BSP Financial Group Limited and Subsidiaries

ARBN 649 704 656

Interim Condensed Financial Statements

For the half year ended

30 June 2023

Contents of the Interim Condensed Financial Statements

DIRECTORS' REPORT

The Directors of BSP Financial Group Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half year ended 30 June 2023.

Directors and officers

The names of the Directors of BSP Financial Group Limited during or since the end of the half year are:

Mr R G Bradshaw	Mr M T Robinson (appointed March 2023)
Mr S A Davis	Mr I A Tarutia (appointed April 2023)
Mr A Sam	Mr S G Brewis-Weston
Dr F M Lua'iufi	Mr F D Bouraga
Ms P Kevin	Ms P F Taureka-Seruvatu

The Late Sir K G Constantinou, OBE (resigned Feb 2023)

Principal activities

The principal activity of the Bank is the provision of commercial banking and financial services throughout Papua New Guinea and the Asia Pacific region. The Group's activities also include fund management and life insurance business services. BSP is a company listed on the PNG Exchange Markets (PNGX) and the Australian Securities Exchange (ASX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Group is also licensed to operate in Solomon Islands, Fiji, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Laos. The registered office is at Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Port Moresby.

Review of operations

The net profit of the Group for the half year ended 30 June 2023, after tax was K427.166 million (half year ended 30 June 2022: K397.177 million).

In the Directors' opinion, the attached interim condensed financial statements and notes thereto are in accordance with the Companies Act 1997 of Papua New Guinea, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Bank and the Group.

Dated and signed at Port Moresby this 17th day of August 2023.

Robert G Bradshaw	Mark T Robinson
Chairman	Group Chief Executive Officer/ Managing Director

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Report on review of interim condensed financial statements

to the Directors of BSP Financial Group Limited

Introduction

We have reviewed the accompanying interim condensed statements of financial position of BSP Financial Group Limited (the Bank) and its subsidiaries (the Group) as at 30 June 2023 and the related interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

Restriction on distribution or use

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

PricewaterhouseCoopers

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
17 August 2023

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INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 June 2023

All amounts expressed are in K'000	Note	Consolidated Half Year Ended 30 June 2023	Consolidated Half Year Ended 30 June 2022 (restated)	Bank Half Year Ended 30 June 2023	Bank Half Year Ended 30 June 2022
Interest income	2(a)	952,931	916,548	897,288	863,751
Interest expense	2(a)	(63,544)	(41,044)	(58,102)	(34,634)
Net interest income		**889,387**	**875,504**	**839,186**	**829,117**
Fee and commission income	2(b)	216,463	207,734	195,393	192,003
Other income	2(b)	215,655	194,055	220,682	208,649
Net insurance operating income		19,584	10,151	-	-
Net operating income before impairment and operating expenses		**1,341,089**	**1,287,444**	**1,255,261**	**1,229,769**
Impairment of financial assets	2(c)	(78,634)	20,203	(66,886)	25,381
Operating expenses	2(d)	(510,887)	(470,224)	(469,985)	(434,807)
Additional Company Tax		-	(190,000)	-	(190,000)
Profit before income tax		**751,568**	**647,423**	**718,390**	**630,343**
Income tax expense	4	(324,402)	(250,246)	(310,670)	(237,301)
Net profit for the period		**427,166**	**397,177**	**407,720**	**393,042**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency	7	(5,146)	(52,358)	(3,639)	(27,305)
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve	7	(115)	1,581	(115)	1,581
Fair value gain/(loss) on re-measurement of investment securities	7	-	(49)	-	(49)
Net movement in asset revaluation reserve	7	3,432	(515)	1,782	-
Other comprehensive income, net of tax		**(1,829)**	**(51,341)**	**(1,972)**	**(25,773)**
Total comprehensive income for the period		**425,337**	**345,836**	**405,748**	**367,269**
Earnings per share – Basic and diluted (toea)	7	**91.4**	**85.0**	**87.3**	**84.1**

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

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

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT 30 June 2023

All amounts expressed are in K'000	Note	Consolidated As at 30 June 2023	Consolidated As at 31 December 2022 (restated)	Bank As at 30 June 2023	Bank As at 31 December 2022
ASSETS					
Cash and operating balances with Central Banks		2,631,686	3,761,635	1,853,298	3,041,858
Amounts due from other banks		1,826,602	1,737,981	1,609,998	1,665,094
Treasury and Central Bank bills		4,967,121	4,128,340	4,921,449	4,097,350
Cash reserve requirement with Central Banks		2,740,055	2,517,159	2,615,206	2,418,532
Other financial assets		5,443,424	4,789,153	4,856,836	4,210,845
Loans and receivables from customers	5	14,931,512	14,249,401	13,745,457	13,077,909
Property, plant and equipment		943,316	958,036	728,835	745,692
Aircraft subject to operating lease		27,340	28,664	27,340	28,664
Investment in subsidiaries		-	-	399,361	399,361
Deferred tax assets		339,230	342,611	333,658	336,108
Other assets		1,297,075	1,238,706	595,970	573,811
Total assets		**35,147,361**	**33,751,686**	**31,687,408**	**30,595,224**
LIABILITIES					
Amounts due to other banks		441,376	272,272	667,600	529,592
Customer deposits		28,362,211	26,919,361	26,428,009	25,194,893
Insurance contract liabilities		1,098,220	1,062,678	-	-
Other liabilities		1,368,176	1,389,399	1,252,032	1,282,484
Deferred tax liabilities		49,548	48,427	-	-
Total liabilities		**31,319,531**	**29,692,137**	**28,347,641**	**27,006,969**
SHAREHOLDERS' EQUITY					
Ordinary shares	7	372,110	372,110	372,110	372,110
Retained earnings	7	3,137,259	3,366,831	2,745,878	2,991,169
Other reserves	7	317,710	319,881	221,779	224,976
Equity attributable to the members of the company		**3,827,079**	**4,058,822**	**3,339,767**	**3,588,255**
Minority interests		751	727	-	-
Total shareholders' equity		**3,827,830**	**4,059,549**	**3,339,767**	**3,588,255**
Total equity and liabilities		**35,147,361**	**33,751,686**	**31,687,408**	**30,595,224**

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2023

All amounts expressed are in K'000	Note	Share Capital	Reserves	Retained earnings (restated)	Minority interest	Total
GROUP						
Balance at 1 January 2023	7	**372,110**	**319,881**	**3,366,831**	**727**	**4,059,549**
Net profit		-	-	427,166	-	427,166
Other comprehensive income		-	(1,829)	-	-	(1,829)
Total comprehensive income		-	(1,829)	427,166	-	425,337
Dividends paid during the period		-	-	(657,606)	(173)	(657,779)
Gain attributable to minority interests		-	-	(197)	197	-
Total transaction with owners		-	-	(657,803)	24	(657,779)
Other		-	1,053	(330)	-	723
Transfer from asset revaluation reserve		-	(1,395)	1,395	-	-
Balance at 30 June 2023		**372,110**	**317,710**	**3,137,259**	**751**	**3,827,830**
Balance at 1 January 2022		**372,133**	**396,929**	**3,025,125**	**778**	**3,794,965**
Transition to IFRS 17 impact	15	-	-	43,898	-	43,898
Restated balance beginning of year		**372,133**	**396,929**	**3,069,023**	**778**	**3,838,863**
Net profit		-	-	397,177	-	397,177
Other comprehensive income		-	(51,341)	-	-	(51,341)
Total comprehensive income		-	(51,341)	397,177	-	345,836
Dividends paid during the period		-	-	(629,378)	(177)	(629,555)
Share buyback		(22)	-	-	-	(22)
Gain attributable to minority interests				(126)	126	-
Total transaction with owners		(22)	-	(629,504)	(51)	(629,577)
Transfer from asset revaluation reserve		-	(5,270)	5,270	-	-
Balance at 30 June 2022		**372,111**	**340,318**	**2,841,966**	**727**	**3,555,122**
BANK						
Balance at 1 January 2023		**372,110**	**224,976**	**2,991,169**	**-**	**3,588,255**
Net profit		-	-	407,720	-	407,720
Other comprehensive income		-	(1,972)	-	-	(1,972)
Total comprehensive income		-	(1,972)	407,720	-	405,748
Dividends paid during the period		-	-	(654,236)	-	(654,236)
Total transaction with owners		-	-	(654,236)	-	(654,236)
Transfer from asset revaluation reserve		-	(1,225)	1,225	-	-
Balance at 30 June 2023		**372,110**	**221,779**	**2,745,878**	**-**	**3,339,767**
Balance at 1 January 2022		**372,133**	**276,833**	**2,728,885**	**-**	**3,377,851**
Net profit		-	-	393,042	-	393,042
Other comprehensive income		-	(25,773)	-	-	(25,773)
Total comprehensive income		-	(25,773)	393,042	-	367,269
Dividends paid during the period		-	-	(626,142)	-	(626,142)
Share buyback		(22)	-	-	-	(22)
Total transaction with owners		(22)	-	(626,142)	-	(626,164)
Transfer from asset revaluation reserve		-	(5,270)	5,270	-	-
Balance at 30 June 2022		**372,111**	**245,790**	**2,501,055**	**-**	**3,118,956**

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

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

INTERIM CONDENSED STATEMENTS OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 June 2023

All amounts expressed are in K'000	Note	Consolidated Half Year Ended 30 June 2023	Consolidated Half Year Ended 30 June 2022 (restated)	Bank Half Year Ended 30 June 2023	Bank Half Year Ended 30 June 2022
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		933,221	908,361	899,015	853,733
Fees and other income		404,206	351,565	414,738	401,362
Interest paid		(51,124)	(39,247)	(44,043)	(24,708)
Insurance premiums		104,804	102,695	-	-
Claims, surrenders & maturity payments		(62,084)	(62,050)	-	-
Amounts paid to suppliers and employees		(542,616)	(440,754)	(463,522)	(441,052)
Operating cash flow before changes in operating assets and liabilities		**786,407**	**820,570**	**806,188**	**789,335**
Increase in loans and receivables from customers		(663,407)	(410,803)	(658,429)	(415,563)
Increase in customer deposits		1,471,354	1,429,036	1,262,545	1,281,977
Increase in cash reserve requirements with the Central Banks		(224,644)	(127,207)	(198,932)	(121,007)
Increase in other assets		(54,829)	(79,050)	(18,498)	(9,927)
Increase in other liabilities		248,881	147,673	153,674	136,155
Net cash flow from operating activities		**1,563,762**	**1,780,219**	**1,346,548**	**1,660,970**
Income taxes paid		(245,056)	(177,996)	(229,762)	(155,853)
Net cash flow from operating activities		**1,318,706**	**1,602,223**	**1,116,786**	**1,505,117**
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in government securities		(1,538,544)	(941,580)	(1,518,290)	(962,494)
Expenditure on property, plant and equipment		(63,447)	(83,761)	(58,441)	(80,151)
Proceeds for disposal of property, plant and equipment		520	3,851	502	3,847
Additional funding of subsidiaries		-	-	-	(10,563)
Net cash flow used in investing activities		**(1,601,471)**	**(1,021,490)**	**(1,576,229)**	**(1,049,361)**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback		-	(22)	-	(22)
Dividends paid		(657,779)	(629,555)	(654,236)	(626,142)
Repayment of interest on borrowings		(9,533)	(7,095)	(9,533)	(7,095)
Repayment of borrowings		(246,479)	-	(246,479)	-
Net cash flow used in financing activities		**(913,791)**	**(636,672)**	**(910,248)**	**(633,259)**
Net decrease in cash and cash equivalents		**(1,196,556)**	**(55,939)**	**(1,369,691)**	**(177,503)**
Effect of exchange rate movements on cash and cash equivalents		(13,876)	(132,450)	(11,973)	(90,893)
Cash and cash equivalents at the beginning of the period		5,227,344	3,869,083	4,177,360	3,019,559
Cash and cash equivalents at the end of the period	13	**4,016,912**	**3,680,694**	**2,795,696**	**2,751,163**

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

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

1. Statement of significant accounting policies

1.1 Statement of compliance

The interim condensed financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as well as the requirements of the Companies Act 1997. The interim condensed financial statements does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

1.2 Basis of preparation

The interim condensed financial statements are denominated in Papua New Guinea Kina, which is the Bank's functional and reporting currency. All financial information presented in Papua New Guinea Kina has been rounded to the nearest thousand Kina, unless otherwise stated.

The interim condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computations adopted in preparation of the half year financial report are consistent with those adopted and disclosed in the Group's 2022 financial report for the financial year ended 31 December 2022. The Bank has streamlined the presentation of financial information. Where the presentation of financial information has changed, comparative information has been changed to ensure consistency.

IFRS 17 ''Insurance contracts" (effective 1 January 2023) replaces IFRS 4. IFRS 17 has fundamentally changed the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard introduces substantial changes in the presentation of the financial statements and disclosures introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting. Refer to note 14 Insurance Contracts Liabilities.

New and amended standards adopted by the group

A number of amended standards became applicable for the current reporting period. The Group, other than IFRS 17, did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

1.3 Critical Accounting estimates and judgments

The application of the Group's accounting policies requires the use of estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

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

1.3 Critical Accounting estimates and judgments (continued)

The areas involving significant estimates and judgments are:

- Estimation of current tax liability in the multiple tax jurisdictions – Note 4
- Estimated impairment of financial or non-financial assets
- Estimated insurance liability – change in accounting policy due to IFRS 17 (refer to Note 14)
- Estimation of fair value of financial and non-financial assets and liabilities – Note 9

Measurement of expected credit loss allowance for financial assets measured at amortised cost in line with IFRS 9 is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Losses (ECL) is further detailed in Note 6, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

Accounting Policy

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

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

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

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

2. Operating profit before income tax (continued)

	Consolidated		Bank	
All amounts expressed are in K'000	**June 2023**	**June 2022**	**June 2023**	**June 2022**
Interest income				
Loans and receivables from customers	631,261	591,742	578,341	539,198
Other financial assets - inscribed stock	194,730	177,192	194,067	176,515
Treasury bills	85,162	136,338	85,139	136,303
Central Bank bills	3,953	4,172	3,938	4,172
Other	37,825	7,104	35,803	7,563
	952,931	**916,548**	**897,288**	**863,751**
Less:				
Interest expense				
Customer deposits	46,384	33,557	37,852	27,052
Other banks	14,264	4,889	17,523	5,204
Other borrowings	2,896	2,598	2,727	2,378
	63,544	**41,044**	**58,102**	**34,634**
	889,387	**875,504**	**839,186**	**829,117**

(b) Fee and commission income and other income

Accounting Policy

Fee and commission income

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

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

Foreign exchange income or losses

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

	Consolidated		Bank	
All amounts expressed are in K'000	**June 2023**	**June 2022**	**June 2023**	**June 2022**
Fee and commission income				
Product related	76,330	98,585	68,636	90,350
Trade and international related	10,716	10,882	9,379	9,665
Electronic banking related	101,777	79,723	95,984	78,444
Other	27,640	18,544	21,394	13,544
	216,463	**207,734**	**195,393**	**192,003**

2. Operating profit before income tax (continued)

(b) Fee and commission income and other income (continued)

All amounts expressed are in K'000	**Consolidated**		**Bank**	
	June 2023	**June 2022**	**June 2023**	**June 2022**
Other income				
Foreign exchange related[1]	201,722	175,833	175,366	158,044
Operating lease rentals	2,267	2,886	2,267	2,886
Other[2]	11,666	15,336	43,049	47,719
	215,655	**194,055**	**220,682**	**208,649**

[1] Foreign exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.
[2] Other income for Bank includes dividends of K30.651 million (June 2022: K34.996 million) from subsidiaries which are eliminated on consolidation.

(c) Impairment expense/(release) on financial assets

Accounting Policy
Loans and receivables from customers are subject to continuous management review. If there is an expectation that the Group will not be able to collect amounts due under the terms of the loan, a provision is recognised equivalent to lifetime ECL. All bad debts are written off against the available 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 Interim Condensed Statement of Comprehensive Income.

General provisions for impairment are maintained to cover expected losses unidentified at balance date in the overall portfolio of Loans and receivables from customers. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria. The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the Interim Condensed Statement of Comprehensive Income.

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

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

Note 6 provides more detail of how the expected credit loss allowance is measured.

Impairment of financial assets by asset class as follows:

All amounts expressed are in K'000	**Consolidated**		**Bank**	
	June 2023	**June 2022**	**June 2023**	**June 2022**
Loans and receivables from customers	70,591	(25,899)	58,843	(31,101)
Treasury and Central Bank bills	4,510	2,544	4,510	2,545
Other financial assets – Inscribed stock	3,533	3,152	3,533	3,175
	78,634	**(20,203)**	**66,886**	**(25,381)**

2. Operating profit before income tax (continued)

(d) Operating expenses

Accounting Policy

Staff costs include annual leave, long service leave, superannuation expense, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departure, leave utilisation and future salary. Superannuation expense includes expenses relating to defined contribution plans. Defined contribution expense is recognized in the period the service is provided.

Premises and equipment expenses include depreciation, which is calculated using the straight-line method over the asset's estimated useful life for right-of-use assets recognized under IFRS 16 and property and equipment. Right of Use assets are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented as part of operating expenses.

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

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

	Consolidated		**Bank**	
All amounts expressed are in K'000	**June 2023**	**June 2022**	**June 2023**	**June 2022**
Staff costs	251,122	224,811	232,610	207,837
Depreciation	61,271	58,661	58,134	55,459
Computing	102,645	75,332	92,422	68,726
Premises and equipment	53,725	48,493	50,090	45,361
Administration and other costs	42,124	62,927	36,729	57,424
	510,887	**470,224**	**469,985**	**434,807**

3. Segment information

Accounting Policy

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

For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Group's management reporting system. The main business lines/segments for management purposes are banking services, split into PNG Bank, Offshore Banks and non-banking services which comprise insurance operations, fund management and asset financing activities. The Group's business segments operate in Papua New Guinea, Fiji, Solomon Islands, Cook Islands, Tonga, Samoa, Vanuatu, Laos and Cambodia. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

3. Segment information (continued)

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

Half Year Ended 30 June 2023 *All amounts expressed are in K'000*	**PNG Bank**	**Offshore Banks**	**Non-Bank Services**	**Inter Segment Adjustments**	**Total**
Net Interest income	720,693	151,246	17,197	251	889,387
Other income	322,241	137,266	8,815	(36,204)	432,118
Net insurance income	-	-	19,950	(366)	19,584
Total operating income	**1,042,934**	**288,512**	**45,962**	**(36,319)**	**1,341,089**
Operating expenses	(388,994)	(116,212)	(10,546)	4,865	(510,887)
Impairment expenses	(64,736)	(5,562)	(8,336)	-	(78,634)
Profit before income tax	**589,204**	**166,738**	**27,080**	**(31,454)**	**751,568**
Income tax	(283,928)	(35,598)	(4,876)	-	(324,402)
Net profit after income tax	**305,276**	**131,140**	**22,204**	**(31,454)**	**427,166**
As at 30 June 2023					
Total Assets	25,303,396	9,316,769	2,017,395	(1,490,199)	35,147,361
Total Liabilities	(22,635,507)	(8,096,837)	(1,444,152)	856,965	(31,319,531)
Net Assets	**2,667,889**	**1,219,932**	**573,243**	**(633,234)**	**3,827,830**

Half year Ended 30 June 2022 *All amounts expressed are in K'000*	**PNG Bank**	**Offshore Banks**	**Non-Bank Services (restated)**	**Inter Segment Adjustments**	**Total**
Net interest income	723,886	135,607	15,828	183	875,504
Other income	320,195	110,033	17,927	(46,366)	401,789
Net insurance income	-	-	10,407	(256)	10,151
Total operating income	**1,044,081**	**245,640**	**44,162**	**(46,439)**	**1,287,444**
Operating expenses	(360,133)	(104,135)	(9,351)	3,395	(470,224)
Impairment expenses	10,818	9,828	(443)	-	20,203
Additional company tax	(190,000)	-	-	-	(190,000)
Profit before income tax	**504,766**	**151,333**	**34,368**	**(43,044)**	**647,423**
Income tax	(208,969)	(35,012)	(6,265)	-	(250,246)
Net profit after income tax	**295,797**	**116,321**	**28,103**	**(43,044)**	**397,177**
As at 30 June 2022					
Total Assets	22,393,738	8,754,500	1,953,062	(1,613,809)	31,487,491
Total Liabilities	(19,808,512)	(7,653,481)	(1,463,073)	992,697	(27,932,369)
Net Assets	**2,585,226**	**1,101,019**	**489,989**	**(621,112)**	**3,555,122**

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

4. Income Tax Expense

Accounting Policy

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Interim Condensed Statement of Financial Position. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affect neither taxable income nor accounting profit.

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

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

Current and deferred tax for the period

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

Critical accounting assumptions and estimates

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

Income tax expense

	Consolidated		**Bank**	
All amounts are expressed in K'000	**June 2023**	**June 2022**	**June 2023**	**June 2022**
Tax calculated at 45%[2] (2022:30%) of bank profit before tax	323,276	189,103	323,276	189,103
Tax calculated at respective subsidiary tax rates	14,044	9,977	-	-
Expenses not deductible for tax[1]	735	58,728	725	57,524
Tax loss not recognised	184	3,412	-	-
Income not recognized for tax purposes	(14,457)	(13,224)	(13,793)	(10,499)
Adjustment to prior year estimates	620	2,250	462	1,173
Income tax expense	**324,402**	**250,246**	**310,670**	**237,301**

[1] K57.0m represents the non-deductibility of the K190.0m Additional Company Tax paid in 2022, which cannot be claimed as a tax deduction. This Act was repealed on 2 December 2022. [2] A new legislation was passed to increase the Income tax rate for commercial banks in PNG to 45% from 30%.

5. Loans and receivables from customers

Accounting Policy

Loans are originated by providing funds directly to the borrower and are recognised when cash is advanced to borrowers. Loans are subsequently measured at amortised cost using the effective interest rate method where they have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved through holding the loans to collect these cash flows. They are presented net of any provisions for ECL. Lease financing is provided to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles and plant and equipment.

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2023**	**Dec 2022 (restated)**	**June 2023**	**Dec 2022**
Overdrafts	1,086,658	977,113	1,039,296	915,566
Lease financing	193,840	198,969	154,459	161,562
Term loans	11,549,512	10,928,676	10,796,777	10,220,097
Mortgages	2,766,115	2,786,758	2,355,015	2,364,110
Gross loans and receivables from customers net of reserved interest	**15,596,125**	**14,891,516**	**14,345,547**	**13,661,335**
Less allowance for losses on loans and receivables from customers	(664,613)	(642,115)	(600,090)	(583,426)
At 30 June/31 December	**14,931,512**	**14,249,401**	**13,745,457**	**13,077,909**

Allowance for losses includes K85.155 million (Bank K73.701 million), December 2022: K75.227 million (Bank K64.997 million) provision taken up for interest recognized on stage 3 loans.

6. Allowance for Expected Credit Losses

6 (a) Accounting Policy

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

The ECL determined under IFRS 9 is recognised as follows:

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

Measurement

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

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

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

6. Allowance for Expected Credit Losses (continued)

Model stages

The three stages are as follows:

Stage 1: 12 months ECL - performing

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

Stage 2: Lifetime ECL – performing

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

Stage 3: Lifetime ECL – non-performing

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

Collective and individual assessment

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

Expected life

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

Movement between stages

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

Off-Balance Sheet amounts

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

Definition of default

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes. The default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they meet the definition of default. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the Interim Condensed Statement of Comprehensive Income.

Critical accounting assumptions and estimates

Key judgements include when a significant increase in credit risk has occurred and estimation of forward looking macroeconomic information. Other factors which can impact the provision include the borrower's financial situation,

6. Allowance for Expected Credit Losses (continued)

the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Significant increase in credit risk

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

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

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

Probability weighting of each scenario

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

- Base case scenario
  This scenario utilises external economic forecasts used for strategic decision making and forecasting, resulting in the base case representing comparable market average default rates.

- Upside scenario
  This scenario represents a modest improvement on the base case scenario, which represents lower than market average default rates.

- Downside scenario
  This scenario represents a recession, with higher than market average default rates.

Forward looking macroeconomic information

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

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

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

6. *Allowance for Expected Credit Losses (continued)*

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models. Judgements can change with time as new information becomes available which could result in changes to the provision for expected credit losses.

6 (b) Loss Allowance – Loans and receivables from customers

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

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2023**	**Dec 2022**	**June 2023**	**Dec 2022**
Provision for impairment				
Movement in allowance for losses on loans and receivables from customers:				
Balance at 1 January	642,115	725,533	583,426	667,524
Net new and increased provisioning	40,224	33,128	27,227	23,086
Loans written off against provisions/(write back of provisions no longer required)	(17,726)	(116,546)	(10,563)	(107,184)
At 30 June / At 31 Dec	**664,613**	**642,115**	**600,090**	**583,426**
Provision for impairment is represented by:				
Collective provision for on balance sheet exposure	340,677	345,363	313,111	321,014
Individually assessed or specific provision	267,224	225,671	230,269	194,877
Total provision for on balance sheet exposure	**607,901**	**571,034**	**543,380**	**515,891**
Collective provision for off balance sheet exposure	56,712	71,081	56,710	67,535
At 30 June / 31 Dec	**664,613**	**642,115**	**600,090**	**583,426**

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2023**	**June 2022**	**June 2023**	**June 2022**
Loan impairment expense				
Net collective provision funding	(18,009)	(33,384)	(17,364)	(28,391)
Net new and increased individually assessed provisioning	58,233	24,950	44,591	15,880
Total new and increased provisioning/(release of provisions)	**40,224**	**(8,434)**	**27,227**	**(12,511)**
Recoveries during the period	(32,845)	(29,554)	(31,837)	(28,635)
Net write off during the period	63,212	12,089	63,453	10,045
At 30 June	**70,591**	**(25,899)**	**58,843**	**(31,101)**

6. *Allowance for Expected Credit Losses (continued)*

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Net financial assets originated, which includes additional allowances for new financial instruments recognised during the period, net of releases for financial instruments de-recognised in the period; and
- Movement in risk parameters and other changes arising from regular refreshing of inputs to models, foreign exchange retranslations for assets denominated in foreign currencies and other movements.

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

All amounts are expressed in K'000

EAD - Loans and receivables from customers	Stage 1 (restated)	Stage 2	Stage 3	Total
1 January 2022	**11,794,445**	**1,909,091**	**526,041**	**14,229,577**
Transfers to/(from)				
Stage 1	(248,554)	228,975	19,579	-
Stage 2	625,730	(669,541)	43,811	-
Stage 3	-	45	(45)	-
Net financial assets originated	427,660	(130,337)	(81,850)	215,473
Total movement in EAD for the period	**804,836**	**(570,858)**	**(18,505)**	**215,473**
30 June 2022	**12,599,281**	**1,338,233**	**507,536**	**14,445,050**

ECL - Loans and receivables from customers				
1 January 2022	**217,762**	**178,386**	**277,077**	**673,225**
Transfers to/(from)				
Stage 1	(5,280)	5,114	166	-
Stage 2	59,267	(63,404)	4,137	-
Stage 3	-	9	(9)	-
Net financial assets originated	(41,347)	(1,483)	9,955	(32,875)
Movements due to risk parameter and other changes	15,551	(16,235)	18,208	17,524
Total net P&L charge for the period	**28,191**	**(75,999)**	**32,457**	**(15,351)**
Loans written off against provision/(write back of provision no longer required)	-	-	(54,142)	(54,142)
30 June 2022	**245,953**	**102,387**	**255,392**	**603,732**

6. *Allowance for Expected Credit Losses (continued)*

All amounts are expressed in K'000

EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 July 2022	**12,599,281**	**1,338,233**	**507,536**	**14,445,050**
Transfers to/(from)				
Stage 1	(46,157)	(5,049)	51,206	-
Stage 2	(103,734)	92,396	11,338	-
Stage 3	-	1,285	(1,285)	-
Net financial assets originated	610,537	(76,708)	(87,363)	446,466
Total movement in EAD for the period	**460,646**	**11,924**	**(26,104)**	**446,466**
31 December 2022	**13,059,927**	**1,350,157**	**481,432**	**14,891,516**

ECL – Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 July 2022	**245,953**	**102,387**	**255,392**	**603,732**
Transfers to/(from)				
Stage 1	(203)	(492)	695	-
Stage 2	(1,809)	1,582	227	-
Stage 3	-	68	(68)	-
Net financial assets originated	(68,280)	(5,919)	10,890	(63,309)
Movements due to risk parameter and other changes	60,812	11,264	20,939	93,015
Total net P&L charge for the period	**(9,480)**	**6,503**	**32,683**	**29,706**
Loans written off against provision/(write back of provision no longer required)	-	-	(62,404)	(62,404)
31 December 2022	**236,473**	**108,890**	**225,671**	**571,034**

EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2023	**13,059,927**	**1,350,157**	**481,432**	**14,891,516**
Transfers to/(from)				
Stage 1	(731,904)	698,203	33,701	-
Stage 2	337,342	(488,626)	151,284	-
Stage 3	-	799	(799)	-
Net financial assets originated	974,250	(208,508)	(61,133)	704,609
Total movement in EAD for the period	**579,688**	**1,868**	**123,053**	**704,609**
30 June 2023	**13,639,615**	**1,352,025**	**604,485**	**15,596,125**

ECL – Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2023	**236,473**	**108,890**	**225,671**	**571,034**
Transfers to/(from)				
Stage 1	(11,376)	10,818	558	-
Stage 2	15,817	(28,368)	12,551	-
Stage 3	-	16	(16)	-
Net financial assets originated	(12,015)	8,108	31,175	27,268
Movements due to risk parameter and other changes	22,555	(10,244)	15,014	27,325
Total net P&L charge for the period	**14,981**	**(19,670)**	**59,282**	**54,593**
Loans written off against provision/(write back of provision no longer required)	-	-	(17,726)	(17,726)
30 June 2023	**251,454**	**89,220**	**267,227**	**607,901**

6. *Allowance for Expected Credit Losses (continued)*

Total off balance sheet

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

	June 2023		Dec 2022	
All amounts are expressed in K'000	Stage 1		Stage 1	
	Gross exposure	Loss allowance	Gross exposure	Loss allowance
Opening balance	**4,593,667**	**71,081**	**3,284,336**	**52,307**
Net decrease/(increase)	(1,021,496)	(14,369)	1,309,331	18,774
Closing balance	**3,572,171**	**56,712**	**4,593,667**	**71,081**

6 (c) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Model adjustments are also included within the ECL allowance. Model adjustments are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic factors, microeconomic factors and changes to parameters or credit risk data not incorporated into current parameters are examples of such circumstances.

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

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

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

The below three scenarios and respective weightings were applied to each economic variable at 30 June 2023:

Scenario	Base	Upside	Downside
Weight	50%	10%	40%

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

6. Allowance for Expected Credit Losses (continued)

Sensitivity Analysis

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

i) GDP given the significant impact on business performance and collateral valuations; and
ii) Change in proportion of downgrades given that it is "BSP specific" and addresses potential signs of stress both within credit markets in general and in client specific portfolios.

Set out below are the changes to the ECL as at 30 June 2023 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions, while keeping other factors constant:

All amounts are expressed in K'000	**30 June 2023**	**31 Dec 2022**
Reported probability weighted ECL	**664,613**	642,115
100% base scenario	**641,746**	618,244
100% downside scenario	**696,912**	675,118

Sensitivity of provisions for impairment to SICR assessment criteria

- If 1% of Stage 1 credit exposures as at 30 June 2023 was included in Stage 2, provisions for impairment would approximately increase by K8.087 million for the bank. (31 December 2022 K6.804 million).
- If 1% of Stage 2 credit exposures as at 30 June 2023 was included in Stage 1, provisions for impairment would approximately decrease by K0.103 million for the bank. (31 December 2022 K0.506 million).

6 (d) Grouping of instruments for losses measured on a collective basis

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

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

Retail – Groupings for collective measurement

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

6 Allowance for Expected Credit Losses (continued)

6 (e) Maximum exposure to credit risk – Financial instruments subject to impairment

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

All amounts are expressed in K'000	**June 2023**				**December 2022 (restated)**
ECL staging	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**	**Total**
Credit grade					
Standard monitoring	13,637,238	907,262	-	14,544,500	13,946,528
Special monitoring	-	447,140	-	447,140	463,556
Default	-	-	604,485	604,485	481,432
Gross carrying amount	13,637,238	1,354,402	604,485	15,596,125	**14,891,516**
Loss allowance	(251,454)	(89,220)	(267,227)	(607,901)	(571,034)
Net Carrying amount	13,385,784	1,265,182	337,258	14,988,224	**14,320,482**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in the Accounting Policy *'Measurement'* section of this Note.

Off balance sheet items, which are in scope for impairment, totalled K3.572 billion and are classified as stage 1 with a loss allowance of K56.712 million.

The total balance of investment securities measured at amortised cost K10.411 billion is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K53.787 million.

6 (f) Write-off policy

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

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

7. Shareholders' Equity

Accounting Policy

Share issue costs

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

Number of shares in '000s, Book value in K'000	Number of shares	Book value
1 January 2022	467,226	372,133
Share buyback	(6)	(23)
At 31 December 2022 / 1 January 2023	**467,220**	**372,110**
At 30 June 2023	**467,220**	**372,110**

In May 2014, the Directors introduced a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, any time before that. The scheme ceased in July 2022 as approved by the Board.

Earnings per ordinary share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting period, adjusted for shares which are bought by the Bank.

	Consolidated		Bank	
All amounts are expressed in K'000	June 2023	June 2022 (restated)	June 2023	June 2022
Net Profit attributable to shareholders (K'000)	427,166	397,177	407,720	393,042
Weighted average number of ordinary shares in use ('000)	467,220	467,225	467,220	467,225
Basic and diluted earnings per share (expressed in toea)	**91.4**	**85.0**	**87.3**	**84.1**

Dividends on ordinary shares

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

On 22 February 2023, the Directors declared a final dividend of 140 toea per share for the year ended 31 December 2022 which was paid on 21 April 2023. The declared final gross dividend amount was K657.779 million (June 2022: K629.555 million). Net dividend paid after dividend withholding tax was K648.089 million (June 2022: K620.858 million).

Retained earnings

		Consolidated		Bank	
All amounts are expressed in K'000	Note	June 2023	Dec 2022 (restated)	June 2023	Dec 2022
At 1 January		**3,366,831**	**3,025,125**	**2,991,169**	**2,728,885**
Transition to IFRS 17 impact	15	-	43,898	-	-
Net profit for the year		427,166	1,084,818	407,720	1,045,279
Final dividends paid		(657,606)	(629,379)	(654,236)	(626,142)
Interim dividends paid		-	(159,350)	-	(158,796)
Other		(330)	(98)	-	-
Disposal of assets – Asset revaluation		1,395	5,270	1,225	5,270
BSP Life policy reserve		-	(3,327)	-	(3,327)
Gain attributable to minority interest		(197)	(126)	-	-
At 30 June/31 December		**3,137,259**	**3,366,831**	**2,745,878**	**2,991,169**

7. Shareholders' Equity (continued)

All amounts are expressed in K'000	Consolidated June 2023	Consolidated Dec 2022 (restated)	Bank June 2023	Bank Dec 2022
Other reserves comprise:				
Asset revaluation reserve	98,795	96,873	83,622	83,180
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
Statutory insurance reserve	59,936	59,936	59,936	59,936
Foreign currency translation reserve	136,766	140,859	77,586	81,225
At 30 June / 31 December	**317,710**	**319,881**	**221,779**	**224,976**
Movement in reserves for the period:				
Asset revaluation reserve				
At 1 January	96,873	123,732	83,180	109,937
Asset revaluation increment/(decrement)	3,432	42	1,782	-
Transfer asset revaluation reserve to retained earnings	(1,395)	(5,414)	(1,225)	(5,270)
Impact of PNG tax rate change	-	(23,068)	-	(23,068)
Deferred tax on disposal of properties	(115)	1,581	(115)	1,581
At 30 June / 31 December	**98,795**	**96,873**	**83,622**	**83,180**
Capital reserve				
At 1 January	635	635	635	635
At 30 June / 31 December	**635**	**635**	**635**	**635**
Statutory insurance reserve				
At 1 January	59,936	56,691	59,936	56,691
BSP Life policy reserve	-	3,327	-	3,327
Fiji Government green bond revaluation	-	(82)	-	(82)
At 30 June / 31 December	**59,936**	**59,936**	**59,936**	**59,936**
Foreign currency translation reserve				
At 1 January	140,859	194,293	81,225	109,570
Movement during the period	(5,146)	(53,434)	(3,639)	(28,345)
Other	1,053	-	-	-
At 30 June / 31 December	**136,766**	**140,859**	**77,586**	**81,225**

Equity component of convertible notes

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

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

(i) The right to receive a dividend equal to the amount of dividend to be paid on BSP Ordinary Shares.

(ii) The same voting rights as a BSP Ordinary Share and effected through a special voting share held by the Chairman of BSP.

(iii) The Fiji Class Share may be exchanged on a one for one basis into BSP Ordinary Shares at a subsequent date and at the option of BSP on the occurrence of certain prescribed events.

8. Capital adequacy

The Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Laos are required to adhere to prudential standards issued by the Reserve Bank of Fiji, Central Bank Solomon Islands, The Financial Supervisory Commission, Central Bank of Samoa, National Reserve Bank of Tonga, Reserve Bank of Vanuatu, National Bank of Cambodia and Bank of Laos P.D.R. respectively. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord.

The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well-capitalized, and also specifies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2023, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements as set out under the standard are as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

The measure of capital used for the purposes of prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the 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 subordinate loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions. The leverage capital ratio is calculated as Tier 1 capital divided by total assets on the balance sheet.

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

The Group's capital adequacy is as follows:

	30 June 2023		**31 Dec 2022 (restated)**	
Risk weighted capital ratios (unaudited)	**K'000**	**%**	**K'000**	**%**
Tier 1 capital	2,664,624	17.8%	3,325,805	23.2%
Total capital	3,368,814	22.5%	3,548,158	24.8%
Leverage capital ratio		7.7%		10.6%

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

9. Fair Values of Financial and Non-Financial Assets and Liabilities

There is no material difference between the fair values and carrying values of the financial assets and liabilities of the Group. The table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy.

The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Consolidated
All amounts are expressed in K'000

As at 30 June 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	286,975	5,288	292,263
Treasury bills	-	9,925	-	9,925
Government inscribed stock	-	240,726	-	240,726
Non-financial assets				
Land and Buildings	-	-	496,383	496,383
Investment properties	-	-	331,244	331,244
Assets subject to operating lease	-	-	27,340	27,340
Total assets	**-**	**537,626**	**860,255**	**1,397,881**
b) Financial liabilities				
Insurance contract liability	-	-	(1,098,220)	(1,098,220)
Total liabilities	**-**	**-**	**(1,098,220)**	**(1,098,220)**

As at 31 December 2022	**Level 1**	**Level 2**	**Level 3 (restated)**	**Total**
a) Financial assets				
Equity security	-	286,512	5,316	291,828
Treasury bills	-	9,729	-	9,729
Government inscribed stock	-	246,719	-	246,719
Non-financial assets				
Land and Buildings	-	-	509,039	509,039
Investment properties	-	-	329,201	329,201
Assets subject to operating lease	-	-	28,664	28,664
Total assets	**-**	**542,960**	**872,220**	**1,415,180**
b) Financial liabilities				
Insurance contract liability	-	-	(1,062,678)	(1,062,678)
Total liabilities	**-**	-	(1,062,678)	(1,062,678)

Consolidated

Financial assets at fair value through profit and loss	**June 2023**	**Dec 2022**
Opening balance (1 Jan 2023 and 2022)	**872,220**	**835,468**
Total gains and losses recognized in:		
- Profit and loss	(14,117)	(23,162)
- Other comprehensive income	1,805	14,566
Purchases	19,754	84,235
Disposals	(2,181)	(1,917)
Translation movements	(17,226)	(36,970)
As at 30 June 2023 / 31 December 2022	**860,255**	**872,220**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the period ended 30 June 2023.

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

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

The frequency of valuation of valuations comply with Group policy. The significant inputs used in preparing the valuations relates to:

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

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

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

10. Contingent liabilities and commitments

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

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

The Group operates in a number of regulated markets and is subject to regulatory reviews and inquiries. From time to time these may result in fines or other regulatory enforcement actions. As at reporting date there are no matters of this nature for which the Group expects to result in a material economic outflow of resources.

Off-balance sheet financial instruments

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

	Consolidated		**Bank**	
All amounts expressed are in K'000	**As at 30 June 2023**	**As at 31 Dec 2022**	**As at 30 June 2023**	**As at 31 Dec 2022**
Letters of credit	253,631	238,851	252,137	238,302
Guarantees and indemnities issued	314,121	311,483	292,713	297,149
Commitments to extend credit	3,011,774	4,043,398	2,844,220	3,871,846
	3,579,526	**4,593,732**	**3,389,070**	**4,407,297**
Commitments for capital expenditure				
Amounts with firm commitments, and not included in the accounts	**31,813**	**42,348**	**31,813**	**31,963**

10. Contingent liabilities and commitments (continued)

Legal proceedings

A number of legal proceedings against the Group were outstanding as at 30 June 2023. For all litigation where a loss is probable, an appropriate provision has been made. Based on information available at 30 June 2023, the Group estimates a contingent liability of K21.3 million (31 December 2022: K29.6 million) in respect of these proceedings.

11. Derivative financial instruments

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

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

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

All amounts expressed are in '000

As at 30 June 2023		USD	AUD	EURO	GBP	JPY	Others	Total
Selling	FCY	(421)	-	-	-	(100,000)	(1,641)	
	Kina	(1,503)	-	-	-	(2,468)	(5,859)	(9,830)
Buying	FCY	2,153	-	-	-	-	602	
	Kina	7,691	-	-	-	-	2,149	9,840

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

12. Related parties

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

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

A number of banking transactions are entered into with these related parties, and include loans, deposits, property rentals, share transfers and foreign currency transactions.

12. Related parties (continued)

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

All amounts expressed are in K'000	**Consolidated As at 30 June 2023**	**Consolidated As at 31 Dec 2022**
Loans to :		
Parties where the related party is a director	864,453	566,982
Parties where the related party is an executive	43,196	60,035
General staff	8,896	9,605
	916,545	**636,622**

13. Notes to interim condensed statements of cash flows

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

	Consolidated		**Bank**	
	As at 30 June		**As at 30 June**	
All amounts expressed are in K'000	**2023**	**2022**	**2023**	**2022**
Cash and balances with Central Banks	2,631,686	2,661,649	1,853,298	2,038,663
Amounts due from other banks[1]	1,826,602	1,285,878	1,609,998	1,197,857
Amounts due to other banks	(441,376)	(266,833)	(667,600)	(485,357)
	4,016,912	**3,680,694**	**2,795,696**	**2,751,163**

[1]The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks include deposits of K51.119 million (June 2022: K57.856 million) held with counter-party Banks that are not available for use by the Group.

14. Insurance Contracts IFRS 17

IFRS 17 Insurance Contracts ('IFRS 17') is a comprehensive new accounting standard for insurance and reinsurance contracts covering recognition, measurement, presentation and disclosure. IFRS 17 replaces the current IFRS 4, under which the Group adopted a form of the Margin on Service ('MoS') valuation methodology applied to the value life insurance contracts. The Group has applied IFRS 17 for the financial year ending 31 December 2023 with a transition date of 1 January 2022 for comparative purposes.

Measurement of insurance contracts

IFRS 17 defines a General Measurement Model (GMM) to use for valuing Insurance Contracts, with two modifications of this model applicable under certain circumstances. The GMM requires the projection of future cash flow related to insurance contracts using current financial and non-financial assumptions. This requirement is not significantly different to the current MoS basis used for life insurance contracts, with some critical changes noted below:

1. The level at which contract profit pooling is performed under IFRS 17, aggregation of insurance contracts, is more granular. The contract grouping is based on the nature of the product, the year of issue and the expected profitability level, which will provide more transparency and disclosure on the profitability of new businesses issued each year.
2. Establishing future cash flow assumptions for expenses differs from IFRS 4, with only expenses directly attributable to supporting insurance contracts being included. All other expenses will impact profit as incurred. This results in lower expenses being included in future cash flows.
3. The unearned profit for insurance contracts is termed the Contractual Service Margin (CSM). The principles of determining the unearned profit are similar to MoS, but the profit recognition patterns differ. The ultimate profit earned under an Insurance contract over its life will not change. However, on the transition to IFRS 17, the shareholder's retained earnings have increased reflecting the requirement under transition to IFRS 17 to recognise the fair value of CSM on an arms length basis.
4. The GMM model introduces a new element known as Risk Adjustment: compensation to the Group for bearing the uncertainty concerning the amount and timing of cash flows. The GMM requires the risk adjustment to be treated as a specific cash flow, decreasing the expected profit of the new business. The annual profit will be supplemented by releasing the Contract Service Margin and Risk Adjustment.

IFRS permits modification to the GMM. The two modifications of the GMM adopted are:

- The Variable Fee Approach (VFA), insurance contracts with direct participation features are eligible to use this approach. This allows for the variable nature of fees the Group earns from the insurance contracts, which depend on the underlying assets' performance. This is the majority of the business.
- The Premium Allocation Approach (PAA) is a simplified model which does not require future projections to satisfy the requirements under IFRS 17, provided that the insurance contracts sold are profitable. There are specific requirements for this model to be applied, including the term of the insurance contract being no more than one year.

Level of aggregation applied to insurance contracts

IFRS 17 requires insurance contracts to be recognised and measured in groups. The grouping of individual contracts under IFRS 17 is performed to limit the offsetting of profitable contracts against onerous ones regarding how insurers manage and evaluate their business performance. A portfolio of contracts is defined based on contracts with similar risks and are managed together. The portfolio is divided into groups based on the issue year and the expected profitability level. The level of profitability is classified as onerous, profitable with no significant possibility of subsequently becoming onerous, and remaining contracts. Under IFRS 17, the aggregation level has become much more granular, leading to profit pooling amongst fewer insurance contracts. The application of this is noted below.

14. Insurance Contracts IFRS 17 (continued)

Long-term insurance contracts

The Group issues two types of long-term Products-Participating and Non-Participating products. The products falling under each category have similar risks and have been managed together (risk transfer and pooling). The Group has chosen to split the riders from the base contracts, which are measured separately as the nature of risk under these riders differs from the base products. The Portfolios are listed below:

1. Participating base products
2. Non-participating base products
3. All riders (excluding accidental death riders) on participating base contracts
4. All riders on non-participating base contracts
5. Accidental death riders on participating base contracts

Each of the above portfolios has been classified into annual cohorts and further by profitability level.

Short-term insurance contracts (terms of one year or less)

The aggregation of contracts for the Group's general insurance in Fiji and group term-life insurance businesses in PNG is based on the characteristics of products, related risks, and key features. Portfolio identification is straightforward in applying the standard's requirements, as medical and term life contracts have separate risk cover, features, pricing mechanisms, and claims management processes. Accordingly, the following portfolios have been identified:

1. Medical contracts
2. Term-life contracts

These are contracts with a term of twelve months.

Model applicability for insurance contracts

Long-term insurance contracts

For Participating Base products and associated riders, the contract boundary has been determined as the legal boundary of the contract. For the base product in Fiji, the premiums are guaranteed for the contract term, which extends to the cover cease date of the base product. For riders of the Participating products, the contract term has been taken as the legal term of the rider, which is the cover cease date noted in the contract.

1. For Non-Participating Base products and associated riders, the contract boundary has been assumed as the legal boundary of the contract, a similar approach to the Participating products. The above definition of contract boundary is consistent with how cash flows are projected for these contracts under IFRS 4.
2. For Participating Base Products, these contracts are eligible for applying the Variable Fee Approach. The Non-Participating Base product and all rider products aren't eligible for Variable Fee Approach. The GMM has been applied to these.

Short-term insurance contracts

For term-life and medical contracts, the contract duration is twelve months. The Insurer retains the right to change terms and conditions, including premium, at each renewal date. These contracts meet the eligibility requirement for Premium Allocation Approach (PAA); hence, the financial outcome of applying PAA to these contracts does not differ significantly from IFRS 4. However, the disclosure requirements under IFRS 17 have increased considerably.

14. Insurance Contracts IFRS 17 (continued)

Cash flow assumptions

IFRS 17 requires future cash flow estimates to be unbiased, entity-specific, current and explicit. The assumption-setting process under LPS 1.04 Valuation of Policy Liabilities IFRS 4 uses best estimate long-term assumptions. The general principles align with the requirements under IFRS 17, apart from setting expense assumptions.

Transition approach adopted.

The liability for Insurance contracts required restatement as of 1 January 2022 (transition date).

In some cases, the full retrospective approach will be impracticable, especially for older cohorts where necessary information is not readily available. The transition approach for long-term and short-term contracts is noted below;

Long-term insurance contracts

The Fair Value and Full Retrospective Transition approaches have been applied as noted below with the following key dates:

- Fair valuation of liabilities of insurance contracts in force on 31 December 2017. It is impracticable to apply the full retrospective approach for the period before the implementation of BLIS (current insurance administration system). The granular transaction data required are not available before this date.
- Insurance contracts issued by the Group from 1 January 2018, the full retrospective approach has been applied.

Short-term insurance contracts

A full retrospective approach has been applied.

Fair valuation of liabilities of insurance contracts.

The fair value of liabilities has been determined per IFRS 13 Fair Value Measurement. There are no recent transactions or comparable markets for life insurance liabilities. In measuring the fair value, the approach taken is:

- The discounted value of projected cash flows relating to in-force life insurance contracts using assumptions reflecting past and expected future experience from the perspective of a potential purchaser.
- Plus allowance for the cost of holding statutory capital that a market participant acquiring the contracts would be required to bear.

15. Insurance Contracts IFRS 17 – transition impact

The quantitative impact of transitioning to IFRS 17 is illustrated in the opening balance sheet reconciliation table below:

All amounts are expressed are in K'000 *(Unaudited)*

	As reported IFRS 4 31 Dec 2021	IFRS 17	Restated 1 Jan 2022
Assets			
Financial assets at amortised cost - policy loans	111,342	(111,342)	-
Financial assets at amortised cost - outstanding premiums	23,297	(23,297)	-
All other assets	1,433,214	1,277	1,434,491
Total assets	**1,567,853**	**(133,362)**	**1,434,491**
Liabilities and equity			
Liabilities			
Policy liabilities	1,132,176	(1,132,176)	-
Other liabilities - unearned premiums	19,434	(19,434)	-
Other liabilities - premium in advance	6,031	(6,031)	-
Outstanding claims	19,330	(19,330)	-
Outstanding claims (IBNR)	3,746	(3,746)	-
Insurance contract liabilities	-	998,971	998,971
Reinsurance contract liabilities	813	3,239	4,052
All other liabilities	94,478	1,247	95,725
Total liabilities	**1,276,008**	**(177,260)**	**1,098,748**
Total shareholders' equity	**291,845**	**43,898**	**335,743**
Total liabilities and equity	**1,567,853**	**(133,362)**	**1,434,491**

The adoption of IFRS 17 resulted in an overall reduction to total assets of K133.4m, total liabilities of $177.3m, and increase in total equity of $43.9m on the transition balance sheet as at 1 January 2022.

The transition to IFRS 17 is in the process of audit.

16. Subsequent events

There are no disclosing events after the end of the reporting period.