BSP Financial Group Limited

ARBN 649 704 656

Financial Statements

31 December 2022

Contents of Financial Statements

APRA Disclaimer:

BSP Financial Group Limited (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 Bank Act 1959.

Directors' Report

for the Year Ended 31 December 2022

The Directors take pleasure in presenting the Financial Statements of the BSP Financial Group Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2022. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

Principal activities

The principal activity of the BSP Financial Group Limited (BSP) is the provision of commercial banking and financial services throughout Papua New Guinea (PNG) and the Asia Pacific region. The Group's activities also include fund management and life insurance business services. BSP is a company listed on the PNG Exchange Markets (PNGX) and the Australian Stock Exchange (ASX), 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 Solomon Islands, Fiji, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Lao. The registered office is at Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Port Moresby.

Review of operations

For the year ended 31 December 2022, the Group's profit after tax was K1,081.069 million (2021: K1,075.218 million). The Bank's profit after tax was K1,045.279 million (2021: K1,036.455 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

Dividends totaling K788.906 million were paid in 2022 (2021: K676.464 million). A detailed breakup of this is provided in Note 28.

Directors and officers

The following were directors of the BSP Financial Group Limited at 31 December 2022:

Sir K Constantinou, OBE	Mr. R Fleming, CSM (retired 31 December 2022)	Mr. S Davis	Ms. P Kevin
Mr. S Brewis-Weston	Mr. F Bouraga	Mr. R Bradshaw	Mr. A Sam
Dr. F Lua'iufi	Mrs. P. Taureka-Seruvatu		

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 36 of the Notes to the Financial Statements. The Group CEO Robin Fleming was the only executive director.

The company secretary is Mary Johns.

Directors' Report

for the Year Ended 31 December 2022

Independent auditor's report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 62. Details of amounts paid to the auditors for audit and other services are shown in Note 38 of the Notes to the Financial Statements.

Donations and sponsorships

Donations and sponsorship by the Group during the year amounted to K5.942 million (2021: K3.995 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 22nd day of February 2023.

Director	**Director**
Sir Kostas G Constantinou, OBE Chairman	Mr. Arthur Sam Board Audit and Compliance Committee Chairman

Statements of Comprehensive Income

for the Year Ended 31 December 2022

All amounts are expressed in K'000	Note	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Interest income	3	1,834,996	1,710,501	1,727,733	1,593,872
Interest expense	3	(89,936)	(107,242)	(78,578)	(90,613)
Net interest income		**1,745,060**	**1,603,259**	**1,649,155**	**1,503,259**
Net fee and commission income	4	419,042	370,468	384,767	338,171
Other income	4	394,686	363,392	408,442	378,786
Net insurance operating income	31	40,224	35,052	-	-
Net operating income before impairment and operating expenses		**2,599,012**	**2,372,171**	**2,442,364**	**2,220,216**
Impairment of financial assets	6	5,359	42,655	15,170	51,138
Operating expenses	5	(989,263)	(888,967)	(912,980)	(813,224)
Additional company tax	7	(190,000)	-	(190,000)	-
Profit before income tax		**1,425,108**	**1,525,859**	**1,354,554**	**1,458,130**
Income tax expense	7	(344,039)	(450,641)	(309,275)	(421,675)
Net profit for the year		**1,081,069**	**1,075,218**	**1,045,279**	**1,036,455**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency	29	(52,381)	(40,680)	(28,345)	(22,425)
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve movement	29	1,581	1,566	1,581	1,566
Fair value gain / (loss) on re-measurement of investment securities	29	(82)	15	(82)	15
Net movement in asset revaluation reserve	29	42	560	-	-
Other comprehensive income, net of tax		**(50,840)**	**(38,539)**	**(26,846)**	**(20,844)**
Total comprehensive income for the year		**1,030,229**	**1,036,679**	**1,018,433**	**1,015,611**
Earnings per share - basic and diluted (toea)	8	**231.4**	**230.1**	**223.7**	**221.8**

Comparative period amounts have been restated to conform to presentation in the current year.

The attached notes form an integral part of these financial statements

Statements of Financial Position

as at 31 December 2022

All amounts are expressed in K'000	Note	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
ASSETS					
Cash and operating balances with Central Banks	10	3,761,665	2,794,915	3,041,888	2,199,137
Amounts due from other banks	11	1,738,643	1,336,726	1,665,756	1,163,152
Treasury and Central Bank bills	12	4,128,340	4,644,903	4,097,350	4,617,566
Cash reserve requirement with Central Banks	13	2,517,159	1,719,870	2,418,532	1,627,849
Other financial assets	14	4,789,153	4,079,423	4,210,845	3,457,639
Loans and receivables from customers	15	14,368,853	13,623,496	13,077,909	12,286,086
Property, plant and equipment		958,036	912,235	745,692	706,406
Aircraft subject to operating lease		28,664	32,671	28,664	32,671
Investment in subsidiaries	32	-	-	399,361	388,798
Deferred tax assets	7	342,611	269,344	336,108	261,795
Other assets	16	1,256,980	1,029,539	573,119	441,810
Total assets		**33,890,104**	**30,443,122**	**30,595,224**	**27,182,909**
LIABILITIES					
Amounts due to other banks	17	261,560	242,310	518,880	328,141
Customer deposits	18	26,919,361	23,943,355	25,194,893	22,350,278
Insurance policy liabilities	31	1,201,038	1,132,176	-	-
Other liabilities	19	1,446,665	1,290,799	1,293,196	1,126,639
Deferred tax liabilities	7	48,427	39,517	-	-
Total liabilities		**29,877,051**	**26,648,157**	**27,006,969**	**23,805,058**
SHAREHOLDERS' EQUITY					
Ordinary shares	28	372,110	372,133	372,110	372,133
Retained earnings	29	3,319,282	3,025,125	2,991,169	2,728,885
Other reserves	29	320,934	396,929	224,976	276,833
Equity attributable to the members of the company		**4,012,326**	**3,794,187**	**3,588,255**	**3,377,851**
Minority interests		727	778	-	-
Total shareholders' equity		**4,013,053**	**3,794,965**	**3,588,255**	**3,377,851**
Total equity and liabilities		**33,890,104**	**30,443,122**	**30,595,224**	**27,182,909**

Comparative period amounts have been restated to conform to presentation in the current year.

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

Director
Sir Kostas G Constantinou, OBE
Chairman

Director
Mr. Arthur Sam
Board Audit and Compliance Committee Chairman

Statements of Changes in Shareholders' Equity

for the Year Ended 31 December 2022

All amounts are expressed in K'000	Note	Share capital	Reserves	Retained earnings	Minority Interests	Total
Bank						
Balance as at 1 January 2021		**372,189**	**300,725**	**2,360,983**	**-**	**3,033,897**
Net profit		-	-	1,036,455	-	1,036,455
Other comprehensive income		-	(20,844)	-	-	(20,844)
Total comprehensive income		-	(20,844)	1,036,455	-	1,015,611
Dividends paid during the year	28	-	-	(672,802)	-	(672,802)
Share buyback	28	(56)	-	-	-	(56)
Total transactions with owners		(56)	-	(672,802)	-	(672,858)
Transfer from asset revaluation reserve	29	-	(7,457)	8,658	-	1,201
BSP Life policy reserve	29	-	4,409	(4,409)	-	-
Balance at 31 December 2021		**372,133**	**276,833**	**2,728,885**	**-**	**3,377,851**
Net profit		-	-	1,045,279	-	1,045,279
Other comprehensive income		-	(26,846)	-	-	(26,846)
Total comprehensive income		-	(26,846)	1,045,279	-	1,018,433
Dividends paid during the year	28	-	-	(784,938)	-	(784,938)
Share buyback	28	(23)	-	-	-	(23)
Total transactions with owners		(23)	-	(784,938)	-	(784,961)
Transfer from asset revaluation reserve	29	-	(5,270)	5,270	-	-
Impact of PNG tax rate change	29	-	(23,068)	-	-	(23,068)
BSP Life policy reserve	29	-	3,327	(3,327)	-	-
Balance at 31 December 2022		**372,110**	**224,976**	**2,991,169**	**-**	**3,588,255**
Group						
Balance as at 1 January 2021		**372,189**	**438,516**	**2,622,249**	**651**	**3,433,605**
Net profit		-	-	1,075,218	-	1,075,218
Other comprehensive income		-	(38,539)	-	-	(38,539)
Total comprehensive income		-	(38,539)	1,075,218	-	1,036,679
Dividends paid during the year	28	-	-	(676,293)	(171)	(676,464)
Share buyback	28	(56)	-	-	-	(56)
Gain attributable to minority interests		-	-	(298)	298	-
Total transactions with owners		(56)	-	(676,591)	127	(676,520)
Transfer from asset revaluation reserve	29	-	(7,457)	8,658	-	1,201
BSP Life policy reserve	29	-	4,409	(4,409)	-	-
Balance at 31 December 2021		**372,133**	**396,929**	**3,025,125**	**778**	**3,794,965**
Net profit			-	1,081,069	-	1,081,069
Other comprehensive income		-	(50,840)	-	-	(50,840)
Total comprehensive income		-	(50,840)	1,081,069	-	1,030,229
Dividends paid during the year	28	-	-	(788,729)	(177)	(788,906)
Share buyback	28	(23)	-	-	-	(23)
Gain attributable to minority interests		-	-	(126)	126	-
Total transactions with owners		(23)	-	(788,855)	(51)	(788,929)
Transfer from asset revaluation reserve	29	-	(5,414)	5,270	-	(144)
Impact of PNG tax rate change	29	-	(23,068)	-	-	(23,068)
BSP Life policy reserve	29	-	3,327	(3,327)	-	-
Balance at 31 December 2022		**372,110**	**320,934**	**3,319,282**	**727**	**4,013,053**

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

Statements of Cash Flows

for the Year Ended 31 December 2022

All amounts are expressed in K'000	Note	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,823,009	1,649,780	1,717,557	1,536,527
Fees and other income		737,974	649,579	792,563	714,698
Interest paid		(78,673)	(78,340)	(61,174)	(67,455)
Insurance premiums		235,092	218,190	-	-
Claims, surrenders and maturity payments		(144,191)	(118,316)	-	-
Additional company tax	7	(190,000)	-	(190,000)	-
Amounts paid to suppliers and employees		(939,286)	(781,764)	(894,619)	(707,787)
Operating cash flow before changes in operating assets and liabilities	9	**1,443,925**	**1,539,129**	**1,364,327**	**1,475,983**
Net increase in:					
Loans and receivables from customers		(852,167)	(63,068)	(852,957)	(153,596)
Cash reserve requirements with the Central Banks		(814,895)	(175,272)	(805,127)	(165,713)
Bills receivable and other assets		(169,622)	(120,182)	(73,007)	(47,326)
Net increase in:					
Customer deposits		3,250,081	2,505,715	3,056,061	2,415,903
Bills payable and other liabilities		256,378	137,983	171,559	23,435
Net cash flow from operations before income tax		**3,113,700**	**3,824,305**	**2,860,856**	**3,548,686**
Income taxes paid	7	(455,500)	(347,021)	(432,995)	(328,294)
Net cash flow from operating activities		**2,658,200**	**3,477,284**	**2,427,861**	**3,220,392**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of government securities		(210,708)	(2,573,665)	(224,827)	(2,531,151)
Expenditure on property, plant and equipment		(120,568)	(156,914)	(103,531)	(147,398)
Expenditure on software development costs		(52,313)	(57,650)	(52,299)	(57,650)
Proceeds from disposal of assets		4,129	6,254	4,127	6,167
Additional funding of subsidiaries	32	-	-	(10,563)	(3,720)
Net cash flow used in investing activities		**(379,460)**	**(2,781,975)**	**(387,093)**	**(2,733,752)**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	28	(23)	(56)	(23)	(56)
Dividends paid	28	(788,906)	(676,464)	(784,938)	(672,802)
Repayment of interest on borrowings		(14,395)	(3,396)	(14,395)	(3,396)
Net cash flow used in financing activities		**(803,324)**	**(679,916)**	**(799,356)**	**(676,254)**
Net increase/(decrease) in cash and cash equivalents		**1,475,416**	**15,393**	**1,241,412**	**(189,614)**
Exchange rate movements on cash and cash equivalents		(125,999)	(84,448)	(86,796)	(57,487)
Cash and cash equivalents at the beginning of the year		3,889,331	3,958,386	3,034,148	3,281,249
Cash and Cash Equivalents at the end of the year	9	**5,238,748**	**3,889,331**	**4,188,764**	**3,034,148**

Comparative period amounts have been restated to conform to presentation in the current year.

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

1. Financial Statements Preparation

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 Financial Statements where required, presents restated comparative information for consistency with the current year's presentation in the Financial Statements. The assets and liabilities are presented in order of liquidity on the Statements of Financial Position.

A. Basis of Presentation and General Accounting Policies

The Financial Statements of the BSP Financial Group Limited 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 2022

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2022.

- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1 January 2022).
  - Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
  - Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.
  - Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9.
- Amendment to IFRS 16,'Leases' – Covid-19 related rent concessions (effective 1 April 2021). On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022.
- IFRIC Agenda Decision - Lessor forgiveness of lease payments (IFRS 9 and IFRS 16). In October 2022, the IASB finalised the IFRIC agenda decision on lessor forgiveness of lease payments. The agenda decision addresses the accounting from the perspective of the lessor, and in particular:
  - how the expected credit loss ('ECL') model in IFRS 9 should be applied to the operating lease receivable when the lessor expects to forgive payments due from the lessee under the lease contract before the rent concession is granted.
  - whether to apply the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 when accounting for the rent concession.

The above changes did not have any material impact on the Group.

1. Financial Statements Preparation *(continued)*

A. Basis of Presentation and General Accounting Policies *(continued)*

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2022 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 2023 or later periods, but the entity has not early adopted them:

- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective 1 January 2023). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction (effective 1 January 2023). These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
- Amendment to IFRS 16 - Leases on sale and leaseback (effective 1 January 2024). These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
- Amendment to IAS 1 - Non current liabilities with covenants (effective 1 January 2024). These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. They also add new disclosure requirements in relation to covenants.
- IFRS 17 'Insurance contracts" (effective 1 January 2023) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. Refer Note 31 for further details.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2022, 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 method of accounting, where:

- consideration transferred is measured at fair value of assets transferred, equity issued and liabilities assumed;
- identifiable net assets are recorded initially at acquisition, at their fair values; and
- 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. 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, unless otherwise stated.

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

1. Financial Statements Preparation *(continued)*

C. Foreign currency *(continued)*

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, are recognised in the foreign currency translation reserve, and recognised in the Statement of Comprehensive Income on disposal of the foreign operation.

D. 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 and judgments are:

- Estimation of current tax liability in the multiple tax jurisdictions - note 7
- Estimated impairment of financial or non-financial assets - note 12, 14, 15 and 22
- Estimated insurance liability - note 31
- Estimation of fair value of financial and non-financial assets and liabilities - note 27

Measurement of expected credit loss allowance for financial assets measured at amortised cost in line with IFRS 9 is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Losses (ECL) is further detailed in note 15, which also sets out key sensitivities in note 22 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 is set out in note 15.

Impact of COVID-19

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus had a significant impact on global economies and financial markets. Since the reopening of borders the economic outlook has improved across sectors, in which the Group operates. These factors were taken into account in estimates and judgements made by the Group.

Financial Performance

2. Segment Reporting

Accounting Policy

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. This reflects the way the Group's businesses are managed, rather than the legal structure of the Group.

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/segments for management purposes are banking services, split into PNG Bank and Offshore Banks and non-banking services which comprise insurance operations, 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, Lao and Cambodia. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

Consolidated

All amounts are expressed in K'000	**PNG Bank**	**Offshore Banks**	**Non-Bank Entities**	**Adjust Inter Segments**	**Total**
Analysis by segments					
Year ended 31 December 2022					
Net interest income	1,432,559	278,906	33,212	383	1,745,060
Other income	622,690	240,044	25,683	(74,689)	813,728
Net insurance income	-	-	40,531	(307)	40,224
Total operating income	**2,055,249**	**518,950**	**99,426**	**(74,613)**	**2,599,012**
Operating expenses	(759,305)	(217,264)	(18,609)	5,915	(989,263)
Impairment expenses	14,816	(5,698)	(3,759)	-	5,359
Additional company tax	(190,000)	-	-	-	(190,000)
Profit before income tax	**1,120,760**	**295,988**	**77,058**	**(68,698)**	**1,425,108**
Income tax	(255,511)	(69,391)	(19,137)	-	(344,039)
Net profit after income tax	**865,249**	**226,597**	**57,921**	**(68,698)**	**1,081,069**
Assets	24,245,059	9,311,075	2,082,330	(1,748,360)	33,890,104
Liabilities	(21,307,155)	(8,110,664)	(1,556,558)	1,097,326	(29,877,051)
Net assets	**2,937,904**	**1,200,411**	**525,772**	**(651,034)**	**4,013,053**
Year ended 31 December 2021					
Net interest income	1,294,979	274,645	32,504	1,131	1,603,259
Other income	580,590	193,146	30,023	(69,899)	733,860
Net insurance income	-	-	36,850	(1,798)	35,052
Total operating income	**1,875,569**	**467,791**	**99,377**	**(70,566)**	**2,372,171**
Operating expenses	(667,224)	(204,553)	(19,973)	2,783	(888,967)
Impairment expenses	42,896	4,649	(4,890)	-	42,655
Profit before income tax	**1,251,241**	**267,887**	**74,514**	**(67,783)**	**1,525,859**
Income tax	(372,548)	(63,629)	(14,464)	-	(450,641)
Net profit after income tax	**878,693**	**204,258**	**60,050**	**(67,783)**	**1,075,218**
Assets	21,196,785	8,844,229	1,991,562	(1,589,454)	30,443,122
Liabilities	(18,432,921)	(7,684,711)	(1,474,118)	943,593	(26,648,157)
Net assets	**2,763,864**	**1,159,518**	**517,444**	**(645,861)**	**3,794,965**

3. Net Interest Income

Accounting Policy

Interest income and expense are recognised in the Statement of Comprehensive Income on an accrual basis using the effective interest rate ("EIR") method. The EIR method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

Interest income includes coupons earned on Government inscribed stock, accrued discounts and premiums on Treasury and Central Bank bills. 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.

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

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Interest income				
Loans and receivables from customers[1]	1,190,929	1,138,287	1,084,078	1,021,435
Other financial assets - inscribed stock	369,239	333,512	367,895	332,679
Treasury bills	241,058	228,303	240,997	227,989
Central Bank bills	5,799	245	5,798	245
Cash and balances with Central Banks	12,552	4,639	16,735	7,320
Other	15,419	5,515	12,230	4,204
	1,834,996	**1,710,501**	**1,727,733**	**1,593,872**
Less: **Interest expense**				
Customer deposits	73,228	97,896	59,219	80,122
Other banks	13,065	4,811	16,029	6,323
Other borrowings	3,643	4,535	3,330	4,168
	89,936	**107,242**	**78,578**	**90,613**
	1,745,060	**1,603,259**	**1,649,155**	**1,503,259**

[1]Group interest income includes K18.611million (Bank K14.487 million) recognised on impaired loans (Stage 3) to customers, 2021: K17.860 million (Bank K15.123 million). The Group takes up required provisions on such interest income as detailed in the accounting policy in note 15.

4. Non-Interest Income

Accounting policy

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the performance obligation is satisfied (i.e. service has been provided). Other non-risk fee income, which includes facility fees, includes certain line fees and fees for providing customer bank accounts. They are recognised over the term of the facility/period of service on a straight-line basis.

All other risk related fees that constitute cost recovery are taken to income when levied. Income which forms an integral part of the effective interest rate of a financial instrument is recognised using the effective interest method and recorded in interest income (for example, loan origination fees).

Foreign exchange income or losses

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

4. Non-Interest Income *(continued)*

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Net fee and commission income				
Product related	188,823	191,487	173,453	175,772
Trade and international related	22,683	20,673	19,924	18,127
Electronic banking related	174,298	127,909	169,171	125,558
Other	33,238	30,399	22,219	18,714
	419,042	**370,468**	**384,767**	**338,171**
Other income				
Foreign exchange related[1]	362,333	325,905	319,773	292,485
Operating lease rentals	5,153	7,255	5,153	7,255
Other	27,200	30,232	83,516	79,046
	394,686	**363,392**	**408,442**	**378,786**

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

5. Operating Expenses

Accounting Policy

Salaries and related on-costs include annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departure, leave utilisation and future salary.

Superannuation expense includes expenses relating to defined contribution plans. Defined contribution expense is recognised in the period the service is provided.

Premises and equipment expenses include depreciation, which is calculated using the straight-line method over the asset's estimated useful life. The right-of-use assets are recognised under IFRS 16. Leases are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation of Property, Plant and Equipment.

Computing expenses are recognised as incurred, unless they qualify for capitalization as computer software due to the expenditure generating probable future economic benefits. If capitalised, computer software is subsequently amortised over its estimated useful life. The Group assesses, at each balance sheet date, useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Other expenses are recognised as the relevant service is rendered. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

5. Operating Expenses *(continued)*

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Administration	128,047	119,292	114,492	107,163
Computing	167,404	138,154	152,744	122,504
Depreciation	77,714	78,818	71,633	72,099
Amortisation of software costs	38,991	30,238	38,734	30,038
Non-executive directors costs	4,334	4,132	3,735	3,507
Non-lending losses	11,791	5,742	11,059	5,236
Fixed asset impairment expenses	1,853	1,042	1,853	1,042
Premises and equipment	104,122	87,156	97,753	80,838
	534,256	**464,574**	**492,003**	**422,427**
Staff costs				
Wages and salaries	368,778	340,854	340,750	313,203
Defined contribution plans	18,484	16,711	16,722	14,986
Statutory benefit contributions	10,169	9,734	9,232	8,752
Other staff benefits	57,576	57,094	54,273	53,856
	455,007	**424,393**	**420,977**	**390,797**
	989,263	**888,967**	**912,980**	**813,224**

6. Impairment of Financial Assets

Accounting Policy

Impairment

Loans and receivables from customers are subject to continuous management review. If there is an expectation that the Group will not be able to collect amounts due under the terms of the loan, a provision is recognised equivalent to lifetime ECL. All bad debts are written off against available specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries and reductions in provisions are credited to the provision for loan losses in the Statement of Comprehensive Income.

General provisions for impairment are maintained to cover expected losses unidentified at balance date in the overall portfolio of Loans and 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.

The Group assesses on a forward-looking basis the 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; 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 15 provides more detail of how the expected credit loss allowance is measured.

Impairment expense/(release) of financial assets by asset class as follows:

	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Loans and receivables from customers (note 15)	(2,667)	(60,391)	(12,514)	(68,792)
Treasury and Central Bank Bills (note 12)	(5,114)	11,888	(5,114)	11,888
Other financial assets (note 14)	2,422	5,848	2,458	5,766
	(5,359)	**(42,655)**	**(15,170)**	**(51,138)**

7. Income Tax

Accounting Policy

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. 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 are 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.

Critical accounting assumptions and estimates

The Group operates in multiple tax jurisdictions and significant judgement is required in determining the current tax liability in the multiple tax jurisdictions. There are transactions with uncertain tax outcomes and provisions are determined based on the expected outcomes.

	Consolidated		**Bank**	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Income tax expense				
Current tax	433,410	415,373	411,729	391,340
Deferred tax	46,914	34,424	35,110	30,832
Current year	480,324	449,797	446,839	422,172
Adjustment to prior year estimates	(754)	844	(2,033)	(497)
Impact of PNG tax rate change[1]	(135,531)	-	(135,531)	-
	344,039	**450,641**	**309,275**	**421,675**
Tax calculated at 30% of Bank profit before tax	406,366	437,439	406,366	437,439
Tax calculated at respective subsidiary tax rates	28,498	29,996	-	-
Expenses not deductible for tax purposes	60,025	2,428	58,502	846
Tax loss not recognized	6,278	1,238	-	-
Income not recognised for tax purposes	(20,843)	(21,304)	(18,029)	(16,113)
Impact of PNG tax rate change[1]	(135,531)	-	(135,531)	-
Adjustment to prior year estimates	(754)	844	(2,033)	(497)
	344,039	**450,641**	**309,275**	**421,675**

7. Income Tax *(continued)*

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Tax (payable)/receivable				
At 1 January	(30,399)	32,887	(30,263)	32,419
Income tax provision	(433,410)	(415,373)	(411,729)	(391,340)
Adjustment to prior year estimates	5,661	4,742	4,893	(288)
Other tax related items	141	324	-	652
Foreign tax paid	20,927	15,239	-	-
Tax payments made	434,573	331,782	432,995	328,294
At 31 December	**(2,507)**	**(30,399)**	**(4,104)**	**(30,263)**

	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Deferred tax balances are represented by the tax effect of the following items:				
Specific allowance for losses on Loans and receivables from customers	63,427	62,662	58,446	59,186
General allowance for losses on Loans and receivables from customers	179,539	130,000	174,847	123,125
Employee related provisions	37,838	28,329	35,986	26,350
Prepaid expenses	(1,048)	(1,725)	(1,439)	(2,141)
Other provisions	29,679	17,203	77,285	51,115
Property, plant and equipment	(51,091)	(36,435)	(42,998)	(23,195)
Unrealised foreign exchange gains	(1,168)	1,617	(1,168)	1,617
Accruals	37,008	28,176	35,149	25,738
At 31 December	**294,184**	**229,827**	**336,108**	**261,795**
Represented by:				
Deferred tax asset	342,611	269,344	336,108	261,795
Deferred tax liability	(48,427)	(39,517)	-	-
At 31 December	**294,184**	**229,827**	**336,108**	**261,795**
Deferred taxes movement:				
At 1 January	229,827	255,108	261,795	284,605
Current year movement	(46,914)	(34,424)	(35,110)	(30,832)
Adjustment to prior year estimates	4,907	(5,586)	2,860	785
Impact of PNG tax rate change[1]	112,463	-	112,463	-
Other movements	(6,099)	14,729	(5,900)	7,237
At 31 December	**294,184**	**229,827**	**336,108**	**261,795**

[1] The Additional CompanyTax applies a flat K190 million on any bank that has over 40% market share of financial assets, which only applies to BSP as it is the only bank whose market share exceeds 40%. The Tax is non-deductible for tax purposes, and has a direct impact on BSP's net profit after Tax. In line with accounting standards, the full amount of the Tax was taken up in the Statement of Comprehensive Income in Quarter 1 2022 as the legislation makes BSP liable for the tax on 1 January 2022.

On 2 December 2022 the Government passed an amendment, which discontinued the Additional Company Tax effective 1 January 2023. Simultaneously, a separate amendment was passed increasing the income tax rate for Commercial Banks from 30% to 45%, effective 1 January 2023. The Group's closing deferred tax assets and liabilities have therefore been remeasured, taking into account the change in income tax rate reflecting the rate of income tax that will apply when these deferred tax balances are realised. As a result, the net deferred tax asset position in BSP has increased by K112.463 million, the asset revaluation reserve reduced by K23.068 million and a tax credit included in the Statement of Comprehensive Income of K135.531 million.

8. Earnings per Ordinary Share

Accounting Policy

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, adjusted for shares which are bought back by BSP.

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Net profit attributable to shareholders (K'000)	1,081,069	1,075,218	1,045,279	1,036,455
Weighted average number of ordinary shares in use (000)	467,223	467,228	467,223	467,228
Basic and diluted earnings per share (expressed in toea)	**231.4**	**230.1**	**223.7**	**221.8**

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. BSP Financial Group Limited has no dilutive potential ordinary shares. Consequently, basic earnings per ordinary share equals diluted earnings per share.

9. Reconciliation of Operating Cash Flow

Reconciliation of net profit after tax to operating cash flow before changes in operating assets and liabilities				
Net profit after tax	1,081,069	1,075,218	1,045,279	1,036,455
Add: Tax expense	344,039	450,641	309,275	421,675
Profit before income tax	**1,425,108**	**1,525,859**	**1,354,554**	**1,458,130**
Major non cash amounts				
Depreciation	77,714	78,818	71,633	72,099
Amortisation of software costs	38,991	30,238	38,734	30,038
Net gain on sale of fixed assets	(3,515)	(1,137)	(2,508)	(996)
Impairment on financial assets	(5,359)	(42,655)	(15,170)	(51,138)
Movement in payroll provisions	(9,888)	27,788	(10,410)	16,438
Impairment of fixed assets	1,853	1,042	1,853	1,042
Net changes in assets and liabilities	(80,979)	(80,824)	(74,359)	(49,630)
Operating cash flow before changes in operating assets and liabilities	**1,443,925**	**1,539,129**	**1,364,327**	**1,475,983**

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)	3,761,665	2,794,915	3,041,888	2,199,137
Amounts due from other banks (note 11)[1]	1,738,643	1,336,726	1,665,756	1,163,152
Amounts due to other banks (note 17)	(261,560)	(242,310)	(518,880)	(328,141)
	5,238,748	**3,889,331**	**4,188,764**	**3,034,148**

[1]*The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks includes deposits of K57.856 million (2021: K57.653 million) held with counter-party banks that are not available for use by the Group.*

Financial Instruments: Financial Assets

Accounting Policy

Recognition

Loans and receivables are recognised on settlement date, when cash is advanced to the borrowers.

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 the Statement of Comprehensive Income 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 through the Statement of Comprehensive Income. 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

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired.

There may be situations where the Group has partially transferred the risks and rewards of ownership and has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, the asset continues to be recognised on the balance sheet to the extent of the Group's continuing involvement in the asset.

Classification and measurement

Financial assets are grouped into the following classes: cash and balances with central banks and financial assets measured at fair value through income statement (FVIS), investment securities, loans, other financial assets and life insurance assets.

Financial assets are classified based on a) the business model within which the assets are managed, and b) whether the contractual cash flows of the instrument represent solely payment of principal and interest (SPPI).

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the Group considers factors including how performance and risks are managed, evaluated

Financial Instruments: Financial Assets *(continued)*

Classification and measurement (continued)

and reported and the frequency and volume of, and reason for, sales in previous periods and expectations of sales in future periods.

When assessing whether contractual cash flows are SPPI, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that they may not meet the SPPI criteria include contingent and leverage features, non-recourse arrangements, and features that could modify the time value of money.

Debt instruments

If the debt instruments have contractual cash flows which represent SPPI on the principal balance outstanding they are classified at:

- amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect these cash flows; or
- fair value through other comprehensive income (FVOCI) if they are held within a business model whose objective is achieved either through collecting these cash flows or selling the financial asset; or
- FVIS if they are held within a business model whose objective is achieved through selling the financial asset.

Debt instruments are measured at FVIS where the contractual cash flows do not represent SPPI on the principal balance outstanding or where it is designated at FVIS to eliminate or reduce an accounting mismatch. Debt instruments at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. They are presented net of provisions for expected credit losses determined using the ECL model.

Debt instruments at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in the Statement of Comprehensive Income. Impairment on debt instruments at FVOCI is determined using the ECL model and is recognised in the Statement of Comprehensive Income with a corresponding amount in other comprehensive income. There is no reduction of the carrying value of the debt security which remains at fair value. The cumulative gain or loss recognised in other comprehensive income is subsequently recognised in the Statement of Comprehensive Income when the instrument is derecognised.

Debt instruments at FVIS are measured at fair value with subsequent changes in fair value recognised in the Statement of Comprehensive Income.

Equity securities

Equity securities are measured at FVOCI where they:

- are not held for trading; and
- an irrevocable election is made by the Group.

Otherwise, they are measured at FVIS.

Equity securities at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income, except for dividend income which is recognised in the Statement of Comprehensive Income.

The cumulative gain or loss recognised in other comprehensive income is not subsequently recognised in the Statement of Comprehensive Income when the instrument is disposed.

Equity securities at FVIS are measured at fair value with subsequent changes in fair value recognised in the Statement of Comprehensive Income.

Financial Instruments: Financial Assets *(continued)*

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.

10. Cash and Operating Balances with Central Banks

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Notes, coins and cash at bank	574,130	494,058	506,326	441,364
Balances with Central Banks other than statutory deposit	3,187,535	2,300,857	2,535,562	1,757,773
At 31 December	**3,761,665**	**2,794,915**	**3,041,888**	**2,199,137**

11. Amounts Due from Other Banks

Items in the course of collection	9,219	11,141	9,219	11,114
Placements with other banks	1,729,424	1,325,585	1,656,537	1,152,038
At 31 December	**1,738,643**	**1,336,726**	**1,665,756**	**1,163,152**

12. Treasury and Central Bank Bills

Treasury and Central Bank bills – face value	4,210,746	4,788,065	4,189,940	4,769,438
Unearned interest	(69,522)	(123,524)	(70,153)	(124,321)
Less allowance for impairment	(22,613)	(27,727)	(22,437)	(27,551)
	4,118,611	4,636,814	4,097,350	4,617,566
Financial assets carried at fair value through profit and loss				
Treasury bills at fair value	9,729	8,089	-	-
At 31 December	**4,128,340**	**4,644,903**	**4,097,350**	**4,617,566**
Allowance for impairment				
At 1 January	27,727	15,839	27,551	15,663
Provision for impairment	(5,114)	11,888	(5,114)	11,888
At 31 December	**22,613**	**27,727**	**22,437**	**27,551**

13. Cash Reserve Requirement with Central Banks

The Bank and the Group comply with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that it 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 Banks. The Bank and Group comply with this requirement on an ongoing basis. CRR applicable for each jurisdiction at balance date were: PNG 10% (2021: 7%), Fiji 10% (2021: 10%), Solomon Islands 5% (2021: 5%), Samoa 4.5% (2021: 4.5%), Tonga 10% (2021: 10%) and Vanuatu 5.25% (2021: 5.25%).

14. Other Financial Assets

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Inscribed stock – issued by Central Bank	4,273,842	3,519,022	4,233,877	3,478,213
Less allowance for impairment	(23,236)	(20,814)	(23,032)	(20,574)
	4,250,606	3,498,208	4,210,845	3,457,639
Financial assets carried at fair value through profit and loss:				
Government inscribed stock	246,719	289,988	-	-
Equity securities	291,828	291,227	-	-
At 31 December	**4,789,153**	**4,079,423**	**4,210,845**	**3,457,639**
Allowance for impairment				
At 1 January	20,814	14,966	20,574	14,808
Provision for impairment	2,422	5,848	2,458	5,766
At 31 December	**23,236**	**20,814**	**23,032**	**20,574**

15. Loans and Receivables from Customers

Accounting Policy

Loans are originated by providing funds directly to the borrower and are recognised when cash is advanced to borrowers. Loans are subsequently measured at amortised cost using the effective interest rate method where they have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved through holding the loans to collect these cash flows. They are presented net of any provisions for ECL.

Overdrafts	977,113	714,180	915,566	651,263
Lease financing	198,969	225,578	161,562	193,699
Term loans	10,928,676	10,474,249	10,220,097	9,742,849
Mortgages	2,786,758	2,823,680	2,364,110	2,365,799
Policy loans	119,452	111,342	-	-
Gross loans and receivables from customers net of unearned interest	**15,010,968**	**14,349,029**	**13,661,335**	**12,953,610**
Less allowance for losses on loans and receivables from customers	(642,115)	(725,533)	(583,426)	(667,524)
At 31 December	**14,368,853**	**13,623,496**	**13,077,909**	**12,286,086**

The spread of the loans is detailed in the maturity analysis table in Note 23. The loans are well-diversified across various sectors and are further analysed in Note 22. Allowance for losses includes K75.227 million (Bank K64.997 million), 2021: K66.522 million (Bank K59.823 million) provision taken up for interest recognised on stage 3 loans.

15. Loans and Receivables from Customers *(continued)*

Accounting Policy *(continued)*

Lease financing

The Bank and the Group 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 leases are included within Loans and receivables from customers and are analysed as follows:

	Consolidated		**Bank**	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Gross investment in finance lease receivable				
Not later than 1 year	34,501	32,597	32,514	31,713
Later than 1 year and not later than 5 years	185,781	216,054	143,911	182,207
	220,282	248,651	176,425	213,920
Unearned future finance income				
Not later than 1 year	(4,441)	(1,771)	(4,340)	(1,720)
Later than 1 year and not later than 5 years	(16,872)	(21,302)	(10,523)	(18,501)
	(21,313)	(23,073)	(14,863)	(20,221)
Present value of minimum lease payments receivable	**198,969**	**225,578**	**161,562**	**193,699**
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	30,060	30,826	28,174	29,993
Later than 1 year and not later than 5 years	168,909	194,752	133,388	163,706
At 31 December	**198,969**	**225,578**	**161,562**	**193,699**

Allowance for Expected Credit Losses

Accounting Policy

Impairment under IFRS 9 applies to all financial assets at amortised cost, lease receivables and credit commitments.

The ECL determined under IFRS 9 is recognised as follows:

- Loans (including lease receivables), debt securities at amortised cost and due from subsidiaries: as a reduction of the carrying value of the financial asset through an offsetting provision account; and
- Credit commitments: as a provision.

Measurement

The Group calculates the provisions for ECL based on a three stage approach. ECL are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The models use three main components to determine the ECL including:

- Probability of default (PD): the probability that a counterparty will default;
- Loss given default (LGD): the loss that is expected to arise in the event of a default; and
- Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

15. Loans and Receivables from Customers *(continued)*

Allowance for Expected Credit Losses *(continued)*

Model stages

The three stages are as follows:

Stage 1: 12 months ECL - performing

For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months ECL is recognised.

Stage 2: Lifetime ECL – performing

For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing, a provision for lifetime ECL is recognised.

Stage 3: Lifetime ECL – non-performing

For financial assets that are non-performing a provision for lifetime ECL is recognised. Indicators include a breach of contract with the Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on a group of loans.

Collective and individual assessment

Expected credit losses are estimated on a collective basis for exposures in Stage 1, Stage 2 and Stage 3 exposures below specified thresholds and on an individual basis for Stage 3 exposures that meet specified thresholds.

Expected life

In considering the time frame for expected credit losses in stages 2 and 3, the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For certain revolving credit facilities which include both a drawn and undrawn component (e.g. credit cards and revolving lines of credit), the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit our exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

Movement between stages

Assets may move in both directions through the stages of the impairment model. Assets previously in stage 2 may move back to stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, assets in stage 3 may move back to stage 1 or stage 2 if they are no longer assessed to be non-performing.

Off-Balance Sheet amounts

Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.

Definition of default

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes. The default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due. Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they meet the definition of default. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the Statement of Comprehensive Income.

15. Loans and Receivables from Customers *(continued)*

Allowance for Expected Credit Losses *(continued)*

Critical accounting assumptions and estimates

Key judgements include when a significant increase in credit risk has occurred and estimation of forward looking macroeconomic information. Other factors which can impact the provision include the borrower's financial situation, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Significant increase in credit risk

Determining when a financial asset has experienced a significant increase in credit risk since origination is a critical accounting judgement which is primarily based on changes in internal customer risk grades since origination of the facility. Judgement is involved in setting the rules to determine whether there has been a significant increase in credit risk since initial recognition of a loan, resulting in the financial asset moving from 'stage 1' to 'stage 2', this increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from stage 2 to stage 1 may similarly result in significant changes in the estimate. The setting of precise trigger points requires judgement. The change in an internal customer risk grade is based on both quantitative and qualitative factors. The change in the internal customer risk grade that the Group uses to represent a significant increase in credit risk is based on a sliding scale. This means that a higher credit quality exposure at origination would require a more significant downgrade compared to a lower credit quality exposure before it is considered to have experienced a significant increase in credit risk.

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Customers in hardship arrangements are normally treated as an indication of a significant increase in credit risk.

The Group does not apply the low credit risk exemption which assumes investment grade facilities do not have a significant increase in credit risk.

Probability weighting of each scenario

The Group considers three future macroeconomic scenarios including a base case scenario along with upside and downside scenarios. Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required. This is further expanded in note 22.

- Base case scenario
  This scenario utilises external economic forecasts used for strategic decision making and forecasting, resulting in the base case representing comparable market average default rates.
- Upside scenario
  This scenario represents a modest improvement on the base case scenario, resulting in lower than market average default rates.
- Downside scenario
  This scenario represents a moderate recession, with higher than market average default rates.

Forward looking macroeconomic information

The measurement of ECL for each stage and the assessment of significant increase in credit risk consider information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward-looking information is a critical accounting judgement. The macroeconomic variables used in these scenarios, based on current economic forecasts, include (but are not limited to) change in real gross domestic product growth rates and unemployment rates.

15. Loans and Receivables from Customers *(continued)*

Allowance for Expected Credit Losses *(continued)*

Forward looking macroeconomic information (continued)

The macroeconomic scenarios are weighted based on the Group's best estimate of the relative likelihood of each scenario. The weighting applied to each of the three macroeconomic scenarios takes into account historical frequency, current trends, and forward looking conditions.

The macroeconomic variables and probability weightings of the three macroeconomic scenarios are subject to the approval of the Group Chief Financial Officer and Group Chief Risk Officer.

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Judgements can change with time as new information becomes available which could result in changes to the provision for expected credit losses.

The loss allowance recognised in the period is impacted by a variety of factors, as described below and as detailed in the following table:

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Provision for impairment				
Movement in allowance for losses on loans and receivables from customers:				
Balance at 1 January	725,533	843,711	667,524	779,493
Net new and increased provisioning / (release of provisions)	33,128	(59,366)	23,086	(64,795)
Loans written off against provisions/(Write back of provisions no longer required)	(116,546)	(58,812)	(107,184)	(47,174)
At 31 December	**642,115**	**725,533**	**583,426**	**667,524**
Provision for impairment is represented by:				
Collective provision for on balance sheet exposure	345,363	396,149	321,014	359,988
Individually assessed or specific provision	225,671	277,077	194,877	257,109
Total provisions for on balance sheet exposure	**571,034**	**673,226**	**515,891**	**617,097**
Collective provision for off balance sheet exposure	71,081	52,307	67,535	50,427
At 31 December	**642,115**	**725,533**	**583,426**	**667,524**
Loan impairment expense				
Net collective provision funding	(25,282)	(113,369)	(16,239)	(109,247)
Net new and increased individually assessed provisioning	58,410	54,003	39,325	44,452
Total new and increased provisioning/(release of provisions)	**33,128**	**(59,366)**	**23,086**	**(64,795)**
Recoveries	(64,121)	(61,922)	(62,057)	(60,398)
Net write off	28,326	60,897	26,457	56,401
At 31 December	**(2,667)**	**(60,391)**	**(12,514)**	**(68,792)**

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;
- Net financial assets originated, which includes additional allowances for new financial instruments recognised during the period, net of releases for financial instruments de-recognised in the period;
- Movement in risk parameters and other changes arising from regular refreshing of inputs to models, foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Management temporary adjustments taken up during the reporting period have been reflected as transfers from Stage 1 to Stage 2.

15. Loans and Receivables from Customers *(continued)*

The impact of the factors on the Group's exposure and loss allowance is detailed in the following table:

All amounts are expressed in K'000

EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2021	**11,731,003**	**2,147,480**	**538,588**	**14,417,071**
Transfers to/(from)				
Stage 1	(757,134)	641,103	116,031	-
Stage 2	79,563	(117,944)	38,381	-
Stage 3	-	327	(327)	-
Net financial assets originated	860,464	(761,875)	(166,631)	(68,042)
Total movement in EAD during 2021	**182,893**	**(238,389)**	**(12,546)**	**(68,042)**
31 December 2021	**11,913,896**	**1,909,091**	**526,042**	**14,349,029**
ECL - Loans and receivables from customers				
1 January 2021	**183,777**	**333,679**	**272,821**	**790,277**
Transfers to/(from)				
Stage 1	(31,926)	31,217	709	-
Stage 2	7,518	(11,499)	3,981	-
Stage 3	-	56	(56)	-
Net financial assets originated	7,906	(1,778)	41,154	47,282
Transfers between stages	12,083	(68,917)	14,996	(41,838)
Movements due to risk parameter and other changes	38,405	(104,372)	2,284	(63,683)
Total net P&L charge / (release) during 2021	**33,986**	**(155,293)**	**63,068**	**(58,239)**
Loans written off against provision/(write back of provision no longer required)	-	-	(58,812)	(58,812)
31 December 2021	**217,763**	**178,386**	**277,077**	**673,226**
EAD - Loans and receivables from customers				
1 January 2022	**11,913,896**	**1,909,091**	**526,042**	**14,349,029**
Transfers to/(from)				
Stage 1	(294,713)	223,927	70,786	-
Stage 2	521,995	(577,144)	55,149	-
Stage 3	-	1,330	(1,330)	-
Net financial assets originated	1,038,201	(207,047)	(169,215)	661,939
Total movement in EAD during the year	**1,265,483**	**(558,934)**	**(44,610)**	**661,939**
31 December 2022	**13,179,379**	**1,350,157**	**481,432**	**15,010,968**
ECL – Loans and receivables from customers				
1 January 2022	**217,763**	**178,386**	**277,077**	**673,226**
Transfers to/(from)				
Stage 1	(5,483)	4,622	861	-
Stage 2	57,459	(61,823)	4,364	-
Stage 3	-	78	(78)	-
Net financial assets originated	(39,979)	(11,292)	22,910	(28,361)
Transfers between stages	(12,763)	(10,844)	6,190	(17,417)
Movements due to risk parameter and other changes	19,476	9,763	30,893	60,132
Total net P&L charge/ (release) during 2022	**18,710**	**(69,496)**	**65,140**	**14,354**
Loans written off against provision/(write back of provision no longer required)	-	-	(116,546)	(116,546)
31 December 2022	**236,473**	**108,890**	**225,671**	**571,034**

15. Loans and Receivables from Customers *(continued)*

Total off balance sheet exposures are predominantly classified under stage 1 as at balance date.

All amounts are expressed in K'000	**2022 Stage 1**		**2021 Stage 1**	
	Gross exposure	**Provisions**	**Gross exposure**	**Provisions**
Balance 1 January	3,284,336	52,307	2,984,144	53,434
Increase/(decrease) in exposure to expected credit losses	1,309,331	18,774	300,192	(1,127)
Balance at 31 December	**4,593,667**	**71,081**	**3,284,336**	**52,307**

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.

16. Other Assets

All amounts are expressed in K'000	**Consolidated 2022**	**Consolidated 2021**	**Bank 2022**	**Bank 2021**
Financial Assets				
Funds in transit and other assets[1]	258,819	208,316	208,145	141,433
Intercompany account	-	-	4,476	5,261
Outstanding premiums	19,065	21,678	-	-
Prepayments	47,293	42,501	39,665	37,788
Accounts receivable	5,021	3,562	2,023	1,849
Accrued income	7,846	3,049	6,315	434
	338,044	**279,106**	**260,624**	**186,765**
Non-Financial Assets				
Inventory	25,227	16,363	-	-
Investment in Joint Ventures	270,111	224,323	26,127	26,980
Intangible assets	294,397	236,577	286,368	228,065
Investment properties	329,201	273,170	-	-
	918,936	**750,433**	**312,495**	**255,045**
At 31 December	**1,256,980**	**1,029,539**	**573,119**	**441,810**

[1] Funds in transit includes interbank transactions which are in the process of clearance.

Financial Instruments: Financial Liabilities

Accounting Policy

Recognition

Financial liabilities are recognised when an obligation arises.

Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

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

De-recognition

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

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

Financial guarantee contracts and loan commitments

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

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

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

Expected credit loss on loan commitments provided by the Group is measured as the amount of the loss allowance (calculated as described in note 15). 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 liability.

17. Amounts Due to Other Banks

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Vostro account balances	144,165	116,048	144,187	106,783
Interbank account balances	117,395	126,262	374,693	221,358
At 31 December	**261,560**	**242,310**	**518,880**	**328,141**

18. Customer Deposits

On demand and short term deposits	24,075,220	21,170,919	23,049,105	20,236,820
Term deposits	2,844,141	2,772,436	2,145,788	2,113,458
At 31 December	**26,919,361**	**23,943,355**	**25,194,893**	**22,350,278**

The deposits are diversified across industries and regions with the maturity profile of deposits included in note 23.

19. Other Liabilities

Insurance liabilities				
Premiums received in advance	27,971	25,003	-	-
Outstanding claims	16,321	20,108	-	-
Claims incurred but not reported (IBNR)	1,953	3,746	-	-
Other insurance liabilities	110,445	94,975	-	-
At 31 December	**156,690**	**143,832**	**-**	**-**
Creditors and accruals	181,433	156,670	107,497	80,355
Provision for income tax	2,507	30,399	4,104	30,263
Items in transit and all other liabilities	353,032	217,456	474,337	319,970
Lease liability	285,581	271,055	256,957	240,863
Borrowings	246,480	245,614	246,479	245,614
Other provisions	220,942	225,773	203,822	209,574
At 31 December	**1,446,665**	**1,290,799**	**1,293,196**	**1,126,639**

20. Contingent Liabilities and Commitments

The primary purpose of credit related commitments is 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 Group does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent the unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit

20. Contingent Liabilities and Commitments *(continued)*

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.

FASU warning

The Bank has for some time been working to uplift and strengthen the Group's systems and processes to comply with the Anti-money Laundering and Counter Terrorist Financing Act 2015 (AML and CTF). BSP has implemented various improvements, involving significant investment in systems and personnel, to its AML/CTF Program.

Improvements undertaken by BSP include a revision of governance structures to give Directors enhanced oversight over the Compliance and AML functions; increased AML staffing resources; updated Risk Assessments and Policies; implementation of and enhancements to transaction monitoring systems; improved customer documentation and identification procedures and a comprehensive AML/CTF training program for staff who support the AML/CTF Program, as well as an awareness program for all its staff. The Board also monitors the effectiveness of its AML and CTF program through internal and external audit reviews where specific compliance issues and weaknesses are brought to the attention of the Board. This is an ongoing process and further uplifting and strengthening of the AML and CTF program may be required.

The Financial Analysis and Supervision Unit (FASU) has advised BSP on 22 December 2022 that no penalties or fines will be levied in relation to the most recent external audit of BSP's AML/CTF policies and procedures. FASU have advised they will continue to monitor progress on the execution of BSP's Action Plan designed to improve the level of compliance with AML/CTF policies and procedures. Accordingly, no provision has been raised for this matter.

The Group operates in a number of regulated markets and is subject to regulatory reviews and inquiries. The potential outcome and total costs associated with these regulatory reviews and inquiries and the remediation processes for any issues identified in the future remain uncertain.

Off balance sheet financial instruments

	Consolidated		Bank	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Letters of credit	238,851	182,535	238,302	179,998
Guarantees and indemnities issued	311,483	257,304	297,149	246,901
Commitments to extend credit	4,043,398	2,844,222	3,871,846	2,747,793
	4,593,732	**3,284,061**	**4,407,297**	**3,174,692**
Commitments for capital expenditure				
Amounts with firm commitments, and not reflected in the accounts	42,348	51,427	31,963	42,120

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2022. For all litigation exposure where a loss is probable, an appropriate provision has been made. Based on information available at 31 December 2022, the Group estimates a contingent liability of K29.6 million (2021: K24.0 million) in respect of these proceedings.

Risk Management

21. Risk Management Framework and Controls

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 Board Audit and Compliance Committee, Board Risk Committee and ultimately to the Board of Directors.

22. Credit Risk and Asset Quality

22.1 Credit risk

The Group incurs risk with regard to loans and 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 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 (reporting to the Board through the Group 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.

22. Credit Risk and Asset Quality *(continued)*

22.1 Credit risk *(continued)*

22.1.1 Credit risk measurement

Loans and advances (incl. loan commitments and guarantees)

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

Credit risk grading

The Group uses an internal credit risk grading system that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Group 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

22.1.2 Expected credit loss measurement

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 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 22.1.2.1 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 22.1.2.2 for a description of how the Group defines credit-impaired and default.

22. Credit Risk and Asset Quality *(continued)*

22.1 Credit risk *(continued)*

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 22.1.2.3 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 22.1.2.3 includes an explanation of how the Group has incorporated this in its ECL models.

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:

22.1.2.1 Significant increase in credit risk

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 BSP's credit rating system which are 'watch list' categories. By definition, these have experienced a SICR event since inception hence need 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 ended 31 December 2022.

22.1.2.2 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:

22. Credit Risk and Asset Quality *(continued)*

22.1 Credit risk *(continued)*

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.

22.1.2.3 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 are 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. 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 into current parameters are examples of such circumstances.

22. Credit Risk and Asset Quality *(continued)*

Credit risk *(continued)*

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 (systematic factors) impacting credit risk and expected credit losses which are as follows:

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

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

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2022 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		2022	2023	2024	2025	2026
GDP Growth (%)	Base	2.9%	3.3%	3.5%	3.5%	3.5%
	Upside	4.2%	3.6%	4.0%	4.0%	4.0%
	Downside	2.7%	3.1%	3.0%	3.0%	3.0%
Change in Unemployment (% total lab force) (%)	Base	-2.9%	-3.3%	-3.5%	-3.5%	-3.5%
	Upside	-4.2%	-3.6%	-4.0%	-4.0%	-4.0%
	Downside	-2.7%	-3.1%	-3.0%	-3.0%	-3.0%
Change in Equity Index (%)	Base	-8.0%				
	Upside	-7.0%				
	Downside	-9.0%				
Change in Energy Index (%)	Base	-12.4%	-11.9%	-11.9%	-11.9%	-11.9%
	Upside	-13.0%	-12.5%	-12.5%	-12.5%	-12.5%
	Downside	-11.8%	-11.3%	-11.3%	-11.3%	-11.3%
Change in Non-Energy Index (%) *(Per World Bank commodities price forecast)*	Base	-8.8%	-3.2%	-3.2%	-3.2%	-3.2%
	Upside	-9.3%	-3.4%	-3.4%	-3.4%	-3.4%
	Downside	-8.4%	-3.0%	-3.0%	-3.0%	-3.0%
Change in the Proportion of Downgrades (%)	Base	3.0%				
	Upside	-1.0%				
	Downside	15.0%				

22. Credit Risk and Asset Quality *(continued)*

Credit risk *(continued)*

The weightings assigned to each economic scenario at 31 December 2022 were as follows:

Scenario	Base	Upside	Downside
Weight	50%	10%	40%

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

As described above, the Group applies 3 alternative macroeconomic scenarios (base, upside, downside scenarios) to reflect an unbiased probability weighted range of possible future outcomes in estimating ECL.

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

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

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; and

Set out below are approximate levels of provisions for impairment under the base and downside scenarios for the group assuming 100% weighting was applied to each scenario holding all other assumptions constant.

All amounts are expressed in K'000	**2022**	**2021**
Reported probability weighted ECL	642,115	725,533
100% base scenario	618,244	671,627
100% downside scenario	675,118	746,914

Sensitivity of provisions for impairment to SICR assessment criteria

- If 1% of Stage 1 credit exposures as at 31 December 2022 was included in Stage 2, provisions for impairment would approximately increase by K6.804 million for the bank. (31 December 2021 K6.992 million).
- If 1% of Stage 2 credit exposures as at 31 December 2022 was included in Stage 1, provisions for impairment would approximately decrease by K0.506 million for the bank. (31 December 2021 K0.887 million).

22.1.2.4 Grouping of instruments for losses measured on a collective basis

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

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

22. Credit Risk and Asset Quality *(continued)*

Credit risk grading *(continued)*

Retail – Groupings for collective measurement

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

22.1.3 Credit risk exposure

22.1.3.1 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.

All amounts are expressed in K'000

	2022				2021
ECL staging	**Stage 1**	**Stage 2**	**Stage 3**		
	12-month	**Lifetime**	**Lifetime**	**Total**	**Total**
Credit grade					
Standard monitoring	13,179,379	886,601	-	14,065,980	13,291,616
Special monitoring	-	463,556	-	463,556	531,372
Default	-	-	481,432	481,432	526,041
Gross carrying amount	**13,179,379**	**1,350,157**	**481,432**	**15,010,968**	**14,349,029**
Loss allowance	(236,473)	(108,890)	(225,671)	(571,034)	(673,226)
Net Carrying amount	**12,942,906**	**1,241,267**	**255,761**	**14,439,934**	**13,675,803**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 15 'Expected credit loss measurement'.

The total balance of investment securities measured at amortised cost K8,484.466 million (2021: K8,307.087 million) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K45.849 million (2021: K48.541 million).

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

All amounts are expressed in K'000	**2022**	**2021**
Trading assets		
Equity securities	291,828	291,227

22. Credit Risk and Asset Quality *(continued)*

22.1.3.2 Collateral and other credit enhancements

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

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

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

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

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

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

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

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

31 December 2022 **Consolidated** *All amounts are expressed in K'000*	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets				
Loans to individuals:				
• Overdrafts	8,140	3,507	4,633	11,721
• Credit cards	1,092	602	490	1,657
• Term loans	28,549	12,199	16,350	28,491
• Mortgages	163,050	68,387	94,663	209,503
Loans to corporate entities:				
• Large corporate customers	180,466	85,826	94,640	170,258
• Small and medium-sized enterprises (SMEs)	99,019	54,621	44,398	118,742
• Others	1,116	529	587	749
Total credit-impaired assets	**481,432**	**225,671**	**255,761**	**541,121**
31 December 2021				
Total credit-impaired assets	**526,042**	**277,077**	**248,965**	**584,308**

Impairment allowance is assessed for each counterparty giving regard to collateral held for the respective exposure.

22. Credit Risk and Asset Quality *(continued)*

22.1.4 Credit Quality – Prudential guidelines

The prudential standard maintained by the Bank of Papua New Guinea specifies detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those grades.

An analysis by credit quality of loans outstanding at 31 December 2022 is as follows:

Consolidated **As at 31 December 2022** *All amounts are expressed in K'000*	**Overdrafts**	**Term loans**	**Mortgages**	**Lease financing**	**Policy loans**	**Total**
Neither past due nor impaired	**873,620**	**10,069,538**	**2,257,914**	**177,888**	**118,800**	**13,497,760**
Past due but not impaired						
Less than 30 days	52,195	456,461	133,679	9,765	-	652,100
30 to 90 days	4,980	262,841	107,690	4,165	-	379,676
	57,175	**719,302**	**241,369**	**13,930**	**-**	**1,031,776**
Individually impaired loans						
- Less than 30 days	4,017	8,562	5,540	78	619	18,816
- 30 to 90 days	2,000	19,820	32,221	116	-	54,157
- 91 to 360 days	739	25,753	28,079	1,030	33	55,634
- More than 360 days	39,562	85,701	221,635	5,927	-	352,825
	46,318	**139,836**	**287,475**	**7,151**	**652**	**481,432**
Total gross loans and receivables from customers	**977,113**	**10,928,676**	**2,786,758**	**198,969**	**119,452**	**15,010,968**
Less impairment provisions	(53,915)	(435,984)	(142,153)	(10,063)	-	(642,115)
Net loans and receivables from customers	**923,198**	**10,492,692**	**2,644,605**	**188,906**	**119,452**	**14,368,853**

22.1.5 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.

22. Credit Risk and Asset Quality *(continued)*

22.1.6 Economic sector risk concentrations

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

Consolidated
As at December 2022

All amounts are expressed in K'000	**2022**	**%**	**2021**	**%**
Commerce, finance and other business	7,184,154	50	6,745,549	50
Private households	3,710,391	26	3,359,516	25
Government and public authorities	789,757	5	691,294	5
Agriculture	295,804	2	286,697	2
Forestry	1,680	-	6,950	-
Transport and communication	899,744	6	1,142,933	8
Manufacturing	411,601	3	393,782	3
Construction	1,075,722	8	996,775	7
Net loan portfolio balance	**14,368,853**	**100**	**13,623,496**	**100**

22.1.7 Loan segment concentration

Concentration by customer loan segments is as follows:

Corporate / Commercial	8,554,103	60	8,003,207	58
Government	2,107,445	15	2,257,732	17
Retail	3,707,305	25	3,362,557	25
Net loan portfolio balance	**14,368,853**	**100**	**13,623,496**	**100**

22.1.8 Impact of overlays on the provision for ECL

The following table attributes the breakup between modelled ECL and other economic overlays. Where there is increased uncertainty regarding the required forward-looking economic conditions under IFRS 9, or limitations of the historical data used to calibrate the models to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

All amounts are expressed in K'000	**2022**	**2021**
Modelled provision for ECL (Stage 1 and 2)	406,444	421,326
Overlays	10,000	27,130
Total	**416,444**	**448,456**

22.1.8.1 COVID-19 overlay

At the cessation of the COVID-19 support packages, loans that were in this category have been regraded and captured in the model. As at 31 December 2022, there were no COVID-19 overlays (2021: K27.130 million).

22. Credit Risk and Asset Quality *(continued)*

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, credit risk factors (PD and LGD) are adjusted to incorporate reasonable and supportable forward looking information about known or expected risks for specific segments of portfolios and are captured through the model.

22.1.8.2 COVID-19 relief packages

There were no customers under COVID-19 relief packages at 31 December 2022 (2021: K1.312 billion).

Consolidated

As at 31 December	Total Credit Exposures	Expected Credit Loss	Total Credit Exposures	Expected Credit Loss
All amounts are expressed in K'000	**2022**	**2022**	**2021**	**2021**
Stage 1	-	-	405,530	6,305
Stage 2	-	-	906,002	97,584
Total	**-**	**-**	**1,311,532**	**103,889**

23. 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 2022

The maturity profile of material Assets and Liabilities as at 31 December 2022 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.

23. Liquidity Risk *(continued)*

Maturity of assets and liabilities

All amounts are expressed in K'000

Consolidated As at 31 December 2022	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with Central Banks	4,246,913	-	-	-	2,031,911	6,278,824
Treasury and Central Bank bills	291,680	1,257,910	2,611,958	38,260	-	4,199,808
Amounts due from other banks	1,339,623	222,611	176,409	-	-	1,738,643
Loans and receivables from customers	3,934,576	533,715	1,453,757	8,188,976	4,316,365	18,427,389
Other financial assets	1,122,765	64,574	773,640	3,786,755	3,019,453	8,767,187
Total assets	**10,935,557**	**2,078,810**	**5,015,764**	**12,013,991**	**9,367,729**	**39,411,851**
Liabilities						
Amounts due to other banks	104,008	34,468	123,084	-	-	261,560
Customer deposits	23,752,714	411,366	1,194,609	849,498	1,121,055	27,329,242
Lease liability	-	-	-	158,946	126,635	285,581
Other liabilities	1,351,662	24,181	896,695	89,957	61,760	2,424,255
Other provisions	207,572	350	10,074	350	5,102	223,448
Total liabilities	**25,415,956**	**470,365**	**2,224,462**	**1,098,751**	**1,314,552**	**30,524,086**
Net liquidity gap	**(14,480,399)**	**1,608,445**	**2,791,302**	**10,915,240**	**8,053,177**	**8,887,765**

Consolidated As at 31 December 2021						
Assets						
Cash and balances with Central Banks	3,237,770	-	-	-	1,277,015	4,514,785
Treasury and Central Bank bills	685,183	704,187	3,347,907	35,172	4,697	4,777,146
Amounts due from other banks	1,149,441	112,936	74,349	-	-	1,336,726
Loans and receivables from customers	3,513,262	457,643	2,052,719	7,170,220	4,195,707	17,389,551
Other financial assets	1,033,598	58,828	467,057	2,825,907	3,554,446	7,939,836
Total assets	**9,619,254**	**1,333,594**	**5,942,032**	**10,031,299**	**9,031,865**	**35,958,044**
Liabilities						
Amounts due to other banks	188,130	19,404	14,846	117	19,813	242,310
Customer deposits	22,262,175	383,273	925,893	208,683	323,006	24,103,030
Lease liability	-	-	-	44,968	220,294	265,262
Other liabilities	1,178,999	1,110	614,361	276,866	94,767	2,166,103
Other provisions	238,151	14	716	326	17,664	256,871
Total liabilities	**23,867,455**	**403,801**	**1,555,816**	**530,960**	**675,544**	**27,033,576**
Net liquidity gap	**(14,248,201)**	**929,793**	**4,386,216**	**9,500,339**	**8,356,321**	**8,924,468**

24. 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.

25. 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

All amounts are expressed in K'000

Consolidated As at 31 December 2022	**PGK**	**FJD**	**SBD**	**USD**	**Other**	**Total**
Assets						
Cash and balances with Central Banks	3,351,635	1,363,312	729,436	12,914	821,527	6,278,824
Treasury and Central Bank bills	4,087,085	-	20,209	-	21,046	4,128,340
Amounts due from other banks	358,688	341,180	42,515	623,121	373,139	1,738,643
Loans and receivables from customers	9,173,225	3,448,430	466,063	246,479	1,034,656	14,368,853
Other financial assets	4,225,197	524,194	-	-	39,762	4,789,153
Other assets	1,484,599	911,700	71,742	1,009	117,241	2,586,291
Total assets	**22,680,429**	**6,588,816**	**1,329,965**	**883,523**	**2,407,371**	**33,890,104**
Liabilities						
Amounts due to other banks	(7,732)	(227,869)	884	-	(26,843)	(261,560)
Customer Deposits	(18,943,375)	(3,889,006)	(994,653)	(578,985)	(2,513,342)	(26,919,361)
Other liabilities	(704,374)	(1,614,307)	(50,319)	(248,841)	(78,289)	(2,696,130)
Total liabilities	**(19,655,481)**	**(5,731,182)**	**(1,044,088)**	**(827,826)**	**(2,618,474)**	**(29,877,051)**
Net on-balance sheet position	**3,024,948**	**857,634**	**285,877**	**55,697**	**(211,103)**	**4,013,053**
Off-balance sheet position	-	-	-	*(4,502)*	*4,567*	*65*
Credit commitments	*3,083,199*	*1,268,322*	*60,828*	-	*181,318*	*4,593,667*

25. Foreign Exchange Risk *(continued)*

All amounts are expressed in K'000

Consolidated As at 31 December 2021	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Banks	2,022,919	1,076,401	719,126	3,520	692,819	4,514,785
Treasury and Central Bank bills	4,553,945	54,352	17,658	-	18,948	4,644,903
Amounts due from other banks	117,035	349,727	62,458	409,899	397,607	1,336,726
Loans and receivables from customers	8,452,097	3,248,475	474,271	309,443	1,139,210	13,623,496
Other financial assets	3,467,871	571,449	46	-	40,057	4,079,423
Other assets	1,212,613	762,177	83,213	84	185,702	2,243,789
Total assets	**19,826,480**	**6,062,581**	**1,356,772**	**722,946**	**2,474,343**	**30,443,122**
Liabilities						
Amounts due to other banks	(117,525)	(120,942)	(8,726)	-	4,883	(242,310)
Customer Deposits	(16,419,608)	(3,630,662)	(1,014,388)	(516,718)	(2,361,979)	(23,943,355)
Other liabilities	(825,865)	(1,439,406)	(50,007)	(4,757)	(142,457)	(2,462,492)
Total liabilities	**(17,362,998)**	**(5,191,010)**	**(1,073,121)**	**(521,475)**	**(2,499,553)**	**(26,648,157)**
Net on-balance sheet position	**2,463,482**	**871,571**	**283,651**	**201,471**	**(25,210)**	**3,794,965**
Off-balance sheet position	*-*	*-*	*-*	*(120,110)*	*119,835*	*(275)*
Credit commitments	*2,412,952*	*739,143*	*30,079*	*-*	*102,162*	*3,284,336*

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	**2022**		**2021**	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 5% (2021 – 5%)	(2,023)	(2,023)	(1,502)	(1,502)
USD dollar weakening by 15% (2021 – 15%)	5,013	5,013	3,722	3,722
AUD strengthening by 5% (2021 – 5%)	330	330	64	64
AUD dollar weakening by 15% (2021 – 15%)	(817)	(817)	(159)	(159)

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.

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

Forward exchange contracts outstanding at 31 December 2022 stated at the face value of the respective contracts are:

All amounts are expressed in K'000

As at 31 December 2022		USD	AUD	EURO	GBP	JPY	Other	Total
	FCY	(913)	(200)	(27)	-	-	(201)	-
Selling	**Kina**	(3,214)	(478)	(102)	-	-	(708)	(4,502)
	FCY	-	-	-	-	-	1,297	-
Buying	**Kina**	-	-	-	-	-	4,567	4,567

As at 31 December 2021		USD	AUD	EURO	GBP	JPY	Other	Total
	FCY	(32,988)	(492)	(53)	(10)	(21,915)	(624)	-
Selling	**Kina**	(115,746)	(1,252)	(208)	(47)	(668)	(2,189)	(120,110)
	FCY	747	18,280	-	-	1,000	20,130	-
Buying	**Kina**	2,623	46,550	-	-	30	70,632	119,835

26. 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 Liability 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.

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

All amounts are expressed in K'000

Consolidated As at 31 December 2022	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**
Assets						
Cash and Balances with Central Banks	1,663,113	-	-	-	85,070	2,013,482
Treasury and Central Bank bills	316,880	1,231,168	2,580,222	-	-	70
Amounts due from other banks	991,487	227,268	101,843	-	-	418,045
Cash Reserve Requirement with Central Banks	-	-	-	-	-	2,517,159
Loans and receivables from customers	11,157,455	130,196	598,963	2,185,566	261,618	35,055
Other financial assets	466,912	241,052	614,391	2,941,689	795,220	-
Other assets	27,468	55,613	-	18,844	108,534	2,105,721
Total assets	**14,623,315**	**1,885,297**	**3,895,419**	**5,146,099**	**1,250,442**	**7,089,532**
Liabilities						
Amounts due to other banks	-	39,409	168,996	-	-	53,155
Customer deposits	9,972,184	621,816	1,261,635	442,642	510,552	14,110,532
Other liabilities	6,053	1,091	11	203,032	110,743	2,103,324
Other provisions	7,597	336	-	-	-	263,943
Total liabilities	**9,985,834**	**662,652**	**1,430,642**	**645,674**	**621,295**	**16,530,954**
Interest sensitivity gap	**4,637,481**	**1,222,645**	**2,464,777**	**4,500,425**	**629,147**	**(9,441,422)**
As at 31 December 2021						
Assets						
Cash and Balances with Central Banks	737,150	-	-	-	-	2,057,765
Treasury and Central Bank bills	688,364	662,779	3,281,868	7,194	4,698	-
Amounts due from other banks	727,872	117,300	28,646	-	-	462,908
Cash Reserve Requirement with Central Banks	-	-	-	-	-	1,719,870
Loans and receivables from customers	11,471,141	106,614	415,289	1,453,760	132,222	44,470
Other financial assets	922,000	-	107,726	1,856,720	1,417,300	-
Other assets	45,964	75,051	2,251	-	-	1,896,200
Total assets	**14,592,491**	**961,744**	**3,835,780**	**3,317,674**	**1,554,220**	**6,181,213**
Liabilities						
Amounts due to other banks	134,345	19,396	14,751	-	-	73,818
Customer deposits	5,865,025	563,839	1,209,682	231,535	156	16,073,118
Other liabilities	5,022	1,069	95	111,986	175,793	1,942,754
Other provisions	1,108	-	654	-	-	224,011
Total liabilities	**6,005,500**	**584,304**	**1,225,182**	**343,521**	**175,949**	**18,313,701**
Interest sensitivity gap	**8,586,991**	**377,440**	**2,610,598**	**2,974,153**	**1,378,271**	**(12,132,488)**

26. Interest Rate Risk *(continued)*

Given the profile of assets and liabilities as at 31 December 2022 and prevailing rates of interest, a 1% increase in rates will result in a K42.682 million increase in net interest income, whilst a 1% decrease in rates will result in a K62.266 million decrease in net interest income.

27. Fair Values of Financial and Non-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

As at 31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity securities	-	286,512	5,316	291,828
Treasury bills	-	9,729	-	9,729
Government inscribed stock	-	246,719	-	246,719
Non-financial assets				
Land and buildings	-	-	509,039	509,039
Investment properties	-	-	329,201	329,201
Aircraft subject to operating lease	-	-	28,664	28,664
Total assets	**-**	**542,960**	**872,220**	**1,415,180**
b) Financial liabilities				
Policy liability	-	-	(1,201,038)	(1,201,038)
Total liabilities	**-**	**-**	**(1,201,038)**	**(1,201,038)**
As at 31 December 2021				
a) Financial assets				
Equity security	-	286,520	4,707	291,227
Treasury bills	-	8,089	-	8,089
Government inscribed stock	-	289,988	-	289,988
Non-financial assets				
Land and buildings	-	-	524,920	524,920
Investment properties	-	-	273,170	273,170
Aircraft subject to operating lease	-	-	32,671	32,671
Total assets	**-**	**584,597**	**835,468**	**1,420,065**
b) Financial liabilities				
Policy liability	-	-	(1,132,176)	(1,132,176)
Total liabilities	**-**	**-**	**(1,132,176)**	**(1,132,176)**

Consolidated

Financial assets at fair value through profit and loss	**2022**	**2021**
Opening balance	835,468	798,987
Total gains and losses recognised in:		
- Profit and loss	(23,162)	(28,315)
- Other comprehensive income	14,566	18,088
- Purchases	84,235	61,942
- Disposals	(1,917)	(4,045)
- Translation movements	(36,970)	(11,189)
Closing balance	**872,220**	**835,468**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2022.

27. Fair Values of Financial and Non-Financial Assets and Liabilities *(continued)*

Property, plant and equipment represents commercial land and buildings owned and occupied. Investment properties represent land and buildings owned and leased out by the Group. Assets subject to operating lease relate to aircraft owned and leased out by the Group. Property, plant and equipment, Investment property and Assets subject to operating lease are valued based on valuations provided by independent valuers.

The frequency of valuations complies with Group policy. The significant inputs used in preparing the valuations relate to:

- Selling prices of similar properties and aircraft
- Maintenance costs
- Replacement costs

The fair value of the land and buildings and aircraft are classified as level 3 within the fair value hierarchy due to the use of the above mentioned unobservable inputs.

Sensitivities to reasonably possible changes in non-market observables valuation assumptions would not have a material impact on the Groups' reported results.

Capital and Dividends

28. Ordinary Shares

Accounting Policy

Share issue costs

External costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Number of shares in '000s, Book value in K'000	**Number of shares**	**Book value**
At 1 January 2021	**467,229**	**372,189**
Share buyback	(3)	(56)
At December 2021/1 January 2022	**467,226**	**372,133**
Share buyback	(6)	(23)
At 31 December 2022	**467,220**	**372,110**

In May 2014, the Directors introduced a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, any time before that. As at 31 December 2022, a total of K9.388 million has been bought back under this scheme. The scheme ceased in July 2022 as approved by the Board.

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.

28. Ordinary Shares (*continued*)

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Dividends paid on ordinary shares				
Interim ordinary dividend (2022: 34 toea; 2021: 39 toea)	159,350	183,388	158,796	182,218
Final ordinary dividend (2021: 134 toea; 2020: 105 toea)	629,556	493,076	626,142	490,584
	788,906	**676,464**	**784,938**	**672,802**

29. Retained Earnings and Other Reserves

Retained earnings

	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
At 1 January	3,025,125	2,622,249	2,728,885	2,360,983
Net profit for the year	1,081,069	1,075,218	1,045,279	1,036,455
Final dividends paid	(629,379)	(492,905)	(626,142)	(490,584)
Interim dividends paid	(159,350)	(183,388)	(158,796)	(182,218)
Disposal of assets – asset revaluation	5,270	8,658	5,270	8,658
BSP Life policy reserve	(3,327)	(4,409)	(3,327)	(4,409)
Gain attributable to minority interest	(126)	(298)	-	-
At 31 December	**3,319,282**	**3,025,125**	**2,991,169**	**2,728,885**
Other reserves comprise:				
Asset revaluation reserve	96,873	123,732	83,180	109,937
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
Statutory insurance reserve	59,936	56,691	59,936	56,691
Foreign currency translation reserve	141,912	194,293	81,225	109,570
	320,934	**396,929**	**224,976**	**276,833**

29. Retained Earnings and Other Reserves *(continued)*

Other reserves

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Movement in reserves for the year:				
Asset revaluation reserve				
At 1 January	123,732	129,063	109,937	115,828
Asset revaluation increment/(decrement)	42	560	-	-
Transfer asset revaluation reserve to retained earnings	(5,414)	(7,457)	(5,270)	(7,457)
Impact of PNG tax rate change	(23,068)	-	(23,068)	-
Deferred tax on disposal of assets	1,581	1,566	1,581	1,566
At 31 December	**96,873**	**123,732**	**83,180**	**109,937**
Capital reserve				
At 1 January	635	635	635	635
At 31 December	**635**	**635**	**635**	**635**
Statutory insurance reserve				
At 1 January	56,691	52,267	56,691	52,267
BSP Life policy reserve	3,327	4,409	3,327	4,409
Fiji Government green bond revaluation	(82)	15	(82)	15
At 31 December	**59,936**	**56,691**	**59,936**	**56,691**
Foreign currency translation reserve				
At 1 January	194,293	234,973	109,570	131,995
Movement during the year	(52,381)	(40,680)	(28,345)	(22,425)
At 31 December	**141,912**	**194,293**	**81,225**	**109,570**

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 a dividend equal to the amount of dividend to be paid on BSP Ordinary Shares.

(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.

30. 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, Cambodia and Lao 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), the National Bank of Cambodia (NBC) and Bank of Lao P.D.R. 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 prescribes the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2022, 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 (unaudited):

	Balance sheet / notional amount		**Risk-weighted amount**	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Balance sheet assets (net of provisions)				
Currency	6,278,824	4,541,264	53,355	99,563
Loans and receivables from customers	14,265,599	13,522,506	11,456,233	10,732,616
Investments and short term securities	8,966,212	8,733,701	282,880	243,305
All other assets	4,379,469	3,645,651	2,426,317	2,167,637
Off-balance sheet items	4,593,732	3,284,061	228,950	226,357
Total	**38,483,836**	**33,727,183**	**14,447,735**	**13,469,478**

Capital Ratios	**Capital (K'000)**		**Capital Adequacy Ratio (%)**	
	2022	**2021**	**2022**	**2021**
a) Tier 1 capital	3,278,521	3,164,663	22.7%	23.5%
Total Capital	3,548,158	3,457,797	24.6%	25.7%
b) Leverage Capital Ratio			9.9%	10.6%

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%.

Group Structure

31. Insurance

Accounting Policy

Medical and Life Insurance Business

The Group's consolidated Financial Statements include the assets, liabilities, income and expenses of the life and general insurance businesses. The Group's Insurance business is made up of Life Insurance Contracts, Medical Insurance and Term Life Insurance.

The Group's life and general insurance entities will be adopting IFRS 17 'Insurance contracts" (effective 1 January 2023), replacing IFRS 4. The new standard will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard introduces substantial changes in the presentation of the financial statements and disclosures introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting.

(a) Recognition and Measurement

Short Term Insurance Contracts

These contracts include the Term Life and Medical policies sold and underwritten by BSP Health Care (Fiji) Limited and GroupTerm life policies sold by BSP Life (PNG) Limited.

These contracts protect the Group's customers from the consequences of events such as death, disability and medical emergency. 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 Statement of Comprehensive Income as incurred based on the estimated liability for compensation owed to contract holders or beneficiaries. For medical and term-life contracts issued in Fiji, these 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 based on the sum insured or cost of approved medical services plus an allowance for claims incurred but not reported based on statistical analysis and related claim expenses. Case estimates are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long Term Insurance Contracts

These contracts insure human life events (for example death, survival, disability, and critical illness) over a long duration; and are sold and underwritten by BSP Life (Fiji) Limited and BSP Life (PNG) Limited. Guaranteed benefits paid on occurrence of the specified insurance event are fixed and, for participating polices, declared bonuses are also payable. Most of the policies have maturity and surrender benefits.

31. Insurance *(continued)*

Long Term Insurance Contracts (continued)

For all these contracts, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Approximately 90% of the above contracts in the Group's portfolio contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits in the form of reversionary bonuses.

The liability for long term insurance contracts 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 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 liabilities also include policy owner retained earnings.

(b) Methods and Assumptions

Key assumptions used in determining the Policy Liabilities for policies for the insurance business are as follows:

(i) Discount Rates

For BSP Life (Fiji) contracts in Statutory Fund 1 which have a DPF, the discount rate used is linked to the assets which back those contracts. For 31 December 2022 this was 4.537% per annum. For contracts without DPF and Accident Business, the Fiji Insurance business at 31 December 2022 used a rate of 3.16% per annum. The pricing rates were used given market subjectivity. For the PNG life insurance business at 31 December 2022 this was 5.95%.

(ii) Investment and Maintenance Expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.50% per annum for Fiji and 4.00% per annum for PNG for determining future expenses.

(iii) Taxation

The rates of taxation enacted at the date of the valuation are assumed to continue into the future for both the Fiji and PNG life businesses.

(iv) Mortality and Morbidity

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by BSP Life (PNG) and BSP Life (Fiji). Estimates are made as to the expected number of deaths for each of the years in which BSP Life (PNG and Fiji) are exposed to risk. BSP Life (Fiji) uses projected future rates of mortality for insured lives based on the Fiji Mortality Statistics table FJ90-94 Male, modified for local experience. The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which BSP Life (Fiji) has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where BSP Life (Fiji) is exposed to longevity risk. For contracts without fixed mortality risk charges, it is assumed that BSP Life (Fiji) will be able to increase mortality risk charges in future years in line with emerging mortality experience.

31. Insurance *(continued)*

(iv) Mortality and Morbidity (continued)

As there is no reliable mortality table available for PNG, BSP Life PNG bases these estimates on an internal mortality table that has regard to population and insured mortality in Fiji and the limited information relating to mortality in PNG that is publicly available. This is reassessed each year having regard to the company's own experience. The estimated number of deaths determines the value of the benefit payments. Mortality in PNG is subject to considerable uncertainty from wide-ranging lifestyle changes, such as in eating, smoking and exercise habits and epidemics that could result in future mortality being significantly different than assumed.

(v) Rates of Discontinuance

PNG Pricing assumptions are used for the incidence of withdrawal and discontinuance which vary by duration.

For BSP Life (Fiji), best estimate assumptions for the incidence of withdrawal and discontinuance are used which vary by product and duration and are based on experience which is reviewed regularly. Rates used in 2022 were the same as 2021 rates.

(vi) Basis of Calculation of Surrender Values

For the PNG and Fiji life businesses, surrender values are determined by the Company in accordance with the provisions specified in the policy contracts and legislation.

(vii) Discretionary Participating Business

For most participating businesses, 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%.

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.

(c) 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 in the Statement of Comprehensive Income. This is netted off against the claim expenses (PNG reports separately in their accounts). Reinsurance premiums are recognised as Reinsurance Expenses.

Insurance

The accounting policies of the consolidated entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. The summarised income statement for BSP Life (Group) is presented below as per the respective subsidiary accounts. The consolidated profit includes insurance profit and investment earnings on shareholders' funds.

31. Insurance *(continued)*

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021
Net insurance premium income	236,799	228,911
Outward reinsurance expense	(4,643)	(4,254)
Net premium income	**232,156**	**224,657**
Investment income	196,947	189,907
Other income	3,826	3,795
Total operating income	**432,929**	**418,359**
Claims, surrenders and maturities	(144,318)	(119,946)
Claim recoveries	3,354	1,195
Net claims incurred	**(140,964)**	**(118,751)**
Commission	(17,350)	(16,258)
Increase in policy liabilities	(114,957)	(118,420)
Interest expenses	(598)	(628)
Other operating expenses	(165,652)	(147,797)
Total operating expenses	**(298,557)**	**(283,103)**
Share of profit of associates and jointly controlled entities	46,816	18,547
Profit before income tax	**40,224**	**35,052**
Income tax expense	(14,059)	(10,605)
Profit after Income tax expense	**26,165**	**24,447**

The balance sheets as at 31 December 2022 categorised by Shareholder Fund and Assets Supporting Policy Liability are shown below. The allocation between the two funds is maintained notionally as the funds are invested as a single pool of assets.

	Consolidated					
	2022			2021		
	Policy Related Fund	**Share-holder Fund**	**Total**	**Policy Related Fund**	**Share-holder Fund**	**Total**
Assets						
Cash and Cash Equivalents	188,842	33,582	222,424	151,172	28,380	179,552
Equity security investments	406,353	72,162	478,515	369,265	68,835	438,100
Debt security investments	335,433	59,619	395,052	396,642	74,276	470,918
Property investments	384,394	68,026	452,420	326,614	60,710	387,324
Other assets	85,317	14,032	99,349	78,490	13,469	91,959
Total assets	**1,400,339**	**247,421**	**1,647,760**	**1,322,183**	**245,670**	**1,567,853**
Liabilities						
Policy liabilities	1,201,038	-	1,201,038	1,132,176	-	1,132,176
Other liabilities	134,340	22,350	156,690	122,372	21,460	143,832
Total liabilities	**1,335,378**	**22,350**	**1,357,728**	**1,254,548**	**21,460**	**1,276,008**
Shareholders' equity						
Equity and retained earnings	64,961	225,071	290,032	67,635	224,210	291,845
Total shareholders' equity	**64,961**	**225,071**	**290,032**	**67,635**	**224,210**	**291,845**
Total equity and liabilities	**1,400,339**	**247,421**	**1,647,760**	**1,322,183**	**245,670**	**1,567,853**

	Consolidated 2022	Consolidated 2021
Policy Liabilities		
Opening balance	1,132,176	1,043,990
Translation movement	(47,882)	(32,579)
Increase in policy liabilities	114,957	118,420
Increase in policy liabilities on revaluation of land	1,787	2,345
Total policy liabilities	**1,201,038**	**1,132,176**

Insurance reserves are maintained in accordance with levels prescribed by the Regulators.

31. Insurance *(continued)*

Insurance and Financial Risk Management

The Group is committed to the management of risk to achieve sustainability of service to its customers, employment of its staff and profits to its shareholders and therefore, takes on controlled amounts of risk when considered appropriate. The risk management framework is targeted at ensuring that the Group maintains sufficient capital at a level which exceeds the minimum solvency requirements prescribed by the Regulators.

The Group is exposed to financial as well as insurance risks. The Group's risk management strategy is set by the Board of Directors. Implementation of risk management strategy and the day-to-day management of risk is the responsibility of the Executive Management.

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and is unpredictable. The principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual numbers and quantum of claims and benefits will vary from year to year from the level established using actuarial methods.

The Group's objectives in managing risks arising from insurance business are:

- To ensure risk appetite decisions are made within the context of corporate goals and governance structures,
- To ensure that an appropriate return on capital is made in return for accepting insurance risk,
- To ensure that strong internal controls embed underwriting to risk within the business,
- To ensure that internal and external solvency and capital requirements are met; and
- To use reinsurance as a component of insurance risk management strategy.

Terms and conditions of insurance contracts

The nature of terms of insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the long-term insurance contracts:

Type of Contract	**Detail of Contract Terms and Conditions**	**Nature of Compensation for Claims**	**Key Variables that affect the timing and uncertainty of Future Cash Flows**
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Benefits paid on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the insurer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	Benefits, defined by the insurance contract, are determined by the contract, and are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	– Mortality – Morbidity – Discontinuance rates – Expenses – Market rates on underlying assets
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	– Mortality – Morbidity – Market risk – Discontinuance rates – Expenses – Market rates on underlying assets

31. Insurance *(continued)*

Insurance and Financial Risk Management *(continued)*

Variations in claim levels will affect reported profit and equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed.

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. The largest single exposure for BSP Life (Fiji) is FJD7.5 million of which FJD7.2 million is reinsured (2021: FJD6.7 million of which FJD6.4 million is reinsured). This relates to life insurance lines. For BSP Life PNG, the largest single exposure is K10.6 million of which K10.5 million is reinsured (2021: K12.5 million of which K12.4 million was reinsured).
- The largest single lump sum exposure for the health insurance business under BSP Life (Fiji) is FJD10m, of which FJD9.9 million is reinsured. The largest single net exposure is FJD0.62 million. This relates to health insurance lines.
- Geographic concentrations due to employee company schemes. The largest single scheme exposure for BSP Life (Fiji) is FJD72.9 million, of which FJD29.0 million is reinsured. BSP Life (PNG) participates in a Term Life reinsurance program
- The largest single group exposure across various locations for PNG Life is K597 million of which K275 million is reinsured (2021: K606 million of which K295 million was reinsured).

Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk and diversify the type and amount of insurance risks accepted, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance and proactive claims handling. The experience of the Group's Life Insurance business is reviewed regularly.

Accounting Standard Change: IFRS 17 Insurance Contracts

IFRS 17, 'Insurance Contracts' (effective 1 January 2023) replaces IFRS 4 Insurance Contracts to establish globally consistent principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. This will impact the financial results reported for the activities of BSP Life. The new standard will more closely align the disclosure of financial performance for life insurance companies with other financial service providers. The underlying principles of determining the liability relating to insurance contracts have not significantly changed compared to the existing Margin on Service (MoS).

The level and detail of disclosure has increased and while the ultimate profit earned from insurance contracts will not change, the timing of profit recognition will differ.

Governance and Project Management

The adoption of IFRS 17 is a significant initiative for the BSP Life operations, involving substantial resources and effort from the Finance, Actuarial and Information Technology Teams. The 2023 Financial Statements will contain the details of the accounting policies used to derive the financial information along with the significant judgement applied in interpreting the standard and applying this to the insurance contracts.

Measurement Model Applicable under IFRS 17

The standard introduces a model to measure the liability for groups of contracts using three explicit components. Firstly, the estimated present value of future cash flows expected to arise from a group of contracts. The cash flow estimate is based on best estimate assumptions, which are neither conservative nor optimistic. Secondly, an explicit risk adjustment has been introduced: the required compensation to the shareholder for taking on the non-financial risk associated with an insurance contract. The final component of the liability is the present value of future shareholder profit. This is termed the contractual service margin.

31. Insurance *(continued)*

Measurement Model Applicable under IFRS 17

The standard defines a General Measurement Model (GMM) to use for valuing insurance contracts. The GMM requires the projection of future cash flows related to insurance contracts using current financial and non-financial assumptions. This requirement is not significantly different to the current MoS basis used for Life Insurance contracts, with some critical changes noted below:

- The level at which contract profit pooling is performed under IFRS 17 is more granular. The contract grouping is based on the nature of the product, the year of issue and the expected profitability level, which will provide more transparency and disclosure on the profitability of new contracts issued each year.
- Establishing future cash flow assumptions for expenses differs from IFRS 4. Only expenses directly attributable to supporting insurance contracts are included. All other expenses will be recognised as incurred.
- The unearned profit for insurance contracts is termed the Contractual Service Margin (CSM). The principles of determining the unearned profit are similar to MoS, but the profit recognition patterns will differ.
- The GMM model introduces a new element known as the Risk Adjustment: compensation for bearing the uncertainty concerning the amount and timing of cash flows. The GMM requires the risk adjustment to be treated as a specific cash flow, decreasing the expected profit recognised at contract origination. The annual profit will be recognised through the release of the Contract Service Margin and Risk Adjustment.
- The two other modifications of the GMM are described below:
  - The Variable Fee Approach (VFA), insurance contracts with direct participation features are eligible to use this model. The model allows for the variable nature of fees earned from insurance contracts, which depend on the underlying assets' performance; and
  - The Premium Allocation Approach (PAA) is a simplified model which does not require future projections to satisfy the requirements under IFRS 17, provided the insurance contracts are profitable. There are specific requirements for this model to be applied, including the term of the insurance contract being no more than 1 year.

Level of aggregation applied to Insurance Contracts

The standard requires insurance contracts to be recognised and measured in groups. The aggregation of individual contracts is performed in a manner to limit offsetting profitable contracts against onerous ones when recognising financial performance. A portfolio of contracts is defined based on contracts with similar risks and managed together. The portfolio is further divided based on the year of issue and the expected level of profitability. The level of profitability is classified as onerous, profitable with no significant possibility of subsequently becoming onerous, and remaining contracts. Aggregation has become much more granular, leading to profit pooling amongst a smaller number of insurance contracts. The application of this is noted below.

Long-Term Insurance Contracts

BSP Life issues two types of long-term products Participating and Non-Participating products. The products falling under each category have similar risks and have been managed together (risk transfer and risk pooling).

Short-Term Insurance Contracts

The aggregation of contracts for the general insurance business is based on the characteristics of products, related risks, and key features. Portfolio identification for BSP Health is straight forward, as medical and term life contracts have their separate risk cover, features, pricing mechanism, and claims management process.

For Term Life and Medical contracts, the contract duration is 12 months. The insurer retains the right to change terms and conditions, including premium, at each renewal date.

31. Insurance *(continued)*

Transition approach adopted

Insurance contracts will require restatement as of 1 January 2023 (transition date). As a result, the first full-year financial statements presented under IFRS 17 will be for the year ending 31 December 2023, with comparatives required for 31 December 2022.

The first half-year financial statements presented will be for the period ending 30 June 2023, with comparatives required for 30 June 2022. The full retrospective approach will be impracticable in some cases, especially for older cohorts where assumptions cannot be determined without hindsight.

Long-Term Insurance Contracts

The Group will apply the modified retrospective approach to transition with the following key dates:

- Fair valuation of insurance contracts up to 31 December 2017. It is impracticable to apply the full retrospective approach for the period before the implementation of BLIS (current insurance administration system). The granular transaction data required is not available prior to this date.
- The retrospective approach will be applied to insurance contracts issued by the Group after 1 January 2018.

Short-Term Insurance Contracts

A full retrospective approach will be adopted and is practical due to the short 12-month contract.

32. Investment in Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership %	Balance of investment 2022	Balance of investment 2021
BSP Capital Limited	Fund Management/ Investment Banking	PNG	100%	2,448	2,448
BSP Life (Fiji) Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Life (PNG) Limited	Life Insurance	PNG	100%	25,000	25,000
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	103,601	93,038
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,610	71,610
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,712	70,712
Bank South Pacific Vanuatu Ltd	Bank	Vanuatu	100%	38,020	38,020
At 31 December				**399,361**	**388,798**
Represented by:					
At 1 January				388,798	385,078
Additional capital				10,563	3,720
At 31 December				**399,361**	**388,798**

33. Investment in Joint Ventures

Name of Joint Venture	Principal activity	Place of incorporation and operation	Ownership % 2022	Ownership % 2021
Suva Central Ltd	Property rental	Fiji	50%*	50%*
Richmond Ltd	Hotel operations	Fiji	61.3%**, 50%***	61.3%**, 50%***
BSP Finance Cambodia Plc	Asset financing	Cambodia	50%*	50%*
BSP Finance Lao	Asset financing	Lao	50%*	50%*
Platform Pacific Ltd	Digital solutions	PNG	50%*	50%*

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

All amounts are expressed in K'000	Consolidated 2022	Consolidated 2021	Bank 2022	Bank 2021
Joint Ventures				
Investment in Joint Ventures	224,323	202,546	26,980	27,879
New investment during the year	10,563	3,962	-	243
Translation movement	(11,850)	(5,624)	(1,050)	(943)
Share of profit/(loss) for the year	47,075	23,439	197	(199)
Net investment in associate	**270,111**	**224,323**	**26,127**	**26,980**
Summarised financial information of Joint Ventures:				
Total assets	622,520	625,798	90,894	98,549
Total liabilities	(345,205)	(370,290)	(40,772)	(44,609)
Net assets	**277,315**	**255,508**	**50,122**	**53,940**
Share of Profit/(loss) for the year	42,066	(2,228)	197	(199)
Group fair value alignment	5,009	25,667	-	-
Share of profit in Group	**47,075**	**23,439**	**197**	**(199)**

Other

34. Fiduciary Activities

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

35. Related Party Transactions

Related parties are considered to be enterprises or individuals with whom the Group is especially related because either they or the Group 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 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, 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 2022, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

35. Related Party Transactions *(continued)*

All amounts are expressed in K'000	Consolidated 2022	2021
Customer Deposits		
Opening balances	33,019	27,299
Net movement	117,237	5,720
Closing balance	**150,256**	**33,019**
Interest paid	20	12
Loans and receivables from customers		
Opening balances	628,858	638,794
Loans issued	112,781	85,169
Interest	18,028	24,770
Charges	1,018	1,646
Loan repayments	(124,063)	(121,521)
Closing balance	**636,622**	**628,858**

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 2022, staff account balances were as follows:

Housing loans	208,449	204,659
Other loans	68,600	69,045
	277,049	**273,704**
Cheque accounts	6,414	5,717
Savings accounts	12,486	12,380
	18,900	**18,097**

36. Directors and Executive Remuneration

Directors' remuneration

Directors of the company received remuneration including benefits during 2022 as detailed below:

All amounts are expressed in Kina

Name of Director	Meetings attended / total held	Appointed/ (Resigned)	Total remuneration 2022 Bank	2022 Subsidiaries	2022 Total	2021 Total
Sir K. Constantinou, OBE	7/7		561,304	300,000	861,304	861,304
R. Fleming, CSM[1]	7/7	(Dec 2022)	-	-	-	-
S Brewis-Weston	7/7	Apr 2021	330,652	-	330,652	247,989
E. B Gangloff	1/1	(Apr 2022)	171,576	-	171,576	403,152
A. Sam	7/7		343,152	-	343,152	343,152
Dr. F Lua'iufi	7/7		305,652	120,000	425,652	380,652
S. Davis	7/7		343,152	-	343,152	330,652
R. Bradshaw	7/7		318,152	-	318,152	318,152
P. Kevin	7/7		330,652	60,000	390,652	318,152
F. Bouraga	7/7		305,652	-	305,652	305,652
P T Seruvatu	4/4	Apr 2022	146,576	-	146,576	-
G. Robb, OAM	-	(Apr 2021)	-	-	-	225,326
			3,156,520	**480,000**	**3,636,520**	**3,734,183**
Shareholder Approved Cap					**4,500,000**	**4,500,000**

36. Directors and Executive Remuneration *(continued)*

[1]Managing Director / Group Chief Executive Officer receives no fees for his services as Director during the year. Other members of BSP executive management who serve as directors of subsidiaries of BSP Group receive no fees for their services as Director.

Executive Remuneration

The specified executives as at 31 December 2022 were:

Robin Fleming, CSM	Frank van der Poll	Ronesh Dayal	Roger Hastie
Nuni Kulu	Peter Beswick	Rohan George	Vandhna Narayan
Hari Rabura	Andy Roberts	Daniel Faunt	Maryann Lameko-Vaai
Nilson Singh	Gheno Minia	Mary Johns	

All amounts are expressed in K'000

Year	Salary	Short term incentive	Value of benefits	Long term incentive	Leave encashment	Final entitlements[1]	Total
2022 executive remuneration	18,182	6,000	1,510	7,844	7,096	826	**41,458**
2021 executive remuneration	18,766	6,109	1,456	7,151	99	-	**33,581**

[1]Final entitlements paid were for executives who resigned or retired from the Bank in 2022 and constitutes statutory leave payouts.

The number of employees or former employees whose income from the Bank was equal to or greater than K100,000 during the year, are classified in income bands of K10,000 as follows:

Remuneration K'000	2022 No.	2021 No.	Remuneration K'000	2022 No.	2021 No.	Remuneration K'000	2022 No.	2021 No.
100 – 110	138	95	560 – 570	1	1	1140 – 1150	1	-
110 – 120	82	87	570 – 580	5	1	1150 – 1160	-	1
120 – 130	84	71	580 – 590	5	2	1170 – 1180	-	1
130 – 140	65	63	590 – 600	4	2	1210 – 1220	-	1
140 – 150	49	48	600 – 610	2	1	1220 – 1230	-	1
150 – 160	32	37	610 – 620	1	2	1230 – 1240	1	1
160 – 170	40	28	620 – 630	1	2	1260 – 1270	-	1
170 – 180	24	26	630 – 640	3	1	1270 – 1280	1	1
180 – 190	32	19	640 – 650	1	1	1280 – 1290	1	-
190 – 200	22	19	650 – 660	3	1	1300 – 1310	1	-
200 – 210	15	18	660 – 670	2	2	1310 – 1320	1	-
210 – 220	26	13	670 – 680	1	-	1320 – 1330	-	1
220 – 230	19	15	680 – 690	1	2	1340 – 1350	-	1
230 – 240	9	13	690 – 700	1	-	1350 – 1360	1	-
240 – 250	13	12	700 – 710	-	2	1380 – 1390	1	1
250 – 260	14	11	710 – 720	3	3	1390 – 1400	-	-
260 – 270	5	7	720 – 730	1	2	1400 – 1410	2	-
270 – 280	7	7	730 – 740	1	-	1410 – 1420	2	-
280 – 290	5	6	740 – 750	-	1	1440 – 1450	1	-
290 – 300	7	7	750 – 760	-	1	1460 – 1470	1	-
300 – 310	8	3	770 – 780	-	1	1480 – 1490	1	-
310 – 320	9	4	780 – 790	1	1	1490 – 1500	-	1
320 – 330	5	6	790 – 800	1	-	1500 – 1510	-	1
330 – 340	-	3	810 – 820	-	2	1530 – 1540	-	1
340 – 350	3	4	830 – 840	1	1	1540 – 1550	-	1
350 – 360	2	4	840 – 850	2	-	1640 – 1650	1	-
360 – 370	6	3	870 – 880	-	3	1670 – 1680	-	1
370 – 380	4	3	880 – 890	1	2	1720 – 1730	1	-

36. Directors and Executive Remuneration *(continued)*

Executive Remuneration (continued)

Remuneration K'000	2022 No.	2021 No.	Remuneration K'000	2022 No.	2021 No.	Remuneration K'000	2022 No.	2021 No.
380 – 390	5	6	890 – 900	-	1	1730 – 1740	-	1
390 – 400	1	3	900 – 910	1	2	1740 – 1750	1	-
400 – 410	2	8	910 – 920	1	-	1800 – 1810	1	-
410 – 420	6	1	920 – 930	2	-	1820 – 1830	-	1
420 – 430	7	4	930 – 940	-	1	1860 – 1870	1	-
430 – 440	2	3	950 – 960	1	1	1930 – 1940	1	-
440 – 450	6	2	960 – 970	3	1	2100 – 2110	1	-
450 – 460	2	2	970 – 980	-	1	2230 – 2240	-	1
460 – 470	4	5	980 – 990	-	2	2240 – 2250	-	-
470 – 480	6	4	990 – 1000	2	-	2270 – 2280	1	2
480 – 490	5	4	1000 – 1010	1	-	2280 – 2290	1	-
490 – 500	7	4	1010 – 1020	1	4	2310 – 2320	-	1
500 – 510	2	4	1040 – 1050	1	1	2480 – 2490	1	-
510 – 520	1	3	1070 – 1080	1	1	2590 – 2600	-	1
520 – 530	4	2	1090 – 1100	2	1	2700 – 2710	1	-
530 – 540	3	-	1100 – 1110	2	-	2810 – 2820	1	-
540 – 550	2	3	1110 – 1120	2	-	2780 – 2790	-	1
550 – 560	3	3	1130 – 1140	-	2	8610 – 8620	-	1
						15010 – 15020	1	-
						Total	**883**	**772**

Remuneration disclosures have been updated to reflect entitlements applicable to respective years. Short term incentives and long term incentives for executives are paid post availability of audited accounts in the subsequent year and have been aligned accordingly. Prior year disclosures were based on the period each entitlement was received.

37. Events Occurring After Balance Sheet Date

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

38. Remuneration of Auditor

	Consolidated		**Bank**	
All amounts are expressed in K'000	**2022**	**2021**	**2022**	**2021**
Financial statement audits	5,363	5,025	4,350	4,031
Other services	523	710	488	667
	5,886	**5,735**	**4,838**	**4,698**

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.

Independent auditor's report

To the shareholders of BSP Financial Group Limited

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

Our opinion

We have audited the financial statements of BSP Financial Group Limited (the Bank), which comprise the statements of financial position as at 31 December 2022, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2022 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 2022, and their financial performance and cash flows for the year then ended.

Basis for opinion

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

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

Independence

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

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

Our audit approach

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

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

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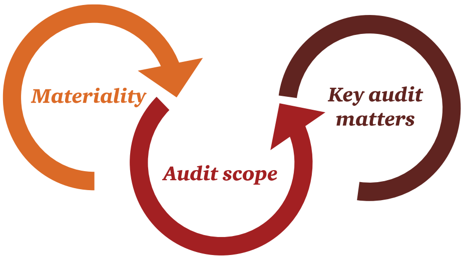

Materiality	*Audit scope*	*Key audit matters*

• For the purpose of our audit of the Group we used overall group materiality 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) 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, Solomon Islands, Samoa, Tonga, Cook Islands, and Vanuatu the audit work was performed by other PwC network firms or other firms operating under our instructions.
	• 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 and Compliance 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 year. 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 15 of the financial statements for a description of the accounting policies and to Note 22 for an analysis of credit risk and asset quality Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, impairment of loans and advances is an area of significance in the current year audit of the Bank and its subsidiaries. IFRS 9 *Financial Instruments* (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application. Areas of judgement included: • The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables • 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 and forward looking macroeconomic factors	To assess the Group's loan loss provisioning, we performed the following audit procedures on a sample basis, amongst others: • Obtained an understanding of the processes and controls relevant to the credit origination and credit monitoring processes. • Assessment of the reasonableness of the key outputs of the expected credit loss model, as well as key judgements and assumptions used by management. • Evaluated the impairment methodology to establish the key fields used in the computation of Stage 1 and Stage 2 provisions. Testing the key fields identified to have an impact on the expected credit loss provision by agreeing this back to source documentation. • For loans and advances in Stage 1 and Stage 2, 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. • For Stage 3 loans and advances, audit procedures over the credit watch list and delinquencies, and evaluation of assumptions made in the valuation of collateral and recovery cash flows.
IT systems and controls We focused on this area because the Group is heavily dependent on complex IT systems for the capture, processing, storage and extraction of significant volumes of transactions. There are some areas of the audit where we seek to place reliance on system functionality including certain automated controls, system calculations and reports. Our reliance on these is dependent on the Group's IT General Control (ITGC) environment, in particular, user access maintenance and changes to IT systems being authorised and made in an appropriate manner.	Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key ITGCs which support the continued integrity of the in-scope IT systems. Our procedures over ITGCs focused on user access and change management and we also carried out tests, on a sample basis, of system functionality that was key to our audit approach. Where we identified design or operating effectiveness matters relating to ITGCs and system functionality relevant to our audit, we performed alternative or additional audit procedures.

Information other than the financial statements and auditor's report

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with International Standards on Auditing, 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 financial statements. 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 2022:

- We have obtained all the information and explanations that we have required;

- In our opinion, proper accounting records have been kept by the Bank as far as appears from an examination of those records.

Who we report to

This report is made solely to the Bank's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
22 February 2023

Directors' Declaration

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with International Financial Reporting Standards (IFRS) and giving a true and fair view of the financial position and performance of the Group as at and for the year ended 31 December 2022.

Signed in accordance with a resolution of the directors.

On behalf of the Directors.

Sir Kostas Constantinou, OBE
Director
Port Moresby, 22nd February 2023

Arthur Sam
Director
Port Moresby, 22nd February 2023