Bank of South Pacific Limited and Subsidiaries

Half-year financial report

For the half-year ended

30 June 2012

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Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2012.

Directors and officers

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

Mr K Constantinou, OBE	Mr J G Jeffery	
Mr T E Fox	Mr I B Clyne	
Mr G Aopi	Mr C C Procter	
Sir N Bogan	Ms F Talao	(appointed 20 April 2012)
Dr I Temu	Mr G Robb, OAM	(appointed 20 April 2012)

Principal activities

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

Review of operations

The net profit of the Group for the half year ended 30 June 2012, after tax and non-controlling interests was K204.013 million (Half year ended 30 June 2011: K158.548 million).

Dated and signed at Port Moresby this 31st day of August 2012

K Constantinou, OBE
Chairman

I B Clyne
Chief Executive Officer/Director

Deloitte.

Deloitte Touche Tohmatsu

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Independent Auditor's Review Report

to the members of Bank of South Pacific Limited and its subsidiaries

We have reviewed the accompanying half-year financial report of Bank of South Pacific Limited and its subsidiaries, which comprise the condensed consolidated statement of financial position as at 30 June 2012, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in shareholders equity for half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the Bank and the entities it controlled at the end of the half-year or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with International Financial Reporting Standards IAS 34 Interim Financial Reporting. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Auditing Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Member of
Deloitte Touche Tohmatsu

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bank of South Pacific Limited and its subsidiaries is not in accordance with the Companies Act 1997, including:

(a) giving a true and fair view of the Bank of South Pacific Limited and its subsidiaries financial position as at 30 June 2012 and of their performance for the half-year ended on that date in accordance with International Accounting Standard 34 Interim Financial Reporting; and

(b) proper accounting records have been kept by the company

Other information

We also have provided other advisory services during the period.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

By: Paul Barber

Registered under the Accountants Act 1996

Partner, Chartered Accountants

Port Moresby, this 3rd day of September 2012

STATEMENT BY THE DIRECTORS
FOR THE HALF YEAR ENDED 30 JUNE 2012

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Dated and signed in accordance with a resolution of the directors at Port Moresby this 31st day of August 2012.

K Constantinou, OBE
Chairman

IB Clyne
Chief Executive Officer/Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2012

		Group		Bank	
		Half Year Ended		Half Year Ended	
	Note	30 June		30 June	
All amounts are expressed in K'000		2012	2011	2012	2011
Interest income	2(a)	371,009	330,553	371,009	320,244
Interest expense	2(a)	(34,207)	(39,544)	(33,566)	(35,600)
Net interest income		**336,802**	**291,009**	**337,443**	**284,644**
Fee and Commission income	2(b)	119,192	99,187	119,192	99,187
Other income	2(c)	192,949	185,191	123,195	94,124
Net operating income		**648,943**	**575,387**	**579,830**	**477,955**
Bad and doubtful debts (expense)/recovery	2(d)	(29,904)	(17,163)	(29,904)	(18,499)
Other operating expenses	2(e)	(345,533)	(335,269)	(278,315)	(238,450)
Operating profit before tax		**273,506**	**222,955**	**271,611**	**221,006**
Income tax expense		(69,493)	(64,407)	(69,356)	(63,792)
Profit for the period		**204,013**	**158,548**	**202,255**	**157,214**
Other comprehensive income					
Exchange difference - translation of foreign operations/subsidiaries		(1,063)	1,379	(1,061)	1,379
Net value gain on revaluation of assets subject to operating lease		12,296	657	12,296	657
Net value gain on revaluation of share options		845	-	845	-
Other comprehensive income, net of tax		**12,078**	**2,036**	**12,080**	**2,036**
Total comprehensive income for the period		**216,091**	**160,584**	**214,334**	**159,250**
Earnings per share (toea per share)					
Earnings per share -Basic and diluted (toea per share)		43.1	34.0	42.8	33.0

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

		Group		Bank	
		Half Year Ended	Year Ended 31 December	Half Year Ended	Year Ended 31 December
All amounts are expressed in K'000	Note	30 June 2012	2011	30 June 2012	2011
ASSETS					
Cash and balances with Central Bank		1,987,714	1,188,048	1,948,698	1,086,766
Treasury & Central Bank bills		3,681,962	3,316,410	3,681,962	3,316,410
Amounts due from other banks		180,611	313,410	180,611	313,410
Loans and advances to customers	4	4,526,395	4,300,913	4,469,925	4,235,974
Property, plant and equipment		677,470	622,903	653,388	597,522
Assets subject to operating lease		73,087	68,936	73,087	68,936
Other financial assets		1,503,782	1,352,601	1,342,781	1,268,801
Investment in associates		75,298	54,957	29,108	12,563
Investment in subsidiaries		-	-	215,517	215,517
Intangible asset		21,933	21,933	-	-
Investment properties		59,001	60,308	-	-
Deferred tax assets		138,616	87,625	137,918	87,336
Other assets		378,549	293,249	310,253	215,005
Total assets		**13,304,418**	**11,681,293**	**13,043,248**	**11,418,240**
LIABILITIES					
Amounts due to other banks		21,439	77,889	38,726	95,820
Amounts due to customers		10,654,884	9,366,281	10,724,627	9,446,389
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		900,746	628,871	507,584	220,910
Provision for income tax		111,953	77,961	111,951	73,684
Deferred tax liabilities		53,042	19,028	48,322	18,627
Other provisions		111,338	91,550	107,363	87,682
Total liabilities		**11,928,927**	**10,337,105**	**11,614,098**	**10,018,637**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

		Group		Bank	
		Half Year Ended	Year Ended	Half Year Ended	Year Ended
		30 June	31 December	30 June	31 December
All amounts are expressed in K'000	Note	2012	2011	2012	2011
SHAREHOLDERS EQUITY					
Ordinary shares		399,344	426,444	399,344	426,444
Assigned Capital-Fiji	5	-	-	24,882	24,882
Retained earnings		767,723	721,398	742,266	697,698
Other reserves		208,425	196,346	262,659	250,579
Total shareholders' equity		**1,375,491**	**1,344,188**	**1,429,151**	**1,399,603**
Total equity and liabilities		**13,304,418**	**11,681,293**	**13,043,248**	**11,418,240**

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2012

All amounts are expressed in K'000	Notes	Share capital	Assigned capital	Reserves	Retained earnings	Total
GROUP						
Balance at 1 January 2012		**426,444**	**-**	**196,346**	**721,398**	**1,344,188**
Other comprehensive income		-	-	12,078	-	12,078
Profit for the period		-	-	-	204,013	204,013
Dividend paid		-	-	-	(157,687)	(157,687)
Share buy back		(27,099)	-	-	-	(27,099)
Balance at 30 June 2012		**399,344**	**-**	**208,425**	**767,723**	**1,375,491**
GROUP						
Balance at 1 January 2011		**461,633**	**-**	**83,787**	**588,977**	**1,134,397**
Other comprehensive income		-	-	2,036	-	2,036
Profit for the period		-	-	-	158,548	158,548
Dividend paid		-	-	-	(149,845)	(149,845)
Prior year adjustments		-	-	(742)	(5,942)	(6,684)
Balance at 30 June 2011		**461,633**	**-**	**85,081**	**591,738**	**1,138,452**
BANK						
Balance at 1 January 2012		**426,444**	**24,882**	**250,579**	**697,698**	**1,399,603**
Other comprehensive income		-	-	12,080	-	12,080
Profit for the period		-	-	-	202,255	202,255
Share buy back		(27,099)	-	-	-	(27,099)
Dividend paid		-	-	-	(157,687)	(157,687)
Balance at 30 June 2012		**399,344**	**24,882**	**262,659**	**742,266**	**1,429,151**
BANK						
Balance at 1 January 2011		**461,633**	**-**	**69,339**	**578,372**	**1,109,344**
Other comprehensive income		-	-	2,036	-	2,036
Profit for the period		-	-	-	157,214	157,214
Assigned capital Fiji	5	-	95,839	-	-	95,839
Prior year adjustments		-	-	(39)	(5,943)	(5,982)
Dividend paid		-	-	-	(149,845)	(149,845)
Balance at 30 June 2011		**461,633**	**95,839**	**71,336**	**579,798**	**1,208,606**

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF-YEAR ENDED 30 JUNE 2012

		Group		Bank	
		Half Year Ended		Half Year Ended	
		30 June		30 June	
All amounts are expressed in K'000	Notes	2012	2011	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		377,754	303,079	377,099	303,079
Fees and other income		297,660	254,280	243,152	192,233
Interest paid		(38,797)	(37,946)	(38,152)	(37,568)
Amounts paid to suppliers and employees		(251,308)	(243,632)	(215,883)	(187,789)
Operating cash flow before changes in operating assets		**385,309**	**275,781**	**366,216**	**269,955**
Increase in loans		(256,024)	(89,221)	(263,856)	(94,797)
Increase in bills receivable and other assets		(98,318)	(40,587)	(98,318)	(40,587)
Increase in deposits		1,210,207	592,644	1,278,238	861,498
Decrease in bills payable and other liabilities		271,605	86,858	271,605	86,858
Net cash flow from operations before income tax		**1,512,779**	**825,475**	**1,553,885**	**1,082,927**
Income taxes paid		(52,031)	(41,556)	(51,921)	(41,532)
Net cash flow from operating activities		**1,460,748**	**783,919**	**1,501,965**	**1,041,395**
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in Government securities		(463,664)	(543,645)	(439,532)	(618,427)
Payments for property, plant & equipment		(78,693)	(83,119)	(77,164)	(80,028)
Proceeds from disposal of property, plant & equipment		1,236	3,228	1,034	3,212
Investments in associates		(16,545)	-	(16,545)	-
Movement in share trading activities		6,311	1,128	-	-
Net cash flow from investing activities		**(551,355)**	**(622,408)**	**(532,207**	**(695,243)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF-YEAR ENDED 30 JUNE 2012

		Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts are expressed in K'000	Notes	2012	2011	2012	2011
CASH FLOW FROM FINANCING ACTIVITIES					
Shares buy back		(27,099)	-	(27,099)	-
Proceeds of borrowings from related party		-	3,198	-	-
Proceeds of amount due to holding company		417	-	-	-
Dividends paid		(157,687)	(149,845)	(157,687)	(149,845)
Others		(3,140)	(2,324)	-	-
Net cash flow from financing activities		**(187,509)**	**(148,971)**	**(184,786)**	**(149,845)**
Net Increase in cash and cash equivalents		**721,883**	**12,539**	**784,971**	**196,306**
Effect of exchange rate movements on cash and cash equivalents		1,434	(6,920)	1,258	(4,891)
Cash and cash equivalent at the beginning of the period		1,423,569	1,320,452	1,304,356	1,009,811
Cash and Cash Equivalents at the end of the year	10	**2,146,886**	**1,326,071**	**2,090,585**	**1,201,226**

See accompanying Notes to the condensed consolidated financial statements

1. Statement of significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2011 financial report for the financial year ended 31 December 2011. These accounting policies are consistent with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

	Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts expressed are in K'000	2012	2011	2012	2011
Interest Income				
Domestic loans and advances	240,511	222,909	240,511	213,796
Public Securities: Treasury Bills/Inscribe stock	123,554	104,349	123,554	103,653
Offshore loans and advances	5,821	3,273	5,821	2,773
Other	1,123	22	1,123	22
	371,009	330,553	371,009	320,244
Interest Expense				
Current and term deposits	(25,313)	(38,782)	(25,313)	(35,589)
Other Borrowings	(4,642)	-	(4,642)	-
Deposits from other banks	(4,252)	(762)	(3,611)	(11)
	(34,207)	(39,544)	(33,566)	(35,600)
	336,802	291,009	337,443	284,644
(b) Fee and commission income				
Fees and commissions	119,192	99,187	119,192	99,187
(c) Other income				
Foreign exchange earnings	103,738	80,508	103,738	79,302
Other	89,211	104,683	19,458	14,822
	192,949	185,191	123,196	94,124
(d) Bad and doubtful debts (expense)/recovery				
Bad debts written off	(10,050)	(8,693)	(10,050)	(8,693)
Charge to doubtful debts provision	(28,410)	(18,670)	(28,410)	(20,006)
Recoveries	8,556	10,200	8,556	10,200
	(29,904)	(17,163)	(29,904)	(18,499)
(e) Other operating expenses				
Staff	(147,882)	(129,399)	(137,629)	(117,554)
Depreciation	(32,620)	(27,288)	(31,142)	(24,437)
Computing	(18,258)	(15,681)	(18,258)	(15,681)
Premises and equipment expenses	(25,300)	(34,697)	(25,300)	(34,697)
Administration and other expenses	(121,473)	(128,204)	(65,986)	(46,081)
	(345,533)	(335,269)	(278,315)	(238,450)

3. Dividends

On 18 May 2012, the directors declared a final dividend of 35 toea per share. The final gross dividend amount of K165.005m was declared. Net amount paid on the 14th June 2012 after deducting applicable taxes was K157.687m.

4. Loans and advances to customers

	Group		Bank	
All amounts expressed are in K'000	Half year ended 30 June 2012	Year Ended 31 December 2011	Half year ended 30 June 2012	Year Ended 31 December 2011
Gross loans and advances net of reserved interest	4,717,201	4,468,985	4,655,106	4,398,148
Allowances for losses on loans and advances	(190,806)	(168,072)	(185,181)	(162,174)
Net loans and advances to customers	4,526,395	4,300,913	4,469,925	4,235,974
Industry Concentration of loans and advances to customers				
Commerce, finance and other business	1,694,428	1,545,675	1,638,195	1,481,081
Private households	1,087,392	1,054,986	1,087,155	1,054,641
Government and public authorities	13,191	58,072	13,191	58,072
Agriculture	255,064	307,834	255,064	307,834
Transport and communication	626,532	550,568	626,532	550,568
Manufacturing	349,639	302,837	349,639	302,837
Construction	500,149	480,941	500,149	480,941
	4,526,395	4,300,913	4,469,925	4,235,974

5. Assigned capital

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

6. Capital Adequacy and Liquid Assets Ratio

The Bank and Group are required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2012, the Bank and Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

	Group		Bank	
	June 2012	Dec 2011	June 2012	Dec 2011
Risk Weighted Capital Ratios	%	%	%	%
Tier 1 Capital	14.5	13.8	15.6	13.8
Tier 2 Capital	8.8	10.4	8.8	10.4
Total	**23.3**	**24.2**	**24.4**	**24.2**

- The Bank and Group complies with the Minimum Liquid Assets 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 is now reduced to zero percent in accordance with Bank of Papua New Guinea ("BPNG") monetary policy statement issued in September 2010. As at 30 June 2012, the Bank and the Group's Liquid Asset Ratio was approximately 45.97% (30 June 2011: 45.21%).

- The CRR specifies that a Bank must hold an amount equal to 8% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and Group complies with this daily requirement on an ongoing basis.

7. Contingent Liabilities and Commitments

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

Commitments to extend credit represent the unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though 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 extend does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Off-balance-sheet Financial Instruments

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

	Group		Bank	
All amounts expressed are in K'000	Half Year Ended 30 June 2012	Year Ended 31 December 2011	Half Year ended 30 June 2012	Year Ended 31 December 2011
Standby letters of credit	54,063	57,678	54,063	57,678
Guarantees and indemnities issued	46,877	269,458	46,877	269,458
Trade letters of credit	100,674	118,751	100,674	118,751
Commitments to extend credit	1,474,419	643,791	1,474,419	643,791
	1,676,033	1,089,678	1,676,033	1,089,678

Commitments for Capital Expenditure

Commitments for Capital Expenditure not included in the accounts as at 30 June 2012 amounted to K37.85 million (31 December 2011: K39.56 million).

Legal proceedings

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 2012. 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 30 June 2012, the Bank and Group estimates a contingent liability of K57.682 million in respect of these proceeding (31 December 2011: K50.084 million).

Statutory Deposit

Cash reserve requirement – from 8% of all amounts due to customers in PNG	857,260	586,235	734,274	496,588

Operating Lease Commitments

	Group		Bank	
All amounts expressed are in K'000	Half Year Ended 30 June 2012	Year Ended 31 December 2011	Half Year Ended 30 June 2012	Year Ended 31 December 2011
Not later than 1 year	14,664	14,696	14,664	14,696
Later than 1 year and not later than 5 years	23,218	23,045	23,218	23,045
Later than 5 years	6,008	10,860	6,008	10,860
	43,890	48,601	43,890	48,601

8. Derivative Financial Instruments

In the normal course of trading, the Bank and Group enter into forward exchange contracts. The Bank and 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 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 30 June 2012, stated at the face value of the respective contracts are:

Forward exchange contracts				
Buying	(124,784)	(47,826)	(124,784)	(47,826)
Selling	57,700	55,821	57,700	55,821
	(67,084)	7,995	(67,084)	7,995

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

9. Related party

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

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

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

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

	Group		Bank	
All amounts expressed are in K'000	Half Year Ended 30 June 2012	Half Year Ended 30 June 2011	Half Year Ended 30 June 2012	Half Year Ended 30 June 2011
Loans to :				
Parties where the related party interest is primarily in shares	78,728	3,326	78,728	3,326
Parties where the related party interest is primarily in an executive capacity	87,736	182,094	87,736	182,094
General staff	30,523	15,645	30,523	15,645
All other related parties	23,594	28,355	23,594	28,355
All other related parties	220,581	229,420	220,581	229,420

10. Notes to condensed consolidated statements of cash flows

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

	Group		Bank	
	Half Year Ended 30 June		Half Year Ended 30 June	
All amounts expressed are in K'000	2012	2011	2012	2011
Cash and balances with Central Bank	1,987,714	1,062,048	1,948,698	957,224
Due from other banks	180,611	280,672	180,611	280,672
Due to other banks	(21,439)	(16,649)	(38,726)	(36,670)
	2,146,886	1,326,071	2,090,585	1,201,226

11. Segment information

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

All amounts expressed are in K'000

June 2012	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	177,260	305,742	62,786	1,686	14,716	86,753	648,943
Costs	(101,473)	(163,072)	(58,888)	(3,031)	(60,952)	11,979	(375,437)
Operating results	75,787	142,670	3,898	(1,345)	(46,236)	98,732	273,506
Income tax expense							(69,493)
Profit after tax							204,013

All amounts expressed are in K'000

June 2011	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	227,272	276,222	88,070	2,154	85,040	167,163	845,921
Costs	(239,829)	(91,718)	(84,437)	(4,869)	(101,411)	(100,702)	(622,966)
Operating results	(12,557)	184,504	3,633	(2,715)	(16,371)	66,461	222,955
Income tax expense							(64,407)
Profit after tax							158,548

12. Subsequent events

On 31 August 2012, the board approved an interim dividend of 20 toea per share on 2012 half year profits.