:

#### (a) Net interest income

<i>All amounts expressed are in K'000</i>	Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
	2014	2013	2014	2013
<b>Interest Income</b>				
Domestic loans and advances	303,300	276,391	303,300	276,391
Public securities: Treasury bills/inscribed stock	127,444	102,578	127,444	102,578
Other loans and advances	5,794	2,963	5,794	2,963
Other	1,326	1,023	1,325	1,023
	437,864	382,955	437,863	382,955
<b>Interest Expense</b>				
Current and term deposits	(17,421)	(15,972)	(17,421)	(15,972)
Other borrowings	(4,122)	(3,713)	(4,122)	(3,713)
Deposits from other banks	(8,361)	(6,654)	(8,361)	(6,238)
	(29,904)	(26,339)	(29,904)	(25,923)
	407,960	356,616	407,959	357,032
<b>(b) Fee and commission income</b>				
Fees and commissions	152,144	130,947	152,144	130,947
<b>(c) Other income</b>				
Foreign exchange earnings	184,477	137,737	184,477	137,737
Other	80,543	90,447	47,578	20,779
	265,020	228,184	232,055	158,516
<b>(d) Loan impairment expense</b>				
New write off	(22,483)	(14,781)	(22,483)	(14,781)
Net new and increased individually assessed and collective provisioning	(28,961)	(44,439)	(28,961)	(44,439)
Recoveries during the period	18,441	10,687	18,441	10,687
	(33,003)	(48,533)	(33,003)	(48,533)
<b>(e) Other operating expenses</b>				
Staff	(154,853)	(150,934)	(141,142)	(148,370)
Depreciation	(66,025)	(53,176)	(63,796)	(53,162)
Computing	(23,640)	(17,483)	(23,640)	(17,478)
Premises and equipment expenses	(38,548)	(30,210)	(34,077)	(29,974)
Administration and other expenses	(143,714)	(138,640)	(110,621)	(69,966)
	(426,780)	(390,443)	(373,276)	(318,950)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

### 3. Dividends

On 24 May 2014, the directors declared a final dividend of 46 toea per share for the year ended 31 December 2013. The declared final gross dividend amount was K215.476m (December 2012: 178.001m). Net dividend paid after dividend withholding tax was K205.883 (December 2012:K170.199m).

### 4. Loans and advances to customers

	Group		Bank	
	Half year ended 30 June 2014	Year Ended 31 December 2013	Half year ended 30 June 2014	Year Ended 31 December 2013
<i>All amounts expressed are in K'000</i>				
Gross loans and advances net of reserved interest	6,266,054	5,583,443	6,204,821	5,519,976
Allowances for losses on loans and advances	(299,236)	(277,081)	(297,843)	(275,788)
Net loans and advances to customers	5,966,818	5,306,362	5,906,978	5,244,188
<b>Industry concentration of loans and advances to customers</b>				
Commerce, finance and other business	2,347,379	2,391,072	2,287,539	2,328,898
Private households	830,667	695,782	830,667	695,782
Government and public authorities	725,314	444,670	725,314	444,670
Agriculture	394,363	267,367	394,363	267,367
Transport and communication	545,875	583,853	545,875	583,853
Manufacturing	449,330	394,268	449,330	394,268
Construction	673,890	529,350	673,890	529,350
	5,966,818	5,306,362	5,906,978	5,244,188

### 5. Statutory capital requirements in Fiji

As a requirement of the Reserve Bank of Fiji, the BSP operations are to maintain a minimum capital adequacy reserve of 12%.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

### 6. Capital adequacy and liquid assets ratio

The Bank and Group are required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2014, the Bank and Group's total capital adequacy ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

	Half year ended		Year ended	
	30 June 2014	30 June 2014	31 Dec 2013	31 Dec 2013
<b>Risk weighted capital ratios</b>	K'000	%	K'000	%
Tier 1 Capital	983,020	12.0	1,181,187	14.5
Tier 1 + Tier 2 Capital	1,560,741	19.1	1,533,093	18.8
<b>Leverage capital ratio</b>		6.3		7.8

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

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- The Cash Reserve Requirement, set by the regulatory authority, the Bank of Papua New Guinea, specifies that a Bank must hold an amount equal to 9% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and Group complies with this daily requirement on an ongoing basis.

### 7. Contingent liabilities and commitments

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

### Off-balance-sheet financial instruments

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

	Group		Bank	
	Year		Year	
	Half Year Ended	Ended	Half Year ended	Ended
	30 June	31 December	30 June	31 December
<i>All amounts expressed are in K'000</i>	2014	2013	2014	2013
Standby letters of credit	32,377	47,692	32,377	47,692
Guarantees and indemnities issued	255,308	181,232	246,057	170,124
Forward exchange contracts	190,364	374,934	188,201	374,934
Trade letters of credit	47,897	47,691	29,540	25,619
Commitments to extend credit	836,541	860,453	632,338	695,233
	1,362,487	1,512,002	1,128,513	1,313,602

### Commitments for capital expenditure

Commitments for Capital Expenditure not included in the accounts as at 30 June 2014 amounted to K173.7 million (31 December 2013: K154.3 million).

### Legal proceedings

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 2014. A provision has been made, although existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 30 June 2014, the Bank and Group estimates a contingent liability of K77.3 million in respect of these proceeding (31 December 2013: K77.9 million).

### Statutory deposit

Cash reserve requirement – from 9% of all amounts due to customers in PNG	1,131,719	1,066,580	1,131,719	1,066,580
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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

### Operating lease commitments

	Group		Bank	
	Half Year	Year	Half Year	Year
	Ended	Ended	Ended	Ended
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
<i>All amounts expressed are in K'000</i>				
Not later than 1 year	34,753	40,079	34,753	40,079
Later than 1 year and not later than 5 years	25,434	37,556	25,434	37,556
Later than 5 years	-	-	-	-
	<b>60,187</b>	<b>77,635</b>	<b>60,187</b>	<b>77,635</b>

### 8. Derivative financial instruments

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

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

Forward exchange contracts outstanding, stated at the face value of the respective contracts are:

#### Forward exchange contracts

Buying	(31,516)	(27,309)	(31,516)	(27,309)
Selling	221,880	402,243	219,717	402,243
	<b>190,364</b>	<b>374,934</b>	<b>188,201</b>	<b>374,934</b>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

## 9. Related party

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

- Directors and/or parties in which a director has significant influence.
- Key management personnel and other staff and /or parties in which the individual officer has significant influence.

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, properly rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates.

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

	Group		Bank	
	Half Year Ended 30 June 2014	Half Year Ended 30 June 2013	Half Year Ended 30 June 2014	Half Year Ended 30 June 2013
<i>All amounts expressed are in K'000</i>				
<b>Loans to :</b>				
Parties where the related party interest is primarily in shares	368,098	339,959	368,098	339,959
Parties where the related party interest is primarily in an executive capacity	104,300	61,630	104,300	61,630
General staff	3,645	3,160	3,645	3,160
	<b>476,043</b>	<b>404,749</b>	<b>476,043</b>	<b>404,749</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

## 10. Notes to condensed consolidated statements of cash flows

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

<i>All amounts expressed are in K'000</i>	Group		Bank	
	Half Year Ended		Half Year Ended	
	30 June		30 June	
	2014	2013	2014	2013
Cash and balances with Central Bank	2,344,554	1,693,021	2,299,445	1,650,020
Due from other banks	996,868	786,796	996,868	786,796
Due to other banks	(359,075)	(149,886)	(379,357)	(168,876)
	<u>2,982,347</u>	<u>2,329,931</u>	<u>2,916,956</u>	<u>2,267,940</u>

## 11. Segment information

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

*All amounts expressed are in K'000*

### Half year ended

<b>30 June 2014</b>	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	307,592	400,962	97,224	2,071	5,001	16,265	829,115
Costs	(264,063)	(64,307)	(92,609)	(3,997)	(18,542)	(16,265)	(459,783)
Operating results	43,529	336,655	4,615	(1,926)	(13,541)	-	369,332
Income tax expense							(106,868)
<b>Profit after tax</b>							<u>262,464</u>

*All amounts expressed are in K'000*

### Half year ended

<b>30 June 2013</b>	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	248,815	348,995	72,613	1,618	4,624	43,465	720,130
Costs	(231,299)	(90,372)	(68,691)	(3,398)	(1,751)	(43,465)	(438,976)
Operating results	17,516	258,623	3,922	(1,780)	2,873	-	281,154
Income tax expense							(76,629)
<b>Profit after tax</b>							<u>204,525</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2014

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### 12. Subsequent events

On 27 August 2014, the board approved an interim dividend of 20 toea per share on 2014 half year profits.