

2011

annual report



One Bank, One People.
Bank of South Pacific Limited



The Vision

To be the leading bank in the South Pacific

2011

annual report

Bank of South Pacific Limited

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BSP Bank Locations



BSP - Fiji



BSP - Solomon Island



BSP - Niue

- BSP Bank branches
- BSP Rural branches

The key features of BSP's strategy:

- A focus on sales and services
- High performing teams
- Operational excellence
- Profitable growth

Chairman's Report



Kostas Constantinou, OBE
Chairman

BSP's results in 2011 reflect steady net growth on a group basis. Profits are up by more than 10%, and the balance sheet has grown by K1,654 million. The results are dominated by BSP's continuing strong performance in PNG. Whilst that performance has been driven by that economy's very strong growth in the 2011 fiscal year, it has been achieved under some challenging circumstances. Globally, 2011 has seen Europe continue to grapple with an intractable debt crisis, popular but violent uprisings in the Middle East, natural disasters with devastating consequences around the world, and credit downgrades led by the U.S. In 2011, politics, nature, and the human spirit has held sway over earnings, interest rates, and capital markets, driving volatility in stocks, commodities, bonds and currencies. In our region, Asian demand for natural resources continues to fuel growth in the economies of natural resource providers including PNG. As the second decade of the 21st century progresses, we see more and more how economic prospects of emerging markets in the Pacific are so closely tied to natural resources, the economic fortunes of the rest of the world, and how in an interconnected world, their economic independence is necessarily accompanied by a variety of international relations and global associations.

Against this background, some of the Bank's achievements over the year are worthy of note:

- After tax net profit of K356 million, an increase of 26% on the after tax net profit of K283 million reported in 2010;
- Total assets of K11.7 billion, up K1.7 billion from 2010 levels;
- Dividend payments totalling K224 million were made to shareholders comprising K149 million final dividend for 2010 (at 3.13 toea per share) and K73.7 million interim dividend for 2011 at 15.4 toea per share;
- Regulatory capital ratios maintained at levels complying with the regulator's definition of "well capitalised";
- Return on equity of 28.7%, whilst maintaining investments in the company modernisation program, with key projects being delivered in the areas of customer segmentation and product development, systems operations, electronic banking, and process simplification;
- A first-of-its-kind major customer acquisition campaign, "Green Gold", which introduced about 150,000 new customers to BSP;
- Net growth in customer deposits of K2,261 million to K9,446 million with market share of 51.84% in Papua New Guinea; and total group deposits at K9,366 million;
- Loans and advances increased by net K959 million to K4,236 million with market share at 51.4% in Papua New Guinea; total gross loans of the group is K4,301 million;
- The introduction of BSP's international class BSP First customer lounge at Harbour City and a full-service branch at Vision City, in Port Moresby;
- The continued roll out of BSP Rural branches, and rural customer acquisition initiatives;
- The opening of a new branch at Lautoka in Fiji, and the transfer of the Solomon Islands head office at Point Cruz and the Mud Alley branch to the modern Heritage Park development in Honiara;

- Continued commitment to community-oriented activities resulting in 70 local community projects delivered by bank staff in PNG, Fiji and the Solomon Islands, worth in excess of K1.250 million.

As mentioned in the highlights section, BSP's capital base remains in the "well capitalised" status as defined by the home regulator, the Bank of Papua New Guinea, even though group assets have grown 16.5% or K1,654 million since last year. Group Capital adequacy is 24.2%, an increase from the 23.6% level as at year-end 2010, reflecting the strength in the structure of BSP's balance sheet and the capacity for growth.

BSP continues at the forefront of the development of electronic banking facilities in the Pacific region. BSP's SMS subscribers continue to grow in PNG and in Fiji. BSP's combined fleet of ATMs and EFTPoS machines in PNG, Fiji and the Solomon Islands is now indisputably the largest among banks operating in those countries.

Accompanied by modern communications technology, these modernised channels and service delivery platforms, supported by improved processes, are set to provide the perfect launching pad over the next few years for BSP's card-based rural banking service model, its retail product packaging and service offering, its total customer banking solutions in the small to medium enterprise segments, its online driven corporate solutions, and its highly personalised BSP First service.

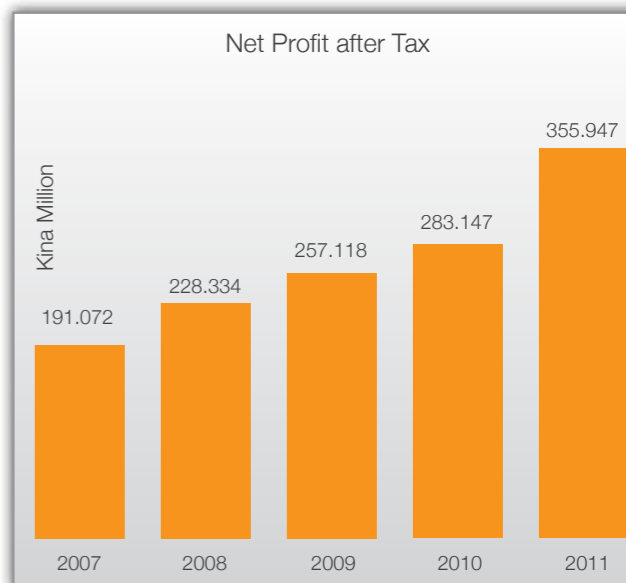
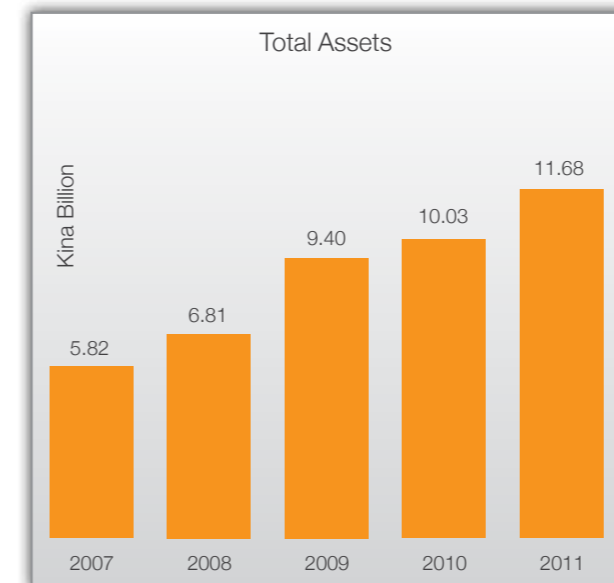
The PNG economy showed resilience during a year in which recovery from the global financial crisis of the last decade was threatened by another looming in this second decade of the new millennium, when regional neighbours were beset by natural catastrophes and more

tellingly, as political uncertainty in the country reached critical constitutional proportions. Large resource and related infrastructure projects, and high global commodity prices, continue to underwrite the economy's strong, stable growth.

Key economic data in 2011 included:-

- GDP growth estimate of 8.7%;
- Inflation of 6.9%;
- Bank of PNG monetary policy aimed at containing anticipated inflationary effects of economic growth: Kina Facility Rate adjusted upwards from 7% to 7.75% during 2011;
- Net appreciation of the Kina against the US dollar (24%) and the Australian dollar (19%) during 2011;
- Foreign reserves increased to US\$4,337m (K9,267m) at the end of 2011 representing close to twelve months import cover;

PNG's macro-economic indicators are quite healthy, but the business environment in PNG is still faced with many challenges. Political stability is being tested, as the constitutional provisions for eligibility of executive power have come under challenge during 2011, and whilst the impact has not been pronounced at a micro-level, the predictable macro level reaction by the global business community came in the form of a credit risk downgrade for PNG and its globally rated businesses, BSP included. Amongst concerns high on the list for many investors and businesses are security, the protection of commercial contractual rights and obligations, infrastructure obsolescence



and costs relating to communications, transport, and electricity, and workforce issues ranging from rising costs of local and global specialist skills, to the impact on staff of stressed social services such as public education, health and transport and utilities. Some positive signs are evident, with legislative progress made on the establishment of a sovereign wealth fund, and the mechanisms to apply the wealth to tangible physical developments. Probably more than in any other election year in PNG much hinges on the collective decision of voters in 2012. PNG is the base of BSP's growth, and this will continue to be the case in the medium to long term.

The Solomon Islands and Fiji economies performed steadily during the year, reflecting growth from 2010. In the Solomon Islands, major changes have come in the political arena, with a change of Prime Minister witnessed during the year. The economy remains heavily reliant on timber and fish exports, both industries whose respective sustainability is becoming increasingly doubtful. Much of the country's forestry resources have been logged, and concerns have been raised for some years now over the impact of commercial over-fishing on South Pacific fish stocks. Favourable prices for copra and cocoa also supported export receipts. In the mining sector, Allied Gold restructured its debt arrangements, and continues with its significant investment in mining at Gold Ridge, targeting an annual 120,000 ounces per annum, with high gold prices positively impacting estimated mine life. The RAMSI assistance programme continues to support the confidence of donors and other direct foreign investors in the country, and enabling government projects to underwrite the non-natural resource sector of the economy. BSP is confident of continued steady operations in the Solomon Islands.

In Fiji, the country's economic situation has continued to slowly but steadily improve, despite the usual bevy of natural threats in the form of cyclones, heavy rains and floods. Output from the sugar industry is improving since major capital rejuvenation efforts over the last couple of years, and exports are slowly rising. Its tourism industry continues to show signs of a return to normality, with visitor numbers and hotel bookings progressively increasing over the last 3 years. Whilst the economy is fragile, it is rebuilding, the liquidity position has improved, and business resilience is being demonstrated. BSP sees the tell-tale signs of a resilient Pacific Island economy.

I thank all staff and the executive who every day assume professional duties, and on a very regular basis, give a further altruistic flavour to their roles. Their enterprise and diligence in 2011 has enabled the bank to achieve very good results under challenging circumstances, whilst continuing with

modernisation projects. As the modernisation now translates into profitability and growth, BSP is securing a better future for its stakeholders.

I take this opportunity on behalf of the Board, management and staff, to convey a vote of thanks to Director John Kapi Nato who resigned from the Board in September 2011. John joined the board in 2006 and has made valuable contributions as a Director during his time on the Board.

To all shareholders and my fellow Board members - please accept my appreciation of your continuing support. 2011 has been a year of major achievement. I join with you in looking forward with anticipation to further achievements by BSP in coming periods.



Kostas Constantinou, OBE
Chairman

Our goal is to bring banking to all people.

That's why we lead in electronic banking services in the South Pacific.



A Brief History Of BSP

- 1957** ▶ The bank commenced operations on 1 May 1957 in Port Moresby as a branch of the National Bank of Australasia Limited.
- 1974** ▶ Operations were later expanded to several centres and on 17 May 1974 the company was incorporated as Bank of South Pacific Limited, a wholly owned subsidiary of the Australian parent, with a paid-up capital of K2.00 million.
- 1980** ▶ In April 1980 and August 1981, a total of 300,000 ordinary fully paid shares of K1.00 were issued to the public in Papua New Guinea, thus increasing the paid-up capital to 2,300,000 fully paid K1.00 shares.
- 1993** ▶ On 24 August 1993, the nationally owned company, National Investment Holdings Limited (NIHL) acquired the 87% shareholding held by National Australia Bank. On 25 October 1993, 100% ownership of the bank was achieved by NIHL, which later changed its name to BSP Holdings Limited.
- 1995** ▶ In December 1995, BSP Holdings Limited completed a successful capital raising of K2.70 million by way of a Convertible Note Issue. The holding company took up an additional 2,700,000 fully paid shares of K1.00 in Bank of South Pacific Limited, increasing the issued capital to K5,000,000.
- 1998** ▶ In October 1998, BSP Holdings Limited raised K12.90 million through a Rights Issue of shares at K3.00. During December 1998 BSP Holdings Limited went into voluntary liquidation and its shareholders now hold shares in Bank of South Pacific Limited.
- 2001** ▶ In 2001 the Privatisation Commission, on behalf of the Government of Papua New Guinea, offered for sale a 51% interest in the Papua New Guinea Banking Corporation (PNGBC) through a competitive trade sale process. The company participated in this process by lodging a bid whereby it proposed to effect the acquisition of PNGBC by way of an amalgamation under the Companies Act rather than through a sale and purchase.
- 2002** ▶ Following an appraisal of all bids lodged in relation to the acquisition of PNGBC, the commission agreed to accept the company's bid. The company, the commission and the PNGBC executed the amalgamation deed in December 2001 which provided for the implementation of the amalgamation. The amalgamation was completed on 9 April 2002.
- 2003** ▶ The company's shares were listed on the Port Moresby Stock Exchange on 27 August 2003.
- 2004** ▶ In 2004, the company returned a profit after tax of K86.65 million up from the K39.98 million result in 2003. As at 31 December 2004, shareholders' equity reached K255.63 million. During 2004, the bank acquired the Niue Branch operations of Westpac Banking Corporation.

- 2005** ▶ In November 2005, Standard & Poors (S&P) issued an inaugural credit rating for BSP. The rating was B+ Stable, consistent with the S&P sovereign rating for Papua New Guinea.

2005 saw continued strong financial performance and balance sheet growth. Profit after tax increased to K99.22 million. Total assets increased to K2.95 billion and shareholders' equity grew to K308.30 million. Market capitalisation reached K1.40 billion. During this year, Capital Stockbrokers Limited was acquired and renamed BSP Capital Limited.
- 2006** ▶ Strong balance sheet growth with total assets reaching K4.33 billion and a 12.50% increase in after tax profit to K111.62 million continued the strong growth and financial performance during 2006.

On 18 December 2006, a BSP branch was established in Suva, Fiji following the acquisition of the Habib Bank Ltd interests in Fiji.
- 2007** ▶ The acquisition of the National Bank of Solomon Islands Ltd was completed during April 2007. Now rebadged as a branch of BSP, it has the largest branch network in the Solomon Islands.

Outstanding performance continued during 2007. Total assets increased to K5.80 billion, after tax profit increased by 71% to K191.07 million and market capitalisation to K3.28 billion. Expense to income ratio reduced to 39.40%.
- 2008** ▶ Performance was strong for the year despite the broader effects of downturn in the global economy beginning to impact the PNG economy in the last half of the year. After tax profit continued to grow, with an increase of 19% over the prior year, despite the BSP Capital CDO provisioning of K50 million. Strong balance sheet growth continued despite these effects with total assets increasing by 17% to K6.8 billion and capitalisation increasing by 33% to K4.3 billion.
- 2009** ▶ BSP posted sound results as the global economic downturn continued, increasing after tax results by 13%; BSP acquired the National Bank of Fiji and Colonial Fiji Life Insurance Limited from Commonwealth Bank of Australia, contributing K1.2 billion to assets growth of K2.6 billion.
- 2010** ▶ Solid results achieved as the global economy starts a slow recovery from the Global Financial Crisis, positively impacting PNG's resource-based economy. BSP's group profit increases 10% to K283.1 million, and assets reach K10.0 billion; IFC makes significant equity investment for 10% shareholding in BSP.
- 2011** ▶ Strong performance for the year with a profit of K355.9 million being a 26% increase on 2010's results. Achieved balance sheet and profitability milestones in exceeding K11 billion in assets and K1 billion in revenue. New branches opened in Vision City, Port Moresby and flagship BSP First at Ravalien Haus, Port Moresby. Share buyback K40 million approved.

A Brief History Of BSP



Kostas Constantinou, OBE
Chairman

Director since April 2009
Appointed Chairman February 2011
Kostas Constantinou is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. He is a Chairman of various companies, including Airways Hotel & Apartment Limited, Lamana Hotel Limited, Lamana Development Limited, Hebou Constructions Limited and Alotau International Hotel Limited. He is a Director of Heritage Park Hotel Limited, Honiara, Gazelle International Hotel Limited and Grand Pacific Hotel Limited, Fiji. Kostas is a Director of two other listed companies: Oil Search Limited and Airlines PNG Limited. He is Deputy President of Employers Federation of Papua New Guinea, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea.



Ian B Clyne
Group Chief Executive Officer

Director since December 2008.
Ian Clyne was appointed as Chief Executive Officer by the Board of Bank of South Pacific Limited on 17 October 2008. He has had a distinguished career in banking and finance; his most recent appointment was Executive Vice President and Managing Director, ING Bank Slaski Group, Poland. During his career Mr Clyne, a Bachelor of Business graduate from the Curtin University, Perth, Western Australia, has held senior banking appointments in Australia, PNG, Pakistan, Hong Kong/China, France, UK, Singapore, Indonesia, Italy, and Poland, during a career with the Indosuez Bank, ING Barings and Lippo Bank. Prior to embarking on an international banking career, Mr Clyne worked in Papua New Guinea with Nambawan Finance Limited and Indoniu Finance during 1980 -1986.



Tom Fox, OBE, BEd
Deputy Chairman
Non-executive Director

Director since June 1993.
Thomas holds a Bachelor of Economics degree from the University of Papua New Guinea. He commenced his career with the Reserve Bank of Australia, and gained wide experience in senior management roles within semi-government institutions, and private sector companies, which included serving as the Managing Director of the Investment Corporation of Papua New Guinea for 8 years. He is a director of Capital Life Insurance Company Limited. Mr Fox is also a trustee for the Institute of National Affairs, and a foundation member and fellow of the PNG Institute of Directors



John Jeffery, CBE
Non-executive Director

Director since June 2001.
John Jeffery had a long and successful career in Australia before moving to Papua New Guinea in 1986 to take up a position at Madang based James Barnes PNG Limited. Mr Jeffery's current directorships include Airlines PNG Limited and City Pharmacy Limited. Also is a founding member of the PNG Institute of Directors Inc.



Gereia Aopi, CBE, MBA
Non-executive Director

Director since April 2002.
Gereia Aopi has achieved several tertiary degrees in Papua New Guinea, and a Masters of Business Administration from the University of Queensland. He currently holds the position of General Manager, PNG with Oil Search Limited. Mr Aopi is also currently a director of Steamships Trading Company Limited, POMSox Limited, Niu Marsh Limited, Endeavour Properties Limited.



Dr Ila Temu, PhD, MEd
Non-executive Director

Director since 2003.
Dr Temu achieved a distinguished academic career with the University of Papua New Guinea, the National Research Institute, the Australian National University and the University of California, Davis USA where he was awarded his PhD. Dr Temu entered the private sector during 1996 when he was appointed Managing Director, Mineral Resources Development Company. From 2000 to 2008, Dr Temu held senior positions in Placer Dome, including Country Manager, Tanzania. Since 2008, Dr Temu has been Director of Corporate Affairs for Barrick's Australia Pacific Region. He is a member of the Management Group for the PNG Incentive Fund and an executive member of the Employers' Federation of Papua New Guinea.



Sir Nagora Bogan, KBE, LLb
Non-executive Director

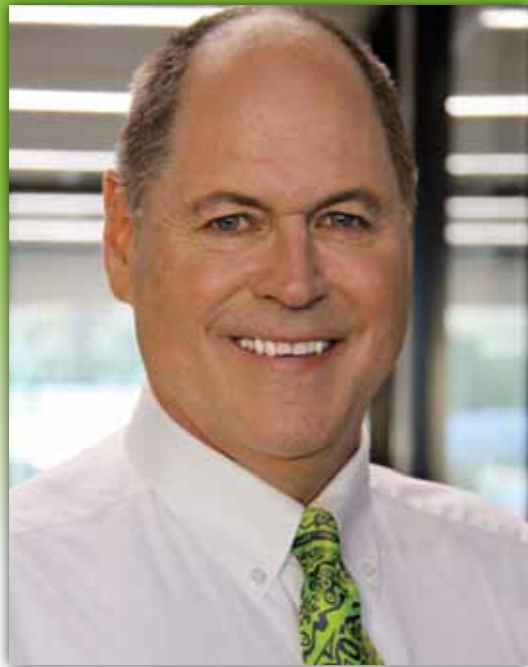
Director since 2003.
Sir Nagora Bogan graduated with a Bachelor of Law from the University of Papua New Guinea in 1978. In 1992 Sir Nagora was appointed Commissioner General of the PNG Internal Revenue Commission. In 1996, he was appointed as PNG's Ambassador to the United States with accreditation as Ambassador to Mexico and High Commissioner to Canada. In 2002 Sir Nagora became a private business entrepreneur. He is Chairman and CEO of In Touch Media Limited, a multimedia/record label company, Chairman of Nambawan Super Limited and Director on several private company boards. Sir Nagora received his knighthood during 1997 in recognition of his distinguished public service.



Lyle Procter, MEd, FFin
Non-executive Director

Director since July 2004.
Lyle Procter has been a career central banker, having spent 36 years with the Reserve Bank of Australia. He also spent several years with the Australian Department of Foreign Affairs. Since retiring from the Reserve Bank, Mr Procter has worked as a consultant to the International Monetary Fund, Washington and the Asian Development Bank, Manila. He has also worked privately as a consultant to the Australian banking industry, and in several South-East Asian countries. Other current directorships include Sun Hung Kai and Co. Limited and Quality HealthCare Asia Limited.

Group Chief Executive Officer's Report



INTRODUCTION

I am very proud to be able to report to shareholders that BSP Group has achieved another record result in 2011. Total revenue net of interest expense reached K1 billion, and net profit before tax increased by K64.2 million to K475.0 million, a 16% improvement over the previous year's record levels. Group after tax profit is K355.9 million. The record result is accompanied by continued group balance sheet growth, with total deposits growing 17% to K9,366.3 million, and net loans increasing 5% to K4,300.9 million.

PROFIT ENVIRONMENT

To put things into perspective, BSP has reached something of a milestone in its history. The Group's total Balance Sheet assets now exceed K11.7 billion, a value equivalent to about one-third of PNG's GDP estimate. Its annual revenues in 2011 have passed K1 billion and profits before tax have now surpassed K450 million. The total dividend payments made during the calendar year have exceeded K200m in 2010 and 2011.

The year's solid results have been achieved at a time when the threat of a second global financial crisis looms over global financial markets, local returns on bank bills and government securities remain at historically low levels, and the major banks in the Pacific have commenced or refreshed investments in mobile, online and automated banking in an already hotly contested market. BSP Group's underlying liquidity and capital strength and dominant market position continue to provide a reliable platform for competitive profit growth in this environment.

In PNG, BSP's local challenges continue to be high liquidity and depressed money market yields acting to reduce bank margins, and potential inflationary trends stemming from government budget utilisation as well as global prices of imports. The bank's business has begun to be conducted with very specific goals of linking system transformation and process improvement, to customer experience. BSP will be engaged in accomplishing this task for the next year or more, setting up the realisation of the benefits of the system and process improvements that have comprised much of the strategic effort to date.

In a macro economic sense, the recovery of global commodity prices has continued to directly boost PNG's export receipts, as well as attracted further direct and related investment. The LNG project continues to dominate economic activity, associated construction and other related activities again promoting estimated real GDP growth in 2011, of 10%. The real test is to translate what is being taken from beneath the ground, into tangible life-changing benefits for the lives of people above it. BSP is confident that this will happen, and is positioning itself to successfully do business in that changed environment.

In Fiji, the performance of the economy is improving. The stalwarts of the Fijian economy, tourism and sugar, have improved steadily. The recent upgrading of the country's foreign currency long term sovereign rating to B/positive outlook supports the positive view and commitment of BSP in relation to the prospects of operations in Fiji. This optimism is grounded in the reality that performance is most probably going to improve in steady and small increments for some time, before more substantive achievements can be expected. Businesses like BSP need to continually make sound, quick, and occasionally, bold strategic decisions on how to compete in markets like Fiji; BSP's efforts since 2009 are testament to this fact.

The Solomon Islands has had a relatively strong year, its economy buoyed by strong export commodity prices for timber, fisheries and other agricultural and natural resources. The continued presence of RAMSI contributes to business and investor confidence, and like its other cohort Pacific nations, the country is working to develop capabilities for a more independent and sustainable environment for economic and social growth. BSP, along with many other businesses, faces challenges with technology and communications infrastructure, transport and logistics, but business returns are still good, and opportunities still exist. For a regional business like BSP, the Solomon Islands is an important part of regional trade, economic activity, and capital flows.

CAPITAL

Perhaps one of the more sobering and timely reminders of the reality faced by businesses in our local markets is that global ratings agencies pay attention to events unfolding in the region, and not only to how external international trends and events might impact the Pacific. During 2011, PNG and BSP received a credit downgrade from the global rating agency, Standard & Poor's, following a re-calibration of its ratings methodology, taking as its starting point the condition and prospects of the local economy and key industries, and monetary and fiscal policy conduct. In essence, BSP's fortunes are seen as being very closely associated with its home country's health. For rated Pacific businesses like BSP, how economies in home countries are managed, the global linkages between capital markets, access to capital and liquidity, and the capacity to demonstrate world class industry risk management standards are now included amongst the key criteria by which businesses are assessed.

In 2011, BSP's capital management activities included a share consolidation approved by shareholders, and a share buyback. The share consolidation effectively converted ten shares into one, accompanied by an increase in the unit price of the share by a multiple of ten, to preserve capitalisation. Following the raising of equity and debt capital over the last two years to achieve capital targets to support desired asset growth, a buyback of a relatively modest size of K40 million was undertaken in 2011 to return capital to equity investors seeking to liquidate some or all of their holdings.

With PNG and the Pacific in growth mode, and with modern regulatory requirements becoming more specific

in terms of capital and liquidity, it is important that BSP develops strategies to access capital and liquidity markets in a responsive manner.

Continuing to be an attractive investment for shareholders is a fundamental goal of capital management. From an investor's perspective, all BSP's key performance indicators remain sound. These include a return on equity of 28.7%, earnings per share of 75 toea, and a group cost income ratio of 58.2%. Costs are partly affected by high claims in the insurance business; In PNG, where the majority of business improvement costs have been incurred, the cost to income ratio for 2011 is 52%. The share price of BSP recovered some lost ground during the year, closing at K7.60, after consolidation, at the end of 2011.

At the end of 2011, the market capitalisation of BSP was approximately K3.602 billion. In Australian Dollar terms, this capitalisation would have ranked BSP at number 109 by market capitalisation on the ASX top 200, just 10 places below the Bank of Queensland.

FROM TRANSFORMATION TO CUSTOMER FOCUS

In 2009, the Bank embarked on its Transformation program, with the following overarching goals which still represent the important strategic agenda for the BSP group, namely:

- to position BSP to be able to fully participate in the increased economic activity that is accompanying the PNG LNG project, and will continue as the PNG economy develops further through this decade;
- to significantly improve BSP's general banking service levels in terms of products, processes, systems and improve overall staff training levels and ultimately improve "customer service" levels;
- to ensure that BSP has the financial and operational structure and ability to support an expansion strategy in the Pacific;

The Bank is well advanced with this agenda. In 2010, major implementations were achieved at core organisational levels, in customer segmentation, in core banking system reliability and security, and in electronic banking infrastructure.

In 2011, modernisation activities continued to build outward from the core:

- Complete upgrade of the AS400 core banking system platform, together with key systems features for improved operations automation;
- Core Reporting systems extensively restructured to align with segment and product reporting needs;
- Implementation of automated reconciliation procedures in key back office and accounting functions;
- Nationwide branch network implementation of improved processes and systems in connection with account opening, delivered primarily through a first-of-a-kind major PNG bank customer acquisition campaign, "Green Gold";
- Continued roll out of the BSP Rural branches and agencies, complete with electronic banking infrastructure and systems, including trials of paperless account opening procedures;
- Completion of initiatives to strengthen system communications and redundancy options, based on the use of Digicel's national mobile telephone communications infrastructure, and Telikom's dark fibre in the NCD;
- Initial phase implementation of the modernised and re-designed internet banking facility for Retail and Corporate Segments, featuring on-line statements;
- Implementation of a modern ATM monitoring system, for more efficient management of the largest ATM fleet in PNG and Fiji;
- Implementation of a new Treasury and International system to replace an older platform;
- The roll out of the initial exclusive "BSP First" banking service offering with the opening of the BSP First lounges at the Harbour City Corporate Centre, and the premium banking chamber at Vision City Mall in Port Moresby, whilst in Fiji, a new branch was opened in Lautoka, which includes a premium banking chamber.

Over the last two years, much effort has been put in by the bank and the group, to modernise some essential tools in fundamental areas of the bank in particular. This has been a necessary first step to enabling and

achieving some long lasting improvements to the bank and group's customer service levels.

In 2012 and beyond, the focus is now on improving the BSP customer experience in all segments, by harnessing the appropriate technology, and combining relevant training, able and committed staff, and a professional work environment. This Customer First philosophy and business conduct will further cement the BSP brand as the "Number One" bank in PNG, ultimately the Pacific.

BSP continues with its commitment to the livelihoods of the communities in which it operates. From environmental cleanup activities, to sports sponsorship, and key infrastructure support or refurbishment, BSP continues to take a leading role in supporting the community. At branch level, 70 community projects were undertaken in PNG, Solomon Islands and Fiji. During the year, BSP and its people have painted classroom walls, refurbished police stations, donated blood, mopped hospital floors, handed out children's sporting equipment, collected rubbish off the streets, educated people on environmental conservation, installed water tanks, fixed playgrounds, donated disaster relief supplies, and participated in local sports tournaments.

At a corporate level, BSP has again been actively engaged again in promoting the global Go Green campaign in PNG, Fiji and the Solomon Islands, where once again, schools were sponsored to clean up their grounds and to participate in the cleanup of public areas. BSP has also supported youth, for example through the sponsorship of some important regional junior sports development programs. The globally recognised BSP School Cricket Program once again won the 2011 International Cricket Council's global award for best junior participation initiative, reaching 115,000 participants in 2011. Schools around the country also participated in a programme where they received sports equipment for performing community or clean-up activities.

BSP's community presence is an important part of engaging with host communities, especially the youth. It is a practical way to build enduring relationships with people. These projects and activities help to enable BSP to be recognised as an institution that is capable of contributing positively to people's lives, through long term commitments. Ultimately, BSP is participating in a

spirit of cooperation in the development of communities and the local economies that support them.

PRODUCTS AND SERVICES

BSP continues to operate the largest ATM and EFTPoS fleet across the Pacific countries in which it is located. By the end of 2011, BSP had 335 ATMs, the 224 in PNG and the 100 in Fiji being the largest fleet in those respective countries. In PNG, almost 28 million transactions were processed across BSP's ATMs, with monthly figures continually increasing.

There were 5,400 BSP EFTPoS machines active in the field, with PNG's fleet of more than 4,700 units across more than 2,000 merchants larger than the total combined fleet of its competitors in PNG and Fiji. In 2011, almost 11 million EFTPoS transactions were performed in PNG.

The revised internet offering has been well received in the market in the corporate and retail segments. By the end of the year, the number of transactions being performed over this channel had reached 20,000, a threefold increase on the figure for the previous year. There are other developments yet to be brought to market that will further enhance the quality of this service.

BSP's SMS banking now has over 182,000 users in PNG and 80,000 in Fiji.

Revisions of the banking product line were undertaken in the Retail and Corporate segments, as part of the general push to modernise the product line-up, and be more responsive to the evolving banking needs of clients and customers.

By the end of 2011, the number of depositor accounts held at BSP was almost 800,000 in PNG, just under 200,000 in Fiji and about 55,000 in the Solomon Islands. With current initiatives such as BSP Rural, and branchless account opening, these numbers are set to increase.

BSP's position as the leader in electronic banking in the Pacific is being further cemented by investments being made in telecommunications, mobile phone and tablet technologies to enable out-of-branch paperless account opening facilities, and lay the foundation for BSP's rural-based mobile banking model. Trials of the technology, devices and processes were performed in 2011, with further developments being carried out in anticipation of a market launch in 2012.

Fraud is a serious operational risk for BSP. Following the progress in terms of operational risk identification, monitoring and reporting, in 2011 the emphasis has been on improving procedures and training staff to prevent or detect fraud. Fraud is designed to be concealed, so prevention and detection are difficult tasks which require diligence and the aid of modern technology. At the same time as modern technology enables more convenient ways for banking products and services to be delivered by banks for its customers to access and use, technology can also be used by perpetrators of frauds, devising increasingly sophisticated and ingenious ways to illegally access or acquire funds or economic benefits. In BSP fraud investigations are performed with greater rigour, and the level of collaboration amongst banks, including the regulator, is improving. BSP continues to comply with the reporting requirements of the Proceeds of Crimes Act. BSP has a Zero tolerance policy regarding staff frauds and has processes in place to report and investigate all fraud cases and penalise perpetrators. In its financial intermediation role, BSP is charged with the custody of depositor funds, and to act under the authorised instructions of those depositors. It is incumbent upon all account holders to ensure they protect, preserve and maintain their rights of ownership and authority, and to satisfy themselves of the source and validity of the transactions being made on their accounts. Fraud seriously inhibits the ability of our communities to develop properly and it requires the efforts of all parts of our communities to eliminate it.

THE GROUP AND PACIFIC

In Fiji, the Group has completed the separation of support functions that were previously shared by the bank and the insurance operations. Both are now properly separated and largely independent but complimentary operations. The conversion of the bank subsidiary – National Bank of Fiji Ltd – to a branch of BSP was effected at the end of February 2011. The Banking operations are being undertaken in an environment that is not without challenge. Market credit growth is subdued, and competition is very fierce in the corporate and wholesale segment. In 2011, a new competitor, Bred Bank entered the market, with one branch.

The insurance business has performed very creditably in 2011, with investment values continuing to recover from negative impacts of the global financial crisis of 2008.

The Solomon Islands business returned positive results in 2011, consistent with its good performance since its acquisition 5 years ago, although there too, the market has been quiet and more effort is required to achieve good results. During 2011, the head office branch relocated into their new offices in the Heritage Park Building, to operate out of one of the most modern office fitouts in Honiara.

2011 was a quiet year in terms of the Pacific expansion strategy, with focus remaining on the Fiji businesses. The strategy remains a part of BSP's future direction.

THE YEARS AHEAD

The commitment to the transformation of BSP into a 21st century bank will be complete when the benefits of systems, processes and training improvements are translated into world class customer service. The focus of the modernisation effort over the coming years will be in the area of providing the customer with the best banking experience in the Pacific. Literally, BSP is going to become the leading bank in the South Pacific by putting its customers first.

Initiatives for new and improved products, customer service processes, technology platforms and communications systems highlighted earlier in this report and prior year reports, are all designed to deliver a distinctive quality of customer service.

2012 promises to be an exciting year for the bank and the group, in all its Pacific locations. New branches and points of representation are planned in selected locations that demonstrate with strong economic potential. This approach will use the whole range of BSP physical service channels, from BSP Rural branches and agencies, to urban centre branches, up to BSP First service lounges. Electronic banking channels are integral to BSP's growth strategy in the Pacific; The ATM and EFTPoS networks will continue to grow, in urban centres, as well as to complement the BSP Rural Agency channels. BSP's SMS mobile phone banking solution will continue to be developed to a new level of sophistication, so that when combined with the BSP Rural network and EFTPoS platform, very efficient access to banking facilities and payments systems are enabled.

There are very specific outcomes that BSP aims to achieve from all the work that is going into modernising the bank's systems and processes. A very important one is that the customer will enjoy improved products, consistent and better quality service and reliable infrastructure over a very wide regional network.

CONCLUSION

BSP remains committed to modernising the way it does business, so that the customers it serves receive the very best quality products and services, its employees develop professional skills and engage with the communities they serve, and its shareholders are appropriately rewarded for the support of their investment. Results so far are showing that BSP Group is making progress with these goals, and that the capacity exists to achieve these goals.

I extend a sincere vote of thanks to all BSP Executives, Management and Staff for their efforts in 2011; everyone at BSP is doing more for the bank, and BSP is doing more for the community. The bank's results in 2011 are a testament to this effort.

Ian B Clyne
Group Chief Executive Officer/Director





2011 Strategic Business Unit Review

The daily execution of the bank's business operations is the responsibility of the strategic business units (SBUs), Retail Bank, Corporate, Network, Treasury, Paramount Banking, Credit and Risk, Human Resources, Operations, and Finance & Planning.

Highlights of each SBU performance in 2011 include:

RETAIL BANK

The Retail Bank SBU services the transactional, loan and deposit banking requirements of the bank's Personal and Small Business segments across its combined and still expanding network of 38 branches in Papua New Guinea, 20 in Fiji, 7 in Solomon Islands and 1 in Niue.

2011 Highlights

With a focus on service improvement, BSP launched a Personal Banking service under the brand BSP First. This distinctive banking service in a very secure environment is specifically introduced to service high net worth individuals.

BSP continues to pursue its goal to increase access to finance. To provide financial services to those living in the remote areas of PNG, BSP expanded its BSP Rural agency network to 10 locations in 2011. In spite of a set back after two robberies at BSP Rural branches, customer acquisition and transactional activity continued to grow across the BSP Rural network during 2011.

BSP introduced a complete new version of its Internet Banking platform for personal customers in PNG and Fiji. In spite of the relatively low internet penetration in the region, this banking channel is appreciated by an increasing number of customers who use it at home, at work, or at internet kiosks at selected BSP branches.

Mobile phone banking continues to be a growth channel in all territories.

In 2011, BSP PNG introduced an enhancement enabling mobile phone technology to be used by agents in BSP's agency network. Selected agents now have the ability to accept deposit transactions from customers using this channel, and payments to agricultural commodity growers by commodity buyers is enabling customers to have funds electronically transferred to their bank accounts in real time when selling commodities such as cocoa or copra rather than waiting days for cash or cheque payments to be made.

A new release of our inward payments system was introduced during 2011 and an increasing number of BSP's business customers are now using this system to electronically transfer payments such as salaries to the bank accounts of their staff thus reducing cash usage in PNG. BSP also introduced salary alerts using SMS messaging.

Significant effort is being placed on the expansion and roll-out of our EFTPoS and ATM networks, giving clients as much opportunity as possible to make purchases with a debit card instead of cash or by cheque and to access their accounts at locations other than the Branch Network.

BSP offers the most extensive network of branches, agencies, EFTPoS and ATMs in PNG, Fiji and Solomon Islands to support its customers and provide greater financial access.

2012 Challenges and Opportunities

Last year BSP PNG partnered with the International Finance Corporation (IFC) to launch a Risk Share Facility aimed at stimulating the growth of small business in PNG through access to credit. Our challenge in 2012 will be to expand the SME segment in all three countries through the development of a range of effective products and services.

Retail Bank will continue to focus on efficient operations and, will progress its initiatives to further improve access to banking services and products for all of its diverse client segments. Most importantly, it will focus on programmes to re-invigorate a customer sales and service culture across the BSP network and channels.

CORPORATE

The Corporate business had an excellent year with another strong contribution to the financial performance and market position of BSP. Mid-year a new Corporate leadership team was appointed led by Mr Peter Beswick (General Manager) and Mr Patrick Bell (Deputy General Manager).

BSP continues to have the largest national relationship management team, with experienced corporate relationship managers based in Port Moresby, Lae, Kokopo, Madang and Mt Hagen.

The Corporate SBU vision continues unchanged "to be the number one corporate bank in the markets where we operate, through customer first, best people and

innovation". We strive to be better than our competitors in the corporate banking business on a range of measures including reputation, asset quality, market share, profitability, client satisfaction, innovation, and corporate governance. In realising this vision a service & sales programme supported by business tools commenced during the second half of 2011. These initiatives involve the entire Corporate team in client planning, call reporting, deal pipeline development, weekly sales topics, cross-sell, one on one reporting and pitch presentations.

The Corporate lending book increased by 7% and deposits increased by 20% in 2011. The loan growth trend is slightly below system growth indicators published by the Bank of Papua New Guinea, and again is a result of a continued focus on a strategic and responsible approach by BSP to vigilantly monitor and control the quality of its loan book especially at a time of strong economic activity. This impacts BSP's overall market share position, which has increased from 50.3% in 2010 to 51.2% at the end of 2011. On Deposits BSP's overall market share continues to strengthen from 51.6% in 2010 to 52.2% at the end of 2011.

During 2011, significant progress was achieved with respect to key transformation initiatives, to build on the customer segmentation model launched in 2010. This model segmented client relationships into Strategic, Large Corporate, Mid-Corporate and Small Business categories, based on turnover.

The key product initiatives completed during the year included a total redesign of the loan suite covering working capital, short and long term lending and asset finance. This redesign was executed through a national staff training program.

Other key product initiatives completed during the year include the launch of Online Business Banking and the business MasterCard Corporate Debit Card.

These are world class financial solutions for BSP's clients. Online Business Banking was tailored specifically for our business clients and is accessible globally 24/7. The system provides extensive functionality to view accounts, transfer money locally and overseas, BillPay, batch payments, download e-statements and manage payroll: all supported by state-of-the-art security such as 128-bit Secure Socket Layer encryption and



PNG Executive Team

Front row: Mark Railston (General Manager Treasury), Frans Kootte (General Manager Retail Bank), Robin Fleming (Group Chief Risk Officer), Ian B Clyne (Group Chief Executive Officer), Johnson Kalo (Group Chief Financial Officer), Aho Baliki (General Manager Paramount Banking). **Middle row:** Neil Gamble (Head of IT), Robert Mantel (Deputy Chief Financial Officer), Ged Allen (General Manager Network), Giau Duruba (General Manager Human Resources), Bob DeBrouwere (Deputy General Manager Human Resources), Paul Russell (Deputy General Manager Paramount Banking). **Last row:** Paul Thornton (Deputy General Manager Retail), Peter Tomich (Program Director), Frank Gamble (Chief Credit Officer/Deputy General Manager Credit & Risk), Patrick Bell (Deputy General Manager Corporate Banking), Daryl Balchin (Deputy General Manager, Security). **Absent:** Robert Loggia (Group Chief Operating Officer), Peter Beswick (General Manager Corporate Banking), Ian Mason (General Manager BSP Capital).

eToken™ pass. The MasterCard Corporate Debit Card also offers great flexibility allowing payment of expenses globally, online monitoring 24/7, multiple card issuance, access via ATM and EFTPoS. It replaces the need to provide cash for staff for business related expenses, minimises cash handling risks with enhanced administrative efficiencies.

With our focus on customer service the Client Service Centre was established in 2011. This is a 24/7 call centre that provides immediate response to clients' telephone and email enquiries, including stop cheques, cheque tracing, new cheque book ordering, lost/stolen cards, statement ordering, internet banking enquires and loan enquires.

In terms of systems and processes, the pricing model continues to operate effectively across Corporate banking in 2011. The Customer Profitability Model has been further enhanced during the year and has been instrumental in the development and rollout of comprehensive Key Performance Indicators for the national team.

In addition to product and system developments we have invested in our people with the implementation of the Personal Development Pathways training program. This program is a significant commitment by the Bank and incorporates the internationally recognised credit and lending program developed by Moody's Training Services.

The product and channel work in development is helping to modernise BSP's relationship with its clients, extending the Bank's capacity to build relationships with corporate clients outside the traditional lending products, as and when required. Product knowledge is being expanded to improve cross-business sales and service capabilities. Corporate business now views its clients through Retail and Treasury lens.

NETWORK

The Network SBU was set up in 2011 to provide a single point of focus on the branch distribution channel. Network focuses on providing services and distributing products to our external clients and we are rapidly changing the quality of our services. To enable rapid operational changes and improve the quality of customer service Network has introduced new service models, which we expect will impress our customers and facilitate the growth of the bank.

Whilst the Bank has focused on centralised processes and procedures in the Transformation programme there are still changes needed at the Branches. The 2012 focus on Customer Service will generate significant changes in Branches.

Network is a key delivery channel; it is the most commonly used channel for capturing new relationships, and accepting loan applications. The Branch is also the place where customers get person to person service, and it is thus central to the successful delivery of services to our clients. Outside of the large cities the Branches provide the service points to maintain and support ATM and EFTPoS networks which are the Bank's priority channels for transactions.

During 2011 BSP changed processes and procedures to make account opening simpler and easier both for customers and our own staff. By moving Network sales teams away from the Branches as a part of the "Green Gold" programme and reaching out to places where people congregate, for example major corporate premises and local markets and schools, BSP achieved the highest single year growth in the number of customers in the history of the bank. In the 5 months of the programme the customer base grew by 20%, which is a significant achievement.

The "Green Gold" campaign is really about changing customer behaviour by driving them into electronic channels; in 2011 the programme emphasised the ATM and EFTPoS channels. In 2012 we expect to see the benefit of this through the ratio of electronic transactions growing even more strongly than in the past.

Challenges identified in 2011 are the rising incidence of cheque fraud, and the need to contain costs. The management of staff and premises are themselves large activities but Network is also in the front line of managing operational risk and in particular cash and cheque related fraud.

During 2011 instance of fraud attempts using procedures for Special Clearing of cheques increased. It was necessary to reduce the speed of our responses to Special Requests, effectively removing the service. We hope to re-establish this service when we have further automated fraud detection activities. We have taken some important steps in 2011, for example the introduction of cheque scanners in PNG which moves us ahead of our rivals in the introduction of new technology to prevent attempted frauds using cheques.

This is the first part of larger Network automation plans to ensure we make operations simpler, safer and quicker for our staff. By achieving this we will also reduce the time it takes us to service our increasing customer base which will assist in reducing queues in the Branches.

Our physical branches can be improved in a number of areas, one being the age and quality of some buildings to bring them up to the standard we desire. The renovation work programme will continue it over the coming years, along with a strategy to match the branch channel network to fit local economies.

TREASURY

The role of BSP Treasury is to:

- foster relationships with clients and Network to profitably provide Financial Markets services; and
- act as “Banker” to the bank managing market risks, funding, liquidity, capital and capital planning. This includes managing the bank’s exposures and liquidity levels in line with prudent and ALCO directives and delegated authorities.

In PNG higher commodity prices and a full-year of foreign currency capital inflows relating to the PNG Liquid Natural Gas project construction phase were the main drivers of the PNG kina appreciating 23% from U.S 37.85 cents to U.S 46.65 cents in 2011 within a low domestic interest rate regime due to high levels of domestic liquidity.

System foreign exchange turnover rose about 17% in 2011 compared to 24% in 2010 with our market share rising to about 27.5%. BSP’s dealt foreign exchange volume rose by about K1.13 billion. We were able to maintain the spread on the higher volume of transactions although this did require a higher average limit utilisation – in combination the Bank’s foreign exchange earnings rose by about 40% in 2011 to about K203 million (overall FX earnings which includes trade finance, International and all the other lines).

The banking sector grew K2.447 billion in 2011 with the Bank’s holding of Central Bank and Government securities increasing by K887 million. Yields increased, although by less than planned, from 2.35% for 28 days and 3.43% for 182 days in 2010 to 2.69% and 3.85% respectively despite over K300 million surplus market liquidity remaining in the banking system on an average

weekly basis. This has led to earnings on Group liquids and investments to be about 5.66% on an average balance of about K3.9 billion for 2011.

Assisted by KPMG’s project management the Bank went live with Phase 1 of the new Treasury platform, SunGard’s Sierra, in conjunction with the branch network’s MAPS payments system in October. This was a pre-requisite for enhancing the existing business banking internet platform, to provide improved operational controls and functionality. Start up issues were identified and resolved with good results. We have also completed post-implementation work with SunGard to resolve non-customer impacting issues.

PARAMOUNT

Paramount Banking continued to perform well in 2011, above its budget expectations. The banking system continued to experience high levels of liquidity and the Bank of South Pacific was no exception.

The decision by Bank of PNG to withdraw Government Trust Funds held in Commercial Banks in 2011 was a big challenge as BSP held over K600 million in various Government Trust accounts. Nevertheless, Paramount Banking’s liability portfolio stood at K4.212 billion with the National Government continuing to be a major depositor.

The strategies and objectives from 2010 and 2011 will continue to be enforced in light of the prevalent high liquidity and subsequent low interest rates.

In October, Paramount Banking transferred its six Banking Services Centres to Network Business Unit to focus on relationships with its High Value Clients including Land owner groups.

- Ten new landowner groups opened bank accounts with over 200 other accounts increasing the number of accounts to 1,628, a growth of over 2% per annum;
- Two new positions of community liaison officers will be established in 2012 to focus on Land owner and related businesses associated with LNG and other Resource developments.

Our relationship with all high value clients including the national government will be our main focus in 2012 and beyond.

Paramount Banking will continue to co-operate with the national government with its initiatives and policies for delivery of banking and financial services to the people of PNG and the South Pacific.

One of the new initiatives the new government will be launching in 2012 is the Free Education Policy to all Schools in the Country and negotiations are well underway with Education Department to facilitate payments via Kundu Pei, the bank’s branded bill pay solution.

CREDIT AND RISK

Credit & Risk SBU has responsibility for critical risk management functions across BSP. The specific business units are Credit, which has credit underwriting and portfolio management responsibilities, Operational Risk, which has broad operational risk involvement across the network, Asset Management, which manages the distressed asset portfolio, and Credit Inspection, which provides an independent assessment of credit policy compliance.

Highlights of the individual business units in Credit & Risk are summarised below. Notwithstanding that Audit and Legal report to the CEO their respective business highlights are included in the Credit & Risk report for 2011 for purposes of completeness.

Credit

The construction and development activity associated with the PNG LNG project continued to underpin economic activity, and consequent lending growth, across all sectors of the economy in PNG. Diversification of loans across key economic sectors continues to be closely monitored to ensure no significant concentration risks develop that may impact the stability of the asset performance.

Whilst economic growth forecasts are positive, and in many respects envied by more developed economies, the property market would appear to be moving to a situation of over supply after many years of excess demand in the market, which will have impacts on rental yields and capital growth. Caution will continue to be exercised by BSP in lending to this sector. Performance of the loan portfolio remains sound with no major negative performance indicators evident. While delinquency and loss rates have increased marginally compared to prior year, key delinquency and past due

ratios are better than developing economy benchmarks. Significant focus remains on delinquency trends and will continue during 2012.

Lending Policies and Procedures are reviewed on an ongoing basis with significant process changes made during 2011 focused on improving controls and reporting, thereby moving the Bank towards compliance with best practice credit risk management standards. Following the Credit Inspection of Fiji full compliance with BSP Group Lending Policies has now been confirmed by Fiji management completing the process commenced last year following the change of Fiji status to a full branch rather than a subsidiary. Some Fiji and Solomon Islands specific policy amendments are adopted where necessary due to environment or legal structure in those countries.

Additional work remains under way in respect of some major projects in Credit. Activities include ongoing refinement of capital pricing tools, portfolio reporting tools, the upskilling of staff using the Moody’s analytical training programme, and an accreditation programme identical in most respects to that used by a number of global banks.

One significant area of policy and process enhancement in 2011 was the adoption of a Social and Environmental policy aligned with global bank standards to ensure the minimisation and mitigation of reputational risk to BSP. This involves the inclusion in the credit process of a S&E review of all non Retail customers to provide the bank with an understanding of these risks for each customer and how (if any) they are mitigated. Further work has been done around the credit aspects of the launching of a Small & Medium Enterprise product set on a credit scored or partially credit scored basis to provide low touch low cost delivery solutions. Finally policy involvement from Credit in the launch of the Risk Sharing with the Government of PNG and IFC has been significant.

Credit Inspection

In 2011 Credit Inspection developed and introduced new assessment procedures and a rating methodology for BSP Corporate. The aim of this exercise was to make it easier to measure the quality of credit standards, BSP policy compliance and clearly identify areas of the credit process that required improvement.

In 2011, six credit inspections were completed for BSP Corporate including a country audit for BSP Corporate, Fiji. On average, the Credit Inspection BU has inspected 57% of the corporate portfolio (by Kina value of exposure) for against a minimum benchmark of 40%.

Credit Inspection introduced compliance monitoring procedures in 2011 to ensure that all significant material issues identified during a credit inspection are satisfactorily addressed within a specific timeframe (i.e. 90 days). It has also identified specific areas of the credit process that require improvement and steps have been taken (or are currently in process) to improve these areas including BSP's internal Risk Grade system and BSP's minimum standards of expectation in respect to property valuation reporting.



Credit Inspection BU plans the following initiatives for 2012:

- Introduction of new credit inspection assessment procedures for the BSP Retail Network (specifically in relation to BSP Personal Loans);

- Revision of the rating methodology for BSP Corporate credit inspections;
- A BSP Corporate credit inspection plan has been introduced for 2012;
- Credit Inspection BU will continue to monitor compliance with Material Issues identified from the credit inspection process.

The launch of Credit Inspection Training Programs (i.e. one on one coaching and group training sessions to address the main credit issues identified in credit inspections).

Asset Management

2011 saw a slight increase in new loans for the year and overall balance of loans held in non accrual increased by just over 10% for the year. Some of our large successes during the year were offset with transfer of new loans in the retail consumer sector. Whilst the PNG property market remained strong overall there were indications of property values stabilising in some areas of Port Moresby with the prospect of demand easing in 2012. The Bank's position has continued to show the benefit of the tighter credit assessment of loan applications.

Court/legal litigations continue to be adversely affected by delays, however the Bank, where considered necessary or commercially viable, will continue to pursue this avenue of recovery.

Operational Risk

The key focus of Operational Risk during the year was in the embedding of the Operational Risk Management Framework (based on the Basel II Standardised Approach Model) across the BSP Group and the strengthening and enhancement of Operational Risk Management tools to support this Framework. These have resulted in increased levels of awareness of Operational Risk throughout the organisation compared to the prior year.

Highlights of the operational risk initiatives undertaken during 2011 include:

- Development and implementation of the Magique risk and incident management database. This centralised repository is aimed at improved data capture, data management and visibility of risks and operational incidents across the BSP Group;

- Continuance of processing mapping, risk and control analysis and where required risk mitigation plans for key Bank processes;
- Developed monitoring tools (key risk indicators) to assist Management better monitor their operational risks in their Business Units;
- Improved monitoring and analysis of non-lending related losses across the Bank;
- Assist Executives and Senior Management with analysis and regular reporting of operational risk issues;
- Annual identification of the Top 20 enterprise wide risks across the Bank;
- Completion of the Business Impact Analysis as part of the overall review of Business Continuity Management (BCM) Framework, which will lay the foundation for the development of BCM plans in early 2012;
- Enhanced the process in investigating fraudulent transactions; and
- Conducted regular operational risk, anti-money laundering and fraud awareness workshops across the Bank.

A number of these activities will continue into 2012 with a renewed focus on staff development and empowerment to continue proactively driving Operational Risk objectives across the BSP Group.

Internal Audit

BSP has independent internal audit functions in Solomon Islands, Fiji (both the Bank and Life operations) and PNG with these various teams reporting, through the Head of Internal Audit, functionally to the Board Audit Risk and Compliance Committee (BARCC) in Port Moresby and administratively to the Chief Executive Officer (via the respective Country Managers). The PNG team was expanded in early 2011 following the creation of seven Branch Audit Officer positions (based in selected branches throughout PNG).

Two additional Audit Managers were also recruited during the year, taking the PNG complement to a total of 30 positions.

The ongoing engagement of the Port Moresby based accounting practice Pricewaterhouse Coopers (PwC)

continued during 2011, following their prior year review of the bank's audit processes, procedures (methodology) and technology. PwC's review resulted in the introduction and rollout of a new audit methodology, commencing in May 2011. This was a major exercise whereby PwC provided specialised training and coaching in both classroom situations and workshops to upskill the staff across all of the audit teams. To further consolidate the training PwC led cross functional audits in a number of key business areas.

Legal Services

With the increasing demands on Legal Services department it became apparent that there needed to be a separation of the internal legal function from company secretarial and compliance. Legal Services will have carriage of in house legal matters and internal legal advice to departments within the bank. Company Secretary will have responsibility for compliance with POMSOX reporting requirements, BPNG regulatory requirements, corporate compliance requirements, investor relations and also Board secretarial functions within the bank.

HUMAN RESOURCES

The Human Resources SBU is a key strategic partner in the Bank.

In 2011, the HR SBU implemented the following key initiatives under its core HR Management functions with the other SBUs in line with the Transformation Program.

Recruitment & Selection

Recruited a number of experienced expatriate officers with international banking and financial exposure for senior management roles in the Bank.

- Engaged a resource person and upskilled the HR Recruitment officers to use the Assessment Centre methodology in the recruitment process. This included the use of various psychometric tests and interview guides;
- Visited the PNG based Universities for career talks and recruited 25 fresh graduates for the 2012 graduate development program;
- Recruited 150 temporary staff in a timely manner as part of the "Green Gold" project.

Training & Development

- Trained branch tellers in the key features and benefits of Kundu and Smart Saver accounts, mass market segment products launched by Retail and Network SBUs to drive fee income volumes;
- In line with the “Green Gold” campaign, upskilled the tellers at the branch operations to use the ultra fast path functionality of the core banking system to open new Kundu accounts;
- Acquired Certification Four (4) accreditations, and with this qualification, the training courses conducted by our training officers are recognised by the PNG National Training Council;
- Conducted a number of leadership development courses for our middle and senior management employees and team leadership/change management for our team leaders especially in branch operations.

Remuneration Management / Succession Planning

- Identified 150 critical roles in the Bank and established processes to manage potential successors to mitigate operational risks. Employee benefits offered to some of these critical roles especially roles occupied by national officers were reviewed in order to be competitive in the labour market;
- Completed the bank wide Hay job evaluation programme as a result of organisation restructures and based on the business need presented by the business units, implemented the revised job grade and salary levels to attract and/or retain good employees.

HR Operations

The employee self service module of the Human Capital Management system was fully implemented. The manager self service module, training for managers conducted, and the implementation is scheduled for first quarter 2012.

Key management information and decision making reports are being produced by the system on a fortnightly and monthly basis, depending on the need. With the implementation of the manager self service module,

we will be able to automate a lot of the manual HR processes and improve HR operational efficiency.

Total headcount was 2878 (BSP PNG) and 3827 (BSP Group). Staff turnover in 2011 was 12.0% compared to 7.4% in 2010.

Total training mandays increased to 8861 mandays from 8366 in 2010. This equates to about 3.0 manday per employee.

OPERATIONS

The Operations SBU contains the following Business Units:

- International Operations
- E-Channel Operations
- Lending Support & Collections
- Project Management & Transformation Office
- Information Technology
- Information Security
- Support Services
- Security Services

From a premises perspective the year was marked with major improvements within the Bank's physical infrastructures in Port Moresby. Occupancy was taken on new premises at Ravalien House in Harbour City which now houses Executives as well as Corporate Banking, Credit & Risk, Treasury and the initial location for BSP First, our elite personal banking service. The Bank also activated its new location in Vision City, Port Moresby's foremost shopping centre with a BSP First as well as Premium Banking services offering extended hours to those clients who need that extra service. Lastly, several significant upgrades of existing locations were undertaken and completed at Boroko Banking Centre and Waigani Banking Centre.

Extensive planning and design work has also been undertaken related to the build of the new Pacific Operations Centre (POC) in Waigani. Once completed the building will house up to 900 staff working within the Operations, IT, Network Management and Retail Banking areas. This will enable staff to work on a much more collaborative and efficient basis without the need for the current level of travel to different buildings within Port Moresby. Simultaneously the Bank is also working on the development of new state of the art Data

Centre and Security buildings at the existing Gordons Commercial site. Both the POC Waigani as well as the developments at Gordons will commence with ground breaking in March 2012 and are expected to be completed by Q4 2013.

In 2011 the Bank took control of ATM fleet maintenance and expanded the network in PNG to 225 units to service customers. The BSP network also features 100 in Fiji and 17 in Solomon Islands. This makes BSP the largest ATM provider in the South Pacific and, as such, we dominate most markets in which we operate. BSP ATMs accept cards from most Schemes – Visa, MasterCard, Union Pay and Pulse – making it the ATM of choice for a large segment of the population and visitors to the region. In-country ATMs also accept locally issued debit cards issued by competitor banks so their customers, too, can access and enjoy the service of the largest ATM network in the region.

Merchant EFTPoS represents another major channel for the Bank. Again we dominate the market with over 4,700 EFTPoS terminals in PNG alone. BSP is at the forefront of innovation with the introduction of relatively low cost Point of Pay EFTPoS terminals completed in Fiji with a pilot implementation in PNG set for early 2012 before a large scale rollout. This same terminal will also have banking functionality, used as the platform for “Bank In a Box” which is the basis for BSP's Rural Banking initiative, a programme recognised as a leader by world development organisations for providing services to the under-banked. As with its ATMs, BSP EFTPoS terminals accept cards from the Schemes listed above as well as American Express (in PNG).

With the largest fleet of ATMs and EFTPoS terminals in the region BSP has also invested heavily in the automated systems and logistics to provide around the clock service even in the remotest locations. When BSP says “Go Green” we mostly refer to our environmental campaign; but we can just as easily refer to our distinctively branded ATMs and EFTPoS terminals.

In PNG the Project Management & Transformation Office is closely working with Information Technology to build on the successes of 2010 and combined in 2011 to deliver multiple initiatives during the year:

- Both versions of Internet Banking (Retail and Corporate) were revamped with the provision of new functionalities such as real-time account transfers within BSP, third party transfers, FX transfers, eStatements, extensive transaction history inquiries and the introduction of One Time Passwords for additional security over transactions (delivered by eToken or SMS);

- SMS Alerts were launched to inform customers of account activity; this is particularly useful (and time saving) for notification of salary deposits;

- BSP's market leading SMS Banking capability was upgraded on two fronts. First, the Cash In Cash Out feature was added which is the basis for Agency processing using mobile phones. Second, with the recognition that banking by mobile phone is a major service channel, the system was upgraded making it more robust and less affected by service interruptions. Since implementing the upgrades the system availability has risen to 99.8%, and this is set to improve further;

- Supporting BSP's service initiatives, it is critical that ATM and EFTPoS systems are available “all the time”. We regularly achieved 99.99% availability for these critical front end channels and for 7 months of 2011 we achieved 100% availability;

- BSP's Green Gold campaign to encourage electronic channel usage was supported by collecting transaction information in a secured environment and developing a draw program to select the monthly and grand prize winners, with the entire process conducted in a transparent, independently monitored process;

- MasterCard Corporate Debit Cards were launched to the market, making BSP the first Bank in PNG to issue Corporate MasterCards (although all major banks Acquire MasterCard transactions);

- New, streamlined systems were implemented for processing inward and outward remittances in the branches. The real power of this capability was realised when the new Treasury system was implemented as the FX processing was automated via an interface to the Treasury system.

There were additional IT initiatives to provide a more robust platform to the Bank. Many of these were invisible to internal and external customers but they all further improved the Bank's solid IT base:

- Many of the Bank's servers were upgraded during the year. In particular the Bank's core banking (IBM iSeries) machines were upgraded, as were the Stratus front end processors that support ATMs and EFTPoS terminals;

- Communications to branches outside of NCD were significantly enhanced by leveraging the facilities of

a mobile carrier. This capability, provided to all non-NCD branches except 4 in extremely remote areas, means the services offered in the NCD area can be replicated in other areas without concern about bandwidth used by applications;

- Within NCD we commenced the rollout of optical fibre around the city. This rollout is expected to be complete in 2012;
- A project to refresh the Bank's branch technology was initiated. This will continue in 2012 and when completed it will deliver new racks, servers, routers switches and local data storage for all branches outside of NCD along with the ability to implement future upgrades and maintenance remotely thereby eliminating the need for travel to these locations in many cases;
- A purpose built Network Operations Centre that monitors all devices connected to the BSP network was made operational. In one place we can see what lines and network devices are available/unavailable and the facility provides drill-down capability to analyse connectivity problems.

The combination of these initiatives across the Operations SBU has significantly improved the delivery of services to both internal & external customers which has ongoing focus in BSP, and further developed the physical infrastructure the Bank needs to deliver its goals.

FINANCE AND PLANNING

Projects

ICBS General Ledger re-structure was a major project undertaken by Finance & Planning, implemented successfully in February 2011. The benefit of ICBS General Ledger re-structure has now been realised. Finance is able to meet the needs of its business partners (SBUs) and external clients.

Finance & Planning had significant involvement with other SBU projects. This included the replacement of the Treasury system which was implemented in October 2011.

The accounting system in Solomon Islands was replaced with the SUN accounting system which is used in PNG. SUN system in the Solomon Islands was effectively put into operation in July/August 2011.

Management Reporting

Management Reporting continues to focus on practices and techniques aimed at providing managers with financial information in a timely manner to help them make informed decisions and maintain effective control over their SBU resources.

The main focus for this year was to develop and understand the essential business and financial information requirements; ensure data integrity through automation and implement better processes & standardisation. This is an area which requires continuous improvement.

Further areas of focus in 2012 are:

- Understanding of more specific stakeholder requirements;
- Drill-down capabilities in systems (Sun/ICBS) to facilitate meaningful analysis;
- Use of standardised templates;
- Improve the overall quality, accuracy, timeliness and relevance of management information provided to stakeholders;
- Develop a financial scenario modelling tool;
- Continuous review of end to end reporting processes including identifying opportunity for automation;
- Cost allocation review.

A total of seven business controllers with their assistants are embedded in the SBUs. Their objective is to meet the financial and non financial information needs of their respective businesses.

People

2011 was a challenging year for Finance & Planning. Staff were working under pressure to meet deadlines, meeting increase demands in reporting requirements due to increase in business and the expansion of BSP. They juggled "business as usual" (BAU) functions and transformation projects/tasks.

Finance & Planning's ultimate goal in people is to develop them to gain more skills in numbers and analytics (interpret numbers to people) and to develop the skills to apply their analysis in a commercial sense.

Finance & Planning's continuous focus for improvement will be around the following areas:

- Develop appropriately qualified (CA/CPA) staff with project management, analytical and commercial skills and an in-depth understanding of the business (e.g. through rotation programs, high performer programs and training courses);
- Workforce management – people management skills, coaching and training;
- Refresher programme to increase retention of high performers in Finance and succession planning;
- Develop KPIs to assess Finance's performance (individual and collective) through ongoing feedback from the business;
- Recruitment of experienced financial analysts to address analytical skills gap.

Business Planning & Analysis

The Business Planning & Analysis function in Finance & Planning is responsible for:

- Global Planning, Budgeting and Forecasting;
- Mid month financial preview;
- End of month management accounting procedures.

The budget process for the up coming year or so commences in October and concludes in December. The budget provides a financial map of the plans for implementing the Bank's strategies, which are formulated in accordance with the Bank's vision of being the leading bank in the South Pacific. The Budget is an integral component of the Banks planning framework and is developed in the context of the Bank's Strategic Priorities.



Thus the budget:

- Reflects the Bank's overall objectives & strategies;
- Incorporates targets with respect to operating expenditure and revenue generation;
- Provides bonus incentives for high performers and ensures the strategic components in the budget at SBU's level are focused on resourcing the strategies required.

The 2011-2012 budgets covered all aspects of the Bank's Operations in all SBUs. Business Planning & Analysis played a major role in co-ordinating the current strategy review process for the banks SBUs and subsidiaries and assisted in compiling the accompanying financial plans using the new INFOR planning, budgeting & forecasting tool.

Compliance and Risk Control

Compliance & Risk Control is one of the functional areas of Finance & Planning. The main functions include, risk and internal control management, policy & procedure documentation, compliance reporting, business continuity and audit response.

Planned 2012 activities in Compliance & Risk Control are:

- Update Current Finance policies and procedures, including standardised documentation;
- Monitor compliance to policies and procedures; and
- Develop and undertake training for business and Finance staff in new policies and procedures.

Financial Accounting

The main purpose of financial accounting is to manage general ledger operations, and prepare financial reports that provide information about BSP's performance to external parties such as investors, creditors, and tax authorities.

Financial Accounting is responsible for the production of the financial accounts of BSP Group. The team in Financial Accounting produce the half year and the full year accounts, as well as the statutory POMS0X reporting.

The team now oversees the accounting consolidation of group assets of more than K11 billion across four countries.

Procurement

2011 saw the establishment of the Procurement function in BSP. A number of major initiatives have been completed that have generated real savings in expenditure for the business. The major ones were preferred supplier agreements for new vehicles, desktop and laptop computer equipment, replacement of the previously leased printing & copying fleet with a more efficient and cost effective solution, and supply of new BSP staff uniforms for the entire Pacific business.

Review of internal business practices and processes in future will see a higher level of visibility for expenditure management and a subsequent reduction in expenditure. Internal process improvements continue to be made to achieve substantial reductions in the payment process time for BSP suppliers.

We're here to ruffle some feathers.

No other bank goes where we go.
The largest branch, ATM and electronic network anywhere.
Providing global thinking with local expertise.
That's why we are The Leading Bank of the South Pacific.

One Bank, One People.

BSP
www.bsp.com.pg



We are a bank that listens

Corporate Governance

BSP has adopted an approach to Corporate Governance that is underpinned by its core values of Integrity, Leadership, People, Professionalism, Quality and Teamwork. This approach is supported by a comprehensive framework of Corporate Governance principles and policies. The BSP Board has demonstrated its commitment to developing and maintaining a standard of corporate governance that seeks to match global practice.

The Board ensures that it complies with the requirements of BSP's home exchange, Port Moresby Stock Exchange ("POMSOX"). It also closely monitors developments in corporate governance principles and practice within Australia and has benchmarked itself against:-

1. ASX Corporate Governance Council "Corporate Governance and Best Practice Recommendations"
2. Australian Prudential Regulatory Authority Prudential Standard APS 510
3. Standard Australia AS 8000-2003 Good Governance Principles

BSP is mindful of the advantages of demonstrating to investors that its corporate governance standards meet the requirements expected of companies listed in countries such as Australia. This Corporate Governance Statement therefore compares BSP's corporate governance practices to the ASX Corporate Governance Council and Best Practice Recommendations.

BSP manages in excess of half the banking market in Papua New Guinea, and is predominantly owned by institutions and individuals in Papua New Guinea. The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea. The set of Corporate Governance principles developed by BSP is intended to provide a framework that will help to ensure that BSP deals fairly and openly with all its stakeholders – shareholders, customers and staff alike.

BSP publishes its corporate governance practices on its website. This is available at www.bsp.com.pg in the shareholders section.

1. THE BOARD OF DIRECTORS

a) Role and Responsibility of the Board

The roles and responsibilities of the Board are defined in the Board Charter. This document also details the matters reserved for the Board and matters that have been delegated to management. The Board, with the support of its committees, is responsible to the shareholders for the overall performance of the company including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising company performance and increasing shareholder value.

Key functions of the Board include:

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

- selecting, with the assistance of the Audit, Risk and Compliance Committee, and recommending to shareholders, the appointment of external auditors;
- approving financial statements.
- a number of these responsibilities have been delegated by the Board to various committees. The committees and their responsibilities are detailed below under Board Committees.

The Board has delegated to management responsibility for:

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

- keeping the Board and the market fully informed of material developments.

b) Membership, expertise, size and composition of the Board

The Corporate Governance Principles affirm that the majority of the Board should be independent. As is typical of small financial markets generally in Papua New Guinea, there are very considerable demands on the relatively small numbers of people with the skills and experience to fill the demanding role of Non-Executive Director on the Boards of the Nation's larger corporate institutions. In these circumstances it is inevitable that a number of the Non-Executive Directors of BSP will also have roles on the Boards, or in Senior Management, of institutions that may be significant shareholders in, or substantial customers of, the bank. Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interests in advance, and absenting themselves from any consideration of matters where a conflict might arise. The bank's Corporate Governance Principles require Directors to disclose any new Directorships and equity interests at each Board meeting.



Vision City, Port Moresby

The maximum number of Directors, as prescribed by the Constitution approved by shareholders, is ten. At the date of this report there are ten Directors, with nine Non-executives designated as independent, plus the Chief Executive Officer. Under the Constitution, at each annual general meeting one-third of the company's Directors, in addition to any Director appointed during the year, excluding the Chief Executive Officer, must offer themselves for re-election by the shareholders. Normally, Non-executive Directors are expected to serve a maximum of four three-year terms, dating from the AGM at which the newly elected Director is first confirmed by shareholders. This provision has effect from the date the bank took its present form, following the merger of BSP with the Papua New Guinea Banking Corporation in April 2002. The Board will apply this provision with a degree of flexibility should it be necessary to ensure appropriate continuity, bearing in mind the particular circumstances of the Papua New Guinea market.¹

The Board has a broad range of skills, experience and expertise that enables it to meet its objectives. Details of the Directors' business backgrounds and experience are provided on pages 10 and 11.

The Board accepts that it has a responsibility to shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership, and consequently gives careful consideration to setting criteria for new appointments it may recommend to shareholders in accordance with the company's Constitution. It has delegated the initial screening process involved to its Remuneration and Nomination Committee which, in accordance with its Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

Nominees of the Board and/or shareholders must meet the "fit and proper person" criteria established by the Bank of Papua New Guinea before they can take their place on the Board. The Board does not accept that any office bearer and/or employee of an institutional shareholder, by virtue only of his/her position within that organisation, have an automatic right to be appointed to the Board.

On joining the Board, new Directors will be provided with a comprehensive orientation programme.

¹ For example, to avoid a situation where a number of Directors would otherwise be approaching retirement date at around the same time, or to recognise circumstances when suitably qualified candidates may not be immediately available.

c) Role and selection of the Chairman

The Chairman is elected by the Directors every two years and holds the position for a maximum of three terms. His role includes:

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

The Chairman is not permitted to occupy the role of Chief Executive Officer.

Kostas Constantinou, OBE, who sits on the Board as an independent Non-Executive Director, is the current Chairman.

d) Director independence and Conflict of Interest

Directors are determined to be independent if they are judged to be free from any material or other business relationship with the bank that would compromise their independence. Prior to appointment Directors designated, are required to provide information to the Board for it to assess their independence.

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

- the Director is not an executive of the bank;
- the Director is not a substantial shareholder of the bank or otherwise associated directly with a substantial shareholder of the bank;
- the Director has not within the last 3 years been a material consultant or a principal of a material professional adviser to the bank or a group member, or an employee materially associated with the service provided;

- the Director is not a material supplier to or customer of the bank or other group member, or a material consultant to the bank or other group member, or an employee materially associated with the material supplier or customer;
- the Director has no material contractual relationship with the bank or other group member other than as a Director of the bank;
- the Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the bank.

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

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

The Bank of Papua New Guinea sets prudential limits on loans to "associated persons": Bank South Pacific fully complies with these requirements.

Financial Note 30, Related party transactions, on pages 100 - 103, provides details of Directors' interests.

e) Meetings of the Board and attendance

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

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess BSP

management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board members one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Financial Note 31, Directors' and Executive remuneration, on pages 104 - 106, provides attendance details of Directors at Board meetings during 2011.

f) Review of Board Performance

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

g) Board Access to Information and Advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties. The General Managers make regular presentations to the Board on their areas of responsibility. The Chairman and the other Non-Executive Directors have the opportunity to meet with the Chief Executive Officer and the General Managers for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

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

2. BOARD COMMITTEES

a) Board Committees and Membership

The Board has established two committees whose functions and powers are governed by their respective charters. These committees are the Audit Risk and Compliance Committee, and the Remuneration and Nomination Committee.

Membership of the committees and a record of attendance at committee meetings during the year is detailed in table below. Remuneration details are provided in Financial Note 31 on page 104.

Membership of Board Committees as at 31 December 2011

	Board Audit Risk and Compliance Committee	Remuneration and Nomination Committee
John Jeffery	6/7 Chair	
Nagora Bogan	5/7	
Gerea Aopi	2/7	
Tom Fox	5/7	Chair 4/4
Lyle Procter		2/4
Ila Temu		4/4

b) Committee Charters

The Committee Charters are available in the shareholders information section of the BSP website www.bsp.com.pg

c) Committee Structure

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

The Audit Risk and Compliance Committee is comprised of three Non-Executive Directors, a majority of whom should be independent, and who are duly appointed by the Board. The Chairman of the Audit Risk and Compliance Committee must be one of the independent Directors, other than the Chairman of the Board. Each member

should be capable of making a valuable contribution to the committee and membership is reviewed annually by the BSP Board.

The Remuneration and Nomination Committee comprises three Non-Executive Directors, the majority of whom should be independent, and who are duly appointed by the Board. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board. Each member should be capable of making a valuable contribution to the committee, and membership is reviewed annually by the BSP Board.

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

d) Board Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee is delegated by the Board with responsibility for reviewing and monitoring the:

- integrity of the financial statements and the financial reporting and audit process;
- external auditor's qualifications, performance and independence;
- performance of the internal audit function of the bank;
- performance of the operational risk function of the bank;
- systems of internal control and management of all risks;
- systems for ensuring operational efficiency and cost control;
- systems for approval and monitoring of expenditure including capital expenditure;
- processes for monitoring compliance with laws and regulations (both in Papua New Guinea and overseas);
- implementation of Board decisions by management and making recommendations to the Board for the appointment of the external auditor;
- annual internal audit plan and its ongoing review.

In the course of fulfilling its mandate, the committee meets with both the internal and external auditors without management present.

i. Annual Financial Statements

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

- pays attention to complex and/or unusual transactions;
- focuses on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies;
- meets with management and the external auditors to review the financial statements and the results of the audit;
- reviews the other sections of the Annual Report before its release and considers whether the information is understandable and consistent with members' knowledge about the bank and its operations;
- satisfies itself as to the accuracy of the financial accounts, reconciles them with management accounts presented to the committee, and signs off on the financial accounts of the bank before they are submitted to the Board.

ii. External Audit

The Audit Risk and Compliance Committee is responsible for making recommendations to the Board on appointment and terms of engagement of BSP external auditors. The selection is made from appropriately qualified companies in accordance with Board policy. The Board submits the name of the recommended appointee to shareholders for ratification. In line with the policy of the Bank of Papua New Guinea, the signing partner in the external audit firm must be rotated at least every three years.

The committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Bank of Papua New Guinea's Prudential Standard No. 7/2005 – External Auditors, while ensuring their independence is in line with Board policy.

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

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

The duly appointed external audit firm may not be engaged by the company to provide specialist consultancy services relating to financial, strategic and/or taxation matters.

The external auditor is invited to the Annual General Meeting of shareholders and is available to answer relevant questions from shareholders.

The Bank of Papua New Guinea Prudential Standards provide for a tri-partite meeting between BPNG, the external auditors, and the bank, if required.

iii. Internal Audit

The Audit Risk and Compliance Committee approves, on the recommendation of management, the appointment of Head of Internal Audit. The committee meets regularly with Head of Internal Audit.

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

An independent review by an expert consultant is made regularly as to the effectiveness of the internal audit and risk function. These reports are presented to the Board Audit Risk and Compliance Committee, and the Board. The Audit Risk and Compliance Committee meets separately with the internal auditors to discuss any matters that the committee, or the internal auditors, believe should be discussed privately. The Internal Auditor has direct access to the Audit Risk and Compliance Committee and to the full Board. The committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly,



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and that management responds to recommendations by the internal auditors on a timely basis.

Internal Audit meets with the external auditors half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regard to internal audit's findings.

iv. Compliance

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

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

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



v. Risk Management

The committee's role in the bank's risk management processes are detailed in 3(b).

e) Board Remuneration and Nomination Committee

The Remuneration and Nomination Committee has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and Senior Executive Management selection, appointment, review and remuneration.

The responsibilities of the Remuneration and Nomination Committee are:

- oversee the selection and appointment of a Chief Executive Officer and recommend an appropriate remuneration and benefits package to the full Board;
- determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly;
- ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to shareholders while maintaining a world class Corporate Governance regime;
- receive and endorse positions/titles recommended by the Chief Executive Officer from time to time as applying to designated Senior Executive Management positions;
- review the procedures in place to ensure that all new Senior Executive appointees are adequately qualified and experienced, and that proper recruitment procedures are followed;
- review and make recommendations to the Board on the appointment and terms and conditions of employment to all Senior Executive Management positions;
- review and approve all termination arrangements for such Senior Executives;
- review transactions between the company and any of the Directors or relevant Senior Executives;
- review and make recommendations to the Board on employee remuneration and benefits policies and practices generally;
- engage external consultants as and when deemed appropriate to benchmark remuneration packages for Executives and Senior Management;

- review Board performance, tenure, and succession planning.

The Board has in place a review process, led by the Chairman, that involves a peer review of performance based on a broad range of criteria. A performance review was performed in 2010 and early 2011.

3. RISK MANAGEMENT

a) Approach to Risk Management

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

BSP distinguishes the following major risks:

Credit Risk - The potential for financial loss where a customer or counter party fails to meet their financial obligation to the bank.

Market Risk - The potential financial loss arising from the bank's activities in financial, including foreign exchange, markets. More detailed commentary on financial risk management is provided in the Notes to the Financial Accounts.

Liquidity Risk - The risk of failure to adequately meet cash demand in the short term without incurring financial losses.

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

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

The bank's Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and the Credit Committee monitors credit risk. Operational risk is monitored by the Operational Risk Committee, including the maintenance of a risk register system that has been implemented across the bank. The Executive Committee and the Board overview the highest tier of risks within these risk registers.

The bank's risk management policy ensures that the bank has in place acceptable limits for the risks identified by the bank's employees. The risk management approach encompasses the following:

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

b) Risk Management Roles and Responsibilities

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

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

The Board defines the accountabilities (including delegated approval/control authorities/limits) and reporting/monitoring requirements for the risk management process.

The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the Strategic Business Unit Risk Registers, is used to determine the approval/control authorities/limits. The Board reviews these risk limits annually along with an annual review of the bank's significant risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the bank is able and willing to assume. These guidelines are detailed in the bank's Risk Policy and Procedures Manual which has been externally reviewed and approved by the Board.

The Board has also delegated to the Audit Risk and Compliance Committee responsibility for overview of loss control and for overseeing the risk management function.

The Board Audit Risk and Compliance Committee is responsible for providing regular reports and recommendations to the Board on the risk management activities of the bank, especially relating to risk issues that are outside of the authority of the bank's Executive Committee to approve.

The bank's Executive Committee is responsible for deliberating on risk management issues which are outside of the delegated authorities/ limits of the Credit Committee, Asset and Liability Committee (ALCO) and General Managers, with escalation of these issues to the Audit Risk and Compliance Committee, and the Board itself, in case of need.

c) Management Assurance

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

- the financial records of the bank have been properly maintained and that they accurately record the true financial position of the company;
- the financial statements and notes meet all appropriate accounting standards;
- there are sound systems of risk management and control that are operating effectively.

Additionally all General Managers provide bi-annual statements attesting that:

- they have assessed and documented the risks

and internal control procedures in their Strategic Business Unit;

- they have identified any changes in business, operations and computer systems and the risks that may arise from those changes;
- the risk management and internal compliance and control systems are appropriate and operating efficiently and effectively;
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

4. ETHICAL BEHAVIOUR

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

- a Code of Conduct for both Directors and members of the Executive Management team of the company and stipulated that each Director, and relevant employees, acknowledge in writing having read, understood and agreed to abide by the Code; and
- a Corporate Mission, Objectives, and Core Values Statement which establishes principles to guide all employees in the day to day performance of their individual functions within the company.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board further stipulates that senior management periodically undertake an appropriate communication programme to reinforce both the Code and Core Values Statements. All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues.

BSP is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct.

The bank has adopted a whistle-blowing policy that is designed to support and encourage staff to report in good faith matters such as:

- unacceptable practices;
- irregularities or conduct which is an offence or a

breach of laws of Papua New Guinea (actions and decisions against the laws of Papua New Guinea including non-compliance);

- corruption;
- fraud;
- misrepresentation of facts;
- decisions made and actions taken outside established BSP policies & procedures;
- sexual harassment;
- abuse of Delegated Authorities;
- misuse of company assets;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other employees;
- damage to the environment;
- other unethical conduct;
- failure to comply with appropriate professional standards;
- abuse of power, or use of the bank's powers and authority for any unauthorised purpose or personal gain;
- breach of statutory codes of practice.

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

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

trades with the Chairman in advance.

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

5. MARKET DISCLOSURE

The bank's continuous disclosure regime is fundamental to the rights of shareholders to receive information concerning their securities. The most important aspect of the bank's shareholder communication policy is to comply with the continuous disclosure regime and to implement best practice disclosure policy.

Market announcements are posted to BSP's website immediately after release to the market. All market announcements made by the bank since its listing in August 2003 are currently available on the website.

Where BSP provides financial results' briefings to analysts or media, these briefings are published on the website as soon as possible after the event. In any event, no material information which has not been previously released to the market is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

The bank's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its continuous disclosure policies and the dealing rules applying to its employees and Directors.

6. SHAREHOLDER COMMUNICATIONS

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

With this in mind, BSP commits to dealing fairly, transparently and openly with both current and prospective shareholders using available channels and technologies to communicate widely and promptly. The bank commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

Our shareholder communication policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. Our

framework for communicating with shareholders is to concisely and accurately communicate:

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

The bank uses shareholder forums such as the Annual General Meeting, and group meetings with larger shareholders, within disclosure policies, to communicate financial performance and strategies.

7. REMUNERATION

BSP remuneration policy for senior management is comprised of a fixed component and an at risk component that is a combination of short term rewards and long term incentives. The remuneration packages of General Managers and the Chief Executive Officer are approved by the Remuneration and Nomination Committee, and details are provided by the committee to the Board.

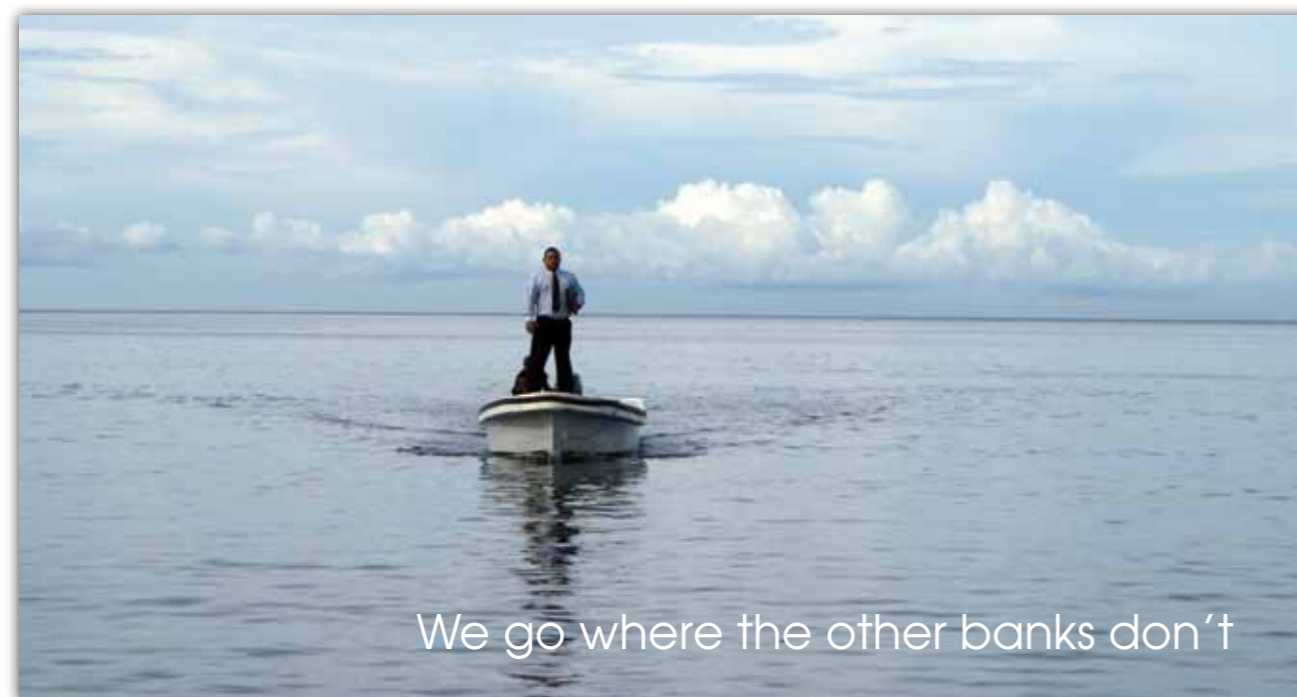
Fixed remuneration of senior management is reviewed at the time of contract renewal taking into account the nature of the role, the pay position relative to comparable market pay levels, and individual and business performance.

The “at risk” component of the remuneration package is a performance based Executive Management Share Option Plan (EMSOP). This plan is structured to provide senior management with the incentive to deliver sustained growth in value for shareholders. Performance hurdles are incorporated in the EMSOP and senior staff are selected to participate based on their annual performance, potential, and the business need to retain critical skills.

Further information about the EMSOP is provided in Note 26 to the Annual Accounts on pages 95-97. Under PNG tax law individuals who participate in the EMSOP are responsible for any related taxation liabilities.

Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors’ fee pool approved periodically by shareholders. The shareholders last approved a pool of K1.00 million in May 2006. During 2011 K1.00 million of the pool was utilised (2010: K1.00 million).

A table of fees paid to Directors during 2011 is produced on page 104. Non-Executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share option programmes.



We go where the other banks don't

Profit and Loss (K'000)	2006	2007	2008	2009	2010	2011
Net interest income	209,581	276,872	377,100	473,969	544,002	597,479
Non interest income	134,531	202,510	243,828	251,743	410,973	584,867
Bad and doubtful debt (expense)/recovery	1,311	4,345	(11,353)	(15,020)	(20,581)	(25,234)
Other operating expenses	(178,573)	(188,871)	(229,599)	(335,146)	(522,827)	(688,621)
Operating Profit	166,850	294,856	379,976	375,546	411,566	468,490
Impairment of non-current asset	(1,775) ²	(10,373) ³	(50,000)	2,372	-	6,496
Profit before tax	164,518	283,571	328,798	378,143	410,804	474,986
Income tax (expense)	(52,902)	(92,499)	(100,464)	(121,025)	(127,657)	(119,039)
Profit/(loss) after tax	111,616	191,072	228,334	257,118	283,147	355,947
Dividends (toea)						
Dividends paid per share ⁴	1.40	1.60	2.20	2.20	5.37	75.1
Balance Sheet (K'000)						
Net loans and advances	1,163,252	1,550,271	2,343,844	3,638,562	4,091,297	4,300,913
Total assets	4,333,666	5,819,549	6,807,868	9,397,821	10,027,290	11,681,293
Deposits	3,773,805	5,055,917	5,782,020	7,493,779	7,984,657	9,366,281
Capital	396,295	571,700	744,254	934,097	1,134,397	1,344,188
Performance Ratios						
Return on Assets	3.1%	3.8%	3.6%	3.2%	2.9%	3.3%
Return on Equity	31.7%	39.5%	34.7%	30.6%	27.4%	28.7%
Expense/Income	51.9%	39.4%	45.0%	46.0%	54.7%	58.2%
Key Prudential Ratios						
Capital adequacy	25.9%	29.0%	22.8%	22.1%	23.6%	24.2%
Liquid Asset Ratio	51.4%	50.3%	47.5%	50.1%	43.0%	43.6%
Leverage ratio	7.5%	9.2%	10.4%	9.1%	10.5%	10.0%
Exchange rates (One (1) PNG Kina buys):						
US Dollar	0.3300	0.3525	0.3735	0.3700	0.3785	0.4665
AUS Dollar	0.4171	0.3999	0.5396	0.4127	0.3724	0.4591

Source – Bank of Papua New Guinea Quarterly Economic Bulletin)

² Impairment of goodwill on acquisition net assets of Habib Bank Ltd, Fiji Operation, Dec 2006

³ Impairment of remaining goodwill in respect of acquisitions of Capital Stockbrokers Ltd (2005), Habib Bank Ltd - Fiji Branch (2006) and National Bank of Solomon Islands (2007).

⁴ Dividends per share has been adjusted for 1/10 share split 2008. In 2010, BSP paid a full and final dividend for the 2009 year in July, and an interim dividend for 2010 year, in November. Dividends per share has been adjusted for 10/1 share consolidation 2011. In 2011, BSP paid a full and final dividend for the 2010 year in June, and an interim dividend for 2011 year, in October.



Overseas Branches and Subsidiaries

Summary Financial Information

All amounts are expressed in K'000

	Total Asset	Total Liabilities	Turnover	Net Profit After Tax
Solomon Islands	404,058	304,112	25,835	9,493
Fiji Branches	1,167,915	991,808	68,891	744
BSP Life	494,805	404,713	161,904	10,923
Niue	2,788	3,355	165	(257)
BSP Capital	23,216	17,519	3,547	(3,934)

OVERSEAS BRANCHES

2011 Highlights

Fiji

The financial result of Fiji is reflective of the challenging environment in which it operates, and the need to align its provisioning to meet the Bank of Papua New Guinea's requirements.

Despite the financial results, the Fiji business had an exceptional year as they introduced more e-channels to migrate customers from the branch to electronic banking channels. This was needed in order that staff can spend more time with customers who have more complex banking needs and to accommodate its fast growing Corporate/Commercial and Small Medium Enterprise growth.

Fiji launched Prepay Mobile Phone Top Up's and Bill Pay on its SMS banking product and also launched Personal Internet Banking. Usage of these two electronic channels continues to grow at a fast rate.

A new portable Point of Sale (EFTPoS) terminal was developed for Fiji. The terminal operates over a wide range of available communication networks. These terminals were introduced to the market in March 2011 and so far Fiji has rolled out 650 terminals.

December 2011 saw the installation of its 100th ATM – BSP Fiji now has the largest ATM fleet in Fiji.

A new branch was built and opened in Lautoka, Fiji's second largest city. The branch comprises of two levels, with Retail banking on the ground floor and lending plus a BSP Premium Centre on the 1st Floor.

With the assistance of IFC, Fiji developed the SME segment of its business, and since its launch in February 2011 it has seen good growth in its portfolio. In the Corporate and International segment of business, Fiji has recorded strong portfolio growth; it continues to stamp its mark in the business community as a commercial bank. The pipeline for new deals in 2012 remains strong. Fiji also introduced Asset Finance Leasing and in 2012 will see the establishment of a Trade Finance Unit.

A number of process efficiency projects were undertaken during the year. Personal and enterprise clients can now open their new account within minutes. All branches across Fiji now have access to over 200,000 customer signatures online and staff can immediately verify and process customer transactions without the need to locate a physical copy of customer signature cards. Another initiative completed is the preparation of in-house security documentation, which now reduces the wait time and the cost of customers wanting to take loans. Previously this process was outsourced to a panel of solicitors.

2011 Challenges

Apart from the already difficult economic conditions and uncertain political situation, a number of legislation and regulatory policy changes were introduced in 2011 which saw the need for Fiji to adjust its systems and processes to comply. Some of the obligations that Fiji needed to comply with had a financial impact on its profit.

2012 Strategic Focus

Fiji's focus in 2012 will be on growing its business across all segments, and continuing to develop and dominate its electronic banking presence. Another focus is to migrate simple transactions from the Branch and ATM's to other electronic banking channels like EFTPoS, SMS and Internet banking; and to introduce BSP Rural in the community. Fiji's core banking system is need of an upgrade and this project is intended to commence from the third quarter of 2012.

Solomon Islands

During 2011 Solomon Islands continued with its electronic banking initiatives and by year end BSP had 17 ATMs in operation making this the largest ATM network in the country. BSP continued rolling out the Internet Banking product and take-up of this new service has been pleasing with many business clients commenting favourably.

Following the successful trial of the Bank's EFTPOS network setup during December 2010, BSP proceeded to establish this service with a number of Retail clients. There is still work to be done in this regard but as at year end 39 merchants had been established.

The performance of the Solomon Island Branch was impacted by a number of factors in 2011 which affected overall profitability. Following changes made to Exchange Control regulations by the Central Bank of Solomon Islands late 2010 income from foreign exchange trading was reduced. Coupled with a static lending environment and continued high liquidity in the banking sector minimal lending growth was experienced. Interest margins remained under pressure due to the competitive market.

By far the most significant initiative for Solomon Islands in the year was the successful relocation of its Pt Cruz and Mud Alley offices to a new purpose built building in the Heritage Park site. This state of the art facility is clearly a market leader in the Solomons and will form the platform for improved service initiatives and business growth.

BSP CAPITAL LIMITED

2011 was a very challenging year for BSP Capital. We started to see moderate recovery from the GFC of 2008 and then we saw the emergence of another global financial crisis in mid 2011, with the economic woes of Europe coming to the fore.

Nevertheless, 2011 was a year of both transition and recovery for BSP Capital. Some of the key highlights include:

- the implementation of state of the art computer systems for our Funds Management, Stockbroking and Back Office operations;
- our Corporate Research Department went truly global with the signing of an Agreement with Auerbach Grayson, a US based Research and Broking House, specialising in investing in global emerging markets, providing direct access to global Fund Managers to local research and ideas in 128 markets worldwide. As a result, we already have a US based institution committing to visit PNG in the first half of 2012, with a view to investing in listed PNG securities;
- primarily as a result of the extent and quality of the research being put out, we are always the first port of call for local and offshore institutions seeking to raise equity capital in PNG, or seeking advice on Corporate Actions including buybacks;

- our Funds Management division now at full strength secured 2 major appointments in 2011, with further interest in PNG being shown by offshore investors. Significant inroads have also been made into the Financial Institutions market, with a number of leading Savings and Loan Societies become clients;
- we made a strategic alliance with Macquarie Private Wealth, the largest Fund Management Group in Australia, to assist BSP Capital with the management of any client funds under management invested overseas;

We see our strategic focus going forward as being to seek and promote more activity in the local capital market through innovative product development, particularly in the fixed interest sector, combined with being able to sell PNG to offshore investment institutions as a viable emerging market.

BSP LIFE LIMITED

Overview

The full year 2011 results both financial and strategic initiatives undertaken were pleasing. Profit results for both our Life and Health businesses well exceeded budgets.

The year also saw the undertaking of major initiatives including:-

- the rebranding from the Colonial brand to BSP Life with the new brand being well received in the market;
- the business split from the Bank and the setting up of independent governance framework, organisation structure, staffing and operations for the Insurance businesses which have been largely completed;
- completion of the KPMG Strategic Review which recommended "growth" as the strategic option to be adopted;
- review and revamping of products;
- a drive to improve new business and growth in business in-force;
- commencement of work on our core systems change.

Financial Performance

Insurance Group NPAT for 2011 was \$9.3m, \$6.3m above budget. While there were significant investment gains arising from the drop in market interest rate, underlying profits performed well against target. After adjustment for non-operating items including unrealised gains from bonds NPAT was \$5.8m, \$2.8m above budget. Life insurance sales grew by 33% and Health insurance sales grew by 21% resulting in an overall insurance new business growth of 30%.

Insurance Market

The life insurance market continued to be dominated by endowment products. There are only two major players in the life business and our market share on in-force premium basis was at 58% at the end of 2010. Competition from our competitor is very strong and they have been successful in the sale of a single premium product. Health insurance has also been very competitive with four active competitors. The overall health market has remained stagnant. Individual company market share has also largely remained the same with our health business holding 49% and 25% in Term Life and medical market share respectively.

The increased focus in 2011 on product review and strengthening of our Agency and Broker distribution should place us well for future market share growth in both businesses.

Strategic Initiatives

In 2012 BSP Life will further build on the strong results achieved in 2011. Strategic initiatives underway include:-

- initiatives to further grow our business through a stronger agency channel and in new channels including the relaunch of sale of insurance products through BSP's banking network;
- the modernisation and transformation of our operational processes including our core systems change;
- maximise investment performance though focused management of assets and continuing pursuit of new investment opportunities;
- achieve critical mass in the Health business through organic growth and acquisition should the opportunity arise.



Fiji Bank Management

Sitting: L-R. Haroon Ali (Chief Risk Officer), Paul Littlefair (Chief Operating Officer), Kevin McCarthy (Country Manager), Cecil Browne (General Manager Corporate & International) **Standing:** L-R. Howard Politini (General Manager Microfinance, Government & Community Relations), Lew Kenah (General Manager Retail Banking), Ravindra Singh (General Manager Human Resources), Ms Alvina Ali (General Manager Legal), Ronesh Dayal (Chief Financial Officer)



The Solomon Islands team

Back Row (left to right): Peter Lemon (Manager Operations & Corporate Services); Rob Bochman (Manager Relationship Banking); Alphonse Taoti (Manager Information Systems); Mark Corcoran (Country Manager) **Middle Row (left to right):** Vincent Misi (Financial Controller); Lynette Taoti (Manager Credit Administration); Tupou Halofaki (Manager Retail Banking Services); Janet Marau (Manager Retail Banking Operations) **Front Row (left to right):** Joan Ramo (Manager International Operations); Laurish Pio (Senior Internal Auditor); Rose Murray (Manager Commercial Banking Centre)



Life Management Team

Left to right: Michael Nacola (General Manager Distribution & Marketing), Malakai Naiyaga (Managing Director), Pramesh Sharma (General Manager Investments).



Directors' Report

**For the Year Ended 31 December 2011**

The Directors take pleasure in presenting the Financial Statements of Bank of South Pacific Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2011. In order to comply with the provision of the Companies Act 1997, the Directors Report as follows:

Principal activities

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

Review of operation

For the year ended 31 December 2011, the Bank's profit after tax was K348.989 million (2010: K276.570 million profit). The Group's profit after tax was K355.947 million (2010: K283.147 million).

Dividends

Dividend payment totalling K223.526 million was paid in 2011 (2010: K247.959 million), detailed breakup of this is provided in Note 27.

Directors and officers

The following were Directors of the Bank of South Pacific Limited at 31 December 2011:

Mr K Constantinou, OBE	Mr I B Clyne	Mr C C Procter
Mr G Aopi	Mr T E Fox	Dr I Temu
Sir N Bogan	Mr J G Jeffery	

Details of Directors' tenure and Directors and executives' remuneration during the year are provided in Note 31 of the Notes to the Financial Statements.

The Company secretary is Mary Johns.

Independent Audit Report

The financial statements have been audited and should be read in conjunction with the independent audit report on page 109. Details of amounts paid to the auditors for audit and other services are shown in Note 5 of the Notes to the Financial Statements.

Donations

Donations made by the Group during the year amounted to K347,779 (2010: K316,983).

Interests Register

Transactions recorded in the Interests Register are disclosed in Note 30 of the Notes to the Financial Statements.

Change in accounting policies

No change in accounting policies occurred during this year.

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 2nd day of March 2012.

Kostas Constantinou, OBE
Chairman

Ian B Clyne
Group Chief Executive Officer/Director

STATEMENT BY THE DIRECTORS for the Year Ended 31 December 2011

The Directors declare that:

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

Additional Statutory Information

The results of the Bank and the Group's operations during the financial year have, in the opinion of the Directors, not been materially affected by items of an abnormal nature, other than those disclosed in the financial statements.

In the opinion of the Directors, no circumstances have arisen that make adherence to the existing method of valuation of assets or liabilities of the Bank and the Group misleading or inappropriate.

No contingent liability has arisen since the end of the financial year, which continues to exist at the date of this report, other than those disclosed in the financial statements.

At the date of this report the Directors are not aware of any circumstances that would render the values attributed to current assets in the financial statements misleading.

No contingent liability other than that disclosed in the notes to the attached financial statements has become enforceable, or is likely to become enforceable, within a period of twelve months from the date of this report, that will materially affect the Bank and the Group in its ability to meet obligations as and when they fall due.

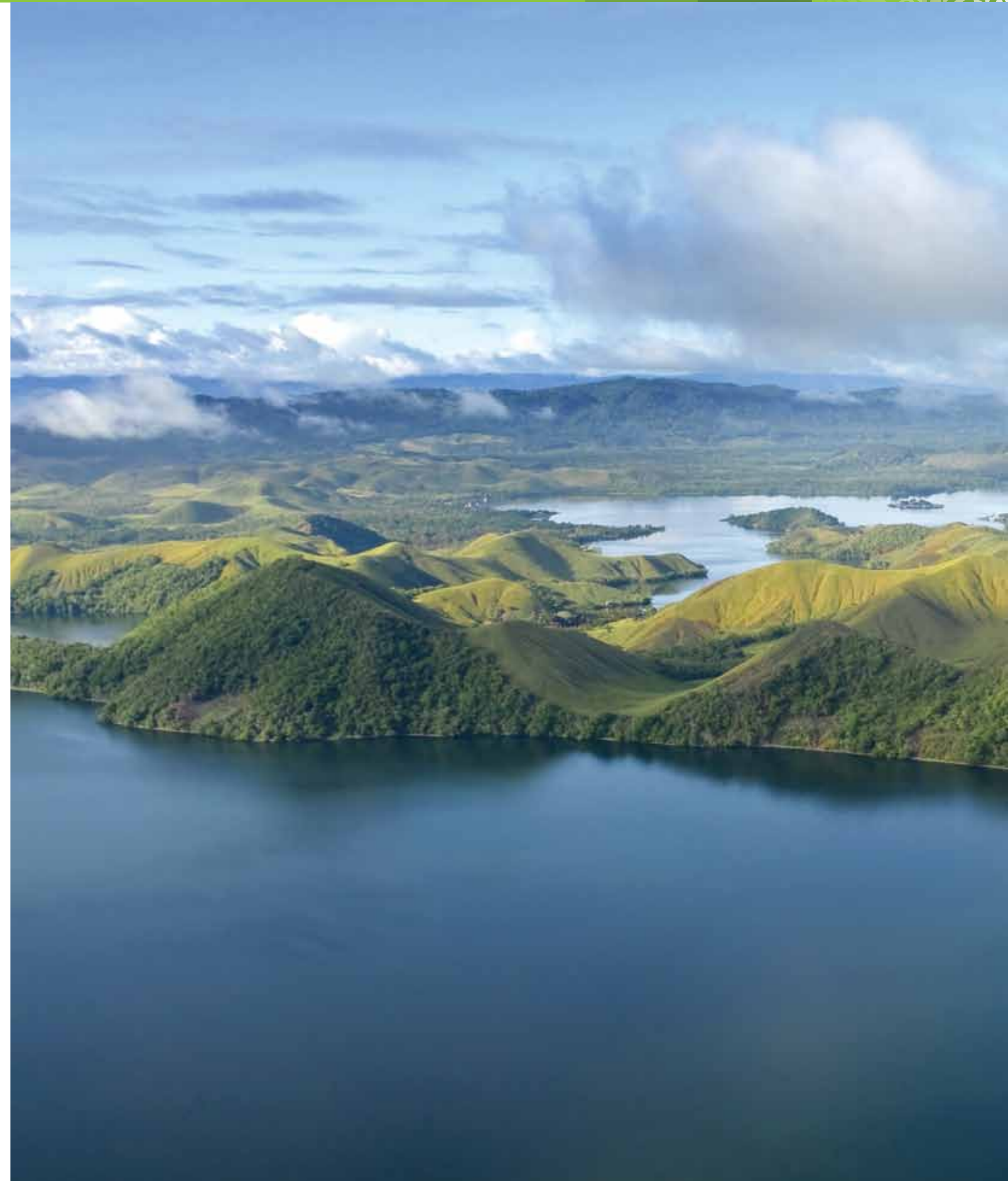
Dated and signed in accordance with a resolution of the Directors at Port Moresby this 2nd day of March 2012.



Kostas Constantinou, OBE
Chairman



Ian B Clyne
Group Chief Executive Officer/Director



Statement Of Comprehensive Income

for the Year Ended 31 December 2011

All amounts are expressed in K'000	Note	Group		Bank	
		2011	2010	2011	2010
Interest income	1	666,320	646,044	672,781	576,481
Interest expense	1	(68,841)	(102,042)	(75,330)	(80,390)
Net interest income		597,479	544,002	597,451	496,091
Fee and commission income	2	202,136	152,058	198,589	145,581
Other income	3	382,731	258,915	228,378	155,075
Net operating income		1,182,346	954,975	1,024,418	796,747
Bad and doubtful debts (expense)/recovery	4	(25,234)	(20,581)	(25,234)	(19,112)
Other operating expenses	5	(688,621)	(522,828)	(532,987)	(375,174)
Operating profit		468,490	411,566	466,196	402,461
Share of profit/(loss) from associates accounted for using the equity method	13	6,496	(762)	-	(364)
Profit before tax		474,986	410,804	466,196	402,097
Income tax expense	6(a)	(119,039)	(127,657)	(117,206)	(125,527)
Operating profit/(loss) after tax from ordinary activities		355,947	283,147	348,989	276,570
Other comprehensive income					
Exchange difference on translation of foreign operations/subsidiaries	27	19,772	2,739	20,541	2,242
Net value gain on revaluation of share options	27	1,270	657	1,270	657
Net movement in asset revaluation	27	91,517	-	91,517	-
Other comprehensive income for the year, net of tax		112,559	3,396	113,328	2,899
Total comprehensive income for the year		468,506	286,543	462,317	279,469
Earnings per share - basic and diluted (toea per share)	26 & 33	75.1	5.9	73.6	5.8

The attached notes form an integral part of these financial statements

Statement Of Financial Position

for the year ended 31 December 2011

All amounts are expressed in K'000	Note	Group		Bank	
		2011	2010	2011	2010
ASSET					
Cash and balances with Central Bank	14	1,188,048	1,042,029	1,086,766	744,280
Treasury & Central Bank bills	15	3,316,410	2,280,816	3,316,410	2,280,816
Amounts due from other banks	16	313,410	302,061	313,410	295,028
Loans and advances to customers	17	4,300,913	4,091,297	4,235,974	3,276,747
Properties held for sale	18(a)	-	-	-	-
Property, plant and equipment	18(b)	622,903	364,154	597,522	312,024
Assets subject to operating lease	18(c)	68,936	77,480	68,936	77,480
Other financial assets	19	1,352,601	1,521,915	1,268,801	1,318,174
Investment in associates	13	54,957	54,456	12,563	12,563
Investment in subsidiaries		-	-	215,517	215,517
Intangibles	12	21,933	16,158	-	-
Investment properties	18(d)	60,308	74,816	-	-
Deferred tax asset	20	87,625	64,968	87,336	52,569
Other assets	21	293,249	137,140	215,005	80,114
Total assets		11,681,293	10,027,290	11,418,240	8,665,312
LIABILITIES					
Amounts due to other banks	22	77,889	23,638	95,820	29,497
Amounts due to customers	23	9,366,281	7,984,657	9,446,389	7,185,575
Subordinated debt securities	24(b)	75,525	75,525	75,525	75,525
Other liabilities	24(a)	628,871	683,993	220,910	150,424
Provision for income tax	6(b)	77,961	30,484	73,684	28,513
Deferred tax liabilities	20	19,028	30,166	18,627	31,792
Other provisions	25	91,550	64,430	87,682	54,642
Total liabilities		10,337,105	8,892,893	10,018,637	7,555,968
SHAREHOLDERS' EQUITY					
Ordinary shares	26	426,444	461,633	426,444	461,633
Assigned capital	7	-	-	24,882	-
Retained earnings	27	721,398	588,977	697,698	578,372
Other reserves	27	196,346	83,787	250,579	69,339
Total shareholders' equity		1,344,188	1,134,397	1,399,603	1,109,344
Total equity and liabilities		11,681,293	10,027,290	11,418,240	8,665,312

The attached notes form an integral part of these financial statements

Statement Of Changes In Shareholders' Equity

for the Year Ended 31 December 2011

Bank						
All amounts are expressed in K'000	Note	Share capital	Assigned capital	Reserves	Retained Earnings/ (Accumulated losses)	Total
Balance at 1 January 2010	26 & 27	318,014	-	66,439	551,625	936,078
Net profit	27	-	-	-	276,570	276,570
Dividend paid	27	-	-	-	(247,959)	(247,959)
Deferred income 2010		-	-	-	(1,864)	(1,864)
Issue of ordinary shares		143,619	-	-	-	143,619
Other comprehensive income		-	-	2,900	-	2,900
Balance at 31 December 2010	26 & 27	461,633	-	69,339	578,372	1,109,344
Net profit	27	-	-	-	348,989	348,989
Dividend paid	27	-	-	-	(223,526)	(223,526)
Deferred income 2011		-	-	-	(307)	(307)
Prior year adjustments		-	-	-	(5,830)	(5,830)
Share buyback	26	(35,189)	-	-	-	(35,189)
Assigned capital – Fiji		-	24,882	-	-	24,882
Other comprehensive income		-	-	113,328	-	113,328
Capital adequacy reserve - Fiji		-	-	67,912	-	67,912
Balance at 31 December 2011	26 & 27	426,444	24,882	250,579	697,698	1,399,603
Group						
All amounts are expressed in K'000	Note	Share capital		Reserves	Retained Earnings/ (Accumulated losses)	Total
Balance at 1 January 2010	26 & 27	318,014	-	62,171	553,912	934,097
Net profit	27	-	-	-	283,147	283,147
Dividend paid	27	-	-	-	(247,959)	(247,959)
Deferred income 2010		-	-	-	(1,864)	(1,864)
Prior year adjustments		-	-	-	1,741	1,741
Issue of ordinary shares		143,619	-	-	-	143,619
Equity component of convertible notes		-	-	18,218	-	18,218
Other comprehensive income		-	-	3,398	-	3,398
Balance at 31 December 2010	26 & 27	461,633	-	83,787	588,977	1,134,397
Net profit	27	-	-	-	355,947	355,947
Dividend paid	27	-	-	-	(223,526)	(223,526)
Share buyback	26	(35,189)	-	-	-	(35,189)
Other comprehensive income		-	-	112,559	-	112,559
Balance at 31 December 2011	26 & 27	426,444	-	196,346	721,398	1,344,188

The attached notes form an integral part of these financial statements

Statement Of Cash Flow

for the Year Ended 31 December 2011

All amounts are expressed in K'000	Note	Group		Bank	
		2011	2010	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		681,599	645,728	670,606	573,599
Fees and other income		534,491	437,135	426,261	300,015
Interest paid		(77,097)	(109,337)	(75,747)	(80,807)
Amounts paid to suppliers and employees		(669,331)	(482,970)	(482,100)	(323,839)
Operating cash flow before changes in operating assets	32	469,662	490,556	539,020	468,968
Decrease/(increase) in loans		(372,982)	(429,305)	(254,547)	(435,838)
Decrease/(increase) in bills receivable and other assets		(3,475)	866	(3,475)	866
(Decrease)/increase in deposits		1,463,007	488,179	1,439,572	425,949
(Decrease)/increase in bills payable and other liabilities		45,102	8,192	19,660	(26,886)
Net cash flow from operations before income tax		1,601,314	558,488	1,740,230	433,059
Income taxes paid	6(b)	(119,878)	(220,415)	(119,590)	(213,771)
Net cash flow from operating activities		1,481,436	338,073	1,620,640	219,288
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease/(increase) in government securities		(898,299)	176	(834,886)	38,029
Expenditure on property, plant and equipment		(239,714)	(136,744)	(234,600)	(104,118)
Proceeds from disposal of property, plant and equipment		7,016	6,020	7,016	1,987
Proceeds from disposal of interest in former associate		-	100	-	100
Proceeds from other investments		23,345	34,338	-	-
Movement in share trading activities		(10,291)	749	-	-
Additional funding in associate		(513)	-	-	-
Additional funding in subsidiary		-	641	-	(10,000)
Net cash flow on acquisition of branch		-	(371)	-	(371)
Net cash flow from investing activities		(1,118,456)	(95,091)	(1,062,470)	(74,373)
CASH FLOW FROM FINANCING ACTIVITIES					
Issue of share capital	27	-	143,983	-	143,619
Share buyback		(35,189)	-	(35,189)	-
Proceeds from subordinated debt securities/convertible notes	24(b) & 10	-	22,395	-	-
Client management trust		4,345	(4,795)	-	-
Settlement of amount due to holding company		(583)	-	-	-
Dividends paid	27	(223,526)	(247,959)	(223,526)	(247,959)
Net cash flow from financing activities		(254,953)	(86,376)	(258,715)	(104,340)
Net increase/(decrease) in cash and cash equivalents		108,027	156,606	299,455	40,575
Effect of exchange rate movements on cash and cash equivalents		(4,910)	2,159	(4,910)	(1,414)
Cash and cash equivalents at the beginning of the year		1,320,452	1,161,687	1,009,811	970,650
Cash and cash equivalents at the end of the year	29	1,423,569	1,320,452	1,304,356	1,009,811

The attached notes form an integral part of these financial statements

For the Year Ended 31 December 2011

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

a. BASIS OF PRESENTATION AND GENERAL ACCOUNTING POLICIES

The consolidated financial statements of the Bank of South Pacific Limited (the Bank) and the Group are prepared in accordance with International Financial Reporting Standards 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 and financial instruments.

Estimates and assumptions have been used to achieve conformity with generally accepted accounting principles in the preparation of these financial statements. These assumptions and estimates affect balances of assets and liabilities, contingent liabilities and commitments at the end of the reporting period, and amounts of revenues and expenses during the reporting period. Whilst the estimates are based on management's best knowledge of current events and conditions, actual results may ultimately differ from those estimates.

The financial statements are presented in Papua New Guinea Kina, expressed in thousands of Kina, as permitted by Papua New Guinea Accounting Standards.

b. CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Bank and the Group as at 31 December 2011, 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 purchase method of accounting, where:

- acquisition cost is measured at fair value of assets acquired, equity issued, liabilities assumed and any directly attributable costs of the transaction;

- identifiable net assets are recorded initially at acquisition, at their fair values;
- any excess of the acquisition cost over the relevant share of identifiable net assets acquired is treated as goodwill, and any deficiency is recognised directly in the statement of comprehensive income;
- All intercompany transactions and balances are eliminated.

c. INVESTMENT IN ASSOCIATES

Associates are entities over which the Group has significant, but not controlling influence, generally accompanied by a shareholding conferring between 20% - 50% of voting rights.

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

- The investment is initially recognised at cost;
- The Group's share of profits or losses are recognised in the statement of comprehensive income.

d. DERIVATIVE FINANCIAL INSTRUMENTS AND ACCEPTANCES

Forward foreign exchange contracts entered into for trading purposes are initially recognised at cost and subsequently re-measured at fair value based upon the forward rate. Gains and losses on such contracts are taken to the statement of comprehensive income.

Acceptances comprise undertakings by the Bank and the Group to pay bills of exchange drawn on customers. The Bank and the Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Customer acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

The Bank and the Group does not actively enter into or trade in complex forms of derivative financial instruments such as currency and interest rate swaps and options.



For the Year Ended 31 December 2011

e. REVENUE

Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income on an accrual basis using the effective yield method. The income arising from the various forms of instalment credit has been determined using the effective interest method.

Interest income includes coupons earned on inscribed stock, accrued discount and premium on Treasury and Central Bank bills.

Short term insurance contracts

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

These contracts protect the Group's customers from the consequences of events such as death, medical emergency or loss on travel. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policy holder. 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 balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or beneficiary. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long term insurance contracts

These contracts insure human life events (for example death or survival) over a long duration. They protect the Group's customers from the consequences of events such as death, disability or critical illness. Guaranteed benefits paid on occurrence of the specified insurance event are fixed or linked to the level of bonus declared to the contract holder. Most of the policies have maturity and surrender benefits.

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

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

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

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

For the Year Ended 31 December 2011

f. FEE AND COMMISSION INCOME

Fees and commissions are generally recognised on an accrual basis when the service has been provided. All other risk related fees that constitute cost recovery are taken to income when levied. Non-refundable front-end loan fees are capitalised and deferred over the expected term of the financial instrument.

g. BORROWING EXPENSES

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

h. LOANS AND PROVISIONS FOR LOAN IMPAIRMENT

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

All loans and advances receivable are subject to continuous management review. A specific provision for loan impairment is established if there is objective evidence that the Bank and the Group will not be able to collect all amounts due under the terms of loans. The amount of the provision approximates the difference between the carrying amount and the recoverable amount, which is the current best estimate of the present value of expected future cash flows arising from the asset. All bad debts are written off against the specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries are credited to the provision for loan losses in the Statement of Comprehensive Income.

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

i. GOODWILL

Goodwill represents the excess of the cost of any acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the exchange transaction. Goodwill is reported in the statement of financial position as an intangible asset.

In determining the estimated useful life of goodwill, management considers various factors including net selling price of the acquired business, existing market share, potential growth opportunities, and other factors inherent in the acquired business. This assessment is reviewed at each balance date, so that any indication of impairment with implications for the recoverability of goodwill can be tested, and adjustments to the carrying value of goodwill made if necessary.

j. COMPUTER SYSTEMS DEVELOPMENT COSTS

Costs incurred to develop and enhance the Bank and the Group's computer systems are capitalised to the extent that benefits do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the economic entity. These costs are amortised over the estimated economic life of four years using the straight-line method. Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

For the Year Ended 31 December 2011

k. PROPERTY, PLANT AND EQUIPMENT

Land and buildings are measured at fair value. Fair value is determined on the basis of regular independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements of the consolidated entity, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in statement of comprehensive income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful life, residual value and depreciation method is reviewed at the end of each annual reporting period.

The following basis and method of depreciation is used:

Class of asset	Method	Rate
Property (excluding land)	Straight line basis	2 - 3% pa
Plant and equipment	Straight line basis	10 - 25% pa
Equipment under operating lease	Straight line basis	20% pa

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

l. LEASES

Bank is lessee

All leases entered into by the Bank and the Group are operating leases. Total payments made are charged to the Statement of Comprehensive Income reflecting the pattern of benefits derived from the leased assets.

Bank is lessor

Finance leases are included in Loans and Advances to Customers (Note 17) and are accounted for under the finance method whereby income is taken to account over the life of the lease in proportion to the outstanding investment balance.

Assets subject to operating leases are separately disclosed in the statement of financial position, according to the nature of the asset. These assets are stated at cost less accumulated depreciation. The assets are depreciated on a straight line basis over the life of the operating lease. Lease income is recognised on a straight line basis over the term of the lease.

For the Year Ended 31 December 2011

m. CASH AND CASH EQUIVALENTS

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise notes and coins, and balances due to and from other banks.

n. PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

o. EMPLOYEE BENEFITS

A liability is required for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Employee benefits - defined contribution plans

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

The Bank and the Group pays contributions to publicly or privately administered superannuation plans on a mandatory, contractual or voluntary basis in respect of services rendered up to balance sheet date by all Papua New Guinean staff members. The contributions are at the current rate of employees' gross salary. Once the contributions have been paid, the Bank and the Group have no further payment obligations for post-employment benefits from the date an employee ceases employment with the Bank and the Group.

p. INCOME TAX

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by 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).

For the Year Ended 31 December 2011

p. INCOME TAX (CONTINUED)

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

q. INVESTMENTS

Investments are classified into the following categories: held for trading, held-to-maturity and available-for-sale. Trading reflects active and frequent buying and selling, and financial instruments held for trading generally are used with the objective of generating a profit from short-term fluctuations in price or dealers margin. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; Management determines the appropriate classification of its investments at the time of the purchase.

All purchases and sales of investments are recognised on the trade date, which is the date that the Bank and the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise.

r. FOREIGN CURRENCY

The financial statements of the Bank are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these financial statements, the results and financial position of the Bank are expressed in Papua New Guinea kina, which is the bank's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the Year Ended 31 December 2011

r. FOREIGN CURRENCY (CONTINUED)

Foreign operations

On consolidation, the asset and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

s. SHARE CAPITAL

Share issue costs

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

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Dividends for the year, declared after the balance sheet date, are dealt with in the subsequent events note.

Share options

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expected rateably over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (for example profitability). Non-market conditions are included in assumptions about the number of options expected to become exercisable or the number of shares that the employee will ultimately receive. This estimate is revised at each balance sheet date and the difference is charged or credited to the statement of comprehensive income, with a corresponding adjustment to equity. The proceeds received on exercise of the options net of any directly attributable transactions costs are credited to equity.

t. ASSET IMPAIRMENT

At each reporting date, the Bank and the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank and the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

For the Year Ended 31 December 2011

t. ASSET IMPAIRMENT (CONTINUED)

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

u. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured, with certain exceptions, at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the company's control and the company remains committed to a sale.

v. CONVERTIBLE NOTES

Convertible notes issued by the company are regarded as compound instruments, consisting of a liability component equivalent to the 3 year fixed coupon amount and an equity component equivalent to the balance. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, is included in equity.

The interest expense on the liability component is calculated by applying the coupon rate of 7% to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

w. COMPARATIVES

Comparative figures have been adjusted to conform to changes in presentation in the current year.



For the Year Ended 31 December 2011

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

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the Bank and the Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These market risks (risk of an advance event in the financial markets that may result in loss of earnings) include liquidity risk, foreign exchange risk, interest rate risk and credit risk.

The Bank and the Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. These margins are achieved and increased by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank and the Group also seeks to optimise its interest margins by obtaining above average returns, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. In addition to directly advancing funds to borrowers, the Bank and the Group also enters into guarantees and other commitments such as letters of credit, performance bonds, and other bonds.

The Bank and the Group also enters into transactions denominated in foreign currencies. This activity generally requires the Bank and the Group to take foreign currency positions in order to exploit short term movements in the foreign currency market. The Board places limits on the size of these positions. The Bank and the Group also has a policy of using offsetting commitments for foreign exchange contracts, effectively minimising the risk of loss due to adverse movements in foreign currencies.

Risk in the Bank and the Group is managed through a system of delegated limits. These limits set the maximum level of risk that can be assumed by each operational unit and the Bank and the Group as a whole. The limits are delegated from the Board of Directors to executive management and hence to the respective operational managers.

The risk management framework establishes roles, responsibilities and accountabilities of the Asset and Liability Committee, the Credit Committee, the Operational Risk Committee and the Executive Committee, the specific management committees charged with the responsibility for ensuring the Bank and the Group has appropriate systems, policies and procedures to measure, monitor and report on risk management. The framework also includes policies and procedures which detail formal feedback processes to these management committees, to the Audit, Risk and Compliance Committee of the Board, and ultimately to the Board of Directors.

For the Year Ended 31 December 2011

b. CAPITAL ADEQUACY

The Bank and the Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2011, the Bank and the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum capital adequacy requirements as set out under the standard are: Tier 1 8%, total risk base capital ratio 14% 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 Bank and the Group's capital adequacy level is as follows:

	Balance sheet / notional amount		Risk-weighted amount	
	2011	2010	2011	2010
All amounts are expressed in K'000				
Balance sheet assets (net of provisions)				
Currency	1,188,048	1,042,029	-	-
Loans and advances	4,300,913	4,091,297	4,050,768	3,977,693
Investments and short term securities	4,669,011	3,802,731	-	-
All other assets	1,523,321	1,091,233	1,390,108	863,830
Off-balance sheet items	1,089,679	1,220,614	352,353	503,154
Total	12,770,972	11,247,904	5,793,229	5,344,677
Capital Ratios				
	Capital (K'000)		Capital Adequacy Ratio (%)	
	2011	2010	2011	2010
a) Before YTD profits included in Tier 1 Capital				
Tier 1 capital	810,661	768,769	13.8%	14.4%
Tier 1 + Tier 2 capital	1,425,207	1,261,714	24.2%	23.6%
b) After YTD profits included in Tier 1 Capital				
Tier 1 capital	1,166,608	1,051,916	19.8%	19.7%
Tier 1 + Tier 2 capital	1,425,207	1,261,714	24.2%	23.6%
c) Leverage Capital Ratio – Before YTD profits included in Tier 1 capital			7.0%	7.7%
d) Leverage Capital Ratio – After YTD profits included in Tier 1 Capital			10.0%	10.5%

For the Year Ended 31 December 2011

c. CREDIT RISK AND ASSET QUALITY

The Bank incurs risk with regards to loans and advances made to customers and other monies or investments held with financial institutions. Credit risk is the likelihood of future financial loss resulting from the failure of clients or counter-parties to meet contractual obligations to the Bank and the Group as they fall due.

Credit risk is managed by analysing the risk spread across various sectors of the economy and by ensuring risk is diversely spread by personal and commercial customer. Individual exposures are measured using repayment performance, reviews and statistical techniques. Comprehensive credit standards and approval limits have been formulated and approved by the Credit Committee. The Credit Committee (which reports to the Board through the Executive and Chief Executive Officer) is responsible for the development and implementation of credit policy and loan portfolio review methodology. The Credit Committee is the final arbiter of risk management and loan risk concentration.

As indicated in Accounting Policy H – Loans and provision for loan impairment, the Bank and the Group has in place processes that identify, assess and control credit risk in relation to the loan portfolio, to assist in determining the appropriateness of provisions for loan impairment. These processes also enable assessments to be made of other classes of assets that may carry an element of credit risk. The Bank and the Group assigns quality indicators to its credit exposures to determine the asset quality profile.

Large credit exposures are also monitored as part of credit risk management. These are classified as the largest 25 individual accounts or groups of related counter-parties. As at 31 December 2011, the 25 largest exposures totalled K2.317 billion, accounting for over 52.4% of the Bank and 52.7% of the Group's total loan portfolio (2010: K2.120 billion, accounting for over 62.9% and 49.9% respectively).

The Bank of Papua New Guinea has maintained a revised prudential standard for asset quality since October 2003. The revised standard specifies more detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those gradings. Since its introduction, the Bank and the Group has complied with the requirement at all times.

Credit related commitments

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank and the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same risk as loans.

Documentary and trade letters of credit are written undertakings by the Bank and the Group on behalf of a customer, authorising a third party to draw drafts on the Bank and the Group for specified amounts under specified terms and conditions. They are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a conventional loan.

Commitments to extend credit represent undrawn portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. Whilst the potential exposure to loss equates to the total undrawn commitments, the likely amount of loss is less than the total commitment since the commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank and the Group monitors the term to maturity of these commitments because longer term commitments generally carry a greater degree of credit risk than shorter term commitments.

For the Year Ended 31 December 2011

c. CREDIT RISK AND ASSET QUALITY (CONTINUED)**Economic sector risk concentrations**

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

All amounts are expressed in K'00	2011	%	2010	%
As at 31 December				
Commerce, finance and other business	1,908,350	45	1,661,184	41
Private households	692,311	16	882,512	22
Government and Public Authorities	58,072	1	116,041	3
Agriculture	307,834	7	334,157	8
Transport and communication	550,568	13	426,733	10
Manufacturing	302,837	7	261,464	6
Construction	480,941	11	409,206	10
Net loan portfolio balance	4,300,913	100	4,091,297	100

d. LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Board, through the Asset and Liability Committee, sets liquidity policy to ensure that the Bank and the Group has sufficient funds available to meet all its known and potential obligations.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of banking activities. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Short-term mismatch of asset and liability maturity at 31 December 2011.

The maturity profile of material Assets and Liabilities as at 31 December 2011 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Bank and the Group, and does not impair the ability of the Bank and the Group to meet its financial obligations as they fall due. The Directors are also of the view that the Bank and the Group is able to meet its financial obligations as they fall due for the following additional reasons:

- The Bank and the Group complies with the Minimum Liquid Asset Ratio ("MLAR") and Cash Reserve Requirement ("CRR") set by the regulatory authority, the Bank of Papua New Guinea ("BPNG"). The MLAR is the minimum ratio of liquid assets to total customer deposits considered by the regulator as sufficient to support exceptional liquidation by depositors, of their funds. The requirement to hold a minimum of 25% of the value of total customer deposits in the form of prescribed liquid assets was reduced to zero percent by the BPNG in September 2010. As at 31 December 2011, the Bank and the Group's Liquid Asset Ratio was approximately 43.61% (2010: 42.96%);
- The CRR specifies that a bank must hold an amount equal to 6% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and the Group complies with this daily requirement on an ongoing basis. The balance of the CRR account is shown in Note 14, Cash and Balances with Central Bank, and Note 29, Cash and cash equivalents.

For the Year Ended 31 December 2011

d. LIQUIDITY RISK (CONTINUED)**Maturity of assets and liabilities**

All amounts are expressed in K'000

As at 31 December 2011	Up to 1 month	1-3 Months	3-12 months	1-5 years	Over 5 years	Total
ASSETS						
Cash and Central Bank assets	1,188,048	-	-	-	-	1,188,048
Treasury & Central Bank bills	802,638	1,309,605	1,204,167	-	-	3,316,410
Due from other banks	313,410	-	-	-	-	313,410
Loans and advances	1,224,569	237,592	487,923	1,953,644	397,185	4,300,913
Investments	-	-	56,072	501,651	794,878	1,352,601
Total assets	3,528,665	1,547,197	1,748,162	2,455,295	1,192,063	10,471,382
LIABILITIES						
Due to other banks	77,889	-	-	-	-	77,889
Due to customers	7,193,529	1,062,857	664,926	444,969	-	9,366,281
Other liabilities	582,506	44,213	-	-	75,525	702,244
Other provisions	109,632	41,116	-	-	39,943	190,691
Total liabilities	7,963,556	1,148,186	664,926	444,969	115,468	10,337,105
Net liquidity gap	(4,434,891)	399,011	1,083,236	2,010,326	1,076,595	134,277
As at 31 December 2010						
Total assets	2,748,313	1,151,404	1,741,926	1,827,466	1,769,009	9,238,118
Total liabilities	7,088,701	1,025,062	539,647	35,471	185,236	8,874,117
Net liquidity gap	(4,340,388)	126,343	1,202,279	1,791,995	1,583,773	364,001

e. OPERATIONAL RISK

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Bank and the Group conducts its business. Examples of operational risk 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 organisation's compliance with them. The Operational Risk Committee coordinates the management process across the organisation.

An independent internal audit function also conducts regular reviews to monitor compliance with policy and regulatory environment and examines the general standard of control.

f. FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings caused by a change in foreign exchange rates on open currency positions. The objective of foreign exchange risk management within the Bank and the Group is to minimise the impact on earnings of any such movement.

For the Year Ended 31 December 2011

f. FOREIGN EXCHANGE RISK (CONTINUED)

The Bank and the Group accepts foreign currency denominated transactions and therefore has exposure to movements in foreign currency. The Bank and the Group has a policy to offset these transactions by minimising daily exposure. This is done through hedging material exposures as they arise. As foreign exchange contracts generally consist of offsetting commitments, they involve only limited foreign exchange risk to the Bank and the Group and material loss is not envisaged.

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

All amounts are expressed in K'000

As at 31 December 2011	USD	AUD	EURO	PGK	Other	Total
ASSETS						
Cash and Central Bank assets	2,208	2,114	117	769,224	414,385	1,188,048
Treasury & Central Bank bills	-	-	-	3,200,385	116,025	3,316,410
Due from other banks	53,085	12,979	4,181	179,960	63,205	313,410
Loans and advances	23,182	1,303	-	3,420,555	855,873	4,300,913
Investments	-	-	-	1,268,801	83,800	1,352,601
Other assets	-	-	-	1,196,881	13,030	1,209,911
Total assets	78,475	16,396	4,298	10,035,806	1,546,318	11,681,293
LIABILITIES						
Due to other banks	-	-	-	(64,441)	(13,448)	(77,889)
Due to customers	(33,615)	(98,536)	-	(8,142,788)	(1,091,342)	(9,366,281)
Other liabilities	-	-	-	(436,485)	(456,450)	(892,935)
Total liabilities	(33,615)	(98,536)	-	(8,643,714)	(1,561,240)	(10,337,105)
Net on-balance sheet position	44,860	(82,140)	4,298	1,392,092	(14,922)	1,344,188
Off-balance sheet net notional position	63,031	7,314	10,550	-	79,528	160,423
Credit commitments	-	-	-	1,089,678	-	-
As at 31 December 2010						
Total assets	84,096	231,024	994	8,338,827	1,372,349	10,027,290
Total liabilities	(107,559)	(157,174)	(2,099)	(7,268,628)	(1,357,433)	(8,892,893)
Net on-balance sheet position	(23,463)	73,850	(1,105)	1,070,199	14,916	1,134,397
Off-balance sheet net notional position	24,946	8,491	6,133	-	5,714	45,284
Credit commitments	-	-	-	1,220,614	-	-

For the Year Ended 31 December 2011

g. INTEREST RATE RISK

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the Bank and the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process governed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Bank and the Group. The objective of interest rate risk control is to minimise these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. The table below illustrates the interest sensitivity of assets and liabilities at the balance date.

Given the profile of assets and liabilities as at 31 December 2011 and prevailing rates of interest, a 1% increase in rates will result in a K2.476 million decrease in net interest income, whilst a 1% decrease in rates will result in a K0.352 million decrease in net interest income.

Effective interest rates as at 31 December

Amounts are expressed in % p.a.	2011	2010
ASSETS		
Cash and Central Bank assets	7.75	7.00
Treasury and Central Bank bills	4.00	3.50
Due from other banks	7.00	7.00
Loans and advances	12.50	12.50
Investments	10.00	9.70
LIABILITIES		
Due to other banks	7.00	7.00
Due to customers	1.50	3.00



For the Year Ended 31 December 2011

g. INTEREST RATE RISK (CONTINUED)**Interest sensitivity of assets, liabilities and off-balance sheet items – re-pricing analysis**

All amounts are expressed in K'000

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing
ASSETS						
Cash and Central Bank assets	-	-	-	-	-	1,188,048
Treasury & Central Bank bills	802,638	1,309,605	1,204,167	-	-	-
Due from other banks	313,410	-	-	-	-	-
Loans and advances	2,348,518	324,550	390,447	756,780	480,615	4
Investments	-	-	56,072	501,651	794,878	-
Other assets	-	-	-	-	-	1,209,910
Total assets	3,464,566	1,634,155	1,650,686	1,258,431	1,275,493	2,397,962
LIABILITIES						
Due to other banks	77,889	-	-	-	-	-
Due to customers	5,191,873	596,670	845,336	68,564	-	2,663,837
Other liabilities	-	-	-	-	75,525	817,410
Total liabilities	5,269,762	596,670	845,336	68,564	75,525	3,481,247
Interest sensitivity gap	(1,805,196)	1,037,485	805,350	1,189,867	1,199,968	(1,083,285)
As at 31 December 2010						
ASSETS						
Cash and Central Bank assets	-	-	-	-	-	1,042,029
Treasury & Central Bank bills	645,146	736,200	899,470	-	-	-
Due from other banks	302,061	-	-	-	-	-
Loans and advances	1,989,354	510,339	740,327	565,058	286,215	-
Investments	-	-	238,103	349,642	934,170	-
Other assets	-	-	-	-	-	789,176
Total assets	2,936,561	1,246,539	1,877,900	914,700	1,220,385	1,831,205
LIABILITIES						
Due to other banks	23,638	-	-	-	-	-
Due to customers	4,669,132	642,114	339,147	33,471	5	2,300,788
Other liabilities	-	-	-	-	75,525	809,073
Total liabilities	4,692,770	642,114	339,147	33,471	75,530	3,109,861
Interest sensitivity gap	(1,756,209)	604,425	1,538,753	881,229	1,144,855	(1,278,656)

For the Year Ended 31 December 2011

h. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

There is no material difference between the fair value and carrying value of the financial assets and liabilities of Bank of South Pacific Limited and the Group.

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

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

Forward exchange contracts outstanding at 31 December 2011, stated at the face value of the respective contracts are:

As at 31 December 2011		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	19,083	150	-	4,351	-	-
	Kina	40,985	333	-	14,503	-	55,821
Buying	FCY	(3,027)	(10,529)	(2,364)	(5,500)	(612)	-
	Kina	(6,661)	(23,578)	(7,891)	(8,602)	(1,093)	(47,826)
As at 31 December 2010							
Selling	FCY	16,795	-	-	4,760	-	-
	Kina	43,855	-	-	19,716	-	63,571
Buying	FCY	(15,742)	(29,013)	(400)	(3,200)	(82,975)	-
	Kina	(43,376)	(75,030)	(1,487)	(2,030)	(4,160)	(126,083)

i. POLICY LIABILITIES

Key assumptions used in determining this liability are as follows:

(i) Discount Rates

For contracts which have a Discretionary Participation Feature (DPF), the discount rate used is linked to the assets which back those contracts. For 31 December 2011 this was 4.21% per annum (31 December 2010: 5.49% per annum), based on 5 year government bond rate and expected earnings from the investment portfolio. For contracts without DPF, a rate of 2.56% per annum was used at 31 December 2011 (31 December 2010: 4.04% per annum). For Accident business a rate of 2.56% per annum was used at 31 December 2011 (31 December 2010: 3.98% per annum). These rates were based on the 5 year government bond rate.

(ii) Investment and Maintenance Expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.5% per annum (31 December 2010 3.5% per annum) for determining future expenses.

(iii) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation (i.e. 20%) are assumed to continue into the future.

For the Year Ended 31 December 2011

i. POLICY LIABILITIES (CONTINUED)

(iv) Mortality and Morbidity

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male. These are then adjusted by comparing with the Group's own experience. The mortality rates used was 85% of the FJ90-94 Male table.

(v) Rates of Discontinuance

Best estimate assumptions for the incidence of withdrawal and discontinuance are based on the Group's experience and are reviewed regularly. Rates used for the long term insurance contracts are as follows:

	31 December 2011	31 December 2010
Whole of Life and Endowment Insurance	14%	14%
Term Insurance	17%	16%
Accident Insurance	14%	13%

(vi) Basis of Calculation of Surrender Values

Surrender values are based on the provisions specified in the policy contracts. There have been no changes to surrender bases during the period (or the prior periods) which have materially affected the valuation results.

(vii) Discretionary Participating Business

For most participating business, bonus rates are set such that, over long periods, the returns to contract holders are commensurate with the investment returns achieved on the pool of assets which provide security for the contract, together with other sources of profit arising from this business. Distributions are split between contract holders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20% (31 December 2010: 20%). For business written between 1995 and 1998 the shareholder receives 11% of distributions.

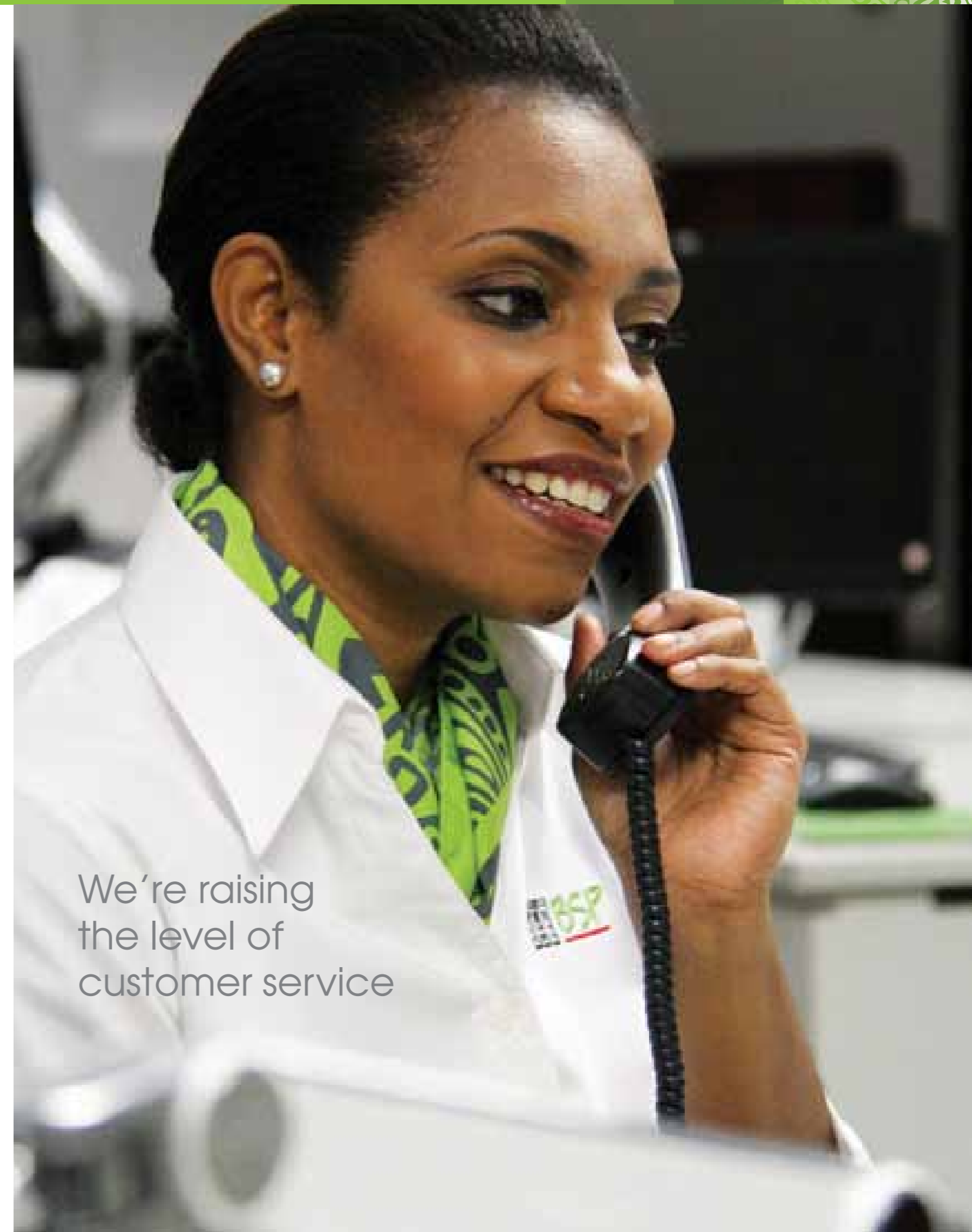
In applying the contract holders' share of profits to provided bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of contracts in force. Assumed future bonus rates included in the liability for long term insurance contracts 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 shareholders right to participate in distributions.

Reinsurance

Contracts entered into by the Group with Reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group, are classified as reinsurance contracts.

As the reinsurance agreements provide for indemnification by the Reinsurers against loss or liability, reinsurance income and expenses are recognised separately in the statements of comprehensive income when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries are recognised as claim recoveries under the statements of comprehensive income. This is netted off against the claim expense. Reinsurance premiums are recognised as Reinsurance expenses.



We're raising
the level of
customer service

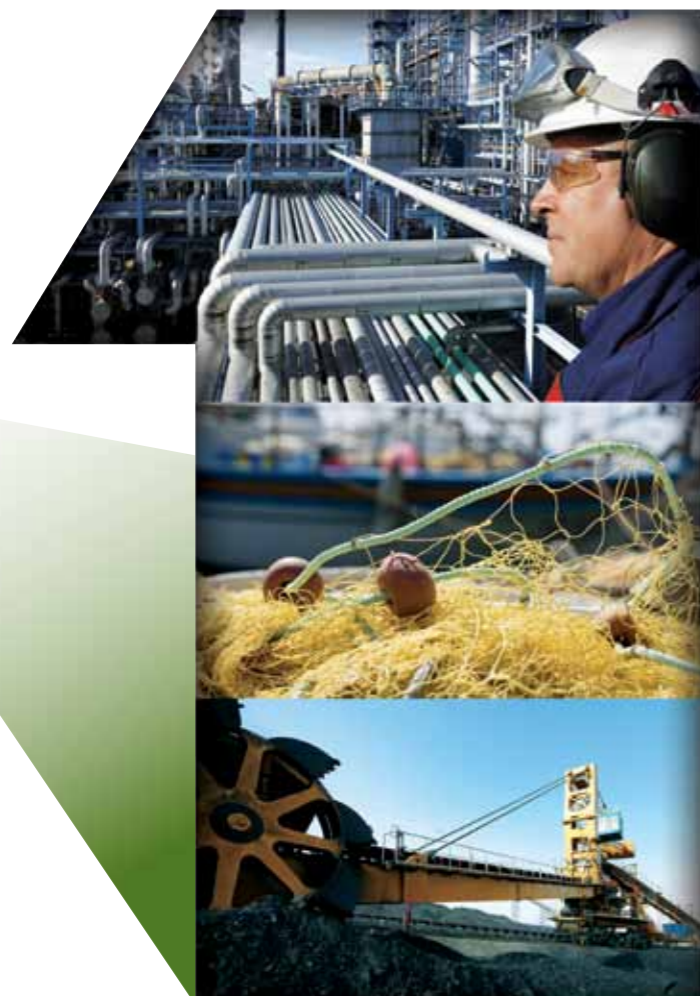
For the Year Ended 31 December 2011

1. NET INTEREST INCOME

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
INTEREST INCOME				
Cash and short term funds	7,764	1,339	7,764	1,339
Public Securities: Treasury bills and Inscribe stock	213,381	228,619	213,381	223,061
Loans and advances	442,251	412,260	448,712	351,531
Other	2,924	3,826	2,924	550
	666,320	646,044	672,781	576,481
Less:				
INTEREST EXPENSE				
Customer deposits	57,580	90,202	64,069	68,500
Other banks	1,484	32	1,484	32
Subordinated debt securities	8,581	9,278	8,581	9,278
Other borrowings	1,196	2,530	1,196	2,530
	68,841	102,042	75,330	80,390
	597,479	544,002	597,451	496,091

2. NET FEE AND COMMISSION INCOME

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
FEE AND COMMISSION INCOME				
Credit related	52,404	49,167	52,404	44,639
Trade and international related	8,930	143	8,930	143
Electronic banking related	24,005	13,449	24,005	13,449
Brokerage and fee income	3,547	1,957	-	-
Other	115,156	87,725	115,156	87,733
	204,042	152,441	200,495	145,964
Less:				
FEE AND COMMISSION EXPENSES				
Agencies	1,906	383	1,906	383
	1,906	383	1,906	383
	202,136	152,058	198,589	145,581



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For the Year Ended 31 December 2011

3. OTHER INCOME

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Foreign Exchange related	192,812	139,260	192,812	132,566
Net insurance premium income	161,938	89,074	-	-
Other	27,981	30,581	35,566	22,509
	382,731	258,915	228,378	155,075
INCLUDED IN OTHER INCOME:				
Profit/(loss) on sale of fixed assets	508	1,166	508	498
Change in fair value of assets held through profit and loss	18,497	10,119	-	-
Foreign Exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets.				

4. BAD AND DOUBTFUL DEBTS (EXPENSE)/RECOVERY

Bad debts recovered – net	34,002	34,479	34,002	31,690
Net charge to doubtful debts provision	(59,236)	(55,060)	(59,236)	(50,802)
	(25,234)	(20,581)	(25,234)	(19,112)

5. OTHER OPERATING EXPENSES

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Administration	171,270	171,520	126,390	99,548
Auditors' remuneration	1,494	1,893	1,225	1,597
Computing	36,240	22,234	36,240	22,234
Depreciation	52,497	53,499	49,442	43,261
Amortisation of computer development	512	645	512	645
Non-Executive Directors' costs	623	1,533	623	1,533
Non-lending losses	26,875	5,812	26,875	4,292
Fixed asset write off (write back)	-	645	-	645
Premises and equipment	49,924	33,069	49,924	30,331
Increase/(decrease) in policy liabilities	35,589	2,576	-	-
Claims, surrender and maturities	54,895	5,106	-	-
	427,919	298,532	291,231	204,086
STAFF COSTS				
Defined contribution plans	8,258	7,836	7,389	5,011
Statutory benefit contributions	6,170	10,841	6,170	8,016
Wages and salaries	189,113	164,413	173,222	125,784
Other	57,161	41,206	54,975	32,276
	260,702	224,296	241,756	171,087
	688,621	522,828	532,987	375,173

For the Year Ended 31 December 2011

6 (a). INCOME TAX EXPENSE

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Current tax	166,960	142,609	162,405	142,328
Deferred tax	(56,048)	(20,438)	(54,844)	(20,607)
Current year	110,912	122,171	107,561	121,721
Prior year adjustments	8,127	5,486	9,645	3,806
	119,039	127,657	117,206	125,527
Tax calculated at 30% of profit before tax (2010:30%)	139,859	119,473	139,859	120,629
Tax calculated at 29% of profit before tax – subsidiary	3,536	3,828	-	-
Expenses not deductible for tax	(19,487)	2,601	(13,008)	1,092
Net insurance income not subject to tax	3,179	2,211	-	-
Tax benefit not brought to account – subsidiary	-	(5,942)	-	-
Impact of change in tax rate – Fiji subsidiary	79	-	-	-
Prior year under provision	(8,127)	5,486	(9,645)	3,806
	119,039	127,657	117,206	125,527

Further information about deferred taxes is presented in note 20.

6 (b). INCOME TAX RECOVERABLE / (PROVISION FOR INCOME TAX)

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
RECOVERABLE / (PROVISION) COMPRISE:				
At 1 January	(30,484)	(109,691)	(28,513)	(103,377)
Income tax provision	(166,960)	(142,609)	(162,405)	(142,328)
Tax benefit not brought to account – subsidiary	-	(5,942)	-	-
Expenses not deductible for tax	-	3,922	-	-
Prior year over/(under) provision	(108)	12,890	1,492	12,890
Foreign tax paid	3,849	6,644	-	-
Tax payments made	115,742	204,302	115,742	204,302
At 31 December	(77,961)	(30,484)	(73,684)	(28,513)

For the Year Ended 31 December 2011

7. ASSIGNED CAPITAL

Assigned capital is maintained by BSP Fiji branch to comply with the statutory requirements of the Reserve Bank of Fiji.

8. NATIONAL BANK OF FIJI LIMITED CONVERSION TO BRANCH

On, 28 February 2011, the National Bank of Fiji Limited, a subsidiary of BSP, trading as Colonial National Bank, was converted into a branch within the BSP's existing Branch Operations in Fiji. The conversion of the subsidiary's operations to a branch structure is by way of the Bank of South Pacific Limited decree approved by appropriate regulatory and statutory authorities in Fiji Islands.

All assets and liabilities of the subsidiary were taken up at book value under the branch structure. The conversion to a branch structure is not deemed to be an acquisition of a business and does not fall within the ambit of IFRS 3 – Business Combination, which requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

The National Bank of Fiji Limited ceased operations after the transfer of business and undertakings, and the banking license returned to the Reserve Bank of Fiji. The assets, liabilities and equity of the subsidiary transferred to BSP Fiji's branch at 28 February 2011 are as follows:-

	K'000
Total assets	1,048,815
Total liabilities	923,496
Equity	125,319

9. BORROWINGS

On 23 June 2010, the Group signed a loan agreement with International Finance Corporation (IFC), a member of the World Bank Group to obtain a floating rate loan to the amount of US\$30 million. As at 31 December 2011, the balance of the undrawn borrowing was US\$30 million.

10. 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. Each note entitles the holder to convert to ten (10) Fiji Class shares. On conversion all notes are redeemed for their face value and the proceeds of that redemption are applied as the subscription price for Fiji Class shares. Notes can only be redeemed in cash at the election of BSP CN Fiji with regulatory approval. The amount payable at redemption will be greater of the market value or face value of the note plus accrued interest.

The net proceeds received from the issue of the convertible notes have been split between the financial liability element and the equity component, representing the residual attributable to the option to convert the financial liability into equity of BSP CN.

The equity component of K18.218 million has been credited to equity (option premium on convertible notes).

At BSP's Annual General Meeting held on the 20 May 2011 in Port Moresby, the shareholders approved a reorganisation of the company's capital via a Share Consolidation by which 10 existing BSP ordinary shares were consolidated into 1 BSP share.

For the Year Ended 31 December 2011

10. CONVERTIBLE NOTES (CONTINUED)

BSP Convertible Notes Limited (BCN) and BCN Noteholders are bound by the Mandatorily Convertible Notes Deed dated 5 March 2010. This sets the initial Conversion Ratio (that is, the number of Fiji Class Share to which one note will convert to Conversion Date) at 10:1. This Conversion Ratio is subject to change and adjustable in accordance with the Note Conditions should there be a change to BSP's capital structure.

Accordingly, as a result of the share consolidation, the Conversion Ratio has been adjusted in accordance with the Deed to 1:1. Therefore at Conversion Date (that is three years from the date of issue or on the occurrence of specified events in the Deed, whichever is earlier) each note issued by BCN will convert to a single Fiji Class share.

The effective interest rate which is used to calculate the interest charged to the statement of comprehensive income was 7%.

Note holders have no right to vote at meetings of BSP Convertible Notes Limited.

11. CDO PROVISION

In 2008 and prior periods, BSP Capital Limited a subsidiary of the Bank, marketed certain collateralised debt obligation investment products issued or arranged by Lehman Brothers. The value of the notes was seriously impaired following the Global Financial Crisis of 2007-2008, particularly the demise of Lehman Brothers, which was the primary issuer or promoter in the majority of cases. Value remains subject to great uncertainty, because of the status of the issuer/promoter, and the general level of financial asset prices declined dramatically as the Global Financial Crisis developed, and because of the complex investment structures and contractual relationships causing difficulties in identifying the nature and quality of the assets underlying these instruments.

A K50 million asset impairment adjustment/provision in respect of these events was created as a prudent estimate of the cost to BSP Group of protecting against reputation risk and risk of financial loss. The balance as at 31 December 2011 is K0.826 million.



For the Year Ended 31 December 2011

12. INTANGIBLE ASSET

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Gross carrying amount	21,933	16,158	-	-
Impairment adjustment	-	-	-	-
	21,933	16,158	-	-

The Directors have determined that the carrying value of the goodwill arising on consolidation as a result of elimination of BSP investment in its subsidiaries is considered not materially impaired. These subsidiaries trade on a going concern basis and their normal business operations are not exceptionally impaired.

13. INVESTMENTS IN ASSOCIATES

Name of Associates	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
			2011	2010
Suva Central Limited	Property Rental	Fiji	50%*	50%*
Richmond Limited	Hotel operation	Fiji	61.3%** , 50%***	61.3%** , 50%***
Williams and Gosling	Freight forwarding	Fiji	27.7%*	27.7%*

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

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Investment in associate	54,456	47,733	12,563	1,417
Disposal	(5,995)	(5,078)	-	(1,053)
Additional	-	12,563	-	12,563
Share of profit/(loss) for year ending December 2011	6,496	(762)	-	(364)
Net investment in associate	54,957	54,456	12,563	12,563
SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES:				
Total assets	121,327	188,011	-	41,738
Total liabilities	(48,081)	(103,184)	-	(38,794)
Net assets	73,246	84,827	-	2,944
Net profit/(loss)	10,916	(1,536)	-	(1,138)
Share of associate's profit or loss:				
Share of associate's profit/(loss)	6,496	(762)	-	(364)

For the Year Ended 31 December 2011

14. CASH AND BALANCES WITH CENTRAL BANK

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Notes and coins	388,553	278,484	287,271	173,626
Balances with Central Bank other than statutory deposit	213,260	258,688	213,260	155,271
Included in cash and cash equivalents	601,813	537,172	500,531	328,897
Statutory deposits with Central Bank	586,235	504,857	586,235	415,383
	1,188,048	1,042,029	1,086,766	744,280

15. TREASURY AND CENTRAL BANK BILLS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Treasury & Central Bank Bills – face value	3,321,895	2,312,609	3,321,895	2,312,609
Discount for interest receivable	(5,485)	(31,793)	(5,485)	(31,793)
	3,316,410	2,280,816	3,316,410	2,280,816

Treasury and Central Bank bills are debt securities issued by the Central Bank. These bills are classified as assets held for trading and carried at fair value.

16. AMOUNTS DUE FROM OTHER BANKS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Items in the course of collection	223,739	259,586	223,739	259,586
Placements with other banks	89,671	42,475	89,671	35,442
Included in cash and cash equivalents	313,410	302,061	313,410	295,028

For the Year Ended 31 December 2011

17. LOANS AND ADVANCES TO CUSTOMERS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
LOANS ORIGINATED BY THE BSP GROUP:				
Overdrafts	981,748	680,475	981,748	615,482
Leases	162,340	174,171	162,340	174,171
Term loans	2,439,997	2,692,603	2,408,660	2,430,426
Mortgages	846,383	654,761	845,400	163,946
Policy loans	38,517	47,965	-	-
Gross loans and advances net of reserved interest	4,468,985	4,249,975	4,398,148	3,384,025
Less allowance for losses on loans and advances	(168,072)	(158,678)	(162,174)	(107,278)
	4,300,913	4,091,297	4,235,974	3,276,747
ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES				
Movement in allowance for losses on loans and advances:				
Balance at 1 January	158,678	129,760	107,278	85,524
New provision	25,000	39,847	25,000	30,000
Loans written off against provisions / (write back of provisions no longer required)	(15,606)	(10,929)	29,896	(8,246)
Balance at 31 December	168,072	158,678	162,174	107,278
LOANS AND ADVANCES TO CUSTOMERS INCLUDES FINANCE LEASE RECEIVABLES, ANALYSED AS FOLLOWS:				
Investment in finance leases received				
Not later than 1 year	28,747	23,522	28,747	23,522
Later than 1 year and not later than 5 years	153,334	161,773	153,334	161,773
Later than 5 years	-	-	-	-
	182,081	185,295	182,081	185,295
Unearned future finance income	(19,741)	(11,124)	(19,741)	(11,124)
Net investment in finance leases	162,340	174,171	162,340	174,171
THE NET INVESTMENT IN FINANCE LEASES IS ANALYSED AS FOLLOWS:				
Not later than 1 year	28,132	22,984	28,132	22,984
Later than 1 year and not later than 5 years	134,208	151,187	134,208	151,187
Later than 5 years	-	-	-	-
	162,340	174,171	162,340	174,171

For the Year Ended 31 December 2011

18 (a). PROPERTIES HELD FOR SALE

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Premises	-	9,011	-	-
Disposal	-	(9,011)	-	-
	-	-	-	-

18 (b). PROPERTY, PLANT AND EQUIPMENT

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
(i) CARRYING VALUE				
Capital works in progress	244,401	94,061	243,498	77,815
Premises	354,658	241,073	334,496	216,212
Accumulated depreciation	(58,119)	(59,398)	(53,238)	(41,357)
	296,539	181,675	281,258	174,855
Equipment	324,463	305,623	300,367	231,421
Accumulated depreciation	(242,500)	(217,205)	(227,601)	(172,067)
	81,963	88,418	72,766	59,354
	622,903	364,154	597,522	312,024
(ii) RECONCILIATIONS				
Capital WIP				
At 1 January	94,061	58,347	77,815	46,284
Additions	534,104	115,669	531,684	100,907
Transfers	(383,764)	(79,955)	(366,001)	(69,376)
At 31 December	244,401	94,061	243,498	77,815
PREMISES				
At 1 January	181,675	177,078	174,855	168,271
Additions	19,449	14,697	19,271	13,859
Disposals	(292)	(330)	(292)	(20)
Net movement	4,565	1,895	5,570	1,895
Revaluation Increases	100,568	-	90,843	-
Depreciation expense	(9,426)	(11,665)	(8,989)	(9,150)
At 31 December	296,539	181,675	281,258	174,855
EQUIPMENT				
At 1 January	88,418	46,821	59,354	28,747
Additions	24,270	76,672	19,883	55,517
Disposals	(9,290)	(5,330)	(8,889)	(2,888)
Net movement	13,092	3,545	34,327	3,545
Depreciation expense	(34,527)	(33,290)	(31,909)	(25,567)
At 31 December	81,963	88,418	72,766	59,354

For the Year Ended 31 December 2011

18 (b). PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Freehold land and buildings carried at fair value

An independent valuation of the Bank's land and buildings was performed by GDA Pacific Valuers to determine the fair value of the land and buildings. The valuation, which conforms to International Valuation Standards, was determined by reference to capitalisation of the notional income stream approach on the Market Value basis. The effective date of the valuation is 31st December 2011.

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

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Freehold land	14,531	11,467	11,434	11,467
Buildings	102,444	89,561	86,192	89,561
At 31 December	116,975	101,028	97,626	101,028

18 (c). ASSETS SUBJECT TO OPERATING LEASE

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
(i) CARRYING VALUE				
Aircraft	115,041	115,041	115,041	115,041
Accumulated depreciation	(46,105)	(37,561)	(46,105)	(37,561)
	68,936	77,480	68,936	77,480
Reconciliations				
Aircraft				
At 1 January	77,480	86,024	77,480	86,024
Depreciation	(8,544)	(8,544)	(8,544)	(8,544)
At 31 December	68,936	77,480	68,936	77,480
(ii) FUTURE MINIMUM LEASE PAYMENTS				
Not later than 1 year	1,730	7,509	1,730	7,509
Later than 1 year and not later than 5 years	1,730	3,461	1,730	3,461
At 31 December	3,460	10,970	3,460	10,970

18 (d). INVESTMENT PROPERTIES

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Opening net book value	74,816	70,990	-	-
Net movement	(15,935)	5,038	-	-
Gain/Loss on revaluation	1,427	(1,212)	-	-
At 31 December	60,308	74,816	-	-

For the Year Ended 31 December 2011

19. OTHER FINANCIAL ASSETS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
SECURITIES - HELD TO MATURITY				
Inscribed stock - issued by Central Bank	1,331,988	1,499,615	1,268,801	1,318,174
Financial assets carried at fair value through profit and loss:				
Equity securities	20,613	22,300	-	-
At 31 December	1,352,601	1,521,915	1,268,801	1,318,174

20. DEFERRED TAX ASSET

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% applicable from 1 January 2011 (2010: 30%). Deferred income taxes are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. At 31 December 2011, the net benefit reflects the estimated future tax benefits at applicable income tax rates of the following:

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Specific allowance for losses on loans and advances	40,548	8,173	40,548	7,951
General allowance for losses on loans and advances	8,105	24,543	8,105	24,233
Employee related provisions	13,068	11,896	12,780	10,336
Prepaid expenses	(599)	(253)	(599)	(253)
Other provisions	18,604	24,770	18,605	6,147
Depreciation and amortisation	(8,767)	(24,916)	(8,767)	(26,030)
Unrealised foreign exchange gains	(9,262)	(5,509)	(9,262)	(5,509)
Deferred expenditure	6,900	(3,902)	7,299	3,902
	68,597	34,802	68,709	20,777
THE MOVEMENTS ON THE DEFERRED INCOME TAX ACCOUNTS ARE AS FOLLOWS:				
At 1 January	34,802	20,722	20,777	9,329
Specific allowance for losses on loans and advances	32,375	(7,159)	32,597	(1,809)
General allowance for losses on loans and advances	(16,438)	4,874	(16,128)	8,336
Employee related provisions	1,171	2,365	2,444	2,458
Depreciation and amortisation	(345)	(1,374)	(346)	(3,464)
Prepaid expenses	(6,166)	(253)	12,457	(253)
Other provisions	16,149	12,961	17,264	2,454
Unrealised foreign exchange gains	(3,753)	3,805	(3,753)	3,806
Deferred expenditure	10,802	(1,139)	3,397	(80)
At 31 December	68,597	34,802	68,709	20,777
REPRESENTED BY:				
Future income tax benefit	87,625	64,968	87,336	52,569
Deferred tax liability	(19,028)	(30,166)	(18,627)	(31,792)
At 31 December	68,597	34,802	68,709	20,777

For the Year Ended 31 December 2011

20. DEFERRED TAX ASSET (CONTINUED)

Taxable & deductible temporary differences arise from the following:

All amounts are expressed in K'000							
Group – 2011							
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Disposal	Subsidiary-opening balance	Closing Balance
Gross deferred tax liabilities	(30,166)	20,077	(2,027)	(6,912)	-	-	(19,028)
Gross deferred tax assets	64,968	35,971	(13,314)	-	-	-	87,625
	34,802	56,048	(15,341)	(6,912)	-	-	68,597
All amounts are expressed in K'000							
Group – 2010							
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Disposal	Subsidiary-opening balance	Closing Balance
Gross deferred tax liabilities	(31,881)	9,767	(6,018)	5,915	(7,949)	-	(30,166)
Gross deferred tax assets	52,603	10,671	1,694	-	-	-	64,968
	20,722	20,438	(4,324)	5,915	(7,949)	-	34,802

All amounts are expressed in K'000							
Bank - 2011							
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Disposal	Subsidiary-opening balance	Closing Balance
Gross deferred tax liabilities	(31,792)	20,077	-	(6,912)	-	-	(18,627)
Gross deferred tax assets	52,569	34,767	-	-	-	-	87,336
	20,777	54,844	-	(6,912)	-	-	68,709
All amounts are expressed in K'000							
Bank - 2010							
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Disposal	Subsidiary-opening balance	Closing Balance
Gross deferred tax liabilities	(31,881)	9,767	(6,018)	4,289	(7,949)	-	(31,792)
Gross deferred tax assets	41,210	10,840	519	-	-	-	52,569
	9,329	20,607	(5,499)	4,289	(7,949)	-	20,777



BSP First offers exclusive banking with privileges

For the Year Ended 31 December 2011

21. OTHER ASSETS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Items in transit and other assets	175,185	34,701	128,252	16,504
Accrued income	65,123	51,317	65,123	48,024
Intercompany account	-	-	4,508	2,896
Computer development costs	4,144	2,387	4,144	2,387
Outstanding premiums	20,697	25,710	-	-
Inventory	4,337	4,033	-	-
Prepayments	12,349	10,459	12,349	10,127
Accounts receivable	11,414	8,533	629	176
	293,249	137,140	215,005	80,114

22. AMOUNTS DUE TO OTHER BANKS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Items in the course of collection	77,889	23,638	95,820	29,497

23. AMOUNTS DUE TO CUSTOMERS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Demand / current	7,614,630	6,141,624	7,618,664	5,747,076
Term	1,751,651	1,843,033	1,827,725	1,438,499
	9,366,281	7,984,657	9,446,389	7,185,575

24 (a). OTHER LIABILITIES

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Creditors and accruals	46,858	65,817	36,728	27,730
Items in transit and all other liabilities	194,787	138,265	184,182	122,694
Interest payable-convertible notes	-	4,176	-	-
Policy liabilities	376,743	446,754	-	-
Premiums received in advance	4,385	4,961	-	-
Outstanding claims	4,808	7,644	-	-
Claims incurred but not reported (IBNR)	1,290	1,678	-	-
Borrowings	-	14,698	-	-
	628,871	683,993	220,910	150,424

For the Year Ended 31 December 2011

24 (b). SUBORDINATED DEBT SECURITIES

At 31 December, there are K75.525 million of debt securities outstanding, expected to be settled more than 12 months after the balance sheet date. The notes were issued during 2009, with a maturity date in 2019, and interest is payable semi-annually at 11% per annum. They are valued at amortised cost. The Group has not had any defaults of interest or other breaches with respect to its debt securities in 2011.

25. OTHER PROVISIONS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Staff related	46,478	43,746	42,609	34,568
Provision for non lending loss	34,381	17,505	34,381	16,896
Provision for offshore creditors' GST	10,691	3,179	10,692	3,178
	91,550	64,430	87,682	54,642
STAFF RELATED PROVISIONS				
At 1 January	43,746	34,461	34,568	26,708
Provisions charge	15,870	62,168	13,871	57,613
Payouts	(13,138)	(52,883)	(5,830)	(49,753)
At 31 December	46,478	43,746	42,609	34,568

26. ORDINARY SHARES - BANK

Number of shares in '000s, book value in K'000	Number of Shares	Book Value
At 31 December 2009/1 January 2010	4,559,328	318,014
Issued during the year	227,967	143,619
At 31 December 2010/1 January 2011	4,787,295	461,633
Share consolidation (10/1)	478,738	-
As at 7 June 2011	478,738	461,633
Share buyback	(4,856)	(35,189)
At 31 December 2011	473,882	426,444

At the company's Annual General Meeting held on the 20 May 2011 in Port Moresby, the shareholders approved a reorganisation of the company's capital via a share consolidation by which 10 existing BSP ordinary shares were consolidated into 1 BSP share.

In May 2011, the Directors agreed to introduce a share buyback scheme of up to K40 million in conjunction with the 1 for 10 share consideration. The share buyback commenced in July 2011 and as at 31 December 2011, 4,855,505 shares have been bought back at a value of K35.189 million.

The issued capital of Bank of South Pacific Limited comprises ordinary shares. Following is a summary of principal shareholders as at 31 December 2011 and their respective percentage holdings.

For the Year Ended 31 December 2011

26. ORDINARY SHARES – BANK (CONTINUED)

Major shareholders: % shareholding	2011	2010
Independent Public Business Corporation	17.75	17.61
Nominees Niugini Limited	-	11.07
National Superannuation Fund Limited	10.93	6.79
Nambawan Super Limited	10.00	9.98
Petroleum Resources Kutubu Limited	9.72	9.64
Credit Corporation (PNG) Limited	8.06	8.04
Motor Vehicle Insurance Limited	6.58	-
PNG Sustainable Development Program Limited	6.17	6.12
IFC Capitalization (Equity) Fund LP	4.80	4.76
International Finance Corporation	4.80	4.76
PNG Teachers Savings and Loans Society Limited	3.70	3.73
Comrade Trustee Services	3.16	3.20
Tropicana Limited	1.05	1.04
	86.72	86.74
All Others	13.28	13.26
	100.00	100.00

Share Options - Executive Management Share Option Plan

An Executive Management Share Option Plan was established at the Annual General Meeting of 27 May 2004. The first tranche of options of 1,121,818 were exercised on 30 June 2006. These options were valued at Mark to Market. The second tranche of options of 1,481,818 were exercised on 30 June 2007.

On 1 July 2008 the Board, under this plan, granted options over ordinary shares of Bank of South Pacific Limited to the executives only. These options were issued for nil consideration, are not transferable, and cannot be quoted on any stock exchange.

On July 2010, when the 2008 EMSOP expired, the executive management forfeited their right to exercise their options.

On July 2010, the Board granted 18,250,000 options over ordinary shares of Bank of South Pacific Limited to the executives only (taking into account the 10/1 share split in 2008). The options have a vesting period of 1 July 2012, and an exercise price of K0.65. The overriding exercise conditions of these options are performance hurdles.

These allotments are now 1,825,000 at K6.50 after the share consolidation in 2011.

On July 2011, the Board granted 17,250,000 options over ordinary shares of Bank of South Pacific Limited to the executives only (taking into account the 10/1 share consolidation in 2011, these are 1,725,000). The options have a vesting period of 1 July 2013, and an exercise price of K6.69. The overriding exercise conditions of these options are performance hurdles.

The 2011 share options have been valued in compliance with IFRS 2 and classified as equity on the balance sheet.

For the Year Ended 31 December 2011

26. ORDINARY SHARES – BANK (CONTINUED)

Options 2011 ('000)	Opening balance	Share split	Issued	Exercised	Forfeited	Others	Closing Balance
2010	18,250	1,825	-	-	-	-	1,825
2011	-	-	1,725	-	-	-	1,725
Total	18,250	1,825	1,725	-	-	-	3,550
Weighted average exercise price	0.65	6.5	6.69	-	-	-	6.69

Options 2010 ('000)	Opening balance	Share split	Issued	Exercised	Forfeited	Others	Closing Balance
2008	8,000	-	-	-	8,000	-	-
2010	-	-	18,250	-	-	-	18,250
Total	8,000	-	18,250	-	8,000	-	18,250
Weighted average exercise price	1.26	-	0.65	-	1.26	-	0.65



Promoting
partnerships
in resource
development

Promoting partnerships in resource development

For the Year Ended 31 December 2011

27. RESERVES AND RETAINED EARNINGS/(ACCUMULATED LOSSES)

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
RETAINED EARNINGS				
At 1 January	588,977	553,912	578,372	551,625
Net profit for the year	355,947	283,147	348,989	276,570
Dividend paid	(223,526)	(247,959)	(223,526)	(247,959)
Deferred income and prior year adjustments	-	(123)	(6,137)	(1,864)
At 31 December	721,398	588,977	697,698	578,372
DIVIDEND PAID REPRESENTED BY:				
Interim dividend	73,681	65,585	73,681	65,585
Final dividend	149,845	182,374	149,845	182,374
At 31 December	223,526	247,959	223,526	247,959
RESERVES COMPRISE:				
Revaluation reserve	160,293	68,776	160,293	68,776
Capital reserve	635	635	635	635
Equity component of convertible notes (note 10)	18,218	18,218	-	-
BSP Fiji branch – capital adequacy reserve	-	-	67,912	-
Options reserve	3,238	1,968	3,237	1,967
General reserve	2,875	2,875	2,875	2,875
Exchange reserve	11,087	(8,685)	15,627	(4,914)
	196,346	83,787	250,579	69,339
Movement in reserves for the year:				
REVALUATION RESERVE				
At 1 January	68,776	68,776	68,776	68,776
Asset revaluation	98,429	-	98,429	-
Deferred tax on asset revaluation	(6,912)	-	(6,912)	-
At 31 December	160,293	68,776	160,293	68,776
CAPITAL RESERVE				
At 1 January	635	635	635	635
BSP Fiji branch – capital adequacy reserve	-	-	67,912	-
At 31 December	635	635	68,547	635
OPTIONS RESERVE				
At 1 January	1,968	1,311	1,967	1,311
Movement during the year	1,270	657	1,270	656
At 31 December	3,238	1,968	3,237	1,967
GENERAL RESERVE				
At 1 January	2,875	2,875	2,875	2,875
At 31 December	2,875	2,875	2,875	2,875
EXCHANGE RESERVE				
At 1 January	(8,685)	(11,424)	(4,914)	(7,156)
Movement during the year	19,772	2,739	20,541	2,242
At 31 December	11,087	(8,685)	15,627	(4,914)

For the Year Ended 31 December 2011

27. RESERVES AND RETAINED EARNINGS/(ACCUMULATED LOSSES) (CONTINUED)

The movement in exchange reserve is a result of taking on alignment entries and month end entries of BSP's foreign branches in Solomon Islands, Fiji Islands and Niue. The conversion of National Bank of Fiji Ltd into a branch of BSP in Fiji on the 28 February 2011 also had an impact to this account. These treatments are in accordance with applicable accounting standards.

28. CONTINGENT LIABILITIES AND COMMITMENTS

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Off balance sheet financial instruments				
Standby letters of credit	57,678	28,671	57,678	27,470
Guarantees and indemnities issued	269,458	286,409	269,458	281,407
Trade letters of credit	118,751	17,814	118,751	17,815
Commitments to extend credit	643,791	887,720	643,791	863,938
	1,089,678	1,220,614	1,089,678	1,190,630

Legal Proceedings

A number of legal proceedings against the Bank and the Group were outstanding as at 31 December 2011. No provision has been made as existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 31 December 2011, the Bank and the Group estimates a contingent liability of K50.084 million (2010: K73.833 million) in respect of these proceedings.

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Statutory deposits with the Central Bank				
Cash reserve requirement - 6% of all amounts due to customers (2010: 4 %)	586,235	363,680	496,588	274,206
Commitments for capital expenditure				
Amounts with firm commitments, and not reflected in the accounts	39,556	37,691	39,556	29,759
Operating lease commitments				
Not later than 1 year	14,696	11,449	14,696	7,578
Later than 1 year and not later than 5 years	23,045	20,718	23,045	7,049
Later than 5 years	10,860	20,904	10,860	-
	48,601	53,071	48,601	14,627

For the Year Ended 31 December 2011

29. 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.

All amounts are expressed in K'000	Group		Bank	
	2011	2010	2011	2010
Cash and balances with Central Bank (note 14)	1,188,048	1,042,029	1,086,766	744,280
Due from other banks (note 16)	313,410	302,061	313,410	295,028
Due to other banks (note 22)	(77,889)	(23,638)	(95,820)	(29,497)
	1,423,569	1,320,452	1,304,356	1,009,811

30. RELATED PARTY TRANSACTIONS

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

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

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates. For the year ended 31 December 2011, balances and transactions of accounts for Directors were as follows:

All amounts are expressed in K'000	2011	2010
DEPOSITS		
Opening balances	44,439	21,758
Net movement	163,920	22,681
Closing balance	208,359	44,439
Interest paid	6,066	2,461
LOANS AND ADVANCES		
Opening balances	83,571	65,795
Loans issued	125,401	24,954
Interest	2,577	61
Charges	27,969	6,925
Loan repayments	(82,479)	(14,164)
Closing balance	157,039	83,571

For the Year Ended 31 December 2011

30. RELATED PARTY TRANSACTIONS (CONTINUED)

Incentive-based transactions are provided for staff. Such transactions include marginal discounts on rates, and specific fee concessions. These incentives are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2011, staff account balances were as follows:

All amounts are expressed in K'000	2011	2010
Housing loans	12,771	10,385
Other loans	16,657	14,381
	29,428	24,766
Cheque accounts	9,709	5,023
Foreign currency accounts	-	-
Savings accounts	4,209	3,338
	13,918	8,361



For the Year Ended 31 December 2011

30. RELATED PARTY TRANSACTIONS (CONTINUED)**Interests Register**

The following are transactions recorded in the interests register:

Name	Nature of Interest	
K. Constantinou, OBE	Director	Bank of South Pacific Ltd ¹ , BSP Capital Ltd ¹ , Airways Hotel & Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Hebou Constructions Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Airlines PNG Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Kimbe Bay Hotel Ltd, Grand Pacific Hotel Ltd, Hotel Technical Services Ltd, C.G.A Properties Ltd, City Centre Development Ltd, Coastwatchers Court Ltd, Fairhaven No.57 Ltd.
	Shareholder	Airways Hotel & Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Hotel Technical Services Ltd, C.G.A Properties Ltd, Fairhaven No.57 Ltd.
	Member	Australian Institute of Company Directors, PNG Institute of Directors.
T. E. Fox, OBE, BEc	Director	Bank of South Pacific Ltd ² , BSP Capital Ltd, Teyo No.1 Ltd ⁵ , Capital Life Insurance Company Ltd.
	Shareholder	Bank of South Pacific Ltd, Teyo No. 1 Ltd, Citigold Corporation Ltd, Marengo Gold Ltd, New Guinea Energy Ltd.
	Trustee/Member	Institute of National Affairs ⁶ , PNG Institute of Directors
I. B. Clyne	Director	Bank of South Pacific Ltd ⁹ , BSP Capital Ltd, BSP Convertible Notes Ltd, BSP Rural Ltd, BSP Life Ltd.
	Member	Commercial Bankers Association.
J. G. Jeffery, CBE	Director	Bank of South Pacific Ltd, Jayliss Ltd, City Pharmacy Ltd, Airlines PNG Ltd.
	Shareholder	Highlands Pacific Ltd, Oil Search Ltd, Jayliss Ltd ¹ .
G. Aopi, CBE, MBA	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Oil Search Ltd ⁷ , Steamships Trading Co Ltd, POMSoX Ltd, Hiram Ltd, Marsh Ltd, Wahinemo Ltd, FM Morobe Ltd, CDI Foundation.
	Shareholder	Bank of South Pacific Ltd, Oil Search Ltd ⁷ , Lihir Gold Ltd, Hiram Ltd, Wahinemo Ltd, Highlands Pacific Ltd, Melanesian Trustees (ICPNG), Kumul Asset Management.
	Trustee/Member	Institute of National Affairs, Business Council of PNG.

For the Year Ended 31 December 2011

30. RELATED PARTY TRANSACTIONS (CONTINUED)**Interests Register**

The following are transactions recorded in the interests register:

Name	Nature of Interest	
Dr. I. Temu, PhD, MEc	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Tipi Enterprise Ltd, PNG Ports Corporation ¹ .
	Shareholder	Telstra Ltd, Nautilus Minerals Niugini Ltd.
	Employee	Barrick Gold Ltd.
	Member	Divine Word University, Chamber of Mining & Petroleum.
Sir N. Bogan, KBE, LLb	Director	Bank of South Pacific Ltd, Nambawan Super Ltd ^{1,5} , Coprez Communications Ltd ¹ , Coprez Holdings Ltd, Inventive Nook Ltd, James Cook Ltd, Niugini Cocoa Factory, In Touch Media Ltd ¹ , Ahi Holdings Ltd.
	Shareholder	Coprez Holdings Ltd, Inventive Nook Ltd, James Cook Ltd, Niugini Cocoa Factory, In Touch Media Ltd.
	Member	Evangelical Lutheran Church Finance Committee.
C. C. Procter, MEc, FFin	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Sun Hung Kai Ltd, Allied Overseas Ltd.

¹Chairman, ²Deputy Chairman, ³Managing Director, ⁴Executive Director, ⁷General Manager, ⁸Councillor, ⁵Company is shareholder of Bank of South Pacific Limited, or shareholder of company that is shareholder, ⁶Companies have banking facilities with BSP, ⁹Chief Executive Officer.

On 3 February 2011, K. Constantinou, OBE replaced N.N. Beangke as Chairman of Bank of South Pacific Limited.



For the Year Ended 31 December 2011

31. DIRECTORS' AND EXECUTIVE REMUNERATION**Directors' remuneration**

Directors of the Company received remuneration including benefits during 2011 as detailed below:

All amounts are in K'000

Name of Director	Meetings attended/ total held	Appointed/ (Resigned)	Base emolument	Total remuneration	
				2011	2010
K. Constantinou, OBE	8/8		119,559	119,559	69,521
T. E. Fox, OBE, BEc	8/8		84,647	84,647	99,109
N. N. Beangke	4/8	(09/12/2011)	74,093	74,093	102,259
Dr. I. Temu, PhD, MEc	6/8		45,112	45,112	74,097
C. C. Procter, MEc, FFin	7/8		59,223	59,223	96,300
Sir N. Bogan, KBE, LLb	7/8		42,068	42,068	65,210
I. B Clyne*	8/8		-	-	-
J. G. Jeffery, CBE	8/8		74,426	74,426	87,300
G. Aopi, CBE, MBA	8/8		47,927	47,927	76,384
J. K. Natto	2/8	(09/10/2011)	39,482	39,482	66,072

Directors Sir Nagora Bogan, Noreo Noel Beangke and Carlisle Caldwell Procter retired by rotation in accordance with Clause 15.3 of the Company's Constitution and being eligible, offered themselves for re-election by the shareholders on the 20 May 2011 Annual General Meeting.

Non-Executive Board Members of the Board – Constantinou, Fox, Beangke, Temu, Procter, Constantinou, Aopi and Kapi Natto received an allowance of K17,400 as Board of Directors of BSP Capital Ltd which forms part of the Group.

*Managing Director/Chief Executive Officer receives no fees for his services as Director during the year.



Opening Porgera branch 2011
Group CEO Ian Clyne & General Manager Retail Bank Frans Kootte

For the Year Ended 31 December 2011

31. DIRECTORS' AND EXECUTIVE REMUNERATION (CONTINUED)

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	2011 No.	2010 No.	Remuneration K'000	2011 No.	2010 No.	Remuneration K'000	2011 No.	2010 No.
100-110	24	16	360-370	1	1	650-660	-	1
110-120	27	14	370-380	2	1	670-680	1	1
120-130	16	3	380-390	3	2	680-690	5	2
130-140	19	2	400-410	-	1	700-710	1	-
140-150	9	2	410-420	-	2	710-720	1	-
150-160	6	3	430-440	1	1	720-730	1	1
160-170	6	9	440-450	3	2	730-740	1	-
170-180	3	5	450-460	1	-	740-750	2	-
180-190	4	3	460-470	2	1	750-760	2	-
190-200	4	4	470-480	-	2	760-770	1	-
200-210	5	1	480-490	1	-	770-780	1	1
210-220	4	-	490-500	1	3	800-810	1	1
220-230	1	-	500-510	1	2	810-820	1	1
230-240	2	4	510-520	1	1	870-880	1	-
240-250	4	1	520-530	1	2	900-910	1	-
250-260	3	-	530-540	1	3	940-950	1	1
260-270	1	2	540-550	1	1	950-960	1	1
270-280	3	-	550-560	1	4	970-980	1	-
280-290	-	2	570-580	1	-	1020-1030	1	-
290-300	1	1	580-590	-	1	1050-1060	1	-
310-320	2	-	590-600	2	1	1180-1190	1	-
320-330	3	-	610-620	1	-	1350-1360	-	1
330-340	1	1	620-630	2	-	1400-1410	1	-
340-350	1	-	630-640	3	1	2990-3000	-	1
350-360	1	-	640-650	3	2	4500-4510	1	-
Total							211	119

Executives' remuneration stated includes exercised options (refer to Note 26).

For the Year Ended 31 December 2011

31. DIRECTORS' AND EXECUTIVE REMUNERATION (CONTINUED)**Executive remuneration**

The specified executives during the year were:

Ian B Clyne	Robin Fleming	Mark Railston
Johnson Kalo	Robert Loggia	Ged Allen
Aho Baliki	Peter Beswick	
Frans Kootte	Giau Duruba	

Specified executives remuneration in aggregate (K'000)

	Salary	Primary Bonus	Non-monetary	Super	Post-employment Pre-scribed benefits	Other	Equity options	Other benefits	Total
2011	7,502	2,244	266	173	-	-	-	230	10,415
2010	6,944	1,825	224	135	-	-	-	396	9,524

32. RECONCILIATION OF OPERATING CASH FLOW

	Group		Bank	
All amounts are expressed in K'000	2011	2010	2011	2010
RECONCILIATION OF OPERATING PROFIT/(LOSS) AFTER TAX TO OPERATING CASH FLOW BEFORE CHANGES IN OPERATING ASSETS				
Operating profit/(loss) after tax	355,947	283,147	348,989	276,570
Add: Tax expense	119,039	127,657	117,207	125,527
Operating profit before income tax	474,986	410,804	466,196	402,097
MAJOR NON CASH AMOUNTS				
Depreciation	52,497	53,499	49,442	43,261
Amortisation of deferred acquisition and computer development costs	512	645	512	645
Net (profit)/loss on sale of fixed assets	508	1,855	508	1,987
Sundry write off	20,253	-	20,133	-
Movement in forex income accrual	(6,248)	(2,760)	(4,910)	(1,414)
Movement in provision for doubtful debts	(24,904)	(17,739)	(25,234)	(19,112)
Movement in payroll provisions	4,229	7,731	4,229	7,731
Net effect of other accruals	(52,171)	36,521	28,144	33,773
Operating cash flow before changes in operating assets	469,662	490,556	539,020	468,968

For the Year Ended 31 December 2011

33. EARNINGS PER SHARE

Basic earning per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Bank of South Pacific Limited has no dilutive potential ordinary shares. Consequently, Basic earnings per share equals diluted earnings per share.

	Group		Bank	
All amounts are expressed in K'000	2011	2010	2011	2010
Net Profit attributable to shareholders (K'000)	355,947	283,147	348,989	276,570
Weighted average number of ordinary shares on issue ('000)	473,882	4,787,295	473,882	4,787,295
Basic and diluted earning /(loss) per share (expressed in toea)	75.1	5.9	73.6	5.8

At the company's annual general meeting held on 20th May 2011 in Port Moresby, the shareholders approved a reorganization of the company's capital via a share consolidation by which 10 existing BSP ordinary shares were consolidation into 1 BSP share.



For the Year Ended 31 December 2011

34. SEGMENT INFORMATION

Bank of South Pacific Limited and the Group comprises two segments, these being the provision of banking services and products and stock broking services. For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Bank and Group's management reporting system. The main business lines for management purposes are the core banking segments of Retail Bank, Wholesale Bank which includes Corporate & Paramount SBUs, insurance operations in Fiji and BSP Capital's stock broking and fund management activities. The Bank of South Pacific Limited and Group's business segments operate in Papua New Guinea, Niue, Fiji and Solomon Islands. Inter segment adjustments reflects elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

Year ended 31 December 2011								
All amounts are expressed in K'000	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segment	Total
Revenue	374,406	502,312	69,625	168,400	3,547	19,010	310,802	1,448,102
Costs	(289,291)	(201,087)	(65,416)	(155,645)	(7,481)	(38,394)	(215,802)	(973,116)
Operating results	85,115	301,225	4,209	12,755	(3,934)	(19,384)	95,000	474,986
Income tax expense								(119,039)
Profit after tax								355,947
Year ended 31 December 2010								
All amounts are expressed in K'000	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segment	Total
Revenue	365,498	524,599	91,893	89,074	3,772	336,957	88,886	1,500,679
Costs	(349,594)	(194,463)	(89,836)	(77,531)	(7,338)	(154,798)	(216,315)	(1,089,875)
Operating results	15,904	330,136	2,057	11,543	(3,566)	182,159	(127,429)	410,804
Income tax expense								(127,657)
Profit after tax								283,147

35. EVENTS OCCURRING AFTER BALANCE SHEET DATE

There has not been any matter or circumstances, other than that referred to in the financial statements or notes thereto that has arisen since the end of the financial year, that has significantly affected the operations of the Bank and the Group, the results of those operations or the state of affairs of the Bank and the Group in future financial year.

Deloitte.

Deloitte Touche Tohmatsu

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www.deloitte.com/pg**Independent Audit Opinion to the members of Bank of South Pacific Limited and subsidiaries****Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial report of Bank of South Pacific Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended and a summary of significant accounting policies, other explanatory information and the directors' declaration.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Companies Act 1997 and International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Audit Opinion

In our opinion,

- the consolidated financial statements give a true and fair view of the financial position of Bank of South Pacific Limited and subsidiaries as at 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, other applicable laws and regulations.
- proper accounting records have been kept.

Other Information

We also have provided other advisory services during the year.



Deloitte Touche Tohmatsu


Zanie Theron
Registered under the Accountants Act 1996
Partner, Chartered Accountants

Port Moresby, 20th day of March 2012

Member of
Deloitte Touche Tohmatsu



Shareholder Information

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

Rights attaching to ordinary shares

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

Other rights attached to ordinary shares include:

(a) General meeting and notices

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

(b) Voting rights

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

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

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

(c) Issues of further shares

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

(d) Variation of rights

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

(e) Transfer of shares

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

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

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

(f) Partly paid shares

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

(g) Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests. The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, each share in a class of shares in respect of which a dividend has been declared will share in the dividend equally.

Each share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (excluding any amount paid in advance of calls) bears to the total issue price of the share.

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

(h) Liquidation

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

(i) Directors

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

(j) Appointment of directors

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

(k) Powers of the Board

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

(l) Share buy backs

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

(m) Officers' indemnities

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

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



New modern facilities improving the banking experience.

Solomon Islands

Twenty largest registered fully paid ordinary shareholders

At the 31 December 2011, the twenty largest registered fully paid shareholders of the Company were:

	Share Held	%
1 Independent Public Business Corporation	84,311,597	17.75
2 National Superannuation Fund Limited	51,902,396	10.93
3 Nambawan Super Limited	47,487,615	10.00
4 Petroleum Resources Kutube Limited	46,153,840	9.72
5 Credit Corporation (PNG) Limited	38,263,600	8.06
6 Motor Vehicles Insurance Limited	31,243,736	6.58
7 PNG Sustainable Development Program Limited	29,302,767	6.17
8 IFC Capitalization (Equity) Fund LP	22,796,644	4.80
9 International Finance Corporation	22,796,644	4.80
10 Teachers Savings and Loans Society Limited	17,592,366	3.70
11 Comrade Trustee Services Limited	15,027,329	3.16
12 Tropicana Limited	4,983,653	1.05
13 Lamin Trust Fund	3,518,132	0.74
14 Credit Corporation (PNG) Ltd (CC Finance Ltd)	3,000,000	0.63
15 Mineral Resources OK Tedi No. 2 Limited	2,890,000	0.61
16 Solomon Islands National Provident Fund Board	2,755,342	0.58
17 Nominees Niugini Limited	2,369,495	0.50
18 Catholic Diocese of Kundiawa	2,165,688	0.46
19 Southern Highlands Provincial Government	2,000,000	0.42
20 Mineral Resources Star Mountains Ltd	1,975,799	0.41
Other shareholders	42,417,035	8.93
	474,953,678	100.00

Distribution of shareholdings

At the 31 December 2011, the Company had 7,330 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1-1,000	6,146	1,632,187
1,001 - 5,000	806	1,672,370
5,001 - 10,000	122	874,498
10,001 - 100,000	165	6,039,348
100,001 and above	91	464,735,275
	7,330	474,953,678

Dividend reinvestment scheme

The Company has a dividend reinvestment scheme in operation.

Employee share scheme

The Company resolved on 27 May 2004 that a maximum of 1% of the total number of shares held in the Company may be allocated to employees each year at the discretion of the Board.

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
T. E. Fox	508,059	0.11
Gerea Aopi	10,000	0.00

Registered Office

Bank of South Pacific Limited
 PO Box 78,
 PORT MORESBY
 National Capital District
 PAPUA NEW GUINEA
 Telephone: +675 322 9700

Share Registry

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

Website

www.bsp.com.pg

Home Exchange for BSP Shares

Port Moresby Stock Exchange Ltd (POMSIX)
 PO Box 1531
 PORT MORESBY
 National Capital District
 PAPUA NEW GUINEA
 Telephone: +679 320 1980

Home Exchange for BSP Convertible Notes

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



Branch Network



SENIOR MANAGEMENT

Group Chief Executive Officer

Ian B Clyne

General Manager Human Resources

Giau Duruba

Group Chief Risk Officer

Robin Fleming

General Manager Network Banking

Ged Allen

Group Chief Financial Officer

Johnson Kalo

General Manager Paramount Banking

Aho Baliki

Group Chief Operating Officer

Robert Loggia

General Manager Retail Bank

Frans Kootte

General Manager Corporate Banking

Peter Beswick

General Manager Treasury

Mark Railston

Branch Network

Branches	Phone Numbers
AITAPE Branch Manager Alex Wafimbi	(675) 457 2042
ALOTAU Branch Manager Ben Umba	(675) 641 1284
BIALLA Branch Manager Marco Hamen	(675) 983 1095
BOROKO Branch Manager Anne Baniyamai	(675) 323 2288
BUKA Branch Manager Julie Warren	(675) 973 9042
BULOLO Branch Manager Joe Makinta	(675) 474 5366
COMMERCIAL CENTRE Manager Operations Madeleine Leka	(675) 325 5999
DARU Branch Manager Ivy David	(675) 645 9062
DOUGLAS STREET Branch Manager John Kubar	(675) 321 2444
GOROKA Assistant Branch Manager Reuben Elijah	(675) 532 1633
KAINANTU Branch Manager Billy Veveloga	(675) 537 1065
KAVIENG Branch Manager Maureen Wanu	(675) 984 2066
KIMBE Branch Manager Misbil Alfred	(675) 983 5166

Branches	Phone Numbers
KIUNGA Branch Manager Damaris Tarere	(675) 649 1073
KOKOPO Branch Manager Albert Burua	(675) 982 9088
KUNDIAWA Branch Manager Albert Seri	(675) 535 1025
LAE Branch Manager Mary Kundi	(675) 473 9801
LAE COMMERCIAL Branch Manager Agnes Mark	(675) 473 9808
LAE MARKET Branch Manager Quillan Nongi	(675) 473 9606
LIHIR Branch Manager Robinson Panako	(675) 986 4052
LORENGAU Branch Manager Karen George	(675) 970 9050
MADANG Branch Manager Cecilia Pasum	(675) 422 2477
MAPRIK Branch Manager Norman Aser	(675) 458 1317
MENDI Branch Manager Joseph Was	(675) 549 1070
MORO Branch Manager Sibona Kema/Meck Kaum	(675) 276 1566
MOTUKEA Branch Manager Lina Popal	(675) 321 7701

Branch Network

Branches	Phone Numbers
MT HAGEN Branch Manager Alex Kuna	(675) 542 1877
POPONDETTA Branch Manager Joe Ururu	(675) 629 7171
PORGERA Branch Manager John Basanu	(675) 547 6900
PORT MORESBY Branch Manager Magai Kavailon	(675) 322 9790
RABAUL Branch Manager Bevilon Homuo	(675) 982 1744
TABUBIL Branch Manager Tony Waningu	(675) 649 9179
VANIMO Branch Manager Josephine Komoru	(675) 457 1209
VISION CITY Branch Managers Andrew Bokame/Barry Namongo/Navu Urro	(675) 310 0008
WABAG Branch Manager Jerry Marie	(675) 547 1176
WAIGANI BANKING CENTRE Branch Manager Stanley Bole	(675) 300 9600
WAIGANI DRIVE Branch Manager Mathias Manowo	(675) 325 6788
WEWAK Relieving Branch Manager Cecilia Raepa	(675) 456 2344
FIJI (Fiji) Country Head Kevin McCarthy	(679) 330 4011

Branches	Phone Numbers
BA (Fiji) Branch Manager Ropate Toroca	(679) 667 4599
CENTREPOINT (Fiji) Branch Manager Viviana Veisaca	(679) 334 2333
DOMINION HOUSE (Fiji) Branch Manager Susie Fesaitu	(679) 331 4400
LABASA (Fiji) Branch Manager Anand Nair	(679) 881 1888
LAUTOKA (Fiji) Branch Manager Josefa Tuitubou	(679) 666 2466
LEVUKA (Fiji) Officer In Charge Meli Tamani	(679) 344 0300
NADI (Fiji) Branch Manager Davendran Pillay	(679) 670 0988
NAMAKA (Fiji) Branch Manager Madhur Lata Kumar	(679) 672 8950
NAUSORI (Fiji) Branch Manager Shailendra Roy	(679) 347 8499
PACIFIC HARBOUR (Fiji) Branch Manager Ram Rattan	(679) 345 2030
PACIFIC HOUSE (Fiji) Branch Manager Rajesh Chand	(679) 331 4400
RAKIRAKI (Fiji) Branch Manager Reginald Kumar	(679) 669 4200
RENWICK (Fiji) Branch Manager Manjila Goundar	(679) 330 4011

Branch Network

Branches	Phone Numbers
SAMABULA (Fiji) Branch Manager Losalini Mere Vuinakelo	(679) 338 7999
SAVUSAVU (Fiji) Branch Manager Praveen Chand	(679) 885 0199
SIGATOKA (Fiji) Branch Manager Sera Kasaqa Petueli	(679) 650 0900
SUVA – CENTRAL (Fiji) Branch Manager Mohammed Arif	(679) 331 4400
TAVEUNI (Fiji) Branch Manager Marica Mara	(679) 888 0433
TAVUA (Fiji) Branch Manager Albertina Rose Lilo	(679) 668 1507
TOP TOWN NADI (Fiji) Branch Manager Susan Lagonilakeba	(679) 670 5111
NIUE (Niue) Branch Managers Ann Margaret / Andrews Pesamino	(683) 4220
SOLOMON ISLANDS (SI) Country Head Mark Corcoran	(677) 21874

Branches	Phone Numbers
AUKI (SI) Branch Manager Samuel Misi	(677) 40484
COMMERCIAL BANKING (SI) Branch Manager Rose Murray	(677) 23620
GIZO (SI) Relieving Branch Manager Clotilda Londeka	(677) 60539
HONIARA (SI) Branch Manager Michael Kahamana	(677) 21814
MUNDA (SI) Branch Manager Rebecca Hickie	(677) 62177
NORO (SI) Branch Manager Tewia Laore	(677) 61222
POINT CRUZ (SI) Branch Manager Rose Funa	(677) 21874
RANADI (SI) Branch Manager Joy Vave	(677) 39403



Corporate Responsibility
and Marketing

Corporate Responsibility

At the end of the day, it's about our customers.

Trust is a precious asset to our business. We strive to preserve and build on it every day.

That's why we work to do what is right in the community and integrate social and environmental priorities into our branches and relationships.

We're committed to doing the right thing - helping our customers, communities and our people realise their potential.

Our focus is:

- Getting the fundamentals right with our customers;
- Being a good employer through investing in the skills and capabilities of our employees
- Addressing our broader responsibility to society by supporting communities,
- Managing our environmental impact and having a positive impact through our supply chain.

BSP is proud to play an active role in communities across the South Pacific.

Community

Giving Back

One of the ways in which we do this is by supporting groups and charities that are important to our customers or that make a difference to the lives of people throughout the region.

At the heart of our commitment to giving back to the community is The BSP Branch Community Project programme - the most significant community programme offered by any banking organisation, showing our desire to be involved and committed to the communities in which we operate.

Everyone in BSP's business - from CEO to directors, relationship managers, tellers, support staff and suppliers - participates in some way.

At the heart of local communities around PNG and the South Pacific, you'll find a BSP branch - and we love to get involved with these communities where we can.

BSP has a commitment to the people of Papua New Guinea and the South Pacific, not only in improving product offers, service levels and access to banking services but also to deliver many life changing community initiatives. As the only home grown bank in the region, BSP is reaching out to communities because it truly understands that it has the opportunity to make a meaningful and lasting difference where it matters most.

The BSP Branch Community Project programme commenced in 2009 as a way for each branch to work together with their immediate local community to deliver community support where it is needed most. Since the programme commenced, BSP has invested over K2,200,000 directly to local communities via projects including; refurbishing health facilities, renovating schools, bringing healthcare to communities, installing water supply to schools and constructing new market buildings.

Community

Here's a look at how we are changing lives:

AITAPE BRANCH



Aphim, Wilkinson, Nuku & St Anna Elementary Schools - constructed and presented 180 desks and 9 tables.

ALOTAU BRANCH



Cameron Secondary School Library Renovation - old book shelves, desks, chairs & painted building.

BIALLA BRANCH



Bialla Town market - Constructed new market building for the locals to sell their product.

BOROKO BANKING CENTRE



Pom Gen Hospital Surgical Ward - painted ward, new curtains, beddings, chairs, microwave & medical tools.

BUKA BRANCH



Kokopau Town - constructed new Hauswin for passengers at town bus stop, so they can no longer wait in the hot sun.

BULOLO BRANCH



New Camp Elementary, Bulolo Technical & St Steven Primary School - Installed tu'a tanks, presented sport kits.

DARU BRANCH



Daru Urban Clinic - reconstructed & extended new overhead shelter for patients.

DOUGLAS STREET BRANCH



Kilakila Elementary School classroom & Admin O'ce Renovation - painted building, presented school materials.

GORDANS COMMERCIAL CENTRE



Gerehu Primary School Library Refurbishment - wire, air conditioner, book shelves, desks & painted building.

GOROKA BRANCH



Okiufa Primary School - installed three new 5000L tu'a tanks after the school faced water supply issue.

KAINANTU BRANCH



Kainantu Primary School - installed two new 5000L tu'a tanks for the school after the old tank became rusty.

KAVIENG BRANCH



Kavieng Police Station - new internal fittings, louvres, floor tiles, fans, enquiry counter & new furniture.

At BSP, we're passionate about connecting with communities throughout Papua New Guinea and across the South Pacific. Covering a broad spectrum of sporting, artistic and community affiliations, BSP is committed to supporting a range of organisations - all who are focussed on enriching communities and helping people achieve their goals.

We recognise larger community causes through our National Charity Partners and we provide vital support and funding whenever possible.

Every day, thousands in the South Pacific rely on the invaluable services of national charities. That's why BSP works hard with a variety of National Charity Partners so that together we can raise funds and awareness for some of the regions worthiest causes.

Community

Here's a look at how we are changing lives:

KIMBE BRANCH



Valoka Health Centre - sewed & presented 80 mattresses, 5 standard beds & 10 plastic chairs.

KIUNGA BRANCH



Kiunga Hospital Renovation - new flywire & curtains, internal repairs, full building repaint.

KOKOPO & RABAUL BRANCH



Kerevat CIS Admin Office Renovation - new flywire & curtains, internal repairs, full building repaint.

KUNDIAWA BRANCH



Ku High & Primary School - installed two new 9000L tuffa tanks for the schools to promote healthy drinking.

LAE COMMERCIAL CENTRE



Omili Primary School - constructed the first new market building for parents to properly sell food to students.

LAE MARKET BRANCH



Lae City - Installed 50 new painted rubbish drums around Lae City to help keep the city clean.

LAE TOP TOWN BRANCH



Lihir High School - refurbished tennis court, built two backstops, umpire stand & presented tennis net.

LIHIR BRANCH



Nuwok Elementary School - repainted a double classroom and installed a new 5000L tu'a tank.



The BSP Rural team in East New Britain explaining to locals the benefits of BSP's Mobile Banking.

Community

Here's a look at how we are changing lives:

LORENGAU BRANCH



Nuwok Elementary School - repainted a double classroom and installed a new 5000L tu'a tank.

MADANG BRANCH



Madang Country Club - re-surfaced Tennis Court, making it safe for players to use.

MAPRIK BRANCH



Hayfield Primary School - replaced external walls and painted Grade 5 double classroom building.

MORO / MENDI BRANCH



Kutubu Secondary School / Lumbi Primary School - installed 2 x new 5000L and 1x 9000L tu'a tanks.

MT HAGEN BRANCH



Rabiamul Health Clinic - constructed, painted and installed Southern Cross tank for the patients.

POPONDETTA BRANCH



Popondetta General Hospital - general clean up outside the hospital and donated blood.

PORT MORESBY BRANCH



Konedobu Health Clinic - reconstructed ablation block, repaired flywires, walls, painted the whole building.

PORGERA BRANCH



Paiam Elementary School - constructed 58 new double sitter wooden desks for the students to use.

TABUBIL BRANCH



Tabubil High School - installed 3 new water coolers for the school after the old coolers posed health risks.

VANIMO BRANCH



Dapu Health Clinic - constructed new extension for client waiting area with seating benches.

WABAG BRANCH



Yai Primary School - installed a new 5000L tu'fa tank. It was the first tank for the school after many water issues.

WAIGANI BANKING CENTRE



Bomana Police College Health Clinic - new flywire, curtains, internal repairs, full building repaint & presented new furniture.

WAIGANI DRIVE BRANCH



Koki Primary School Ablation Block Renovation - Replaced toilet doors, seats, pots & painted building.

WEWAK BRANCH



Brandi Secondary School Ablation Block Renovation - replaced toilet doors, seats, pots & painted building.

Community

Here's some of ways we help:



Beyond The BSP Branch Community Project programme our focus is on supporting activities, events and groups that help all in the South Pacific, especially young people, to:

- Lead active and healthy lifestyles
- Develop skills and encourage learning
- Care for our environment



BSP staff entering Maternity Ward Port Moresby Hospital visiting mothers and new born babies with gifts

Lead Active Lifestyles

Encouraging "Sport for Life"

Our focus is on activities that improve the health and well being of children.

We contribute to sporting organisations that develop kids' sports skills and provide opportunities for them to play.

Hundreds of sporting clubs across the South Pacific benefit from the support of their local BSP branch.

Here's a look at just some of the health and lifestyle initiatives of BSP:

BSP is the major supporter of The BSP School Kriket Programme, designed to encourage more children to participate in this fun, "sport for life" oriented sport and encourage kids to be active.

The BSP School Kriket Programme was awarded the 2011 ICC Global Award for the Best Junior Participation initiative - this is the second year in succession.

The programme has been an outstanding success in sustaining interest in regular cricket for a very high number of young people as a follow on to the huge number of children, both male and female, exposed to the game in 2010 in schools.

In 2010, it was awarded 'Best Junior Development Initiative' regionally at the 2010 Pepsi ICC East-Asia Pacific Development Programme Annual Awards and went on to receive global recognition by being named "Best Junior Participation Initiative" globally at the 2010 Pepsi ICC Development Programme Awards.



Geraint Jones, PNG Barramundi (National PNG team), with participants of the BSP School Kriket Programme, at Bavaro Primary School, Port Moresby.



The BSP Tennis Programme is a junior development programme conducted nationwide throughout PNG, designed to introduce kids to tennis and another "sport for life".

PNG Tennis staff have travelled to Kavieng, Lihir, Kimbe, Bialla, Goroka, Madang, Kokopo, Alotau, Mt Hagen, Mendi, Pogera and Tari.

In Kimbe 852 students from 10 different schools took part while Goroka saw 277 students from 5 schools taking part.

In Kavieng schools that participated include: Cateret Primary, Maiom Primary, Olsh International, Eliwanera Primary, Sacred Heart Primary, KopKop Primary, Rawal Primary, Meltan Elementary and Bambi Elementary. 626 students and 23 teachers participated. Teachers also undertook a train the trainer clinic.

The six week program enables school children to identify their potential and encourages teachers to use the sport during physical education lessons.

BSP is a major sponsor of PNG Swimming Inc and this involvement includes sponsorship of selected swimming meets, and support for programs designed to encourage children to compete and have fun.

BSP is a major sponsor of celebrated Papua New Guinea swim sensation Ryan Pini, MBE.



PNG Swimming Champion, Ryan Pini, in action in Port Moresby during a clinic for PNG Swimming Inc.



PNG Swimming Champion, Ryan Pini in Port Moresby with young swimming enthusiasts



PNG Swimming Champion, Ryan Pini, in Port Moresby at a PNG Swimming Inc training session reinforcing BSP's philosophy: Get fit, have fun, be healthy.

Pini is PNG's most celebrated athlete. His dedication and commitment to the sport of swimming has led him to be one of the most recognisable athletes in the region with many gold medals won at the South Pacific Games in 1999, 2003 and 2007, and in 2012 at the South Pacific Games, New Caledonia he won 5 Gold, 2 Silver and 1 Bronze medal.

Pini won PNG's second ever gold medal at a Commonwealth Games in 2006 and a silver in 2010. He was PNG's first ever finalist at an Olympic Games in 2008. When Pini took out gold in 2006, he raised PNG's profile in swimming and sports to a new level by beating Australian Michael Klim.

Pini was awarded an MBE for his accomplishments and contribution to swimming in 2006

BSP is a major sponsor of the PNG Paralympic Team, committing not only funds, but people and resources to support the athletes.

By supporting Paralympics in the country, we aim to give athletes living with disabilities the opportunity in achieve their sporting dreams.

BSP launched The BSP School Sports Programme in 2010, committing hundreds of thousands of kina in sporting equipment, distributed to schools throughout PNG. The BSP School Sports Programme will invites schools to participate with a chance to receive one of 500 school sports packs that contain a comprehensive sports equipment pack for the sports: volleyball, soccer, rugby, AFL, netball, basketball, tennis and cricket.

Lead Active Lifestyles



David Mead, PNG Kumuls player & member Gold Coast Titans, along with BSP supports football in PNG

Lead Active Lifestyles

BSP supports Hobie Fleet 405 cadet programme with donation of two new Hobie 16's which will greatly boost the youngsters participation in the popular water sport.

BSP Chief Executive Officer Ian Clyne made the presentation at the Yacht Club today to Trevor Nott, Commodore of the Hobie Fleet 405. Mr Clyne said BSP was proud to support initiatives that encourage children to lead healthy and active lifestyles.

It makes a real difference to the cadets, in preparation for several events, including the Pacific Games to be held in PNG in 2015.



Fiji Torch Relay

Lead Active Lifestyles



AFL KOBONI CLUB receiving sponsorship support from BSP with Group CEO, Ian Clyne.



Wardstrip Demonstration Primary School, Port Moresby



BSP lends support to Surfing Association PNG

Develop skills and encourage learning

Subheading to come

BSP is committed to supporting programs that develop talent, build skills and support the learning of young people, working collaboratively with the education sector.



The BSP School Sports Programme has delivered needed sports equipment to schools throughout PNG

Rural Banking Commitment



Mobile Banking, educating new users and providing them with a bank account (previously impossible).



BSP is delivering banking to the most remote and rural areas.

Electronic banking via BSP's huge EFTPoS network means the bank is close - no matter where you live.



BSP has the largest ATM network in the South Pacific: they are everywhere

Rural Banking Commitment



BSP on a mission to deliver banking to the most remote destinations



Commitment to deliver banking services everywhere

Care for our environment

We are proud to be the green bank

As one of the South Pacific's largest organisations, BSP recognises the effect it may have on the environment and therefore we're committed to finding ways to reduce any negative impact and enhance the environment we live in.

That's why we take our environmental and social responsibility seriously. Through key partnerships and support for vital environmental projects we strive to give our customers not just value and quality, but peace-of-mind as well.

As part of our environment strategy, we support organisations and initiatives that foster an understanding of environmental issues and provide practical support to building sustainable communities.



BSP Go Green team members help clean up Ela Beach during earth day 2011.



2011 Go Green campaign in action at Port Moresby, 1 of 100s of Clean Up sites throughout the South Pacific.

Some of the ways we care:

- BSP continues as a supporter and participant of the Clean Up The World major annual event.
- BSP created the South Pacific's "Go Green" programme - a year round initiative, including two Annual Clean Up Day events conducted throughout the South Pacific. Throughout the year, BSP teams and managers join their local communities to help clean, fix up and care for the areas within their community. BSP is the only bank to wholly fund, organise and co-ordinate Clean Up events in every territory in which it operates. Tonnes of waste are collected. The programme aims to re-educate men, women and children of the importance for good environmental practices. 1000s of trees and mangroves have been planted since the launch. Individual environmental events across the South Pacific continue year round.
- BSP is a supporter and participant of all major environmental initiatives including Earth Hour, designed to clearly connect energy use with climate change and to show that small actions can make a real difference to global warming.
- BSP has increased its commitment to recycling. 100s and 100s of tonnes of waste paper have been recycled by BSP in 2010, 2011 and 2012.
- BSP has achieved 30% saving in energy by installation of new low energy lighting in branches.



Supporting the community



Help Keep our Cities Clean (Go Green)



Go Green Clean up the world day 2011.
A happy family after cleaning up Ela Beach.



Go Green Clean up the world day Saturday 2011.
Picking up rubbish at the Four Mile bus stop in Port Morebsy.

Employer of choice for women

BSP is well regarded as an Employer of Choice for Women.

Women make up a large proportion of our workforce – from our Branch Managers, to our Senior Executives. We offer many family-friendly initiatives so that women can reach their full potential.

Women For Life.

Celebrating the amazing women in our lives



BSP has been actively supporting and encouraging women of all ages to reach their full potential, by providing education, information and opportunities.

BSP, employer of choice for women in PNG.

Making a difference, Now.



Marketing: The banking experience

Marketing: The banking experience

More choice, more service, more convenience

At BSP, we believe in providing our customers with the widest range of quality convenient banking services. That's why we continue to develop a range of banking services to suit the different needs of our customers.

We offer more choice - more ways to bank with our range of premium service offerings including BSP Express, Priority and BSP First.

For more than 50 years, BSP has been a highly regarded and much loved part of PNG life. While we're immensely proud of our history, we're also very excited about the future.

Throughout the region, we're opening new state of the art BSP branches to improve the banking experience and to bring more service to more people in the South Pacific every day.

We continue to expand and enhance our online internet and electronic services to ensure that the South Pacific's favourite bank is always close at hand.

BSP is a vibrant, energetic, innovative and creative banking organisation. The marketing and communications of the brand convey this message.

We present a snapshot of some of the year's activities, contributing to the iconic reputation of the BSP brand - firmly established as one of the leading and beloved brands in the South Pacific.

Proposed South Pacific
Operations Centre



Marketing

BSP - a brand on the move



Marketing

BSP - a brand on the move

Heritage Park
Honiara, Solomon Islands



Heritage Park, Honiara, Solomon Islands (inside BSP banking chamber)

Marketing

BSP - a brand on the move



Vision City Concept Branch, Port Moresby, PNG
Operating extended hours for more convenience



BSP Motukea
- Containerized branch.



BSP Westfield
Branch Opening

Marketing

BSP - a brand on the move



Banking with Privileges: BSP First, Ravalien House, Port Moresby

Marketing

5 ways to bank

5 WAYS TO BANK
Now you can do your banking at your convenience.

4 SMARTER WAYS TO BANK & SAVE
Electronic Banking transactions are much cheaper than transactions performed by a teller in the branch.

BSP We are your bank for life.
www.bsp.com.pg | 180 1212

We have more ATMs where you need them.

BSP WE ARE, YOUR BANK FOR LIFE.
132 888 | www.bsp.com.pg

MasterCard, American Express, Maestro, Cirrus, PLUS, VISA
BSP accepts all major credit cards.

Need to TOP UP your phone, but don't have a lot of cash?

INTRODUCING: BSP Mobile Banking New 3K TOP UP Feature.
So now you don't need a lot of cash to stay connected.

✓ **3K TOP UPS** Minimum Amount Low on cash, No worries.

Bank with PNG's Leading Bank - 24/7.

BANK WITH A REAL BANK! **mobile banking**

To REGISTER or for more information talk to us anytime 24/7. Call 180 1212

Marketing

5 ways to bank

Delivering More ATMs, EFTPOS and branches where you need them most

BANK WITH A REAL BANK!

CASH OUT
CHEAPER
PAY FOR YOUR groceries

THIS A 3200
SAFE
BANK EVERYWHERE

BSP EFTPOS EVERYWHERE
Bank with PNG's Leading Bank - 24/7.

Not like the others
At BSP we listen to you. We have delivered more ATMs, more EFTPOS and more branches than any other bank in PNG.

BSP www.bsp.com.pg

BSP Online
Personal Internet Banking

- ✓ Do your banking whenever it suits you
- ✓ Save time
- ✓ Transfer Money to third parties

BSP

Apply for a KunduCard at all BSP branches nationwide.

BSP

For more information:
Visit your nearest BSP branch
Call us on 180 1212
Visit www.bsp.com.pg

KunduCard
123456 78987654321

Kundu Account
Flexible everyday banking made easier for you.

BSP

Marketing

The Banking Experience



Marketing

The Banking Experience



BSP Managers Conference 2012

Marketing Different Initiatives



Marketing Different Initiatives



Marketing Different Initiatives

New Choices Inside

Your Choice. you

BSP KunduCard
123456 78987654321

Kundu Account
Flexible Everyday Banking Account

Custom Services
Now you can choose which services suit your banking needs without paying for a flat monthly service fee.
So, if you have a modest account balance or only make a few transactions each month then you can choose which service suits you best.

Your Choice Options

SERVICE	YES	NO / FEE
All Transactions Fee Waived	✓	
Overdraft Protection	✓	
Access via all ATM	✓	
Service EFTPoS	✓	
Account Statement	✓	

To find out more about **BSP Your Choice** or to apply, just speak with a customer service representative in branch.

Kundu Account
Flexible Everyday Banking Account

Please refer to BSP Kundu Account Terms and Conditions available in branch.

Marketing Different Initiatives

BANKING BUDDY

Teaching Children the importance of Banking and Saving Money

A BSP LEARNING INITIATIVE 2012

BSP

3

Easy tips to help you reduce your everyday banking fees

Smarter Ways to Bank

1 Plan your Banking
Think about the transaction you need to complete such as:

- Transfer money into another account (ATM, Mobile Banking)
- Buy food at the supermarkets (EFTPoS)
- Get some cash for PMV fares or the market (ATM, EFTPoS)
- Top-Up mobile phone (ATM, Mobile Banking)

 These transactions can be completed by using your KunduCard at an EFTPoS terminal or ATM or by using Mobile Banking rather than going to a teller.

2 Use your BSP KunduCard
and electronic banking (EFTPoS and ATM) instead of banking in-branch or at the teller.
 BSP KunduCard is the easiest way to obtain cash or complete a purchase.
 With 100% of ATMs and 1000% of EFTPoS, BSP is PNG's largest ATM & EFTPoS network, so now you can access your money when you need it.
 You can use your KunduCard at any BSP ATM to:

- Check your balance
- Request a mini statement
- Transfer Funds
- Top-Up Mobile Phone

3 How much cash can you take out from a BSP ATM or EFTPoS?

- KunduCard Daily Cash Out Limit from a ATM and or EFTPoS is K2,000.
- Visa Debit Card Daily Cash Out Limit from a ATM and or EFTPoS is K5,000.
- Daily Cash Out Limit is total cash out in any one day
- Transaction Limit is K1,000 per transaction (to withdraw K2,000 you need to make 2 transactions of K1,000 each)

EFTPoS Payments
 If you purchase goods using your KunduCard rather than using cash, this avoids the risk of carrying too much cash. The exact amount of the purchase is deducted from your account after you authorise the transaction using your PIN.
TIP If you need you can get cash out with your EFTPoS purchases.
BSP ATM Services
 At BSP ATMs you can use all local bank cards & International Cards including Master Card, Visa Direct, Maestro, Plus, Cirrus & China Union Pay.
Features:

- Cash Withdrawals
- Balance Enquiry
- Mobile Phone Top-Ups
- Transaction History - Print Statement
- Transfers to other linked accounts
- Change PIN number (personal ID number)

FREE PIG
don't be a ham & miss out

Your KunduCard, Your Choice.
When you open **New Kundu Account Standard** you will receive a Free BSP Piggy Bank. This offer is also open to customers who convert their existing Kundu Account.

Kundu Account
Flexible Everyday Banking Made Easy

BSP

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FREE PIG
hurry before offer ends

Your KunduCard, Your Choice.
When you open **New Kundu Account Standard** you will receive a Free BSP Piggy Bank. This offer is also open to customers who convert their existing Kundu Account.

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BSP

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Marketing

Different Initiatives



Trolleys at Nadi, Fiji airport



Nadi, Fiji Airport Terminal baggage carousel signage

Marketing

Different thinking





2011

annual report



One Bank, One People.
Bank of South Pacific Limited