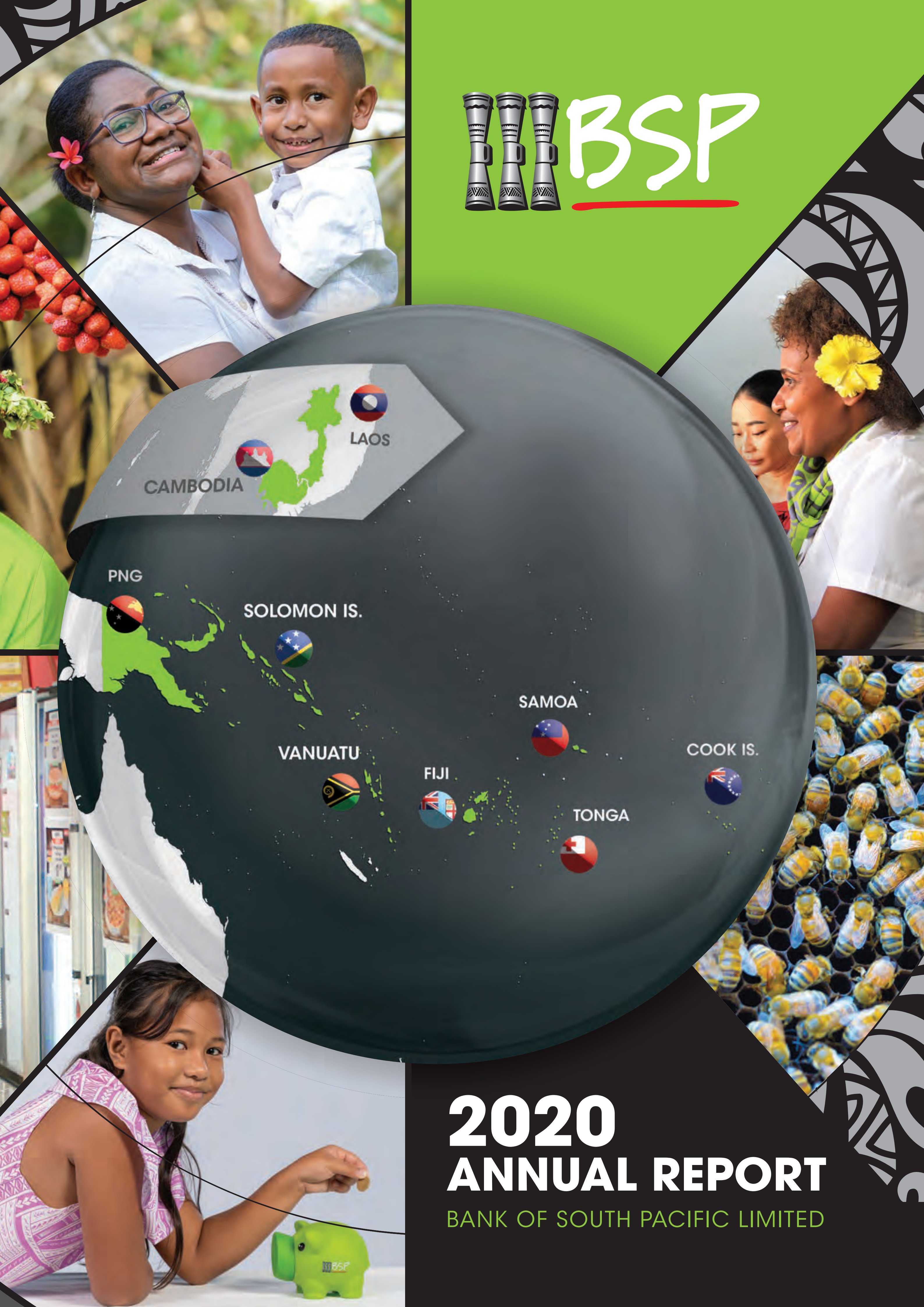


2020 ANNUAL REPORT

BANK OF SOUTH PACIFIC LIMITED

Our Vision

To be the leading financial services provider in our chosen markets helping customers, staff, shareholders and communities prosper.

OUR BANK OUR PEOPLE

Our Mission

To create value for our stakeholders by delivering innovative and cost effective financial services.

CONTENT

Sunset shot, Rabaul, East New Britain

Photo by Rocky Roe Photographics

OUR CORE VALUES

TEAMWORK
We work with, and for, each other; we progress together.

COMMUNITY
We respect, value and support the communities in which we operate.

PROFESSIONALISM
We commit ourselves to continual self-development to achieve standards of excellence in our performance.

QUALITY
We are commited to excellence whilst striving for continous improvement in products and services.

PEOPLE
We respect and value our people and our customers.

LEADERSHIP
We inspire, we change, and we live our values, and lead by example.

INTEGRITY
We are honest, committed, trustworthy and reliable in our dealings with our customers and each other.

Chairman's Report

Sir Kostas Constantinou, OBE

The majority of 2020 has been uniquely difficult for the customers and communities we serve. BSP, like most South Pacific businesses, has had to manage unprecedented disruption, without doubt the greatest since its landmark amalgamation in 2002.

While BSP and our people were confronted with a number of challenges in 2020, I am proud of how we responded, given the critical role we play in supporting South Pacific economies and our communities. Despite these challenges, BSP continued to perform well, experiencing a small decline (9.5%) in 2020 profitability to K806m. This strong profit result was achieved while we maintained capital discipline and prudent balance sheet management, ensuring our commitment to financial strength across all capital, funding and liquidity metrics. We finished 2020 with a capital adequacy ratio of 23.2% (2019 = 22.0%) and leverage ratio of 10.3% (2019 =10.5%), ratios that remain well in excess of the 12% and 6% prudential requirements respectively.

STRATEGY

As raised in last year's annual report, my fellow directors and I are pleased to report that BSP's diversification strategy initiated in 2015 continues to gather momentum. Today, less than three-quarters of BSP's profit is generated by our PNG banking operations, illustrating the strong progress our offshore branches and subsidiaries are making.

Our offshore banking business growth has continued, with five (5) of the six (6) operations now ranked "number one" in lending volumes in the countries they operate in, enhancing BSP's position as the South Pacific's leading bank.

Further, our Cambodia and Lao Asset Finance joint ventures are performing well and we anticipate future growth prospects in these markets. With our focus on delivering sustainable growth, we will continue to adopt a measured approach to exploring future asset finance growth opportunities within the Mekong Delta.

Given BSP's success to date, we will maintain this strategic direction and as advised in my October 2020 PNGX announcement, we have begun to assess a potential dual listing on the ASX. BSP's primary motivation for pursuing a listing on ASX is to gain access to new sources of capital. Despite BSP being listed on the PNGX since 2003, there are a number of natural market constraints that BSP faces in sourcing new forms of equity capital. Accordingly, BSP is considering an ASX listing as a means of mitigating some of these constraints.

An ASX listing will also facilitate increased liquidity for BSP's shareholders.

PREPARING FUTURE LEADERS

BSP's Leadership and Management Development Program (LMDP) has been in place since 2014 and identifies future leaders in emerging, developing and senior role categories for internal secondments and development training in Australia and Singapore to provide participants with the skills necessary to take on more senior roles within BSP.

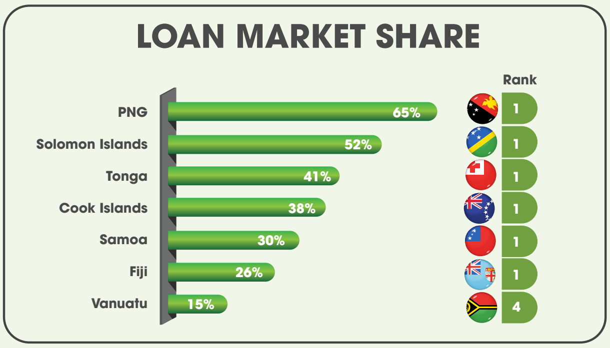
Pleasingly, all 33 LMDP participants successfully completed their online programs from the INSEAD and the Melbourne Business Schools. Further, seven (7) participants were provided opportunities to present to the Board during 2020.

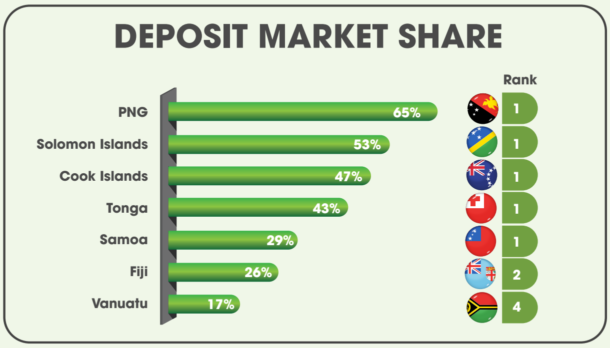
Notable LMDP participant promotions during 2020 included:

- Dennis Konu – Deputy General Manager Customer Experience & Retail Support
- Peter Komon – Deputy General Manager Retail Sales & Customer Service
- Raymond Logona – Senior Relationship Manager Corporate
- Bertha Auwi – Head of Paramount Banking
- Futua Singirok – Head of Financial Risk Management
- Kami Gawi – Head of Business Controllers
- Ngairinga Kotrine – Relationship Manager, Cook Islands
- Villiwalaka Roalakona – Head of Project Management Office

BOARD RENEWAL

Board renewal remains a continuing process and in April, we welcomed Priscilla Kevin, who joined as a BSP Director. Priscilla is an IT professional and entrepreneur specialising in Enterprise Resource





Planning (ERP) Support Advisory. She has been an Independent Committee Member of the BSP Board Risk & Compliance Committee since 2018.

Priscilla's appointment maintains the Board's diversity, as she replaces Freda Talao who resigned at the end of 2019 having served her term under the Bank of PNG guidelines.

In July we farewelled Augustine Mano, who resigned as a BSP Director after almost six years. Augustine Mano served the Board with distinction and his insightful contributions and understanding of the oil and gas sector in PNG were invaluable.

In December, Frank Bouraga was appointed to BSP's Board. Frank is a CPA-PNG qualified Professional Accountant with over 25 years in accounting practice presently being Partner Assurance and Business Advisory with SBC Solutions. Prior to SBC Solutions, Frank was the Country Managing Partner for Ernst & Young PNG for 5 years as an audit and business advisory services partner. He also worked with PWC for over 7 years and was previously with Star Business Consultants between 2004 and 2011.

Frank has been an Independent Committee Member of BSP's Board Audit Committee since October 2018.

FINANCIAL PERFORMANCE

Our revenue performance was slightly down compared to prior year with a small (1.2%) decrease in income to K2.15 billion. However, the result was not unexpected, given COVID-19 economic and operational impacts, coupled with delays to key domestic resource projects producing a challenging period for PNG, our largest market. Recognising this challenge, cost control measures were employed that reduced operating expenditure by 2.0% to K803 million in 2020.

An increase in loan impairment expenses to K201 million in 2020, which were predominantly COVID-19 related, was the key reason for BSP Group's net profit after tax decreasing by 9.5% over the previous year, falling to K806 million from 2019's profit of K890 million.

OUTLOOK

The global roll out of COVID-19 vaccinations during 2021 will permit some degree of normalcy to international travel which will provide much needed support for the hotel and airline industries and will stimulate the PNG economy and economies across the Pacific.

The recent announcements from Total and the PNG government confirming Papua LNG will be progressing in early 2021 will benefit many and permit businesses to commence planning for future LNG related activity.

With the vaccine rollout, Papua LNG announcement, coupled with Porgera mine and Wafi-Golpu (K18.4b) negotiations progressing well, we are expecting a much-improved 2021 on the back of these major projects proceeding in the near term.

Given the above, the Board and myself are confident BSP will have the economic conditions, people and financial strength to execute effectively against its strategy.

Finally, on behalf of the Board, I would like to thank our more than 4,300 people for their hard work in arguably our most challenging year and how they responded admirably to the benefit of our customers, community and shareholders.

Sir Kostas Constantinou, OBE
BSP Group Chairman

A brief history of BSP

BSP is the leading bank in PNG and has a long and proud track record of serving the needs of customers in PNG and other countries across the South Pacific. BSP's operations date back to 1957, when it was founded in Port Moresby as a branch of National Bank of Australasia Ltd. In 1993, a consortium of PNG businesses acquired the bank and created the first and only PNG private sector owned bank at that time.

BSP merged with the state-owned Papua New Guinea Banking Corporation (PNGBC) in 2002, creating the largest bank in PNG. Other acquisitions followed, including Habib Bank in Fiji in 2006, National Bank of Solomon Islands in 2007 and Colonial National Bank and Colonial Fiji Life Insurance businesses in 2009. In 2015 and 2016, BSP completed the acquisition of Westpac's operations in Cook Islands, Samoa, Solomon Islands, Tonga and Vanuatu, significantly expanding and strengthening BSP's geographic reach. In 2014, BSP Finance was launched in Fiji then in PNG in 2015, followed by Cambodia and Solomon Islands in 2017 and Lao in early 2020.

BSP Life PNG commenced its operations in January 2018.

Today, BSP continues to be a leading force in PNG and the South Pacific markets with the largest branch network, and is a pioneer in bringing financial innovation and technology to the region.

Our reach in the Asia-Pacific Region

77 Branches

201 Agents

40 Sub-Branches

4,000+ Staff

554 ATMs

11,033 EFTPoS

Key milestones in BSP's development

1957 — Commenced operations in Port Moresby in May 1957 as a branch of National Bank of Australasia Ltd.

1974 — BSP incorporated as Bank of South Pacific Ltd, a wholly owned subsidiary of the Australian parent.

1993 — National Investment Holdings Ltd, a nationally owned company, acquired BSP from National Australia Bank.

2002 — Merged with the state owned Papua New Guinea Banking Corporation (PNGBC).

2003 — BSP is listed on the Port Moresby Stock Exchange.

2006 — Established a presence in Fiji through the acquisition of Habib Bank Ltd's Fiji operations, which were rebranded to BSP.

2007 — Acquired the National Bank of Solomon Islands Ltd and rebranded to BSP.

2009 — Acquired Colonial National Bank and Colonial Fiji Life Insurance Ltd from Commonwealth Bank of Australia and rebranded to BSP and BSP Life, respectively.

2014-2015 — Commenced BSP Finance (Fiji) Ltd in 2014 and commenced BSP Finance (PNG) Ltd in 2015.

2015-2016 — Acquired Westpac's operations in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu.

2017 — Commenced Asset Finance operations in Cambodia in May 2017 (rebranded to BSP Finance Cambodia Ltd in January 2018) and commenced BSP Finance (Solomon Islands) Ltd in September 2017.

2018 — Commenced a life insurance business in Papua New Guinea on January, 2018.

2020 — Asset Finance Business established in Lao in 2020.

Board of Directors

SIR KOSTAS G. CONSTANTINOU, OBE

Chairman. Non - Executive Director since April 2009. Appointed Chairman February 2011.

Sir Kostas is a prominent business figure in Papua New Guinea (PNG), holding a number of high level public sector and private sector appointments. He is Chairman of various companies, including Airways Hotel and Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Bank of South Pacific Ltd and Air Niugini Limited. He is a Director of Alotau International Hotel, Gazelle International Hotel in Kokopo, Loloata Island Resort Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, OPH Ltd, Rangeview Heights Ltd in Papua New Guinea, Heritage Park Hotel in Solomon Islands, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Oil Search Ltd. Sir Kostas is also Vice President of the Employers Federation of PNG, Honorary Consul for Greece and Cyprus in Papua New Guinea and Trade Commissioner of Solomon Islands to PNG.

ROBIN FLEMING, CSM, MBA, MMGT

Group Chief Executive Officer. Director since April 2013.

Robin Fleming was appointed GCEO of Bank of South Pacific Ltd in April 2013. Before his appointment as GCEO, he had been Deputy GCEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNGBC, Mr Fleming held senior management roles with PNGBC. He has worked in PNG for over 35 years and holds an MBA and a Master of Management from Charles Sturt University. Mr Fleming was made a Companion of the Star of Melanesia (CSM) in 2015 by the PNG Government for services to banking and the community.

ERNEST BRIAN GANGLOFF, CPA, MAICD, MIIA, PNGID

Non - Executive Director. Director since November 2013.

Ernest Gangloff is an Accountant, registered with CPA PNG and the Accountants' Registration Board. Ernest has extensive experience in the areas of risk management, internal audit and corporate governance. He has over 30 years professional experience with over 15 years in senior management positions. Mr. Gangloff retired as Partner with Deloitte in May 2013, and established Gangloff Consulting in June 2013. Mr Gangloff is an Adjunct Professor of Accounting at the University of Papua New Guinea and specialises in Risk Management and Governance.

ROBERT BRADSHAW, LLB

Non - Executive Director. Director since September 2017

Robert Bradshaw was appointed to the BSP Board in September 2017. He is a Lawyer by profession, admitted to practice law in Papua New Guinea (PNG) in 1995. Mr Bradshaw holds a Bachelor of Laws from the University of PNG and has practised law for over 20 years. He was formerly a Partner in the firm Blake Dawson Waldron (now Ashurst). He commenced practice on his own as Bradshaw Lawyers in 2005. Mr Bradshaw has been involved in different areas of law, particularly in resource development, industrial relations, banking and finance and commercial litigation.

GEOFFREY J. ROBB, BA, MBA, OAM, MAICD, GAICD

Non - Executive Director. Director since April 2012.

Geoffrey Robb is a highly qualified and experienced banker, having occupied several senior executive positions including Head of Resource Finance at Bank of America, Global Head of Acquisition Finance and Head of Complex and Strategic Transactions with ANZ Banking Group. As Head of Bank of America in Melbourne, he led resource financings with BHP, CRA, Elders Resources, Bougainville Copper, Ok Tedi and Porgera. He holds MBAs from the International Management Institute Geneva and Macquarie University. Mr Robb has travelled extensively in emerging markets and has received the Medal of the Order of Australia for his services to mountaineering and charity. He is also on the Board of BSP Capital Ltd and Bank South Pacific Tonga Ltd.

Board of Directors
(continued)

FAAMAUSILI DR. MATAGIALOFI LUA'IUFI, BA, MSC, PhD

Non - Executive Director. Director since December 2016.

Faamausili Dr M. Lua'iufi is an experienced Public Sector practitioner and consultant. She holds a PhD in Management, an MSc in Management Sciences and a BA in Sociology and Political Science. Prior to establishing her own consultancy firm in late 2008, she worked in the Samoa Public Service Commission Office for 25 years, almost 12 of those years as Chief Executive Officer. Under her stewardship, the Samoa Public Service undertook various change management programmes to improve service delivery. Faamausili served in many Government SOE Boards in her capacity as CEO.

Since becoming a consultant in late 2008, she has performed more than 50 consultancy assignments in the domains of Human Resources Management, Organisational Development, Performance Management and Governance. She has performed consultancies in just about every Pacific island country and also worked very closely with most Pacific Island countries when she was a CEO. Currently a Councilor, member of the Executive Committee and member of the Finance Committee of the National University of Samoa. She is a Director of the Bank of South Pacific Board and a member of the Remuneration and Nominations Committee. She is a member of the Australian Institute of Company Directors, member of the PNG Institute of Directors, Samoa Institute of Director and Samoa Human Resource Institute. She was the Pacific Residential Scholar (2007-2012) of the Australia New Zealand School of Government (ANZSOG) responsible for the development of emerging young Pacific Public Sector leaders.

ARTHUR SAM, BComm, CPA, MAICD, GAICD

Non - Executive Director. Director since 2016.

Arthur Sam is a qualified and experienced accountant, registered under CPA PNG. He holds a Bachelor of Commerce from the University of Papua New Guinea, and is a graduate of the Australian Institute of Company Directors. He is the Audit and Managing Partner of Sam Kiak Tubangliu Certified Practising Accountants. Mr Sam previously worked with global accounting firms PricewaterhouseCoopers, Deloitte and Ernst & Young in managerial roles specialising in external and internal audit and risk management. Prior to joining the Board of BSP, he served on the NASFUND Board Audit and Risk Committee and the PNG Accountants Registration Board. Mr Sam is also the Chair of the Board Risk Committee.

STUART DAVIS, LLB, GAICD

Non - Executive Director. Director since August 2017

Stuart Davis is currently a Non-Executive director and Chairman of the Audit and Risk Committee of ASX 200 company NextDC Ltd, which builds and operates Data Centres in Australia, Non-Executive Director and Chairman of the Risk Committee of PayPal Australia Ltd, and Non-Executive Director and member of the Board Audit and Compliance Committee and Board Risk Committee of Bank South Pacific. Mr Davis previously was CEO of HSBC Bank in India from 2009 to 2012, one of the largest foreign banks in India with staff of 8,000 and pretax earnings in excess of USD 800 million. Prior to that appointment, he was CEO of HSBC Bank in Australia from 2002 to 2009 and CEO of HSBC in Taiwan from 1999 to 2002, having joined the HSBC Group in 1981. Mr Davis previously served as a member of the Australia Bankers Association from 2003 to 2009, being Deputy Chairman from 2006 to 2009, was Chairman of the British India Chamber of Commerce in Mumbai and Chairman of the Taiwan British Chamber of Commerce in Taipei. He holds a Bachelor of Law Degree from the University of Adelaide and is a Graduate of the AICD.

PRISCILLA KEVIN, BSCS, MAICD

Non - Executive Director. Director since April 2020

Priscilla Kevin is an IT professional and entrepreneur specialising in Enterprise Resource Planning (ERP) Support Advisory. Ms Kevin has over 15 years ICT industry experience providing ICT consultancy and support to a range of businesses as well as government bodies. Since 2018, Ms Kevin served as an Independent Committee Member (ICM) of the BSP Board Risk Committee.

She holds a Bachelor's Degree in Computer Science from PNG University of Technology and is an advocate and founder for PNG Women in STEM & Digital ICT Cluster Org promoting local talent, entrepreneurship, investment and innovation.

FRANK BOURAGA, CPA, MAICD

Non - Executive Director. Director since December 2020

Frank Bouraga is a CPA-PNG qualified Professional Accountant with over 25 years in accounting practice presently being Partner Assurance and Business Advisory with SBC Solutions. Prior to SBC Solutions, Frank was the Country Managing Partner for Ernst & Young PNG for 5 years as an audit and business advisory services partner. He also worked with PWC for over 7 years and was previously with Star Business Consultants between 2004 and 2011.

Frank Bouraga has been an Independent Committee Member of BSP's Board Audit & Compliance Committee since October 2018.

Group CEO's Report

Robin Fleming, CSM
Group Chief Executive Officer

2020 was a most difficult year for all countries and businesses globally and Papua New Guinea and the South Pacific countries in which BSP operates were no exception. BSP's 2020 financial results have been influenced by the impact of COVID-19 on our customers and our staff. Net Profit after tax for the group was K806.2m which was 9.5% lower than 2019 directly as a result of COVID-19. Dealing with the implications of the global transmission of COVID-19 was both a major challenge for BSP, but also one of our achievements for the year. The travel and movement restrictions that were introduced by most countries worldwide and all countries in which BSP operates had financial implications for many of our Corporate and Retail customers and BSP was able to respond with support packages of varying terms and periods for those customers who were affected.

In PNG, following a reduction of 2% in the Bank of PNG monetary policy signaling rate, the Kina Facility Rate (KFR), as a Government led stimulus support measure, BSP reduced its Indicator Lending Rate by 1% across all variable rate loan products and every new fixed rate loan product funded after 1 April 2020. The transmission effect of the change in the (KFR) is minimal, however the clear intent of the Bank of Papua New Guinea and the Government was for commercial banks to provide support for borrowers with a lower cost of borrowing and also some form of repayment relief.

BSP was the only bank in PNG to reduce its interest rates across all its lending products. This came at the cost of interest income but it was a strong measure of support for our customers by BSP. We were able to keep all our branches and sub branches open during the state of emergency and customers were able to have access to their funds despite many movement restrictions, and in some provinces, restrictions on operating hours. BSP also provided support to our staff with Personal Protective Equipment (PPE) and preservation of employment at a time when other businesses looked to scale back employment and remuneration conditions and reduce costs.

Giving regard to the poor transmission effect of the KFR, the Bank of Papua New Guinea also lowered the Cash Reserve Requirement (CRR) which is a monetary policy tool to reduce the levels of surplus liquidity in the system (calculated as a percentage of each bank's total deposits) from 10% to 7%. As the deposits maintained in the CRR earn zero interest, by lowering the CRR banks were able to address any liquidity risk that may have occurred as business conditions became more difficult and to invest surplus liquidity with the Government in higher yielding Covid Bonds.

	2020	2020 vs 2019
Profit [NPAT, Km]	806	-9.5%
Net assets [Kb]	3.4	+10.2%
Cost-to-income ratio [%]	37.4	- 33 bps
Capital adequacy ratio [%]	23.2	+ 120 bps
Earnings per share [toea]	172.6	- 9.4%
Dividend per share [toea]	121.0	- 12.9%
Market Capitalisation [Kb]	5.6	+1.9%

In Papua New Guinea the main sectors affected by COVID-19 were hotel, transport, retail and the oil and gas sector. With severe restrictions on international travel, airlines revenues contracted significantly as did hotel occupancies. The Retail sector experienced lower sales during the periods of curfews and restrictions on movement and gatherings of people, and the oil and gas sectors saw the prices of their commodities fall to historic lows as supply far exceeded demand.

Cook Islands, Fiji, Samoa, Solomon Islands, Tonga and Vanuatu all saw their tourist arrivals cease overnight which had broad based flow on effects to all sectors in their economies, and unemployment increased. Fiji in particular experienced a significant drop in economic output and GDP fell by almost 20%. There were varying ranges of GDP reductions in other countries but

"BSP was the only bank in PNG to reduce its lending interest rates across all its lending products. This came at the cost of interest income but it was a strong measure of support for our customers by BSP" Robin Fleming, CSM, Group Chief Executive Officer.

the common theme was contraction in most sectors, lower employment and Government and Central Bank encouragement for banks to support customers. Cambodia and Lao were also affected but were somewhat more resilient.

BSP's support for borrowers across all countries, in consultation with central banks, involved 3 months repayment holidays for customers directly affected by COVID-19. For certain customers in sectors more significantly impacted by COVID-19, interest was capitalised for specific periods and for other customers the repayment relief periods extended beyond 3 months if central banks supported these measures. Our message to borrowers was that BSP would provide support with repayment relief, but this was time bound and finite, and it was in the interests of both lender and borrowers that in time relief was regularised with commencement of repayments once cashflow permitted.

In large part the majority of borrowers were able to resume normal loan repayments by the end of 2020. There were some exceptions for sectors more severely affected and in some countries, again with the support of central banks, whilst repayment support was provided, BSP also undertook regular and ongoing portfolio reviews and adopted a balanced approach to credit provisions, with additional provisions taken up to reflect the change in risk profile of a number of our borrowers. These additional provisions were taken up in large part at the half year review and further assessments of adequacy of provisions was undertaken in the final quarter for all countries.

Under the circumstances, BSP's 2020 financial performance was therefore much better than would have been contemplated at the beginning of the year, when the COVID-19 pandemic struck. Corporate banking in PNG especially, but also in most other countries, continued to increase market share and our relationship management teams maintained close and continuous contact with our customers. BSP PNG continues to be the dominant bank in the country with a lending market share of 65% and in each of the other countries we have market share of 38% in Cook Islands, 26% in Fiji, 30% in Samoa, 52% in Solomon Islands, and 41% in Tonga. Our Vanuatu business at 15% continues to progress strategies focused on domestic currency lending to increase their market share.

Retail in every country was at the forefront of direct customer support throughout the year, and this was all the more evident during the COVID-19 curfew and movement restriction periods. Personal protective equipment was supplied to staff and social distancing protocols introduced in and around our branches. In certain towns in Papua New Guinea, including Port Moresby, there were movement restrictions as well as temporary bans on public transport. Accordingly, BSP hired buses to transport staff to and from work, with the buses operating in accordance with limitations on the numbers of people permitted in buses. In Port Moresby business continuity was enhanced with key operational staff being segregated from our Waigani Head Office and temporarily located at a commercial site leased specifically for the COVID-19 BCP. This also permitted more effective social distancing in our many head office departments.

Our staff were most supportive of BSP's efforts to maintain banking services to as many people as possible during the year, but especially during the COVID-19 lockdown and State of Emergency periods that accompanied COVID-19 related health and biosecurity measures. Equally BSP recognised the need to provide additional support to our staff, over and above work place health and safety measures, such as personal protective equipment (masks and gloves), sanitisers and social distancing. Specifically, BSP preserved all staff benefits, maintained staffing levels, provided flexibility for sick leave without normal medical documents and took external environmental factors outside of the control of management into consideration when assessing short term incentive payments for staff.

The other important component of our COVID-19 support relates to shareholders and dividends. Our board deliberated at some length on the issue of dividend payments, as the timing of the dividend decision coincided with guidance advices by various banking regulators that capital soundness should take priority over dividend payments. When considering the payment quantum, our board took into account the fact that the dividend related to a final dividend for a 31 December 2019 financial year, which predated COVID-19, that the Bank was well capitalised with total risk weighted capital of K3.095bn or 23.2%, and that the dividend payment to shareholders would also be a form of stimulus at a time of reduced economic activity.

Group CEO's Report
(continued)

Our staff were most supportive of BSP's efforts to maintain banking services to as many people as possible during the year.

Retail in every country was at the forefront of direct customer support throughout the year, and this was all the more evident during the COVID-19 curfew and movement restriction periods.

A final dividend of 96 toea per share was approved by the board taking the total dividend payout to 70.6% which was just within the dividend policy range of 70% to 75% of prior year earnings. Total dividends paid were K569.4m with a dividend yield of 11.17%. With a shareholder base that is almost 90% Papua New Guinean and includes Kumul Consolidated Holdings (18.1%), each of the three superannuation funds in PNG being Nambawan Super (12.1%), Nasfund (9.7%), Comrade Trustees (2.7%) as well as Fiji National Provident Fund (8.7%), Solomon Islands National Provident Fund (0.5%) and Samoa Provident Fund (0.6%) many workers around the Pacific benefit from BSP's financial performance and dividend distributions.

COVID-19 also added to delays to the implementation of our Oracle banking system. This multi-year, multi-country project was immediately impacted by international travel restrictions which prevented our offshore based consultants and vendors from being able to travel to and from Papua New Guinea as frequently as would normally be required with a project of such significance. Like all businesses we were able to take advantage of video conferencing and other similar technology to maintain progress with the project, but the effectiveness of offshore support was not at the level required to prevent timeline slippage. Our BSP Core Banking project team progressed with online training and process familiarisation and walk throughs with our staff in Vanuatu in anticipation of a Vanuatu go live in the first half of 2021.

For many years now BSP has been at the forefront of development of digital products that provide customers with the option to do more of their banking transactions outside of a branch. With the social distancing that accompanied COVID-19 health security measures, more of our customers took up this option and our mobile banking transactions increased year on year by 18.1m (102.8m) which represents a 21% uplift.

BSP's Digital SBU also progressed substantively a fintech joint venture with our technical partners Truteq that will deliver BSP the capability to offer our retail customers access to online services with BSP merchants without the need to have a scheme card. This development will open up online business

BSP started a Black Thursday support campaign for survivors of family sexual violence.

At an executive level in 2020, Group CFO Eddie Ruha, Group COO Robert Loggia and Group GM Retail Paul Thornton all retired. Each contributed significantly to BSP's performance. Pictured, Retail staff at Paul Thornton's farewell.

trading for many BSP merchants and expand the offering to an exponentially larger market of BSP customers. Our Digital team also delivered a payment solution for our smaller merchants that offers payment using the SMS messaging capability of BSP's mobile banking platform, which in a country that still has low levels of smart phone usage, provides more access to cashless digital banking.

At an executive level during the year our Group CFO Eddie Ruha, Group Chief Operating Officer Robert Loggia and Group General Manager Retail Paul Thornton all retired after 8, 10 and 10 years respectively. Each of them contributed significantly to BSP's performance and growth during their time with BSP and we thank them for their commitment to BSP.

We were very fortunate to benefit from an approach to succession planning that enabled BSP to select capable replacements internally with Ronesh Dayal being appointed to Group Chief Financial Officer, Frank Van Der Pol to Group Chief Operating Officer and Daniel Faunt to Group General Manager Retail. Kili Tambua was appointed to the role of General Manager Offshore Branches to fill the role vacated by Daniel Faunt. It is worth special mention that the management of the Retail SBU is now fully Papua New Guinean with Daniel as General Manager and his Deputy General Mangers Dennis Konu and Peter Komon.

Kili Tambua, Dennis Konu and Peter Komon have all benefited from participation in BSP's Leadership Management Development Program, which has the objective of identifying future leaders within BSP and providing them with leadership and specialist skills training to assist them meet their career goals and also to improve BSP's succession planning capabilities. During the course of this program that was initiated in 2015, 66 staff have participated in the program, with 30 male and 36 female and 32 staff (17 females and 15 males) have received internal promotions either during or after participation in the leadership program which reflects positively on development of the future leaders of BSP.

BSP's involvement in the community continued with 62 projects across the region completed in 2020 with a theme of supporting hospitals, education with digital literacy and following COVID-19 supplementary assistance on washing hygiene. Every branch participated in the projects and these greatly benefited the communities we operate in. Following a high profile gender-violence based death in PNG in the middle of 2020, BSP started a Black Thursday support campaign for survivors of family sexual violence, which includes counselling and in need access to a safe house by way of the Bel Isi program which BSP is a founding member. Advocacy of positive community attitudes is important to BSP and our staff that have embraced the initiative wholeheartedly across the group.

Our board led by our Chairman Sir Kostas Constantinou maintained effective oversight of BSP's operational performance, risk management systems and governance whilst also ensuring the board determined strategic objectives for BSP were actively monitored and managed. Their guidance and support, which in the immediate COVID-19 period involved far more regular video board and committee meetings, greatly assisted with BSP's achievements in 2020.

In closing, our staff in all of our businesses and each of the countries in which we operate, are to be congratulated for their efforts and support in delivering a sound financial outcome in what was an unprecedented year.

Robin Fleming, CSM
Group Chief Executive Officer

Digital Banking

Our Digital team also delivered a payment solution for our smaller merchants that offers payment using the SMS messaging capability of BSP's mobile banking platform, which in a country that still has low levels of smart phone usage, provides more access to cashless digital banking.

South Pacific market leader

We continue to grow and build scale in pursuit of sustainable market leadership

LENDING

K13.5b
In lending

DEPOSIT

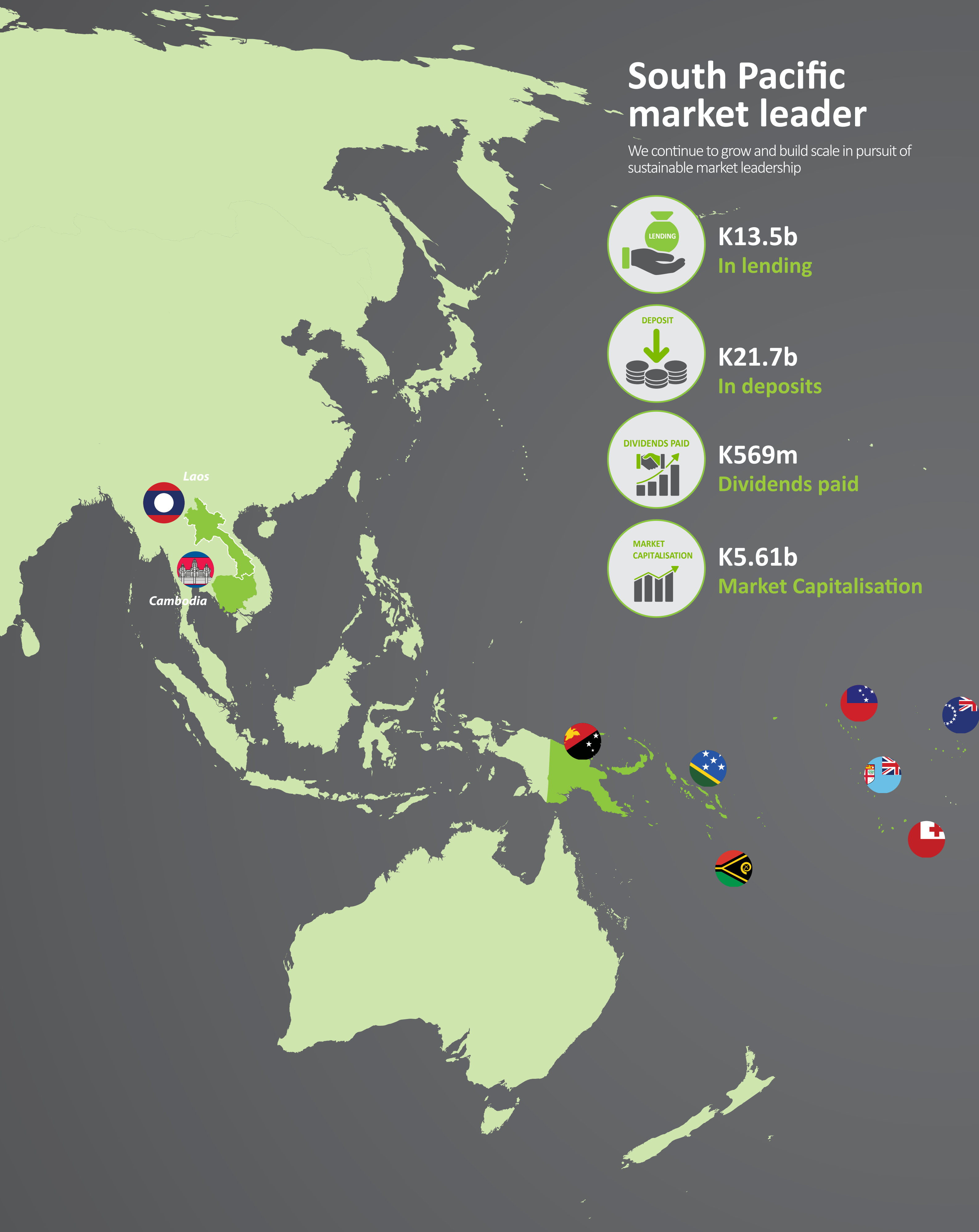
K21.7b
In deposits

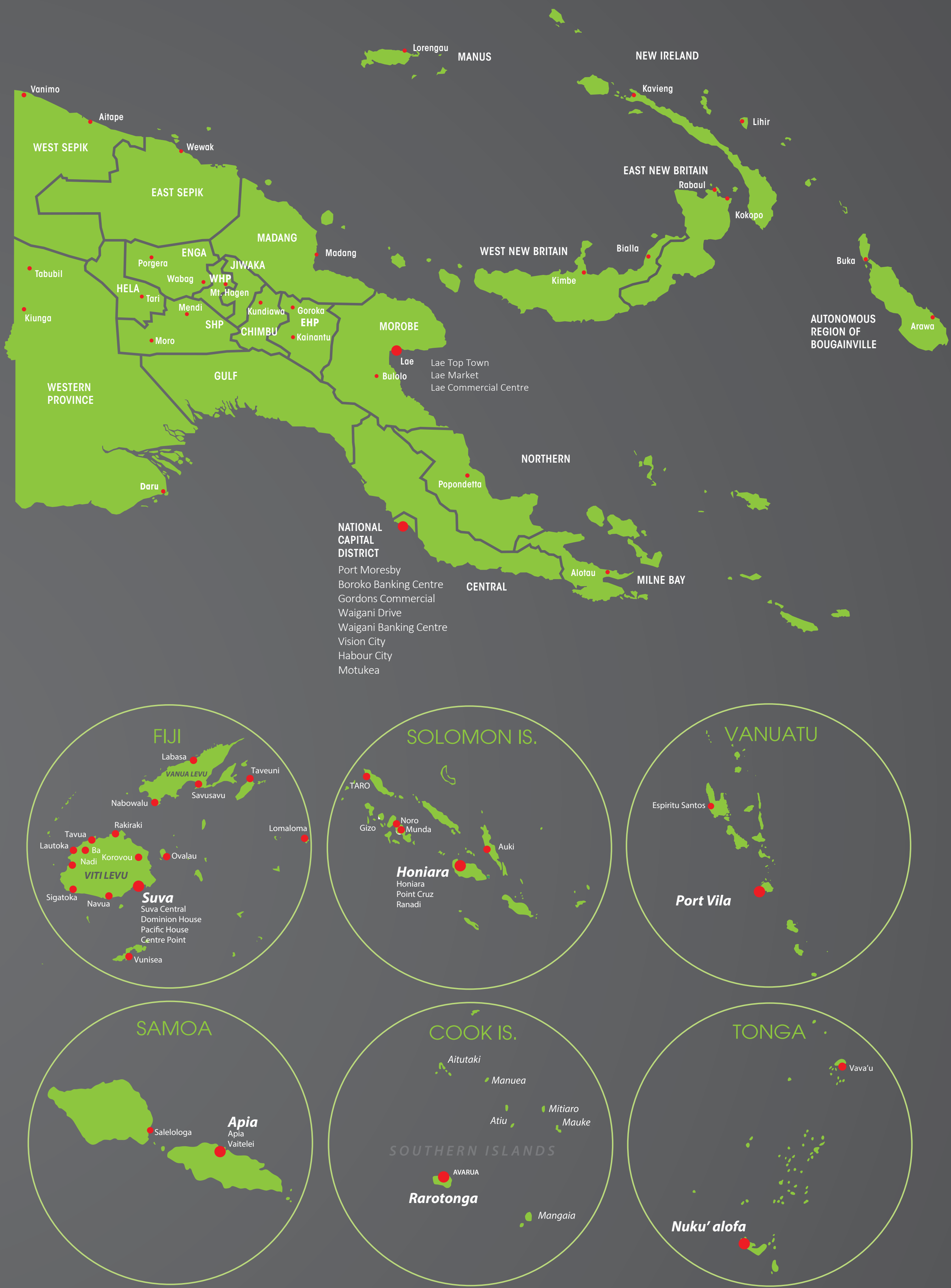
DIVIDENDS PAID

K569m
Dividends paid

MARKET CAPITALISATION

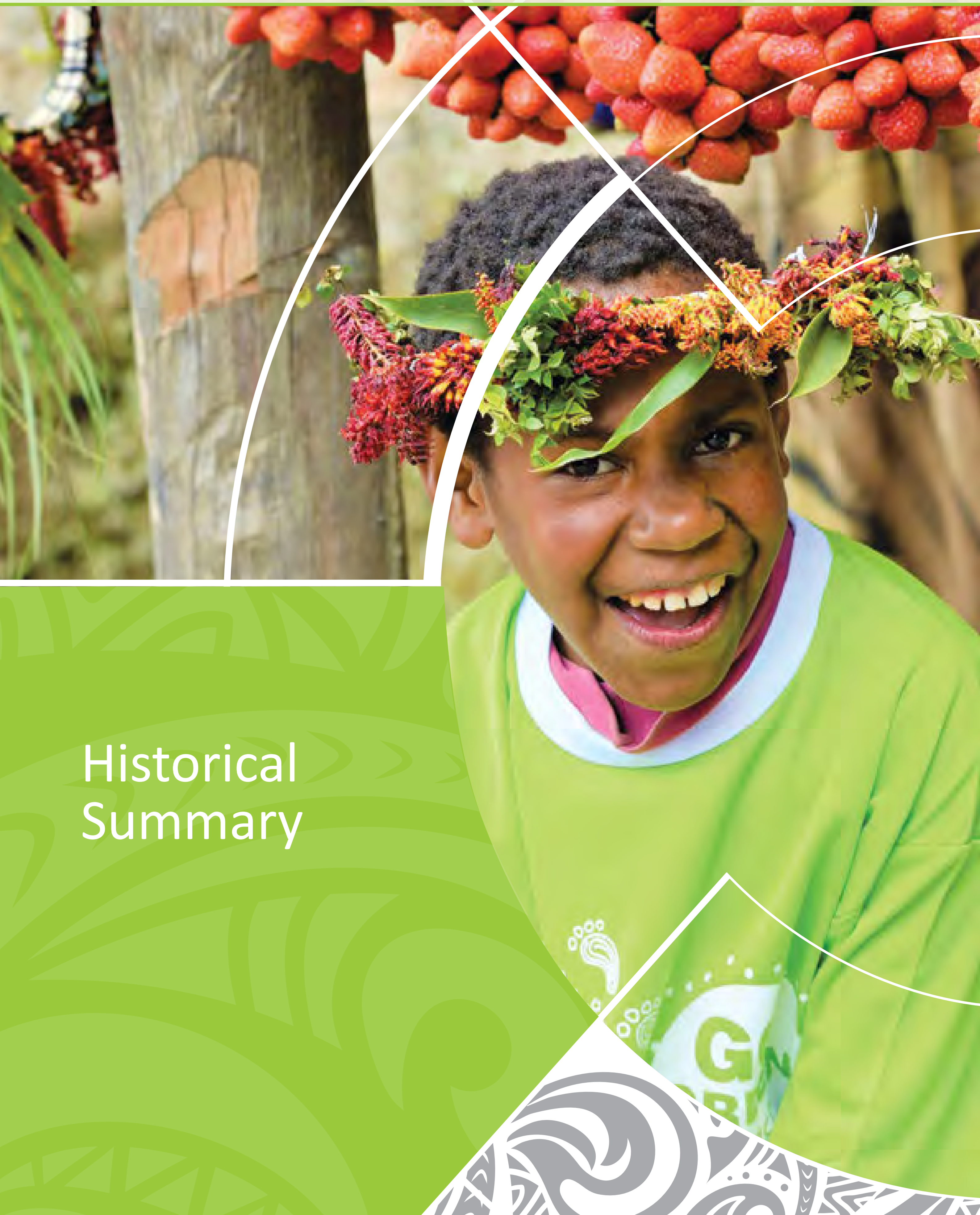
K5.61b
Market Capitalisation





MAP KEY

BSP Branch



Historical Summary

BSP Group NPAT

K806.2m

9.5% decrease from 2019

Dividend paid per Share

K1.21

12.9% decrease from 2019

Capital adequacy

23.2%

120 bps increase from 2019

Profit and Loss (K'000)	2017	2018	2019	2020
Net interest income	1,277,676	1,380,796	1,391,784	1,447,012
Non interest income	720,674	784,909	779,566	698,638
Bad and doubtful debt (expense)/ recovery	(77,678)	(82,440)	(99,183)	(201,273)
Other operating expenses	(852,148)	(887,097)	(819,248)	(802,542)
Operating Profit	1,068,524	1,196,168	1,252,919	1,141,835
Profit before tax	1,068,524	1,196,168	1,252,919	1,141,835
Income tax expense	(311,521)	(352,096)	(362,556)	(335,617)
Profit/(loss) after tax	757,003	844,072	890,363	806,218
Dividends (toea)				
Dividends paid per share[1]	111.0	127.0	139.0	121.0
Balance Sheet (K'000)				
Net loans and advances	11,209,493	12,530,649	13,200,807	13,506,660
Total assets	22,369,861	23,081,223	24,527,118	27,523,437
Deposits	17,901,692	18,232,766	19,339,056	21,654,024
Capital	2,628,335	2,872,135	3,117,033	3,433,605
Performance Ratios				
Return on Assets	3.5%	3.7%	3.7%	3.1%
Return on Equity	30.6%	30.7%	29.7%	24.6%
Expense/Income	42.6%	41.0%	37.7%	37.4%
Key Prudential Ratios				
Capital adequacy	24.5%	22.9%	22.0%	23.2%
Liquid Asset Ratio	36.9%	33.6%	30.0%	32.6%
Leverage ratio	10.0%	10.3%	10.5%	10.3%
Exchange rates (One (1) PNG Kina buys):				
US Dollar	0.3095	0.2970	0.2935	0.2850
AUS Dollar	0.3965	0.4208	0.4188	0.3700

[1]BSP has adopted the practice of paying an interim dividend based on half year results, in October of each year, and paying a final dividend based on audited full year results, after the end of the financial year, and no later than the end of the second quarter of the succeeding year.

Contributions by BSP to PNG

Taxes paid to PNG Government

K295m

Income Tax Payment (2020)

All Amounts are expressed in K'000	2017	2018	2019	2020
Company income taxes paid to PNG Government	257,210	354,947	361,987	294,695
Other taxes paid to PNG Government (IWT, FCWT, BWT)	8,214	10,018	16,872	9,327
GST paid and not able to be recouped	22,101	25,337	15,821	14,519
Donations and Sponsorships	5,217	6,482	5,581	3,839
Total	**292,742**	**396,784**	**400,261**	**322,380**

Group Highlights

BSP's involvement in the community continued with 62 projects across the region

Sales

Retail Banking | Corporate Banking | Digital | Treasury

12 Million
Digital Transactions

- **88%** of total transactions were via digital channels.
- **64%** via mobile phones.

135,000
New Customers

- Growth geographically widespread

44%
Increased FX Market Share in PNG

- Banks FX Turnover increased by 5% in 2020
- BSP Group FX turnover fell 0.5%, while PNG's FX market turnover contracted by 2.1%

2.5 Million
BSP Account Holders

- Over 25,000 SME Accounts
- 3 SME Banking Centres

RETAIL BANKING

The year 2020 was a challenging year for Retail Banking as it was for many of our customers who were impacted by the effects of the COVID-19 pandemic. BSP supported our customers with a range of loan repayment relief programs as well as the provision of interest rate reductions across all our products.

BSP Retail staff have continued to exhibit a steadfast commitment to delivering services throughout PNG.

Retail banking continues to experience growth across its operations notwithstanding various domestic travel restrictions and curfews that were in force at times during the year. Customer acquisition, system improvements, reduced interest rates, fee reductions and customer focus were the catalysts for the SBU's consistent operating performance during 2020.

A total of 135,000 new customers joined BSP in 2020, with this growth being consistent with that achieved in past years. The growth was geographically widespread reflecting the fact that BSP operates the largest branch network in Papua New Guinea, with 78 branches and sub branches in every province and most districts. Our approach to financial inclusion has been the foundation for customer growth over a number of years.

During 2020, BSP continued to invest in Digital technology to provide our customers with low-cost digital offerings including our USSD Mobile Banking platform and Mobile App platform. Customer transaction volumes through these channels increased by 22% in 2020. Overall, customer transactions volumes across all digital, electronic and "over-the-counter" channels increased by 8% during 2020 with 88% of those transactions being through digital or electronic channels.

Lending activity was somewhat constrained in 2020 due to the impact of COVID-19 on the economy. Despite this, BSP continues to remain the market leader and maintains its strong commitment toward Papua New Guinea's economic growth through home ownership and wealth creation. BSP was the only bank to pass on interest rate reductions for all its retail lending products and whilst there was a significant financial impact to BSP, the decision reflects BSPs continued commitment to supporting its customers through good and bad times.

BSP continues to offer a pathway for Small Business operators to move from the cash economy into the formal financial sector and like all BSP operations, customer participation is widely spread across Papua New Guinea, including rural areas. BSP's support of the sector through the PNG Governments K100m SME guarantee facility is a further reflection of its commitment.

Our Paramount banking division continues to maintain a strong partnership with the PNG National Government and all other levels of Government in PNG. The banking relationship with the Government has been and will continue to be a major focus of Paramount Banking's activities.

BSP Retail staff have continued to exhibit a steadfast commitment to delivering services throughout PNG.

During 2020, BSP continued to invest in Digital technology to provide our customers with low cost digital offerings including our USSD Mobile Banking platform and Mobile App platform.

Toward the end of 2020, BSP also farewelled its Group General Manager Retail, Paul Thornton following 43 years of service to the banking sector in PNG. With the appointment of Daniel Faunt as the Group General Manager Retail along with Deputy General Managers Peter Komon and Dennis Konu, all 1,460 staff in the PNG Retail SBU are Papua New Guineans which reflects BSP's continued promotion of nationals in senior leadership roles and is a testament to the investment that BSP continues to make in its people.

Retail's continued investment into the community were highlighted by the delivery of over 100 wash stations by 35 of our branches. This support consisted of water tanks and sinks for many communities in PNG in response to the COVID-19 pandemic. In addition, 40 of our branches also delivered additional projects by equipping schools and hospitals with much needed equipment, each worth around K30,000.00.

2021 is shaping up to be a transformational year with the expected rollout of BSP's new core banking system (Flexcube) in Vanuatu followed by Papua New Guinea. The introduction of Flexcube will ensure Retail will be able to further improve its service to its customers and introduce a truly world class banking system to PNG.

BSP CORPORATE

BSP's Corporate relationship teams are located in Port Moresby, Lae, Mt. Hagen, Madang and Kokopo to provide convenient access for the bank's corporate customers.

Corporate's top priority is customer satisfaction and the pandemic has highlighted this commitment with a renewed focus on ensuring our customers were assisted during these challenging times. Corporate ensured that there was clear communication with customers on the available relief packages, and reduced interest rates on all variable rate products by 1 per cent to show the Bank's commitment to its customers. Corporate's continued commitment to customer service was a significant factor in BSP PNG recording a 2 per cent increase in lending market share in PNG and enjoying similar successes in the other countries in which BSP operates.

The relationship managers also worked closely with BSP Digital to get our customers online so their staff could work remotely during the pandemic, and importantly, stay safe.

DIGITAL

The enhancement of the Bank's payment system for businesses and customers has produced significant growth in payments via mobile banking and contactless card payments and has been pivotal to the increase in the online presence of local business and government entities who have now added digital payments to their list of payment options.

Despite the trading restrictions necessitated by the Covid-19 pandemic, BSP has remained committed to being a digital enabler in the market by providing local businesses with cost-effective payment solutions for merchants and customers to engage in business online, which has proved to be a much needed economic stimulus during the pandemic. BSP's continually expanding digital offerings makes it easier for customers and merchants to engage in e-commerce and this has been particularly helpful for SME businesses who now have the means to reach a wider market.

The launch of Mobile Merchants as a service added new functionality to Mobile Banking which, in addition to enabling customers to pay for goods and services with participating merchants, has now enabled the digital payment of school fees at primary, secondary and tertiary education facilities throughout the country. Merchants now have an alternative cost-effective platform and can advocate for digital payments as an alternative to cash.

Digital's offering also incorporates API integration for business and governments who can access data and payment details from their accounts in real-time to improve operational efficiency. These measures will lead to greater financial inclusion as customers begin to utilise the Bank's alternative payment solutions.

TREASURY

PNG Treasury foreign exchange (FX) earnings remained in line with prior year results, with 2020 being another challenging year as import demand exceeded export supply of foreign currency. These difficult trading conditions persisted throughout the year.

The official Bank of Papua New Guinea (BPNG) rate of exchange fell by 2.9% gradually over the year to finish at USD 0.2850. BSP PNG FX market share increased 0.5% in 2020 to 44%. BSP Group FX turnover fell 0.5%, while PNG's FX market turnover contracted by 2.1%.

BSP continued to invest surplus domestic kina in liquidity government securities. Movements in the Government debt yield curve reflected evolving fiscal conditions. The 28 day Central Bank Bills fell from 1.39% to 1.33%, 91 day Treasury Bills from 2.50% to 2.07%, 182 day Treasury Bills from 4.68% to 4.44%, whilst one (1) year Treasury Bills rose from 7.08% to 7.20%. Yields on longer dated Government issued Inscribed Stock were generally stable.

Operationally, PNG Treasury continues to mitigate risk and actively focuses on providing technical training, which encompasses weekly technical training (Australian Financial Markets Association Foreign Exchange Markets Accreditation), regulatory and internal compliance training, on the job cross training and sales training. The strong focus on training of staff development will continue in 2021.

Operations and Support

Group Risk Management | Finance and Planning | Operations & Information Technology | Human Resource | Group Compliance

The launch of Mobile Merchants as a service, added a new functionality to Mobile Banking, whereby customers pay school fees to schools and for goods and services.

BSP continues to offer a pathway for Small Business operators to move from the cash economy into the formal financial sector.

GROUP RISK MANAGEMENT

Effective risk management continues to underpin the delivery of BSP's vision. BSP's Board approved Group Risk Appetite Statement establishes the risk appetite parameters that BSP is prepared to assume and manage in pursuit of its business objectives. The GCEO and the Executive team are responsible for implementing BSP's Risk Management Strategy and frameworks, ensuring appropriate policies, controls, procedures and processes for identifying and managing risk in all activities are in place.

BSP's Credit Business Unit is responsible for underwriting and monitoring of the BSP loan portfolio within the Group Risk Appetite Statement parameters. In addition to overall credit quality, Credit oversees compliance with credit policies, procedures and underwriting standards, stress testing and adequacy of loan provisioning, monitoring sector concentration limits, management of environmental and social risks and loan portfolio reporting.

Key credit policies and procedures are reviewed on an ongoing basis to ensure BSP is aligned with the banking regulatory, compliance and industry environment and preserves prudent credit risk management standards.

BSP remained responsive to the current economic environment through our Relationship Managers in maintaining close customer contact in understanding their financial position and circumstances in provision of loan relief package and determination of internal risk grading. In addition to individual rating assessment, the portfolio was subject to stress testing, reporting and monitoring by Credit Committee. BSP undertook industry reviews focused on industries deemed most exposed to COVID-19, which included accommodation, property, construction and tourism with customers in these sectors and reassessment of risk grades assigned to accommodate a post COVID-19 potential impact. The BSP loan portfolio outlook retains a level of uncertainty for our customers and we continue to actively manage inherent risk, which are fully reflected in our risk grading. BSP economic outlook scenarios were adjusted with increased weighting applied from 30% to 40% to the downside case for provisioning purposes. The economic outlook for the downside case is more pessimistic than the prior year with a more cautious approach applied to reflect the impact of COVID-19 on our customers. Total customers loan balances at 31 December 2020 on COVID-19 support packages was K1.6bn with ECL of K92m.

Credit Risk training and staff development remained a key focus during the year. Through designated training resources and the use of virtual classrooms, the team's staff in all countries benefited from a structured credit-training program focused on enhancing BSP's credit risk culture through consistent application and implementation of key policy and procedures supporting prudent Credit decision outcomes.

BSP's Operational Risk Business Unit is responsible for the identification, measurement, mitigation, monitoring and reporting of Operational Risks and this is a joint effort among all the process owners from the business, operations and other support units across BSP Group. This unit also focuses on the continuous improvement of the general processes, controls and strengthening of the first and second line of defenses for BSP Group.

2021 is shaping up to be a transformational year with the expected rollout of BSP's new core banking system (Flexcube) in Vanuatu followed by Papua New Guinea.

During 2020, risks associated with the business, information technology, electronic banking and other products and services implemented during the year were identified and added to the relevant Risk Registers.

The objective of Group Operational Risk in 2021 is focused on continuing the identification and inventory of risks as BSP's businesses grow. The implimentation of the SBU's strategic projects will ensure that risks are measured, controlled and communicated in a timely manner to the Executive Management and the Board. This will allow BSP to continue growing with proper controls of identified risks.

FINANCE AND PLANNING

2020 was a challenging year due to the uncertainties surrounding COVID-19, however despite the challenges encountered, the Finance and Planning SBU continued to improve its processes and seek efficiency gains by centralizing critical areas such as purchasing and accounts payable. In addition, the team was focused on being more dynamic in terms of scenario assessments, forecasting and budgeting.

With the increased emphasis on risks, the SBU saw the opportunity to create a Financial Risk Management team, formerly known as 'Middle Office'. The team now incorporates an Operational Risk and Compliance Officer who monitor compliance and operational risk issues in Finance and Planning. Further work was carried out to prepare the team for a more automated future with the advent of Core Banking. This included training on SQL and the greater use of databases to assist in reconciliation and reporting. Additionally staff were upskilled and cross-functional training has commenced to ensure staff are able to function in other areas within the team.

The core banking replacement project has also been a key area of focus with major deliverables being PFT (profitability calculation and reporting) and FTP (Funds Transfer Pricing) to be finalised before Vanuatu go-live. Data Migration is also critical and the team continue to crosscheck reconciliations and ensure accuracy and completeness of financial data migration from ICBS to Flexcube.

The team continues to enhance its general ledger reconciliation and monitoring capability across the Group. This has assisted with the successful completion of financial audits by our external auditors with clean audit outcomes produced in a timely manner.

The Procurement team continue to focus on reviewing various suppliers as well as looking for cost effective solutions for various products and services, with an aim to provide greater cost savings for BSP. The Accounts Payable team continues to concentrate on improving supplier reporting, reconciliations, improving dialogue, and relationships with external suppliers and internal stakeholders.

The Strategy team continues to manage strategic planning process, investor presentations, reporting cycles and coordinating the delivery of Board mandated strategic priorities across the Group. Processes for planning, Investor Presentations, monitoring and reporting of strategic initiatives were also enhanced in 2020; while the team's analytical capabilities are continuously improving, the strategy team continues to recognise the opportunity to deliver improved insights to its key business units.

Leadership capabilities within the team continue to be recognised, with the finance SBU promoting a good number of staff in 2020. Furthermore, staff who have consistently demonstrated exemplary job performance in going beyond their normal scope of duties were also recognised and awarded the Best Employee Awards through its i-care reward initiative in 2020.

The team bid farewell to outgoing Group CFO, Mr. Eddie Ruha. Eddie worked in PNG for about 30 years, eight of which were with BSP contributing immensely to the growth of the BSP Group through dedication and commitment. Mr. Ronesh Dayal, CFO for PNG Bank succeeded Eddie as the Group CFO. Ronesh is an experienced and detail-oriented CFO with over 17 years' experience in the financial services industry. His wealth of experience and leadership capabilities has seen him advance rapidly into management positions. The Board thanked Eddie for his contribution to BSP and endorsed the appointment of Ronesh as Group CFO.

OPERATIONS AND INFORMATION TECHNOLOGY

BSP Bank's operation extends across seven different countries. Operations & IT SBU is responsible for all back-office operations, and ensures the needs of our clients are at the center of our operational framework. The function's strategy supports the consistent performance metrics, standards and practices that are aligned to client outcomes.

Operations and IT passed several strategic milestones, which included the implementation of EMV 3-D secure for our issued Visa Cards in our Offshore Branches thus adding an additional layer of security for online transactions. As part of BSP Bank's drive to be Payment Card Industry (PCI) compliant, PNG and the Offshore Branches introduced a new data security application referred to as Data Loss Prevention (DLP). This added security gives BSP the ability to control and stop sensitive information from leaving the Bank. Furthermore, to improve the Bank's customer experience, BSP introduced Agency Banking on EFTPoS terminals allowing customers to deposit, withdraw or perform balance enquiries at the Bank's Agent Locations.

Following the successful launch of SWIFT GPI in November 2019, which allows BSP to send and receive funds quickly and securely to and from anyone, anywhere in the world with full transparency over where a payment is at any given moment, BSP launched SWIFT Universal for the Offshore Branches. This brings its Offshore Branches into the SWIFT GPI world.

In addition, Operations & IT delivered a number of upgrades positively impacting the customer experience; ATM software upgrades in PNG and our

Operations and Support (continued)

Group Risk Management | Finance and Planning | Operations & Information Technology | Human Resource | Group Compliance

The team continue to work with small and medium-sized fintechs together with our Digital SBU has to drive greater innovation in front office and back office activities.

BSP continues to remain the market leader and maintains its strong commitment toward Papua New Guinea's economic growth through home ownership and wealth creation.

Offshore Branches, KunduPei upgrade for improved and more streamlined processing of customer pay files and payments. We also upgraded our Cards / Merchant Fraud Management System (Proactive Risk Manager) moving to an online system where suspicious transactions are managed in a more timely manner.

Information Technology has delivered on a number of key facility, infrastructure and application upgrades that will significantly improve overall reliability and systems availability. These include Data Centre Power and Cooling improvements as well as upgrading of Backup and Storage Infrastructure for PNG. All Desktops have been upgraded to standardised Windows 10 with all applications packaged for consistent delivery across the countries we operate in. PNG's Internet Banking platform infrastructure and PNG's Payment Switch were upgraded and additional nodes have been added to the environment to provide a robust platform.

The COVID-19 pandemic had a detrimental impact on the program delivery of the new core banking system. Likewise, the restrictions on travel imposed by governments worldwide including PNG, India, Australia and Vanuatu affected vendors and BSP staff traveling abroad and within PNG. The effectiveness of the dislocated global teams have reduced the team's ability to keep the project on track leading to implementation delays.

The team continues to work with small and medium-sized fintechs together with our Digital SBU, to drive greater innovation in front office and back office activities.

HUMAN RESOURCE

Human Resources SBU was part of the Crisis Management Team whose top priority was to keep up with the evolving uncertainty surrounding COVID-19. This involved providing timely guidance and assistance to employees, providing the right communication channels, arranging transportation, and ensuring staff across the group were provided with appropriate Personal Protective Equipment.

The sudden shift in work culture has brought with it new challenges which have been faced by altering the way we work. The Human Resource SBU has championed initiatives such as the BSP Learning Portal which has been used for internal training. Additionally, digital meeting tools such as Zoom has changed the way meetings are conducted within the group.

A highlight in 2020 was the utilization of the BSP Learning Portal to conduct the new Core Banking Flexcube training for the Vanuatu staff in readiness for Go-live. The Learning Portal was further used to measure staff understanding, awareness and competency levels to enhance the overall learning experience and capabilities during this training. Anti-Money Laundering and Compliance training policies and processes for the Group were also conducted using the Learning portal. An additional highlight was BSP winning the National Superannuation Fund Award in recognition for "Most Compliant in Benefits Payment" in Category A for the second consecutive year.

Wells Fargo Excellence Award

Bank South Pacific (BSP) was awarded the Wells Fargo Operations Excellence Award. The award, as such, is a recognition and affirmation of the speed and quality improvements in payment processing operations and that BSP have managed to keep up with international standards and customer's demands.

Wells Fargo is the fourth largest bank in the United States of America and is among BSP's prominent correspondent banks for dollar payments, and provides BSP with high-quality payment processing, seamless and efficient servicing and outstanding customer service.

Despite the challenges, BSP continued with the Leadership and Management Development Program (LMDP) and the Graduate Development Program (GDP). Both programs annually continue to serve as a hub for nurturing our future leaders. All LMDP participants took virtual classes in 2020 in lieu of face-to-face training. The GDP program continued to provide graduates with essential skills and competencies to assimilate them into the BSP culture.

BSP conducted its Group-wide Staff Engagement Survey and Training Needs Analysis survey in-house for the first time. Results and reports of the surveys were received in real-time and data analytics were accurately collated on time for reporting to management.

GROUP COMPLIANCE

Group Compliance consists of four (4) business units: Compliance, Anti-Money Laundering (AML), Internal Audit, and Credit Inspection.

The Compliance Business Unit ensures compliance risk is effectively managed and all applicable laws, regulations, standards, guidelines and rules are adhered with. In addition, it ensures compliance with all AML/CTF laws and guidelines to avoid criminal and regulatory sanctions and to minimize the risk of the Bank been used for money laundering and terrorist financing.

The Anti-Money Laundering Business Unit in line with the increased domestic and international focus in compliance and AML/CTF has further strengthened this function throughout 2020 by more than doubling its team size, all of whom are ACAMS trained, and introducing industry leading technology to detect and prevent financial crime. A major focus has been developing a compliance culture through the organisation with all staff required to complete at least two AML trainings during the year.

Internal Audit Business Unit independently evaluates and reports the effectiveness of BSP Group's risk management, controls, and governance processes. It does this by conducting regular risk-based audits of BSP's Papua New Guinea and offshore branch, sub-branch and agency network, and its technology, operations and support functions. One hundred and seventy three (173) audits were completed across all countries and subsidiaries in 2020, with a focus on adherence to AML/CTF policies and Central Bank requirements. Key areas audited throughout the year included Operational Risk and Compliance management, Market and Liquidity Risk Management, fees, rates and charges charged to customers, and compliance with AML/CTF Act across all countries where BSP operates.

Credit Inspection Business Unit independently assesses loan submissions, compliance with credit policies, procedures, and portfolio quality assurance in order to enhance the standard of credit decisioning by detecting any material shortcomings in assessment, approval, management, control and reporting of credit and counterparty risk. Credit Inspection coverage in 2021 will increase across all loan portfolios within the BSP Group.

Graduate Development Program (GDP) 2020

Despite the challenges, BSP continued with the Leadership and Management Development Program (LMDP) and the Graduate Development Program (GDP). Both programs continue to serve as a hub for nurturing future leaders each year.

Broader Group

Our success is predicated upon the dedication of BSP staff delivering superior services to our customers, and the strength of our culture has been reflected in the way we embed a values-driven approach to our work.

Broader Group

Cook Island | Fiji | Samoa | Solomon Island | Tonga | Vanuatu

NPAT

NZD 3.3m

1% decrease from 2019

NPAT

FJD 49.2m

6% decrease from 2019

COOK ISLANDS

Despite the COVID-19 related challenges in 2020, BSP Cook Islands has delivered a creditable financial result in 2020, a Net Profit after Tax (NPAT) of NZD 3.30m was achieved, representing a 1% decrease on 2019. Results in key revenue lines were down due to border closures affecting the tourism industry; however, these were offset by savings in operating expenses including administration, computing and channel expenses as well as impairment and interest gains on settlement of non-performing assets.

A challenging economic environment and subdued credit conditions has subsequently seen contraction in loans and with government introducing significant economic stimulus measures total deposits have also reduced. Although the outlook for 2021 is looking more positive with an uplift of border restrictions expected in the second quarter. BSP is cautiously optimistic the majority of the contraction can be reversed through various strategic and growth initiatives in 2021.

BSP Cook Islands actively supports and provides banking service to the business community across the private, public sector and local communities. In 2020 BSP Cook Islands assisted government develop and administer much needed economic stimulus programs to support individuals and business throughout the COVID-19 pandemic. Further investment has been undertaken to expand services, which now includes 2 branches, 14 ATMs, 450 EFTPoS and 10 agents. Participation in BSP financial literacy programs continues to increase with over 2,000 attendees completing the program in 2020 as part of our financial inclusion program to support and educate the youth of our communities with vital financial skills around budgeting and saving.

In 2021, BSP is confident of improved economic conditions as the Cook Islands Government looks to ease border restrictions and relaunch the tourist sector. BSP's focus is to support customers and industry through the looming transition to normality post COVID-19 and we look forward to introducing several new e-channel initiatives providing customers opportunities to reduce costs and maximize returns through operational efficiencies particularly with the introduction of an online internet payment gateway. Preparation in anticipation of Project Compass is well underway and diligent management of the balance sheet, whilst capitalising on cost reduction opportunities will also be key focuses as we move into what will be an interesting 2021.

FIJI

BSP Fiji business was greatly influenced by the effects of COVID-19 in 2020. The Fijian economy suffered a significant setback with GDP contracting by 19%; the highest in its modern history. This was underpinned by the complete loss of receipts in the Tourism industry when all borders were shut down. The domino effect was felt by businesses heavily dependent on tourism, including downstream operators. This resulted in the adjustment of its business plans with focus redirected from an aggressive growth strategy to that of protecting asset quality by working closely with all customers that experienced immediate financial hardship.

Despite the economic setback and weeks of lockdown in the two cities, BSP Fiji delivered a Net Profit after Tax (NPAT) of FJD 49.21m, lower than 2019 actuals by 6%. Despite the many challenges imposed by COVID-19, BSP Fiji achieved the number one ranking in August, measured by Loans and Advances market share.

The 2020 financial results evidence a 7% drop in total income primarily from lower loan volumes, reduced FX and Electronic channel income lost due to the absence of tourists. This, coupled with a large take up in General provisions directly associated with over 10,000 customers provided with COVID-19 financial hardship relief assistance, has impacted the banks'

NPAT
WST 13.6m
12% decrease from 2019

NPAT
SBD 74.3m
21% decrease from 2019

profitability. Nevertheless, the lower income was offset with cost savings of 5% against 2019 from various cost containment initiatives that included productivity gains through various process rationalisations. BSP Fiji did not retrench any staff or place any employee on reduced hours or salaries, which was very well received by our staff members.

BSP Fiji remained committed to providing banking services to business, government and local communities across the country. As a corporate citizen, our social responsibility extends through various community projects carried out yearly creating value to members of local communities.

BSP Fiji was first in the market to launch an Internet Payment Gateway (IPG) accepting proprietary cards coupled with the rollout of enhanced EFTPoS terminals. BSP Fiji made a large investment in an AML monitoring tool in line with its commitment to curtail money-laundering activities and to assist the Bank with AML/CTF regulations and legislations compliance.

Above all, the Bank continued with strengthening its risk management and corporate governance compliance by undertaking various online training and aligning operating policies, procedures and processes to that of the Group.

SAMOA

BSP Samoa has delivered a stable financial performance in 2020, despite significantly demanding economic conditions. Net Profit after Tax of WST 13.6m generated good Return on Equity of 15% and Return on Assets of 2.3%. These results were achieved whilst maintaining acceptable asset quality and a strong Balance Sheet position, as prevailing global conditions continued to challenge our economy.

Customer retention has been achieved through resilient customer care and a reliable electronic footprint that include 26 ATMs, 41 agencies and over 450 EFTPoS terminals. The use of BSP EMV chip enabled products has enhanced security and provided a convenient technology solution for our customers, in an era where social distancing and remote work has become the new norm.

We remained committed to our community via numerous projects throughout the year and promoted awareness on the importance of good hygiene and healthy living. BSP's main community project in 2020 involved the renovation and building of new bathroom facilities at the Poutasi Falealili District Hospital.

Our success is predicated upon the dedication of BSP staff delivering superior services to our customers, and the strength of our culture has been reflected in the way we embed a values-driven approach to our work. Staff in both Samoa and PNG and all our customers are to be acknowledged for their support, making possible good results in 2020.

The economic outlook for Samoa looks challenging as we anticipate deflationary levels and negative GDP growth in 2021. BSP's strategic focus therefore for 2021 will be committed to helping our customers and community rebuild post-COVID-19 and harness any growth opportunities though operational efficiencies and the overall customer experience as we strive to maintain our number one position in Samoa.

SOLOMON ISLANDS

2020 was a challenging year for businesses and the economy in general in Solomon Islands.

In view of the COVID-19 outbreak, the Solomon Islands Government restricted all international travel in March 2020 and took a number of steps to protect its citizens including sending most of the Public Service back to their home villages.

Broader Group (continued)

Cook Island | Fiji | Samoa | Solomon Island | Tonga | Vanuatu

NPAT **TOP 9.9m**
11% decrease from 2019

Solomon Islands remained COVID-19 free until late September 2020 however thankfully there have been no cases of community transmissions and all positive cases have been incoming overseas nationals identified in quarantine.

The pandemic had a significant effect on the Solomon Islands economy especially when the economy started to weaken in the second half of 2019; this meant that business opportunities were limited during 2020.

The Central Bank of Solomon Islands estimated GDP growth for 2020 at (-3.9%), a reduction in the growth rate of and rebounding to growth of 2% in 2021. However, if there is an outbreak of COVID-19 in the Solomon Islands community they estimate 2021 could be as low as 5%.

BSP Solomon Islands recorded a NPAT of SBD 74.29m for 2020. This is a reduction of 21% on 2019 and is a result of the depressed economy that started in 2019 and then was compounded by COVID-19.

Additionally, increased competition in the FX market and the establishment of the Development Bank of Solomon Islands has affected its NPAT results. However, BSP has continued to remain the dominant Financial Institution in the Solomon Islands and continues to hold over 50% of the loan and deposit portfolio in the country.

This year saw a competitor close its remaining Provincial branch and close down its phone banking service leaving BSP as the only Financial Institution with Branches and Agencies outside the country's capital Honiara and the only Financial Institution offering a phone banking solution to all consumers.

2021 will likely see continued challenges for Solomon Islands but the team are confident that staff are up to the challenge. With the introduction of the new Core Banking system, which is just around the corner, focus will be on Digital Channels, with the view to move as many customers as possible on to this, which are the best on the market in the country.

TONGA

BSP Tonga maintained its number one position in a challenging year, with a market share of over 40% across both Lending and Deposits. Notwithstanding the ongoing impact of COVID-19, Tonga delivered a Net Profit after Tax of TOP 9.88m a decline of 11% from 2019 performance. This result is reflective of reduced market sentiment and ongoing border closures impacting lending growth, down 3% from the previous year. Effective cost management saw favourable performances across operating expenses and an improved cost of funds position. The inflow of aid into the Kingdom (for COVID-19 and TC Gita recovery) has seen a high level of liquidity in the market, resulting in deposit growth of 23%.

The expansion of Tonga's digital footprint remained a key priority with increases in Banking Agents (59%), ATMs (17%) and EFTPoS terminals (9%), giving customer's better access to their accounts. Two additional MoneyGram agents were onboarded in 2020, complementing the 'out of country' marketing campaign, which ran throughout the year contributing 13% to Tonga's income position. Despite COVID-19 restrictions, Tonga remained committed to promoting financial inclusion, delivering 60 Financial Literacy workshops, across communities attended by approximately 2,000 people.

BSP Tonga offered COVID-19 packages to 110 customers (TOP 68m), with majority resuming regular repayments following the 6-month relief.

The Bank continued its commitment to the community with sponsorship of key local events including KAVA IDOL, USP debate competition and

BSP Fiji was first in the market to launch Internet Payment Gateway (IPG) .

Customer retention has been achieved through resilient customer care and a reliable electronic footprint

NPAT **VUV 106.8m**
43% decrease from 2019

partnerships with local not for profit organisations – Women's Crisis Centre, NRL and Leitis Association to support the 'Black Thursdays' campaign. A Family Sexual Violence Action Committee (FSVAC) was also established to support staff.

Despite a tough year, staff have remained resilient and committed to delivering outstanding services to meet the needs of our customers and our communities.

VANUATU

Vanuatu will be the first country in which BSP operates to implement the new Core Banking System (Oracle FLEXCUBE) in April 2021. The benefits of the new Core Banking System will include standardisation of business processes within the group, improved timelines through automated regulatory and management reporting, web based solutions, common training across the group, greater level of customer centricity, operational control, product flexibility and operating efficiency whilst reducing the overall cost of maintaining the core banking infrastructure. Originally scheduled to Go-live in October 2020 the timeline for the rollout has been affected by COVID-19 restrictions that have affected travel and resource availability.

BSP Vanuatu continues to focus on expanding our banking services and being an active corporate member in the community. With 25 ATMs, 27+ active agents and 426 EFTPoS terminals, BSP Vanuatu works to support communities and bring banking services to all Vanuatu population segments in our 3 key island markets of Efate, Santo and Tanna. Our expanding footprint along with our financial literacy programs and active participation in the Government led Financial Inclusion Task Force allows us to work in conjunction with government initiatives, to bring financial inclusion to both the under banked and unbanked population.

Opened in March 2019, the Freswota Branch continues to increase in customer numbers and transactions and provide Port Vila customers with a viable second branch alternative – the only 2nd branch offering in the Port Vila market. Coupled with the operationalisation of our disaster recovery site BSP Vanuatu is well placed to support our continual expansion in the market.

BSP Vanuatu also actively participates in the community as one of the major investors and employers in Vanuatu. With a strong focus on corporate responsibility, BSP Vanuatu plays an active role in supporting the broader business community, including backing government led initiatives and promoting go green projects within schools and local communities. BSP Vanuatu also actively gives back to the community through our community projects, which this year included a refurbishment of the sluice room in the Children's Ward at the Port Vila Central Hospital and the rebuilding of the Osnalmok Disability Centre on Tanna.

With a heavy reliance on tourism and the closure of borders, the Vanuatu economy in 2020 was materially impacted by COVID-19. With GDP projected at (9.8%) (ADB Forecast) the economic contraction resulted in loss of jobs and economic pressures on many tourism reliant businesses. This had a material impact on BSP Vanuatu's financial result. Financially, BSP Vanuatu declared a Net Profit after Tax of VUV 106.78m in 2020, with performance behind budget due to COVID-19 related implications of lower income generation and credit quality. The outlook for 2021 will be dependent on the timing of borders re-opening for international travel, the speed at which the tourism industry can rebound and government support and facilitation to make this happen.

Vanuatu's expanding footprint along with our financial literacy has allowed BSP to bring financial inclusion to the under banked and unbanked population.

The expansion of Tonga's digital footprint remained a key priority with increases in Banking Agents, giving customer's better access to their accounts.

Subsidiaries

Subsidiaries

bsp Finance

PGK 5.9m
Full Year Profit

FJD 3.9m
Full Year Profit

USD 3.6m
Full Year Profit

SBD 25.5m
Loan Portfolio in 2020

BSP Finance PNG managed to maintain a good book quality by prudent management and staying close to our customers through this period.

BSP Finance in PNG delivered a new Consumer Vehicle Loan product to the market.

BSP FINANCE

Papua New Guinea

BSP Finance PNG achieved a full year profit of PGK 5.9m in 2020. Continued delays in key resource projects and the impacts of the global pandemic resulted in only marginal growth in profitability compared to the prior year. Despite the difficulties, we managed to maintain a good book quality by prudent management and staying close to our customers through this period.

In late 2020, we delivered a new Consumer Vehicle Loan product to the market. In 2021, we will continue to grow our business through leveraging relationships with key stakeholders and providing innovative products and services to our customers. Internally, the business will continue to review all its procedures to gain further efficiencies, whilst continuing to explore improvements in available technologies and systems.

Fiji

In 2020, BSP Finance Fiji achieved a full year profit of FJD 3.9m.

The pandemic hit the country hard, particularly in the tourism industry. With the economy already facing headwinds, this could not have come at a more difficult time for Fiji. Throughout this period, we were able to offer our customers relief packages, and we will continue to work closely and support our customers in the year ahead. Our people have shown great resilience during these difficult times, which puts us in a strong position to rebound and grow the business in 2021.

Cambodia

The business reported a profit of USD 3.6m in 2020 that met budget expectations set by the board. This was achieved despite the impacts of the global pandemic, albeit Cambodia avoided the worst-case predictions due to a well-managed response from the government. A delay in establishing funding lines slowed growth in the loan portfolio to USD 48m.

We remain one of the leading asset finance companies in Cambodia, despite

We will continue to grow our business through leveraging relationships with key stakeholders and providing innovative products and services to our customers.

bsp Capital

bsp life

PGK 1.8m Profit
Funds under management grew 6.9%

FJD 15.6m Profit
Investment portfolio grew 6.7% to FJD 815m in 2020

PGK 0.5m Profit
Inforce Annual Premium grew 16% to K16.5m in 2020

a very competitive market and we are now poised to grow the business in 2021 with funding in place and a focused local team of professionals.

Solomon Islands

BSP Finance Solomon Islands has grown its loan portfolio steadily during 2020 and achieved above budget expectations to reach SBD 25.5m at year end. This growth along with a strong sales pipeline sees us poised to deliver solid profit growth in 2021.

Whilst the economic conditions are not ideal in SI, we provide a niche financial service that is unmatched in the country, with a speed to market focus. We will continue to leverage our relationship with BSP and other stakeholders to grow market share and deliver shareholder returns.

Lao

In February 2020, BSP Finance acquired 50% of Devco Lao Leasing Co. Ltd in partnership with our joint venture partner, RMA Group. We have undertaken to align the business processes with the rest of the BSP Finance group, and train our staff. This has been a challenging process, not only during a global pandemic that curtailed the ability for senior management to travel to Vientiane, but also in a challenging regulatory environment.

As a result, our plans to recapitalise the business and fund its growth have been delayed. We look forward to a name change to BSP Lao Leasing Co. and resolving the funding issues in the very near future. This will see the business thrive and deliver on the expectations of shareholders in 2021.

BSP CAPITAL

2020 was another positive year for BSP Capital delivering a profit of PGK 1.8m up from PGK 0.9m in 2019. Funds under Management also grew 6.9% to PGK 7.6b at the end of December 2020.

The business focused on providing financial services to its institutional clients following the divestment of its stockbroking business. The stockbroking business had successfully transitioned in mid-2020.

The onset of the coronavirus saw the delay of some advisory transactions and pursuit of other client prospects; however, we look forward to making progress on these opportunities in 2021 as the economic outlook improves.

BSP LIFE

Fiji

Leading into 2020, the strategic focus for the BSP Life Fiji (Group) was to enhance customer engagement, drive digital and product innovation, expand distribution, and accelerate investments-related initiatives to support business growth. With the new core system introduced in 2018 fully functional, an added focus area was operational excellence to optimise use of resources, remove non-value adding activity, reduce costs and improve service outcomes. Encompassing this strategy was continued emphasis on Risk and Compliance. A 3-year plan with specific imperatives underpinned the strategy to ensure effective execution.

COVID-19 had a major impact on the Fijian economy in 2020. At a macro level, GDP shrunk by approximately 20%, driven primarily by border closures, which had a significant impact on tourism, Fiji's largest economic driver. Over 100,000 jobs were lost with widespread impact given our small population of close to 900,000. Given the reduced revenue flows, Government was forced to increase borrowing, and a subdued economic environment persisted throughout the year.

Major risks identified at the onset of the pandemic included: potential drain on the Inforce book (premiums received) for both the Life and Health Insurance businesses, a slowdown in sales, constrained cash flow, pressure on IT platforms to support remote working arrangements, staff morale, decline in the value of the private equity investments (particularly in tourism), decline in listed equity investments, decline in property values, and low term deposit returns.

Subsidiaries (continued)

The pre-COVID Shareholder profit budget for 2020 was FJD 14.7m for the Life business and FJD 1.5m for the Health business, with a Group consolidated total of FJD 16.8m. Various re-forecasts were conducted throughout the year with the final reforecast Group consolidated of FJD 10.3m. Actual results closed at FJD 15.3m for Life and FJD 1.0m for Health with a consolidated Group result of FJD 15.6m, down 7% on budget and up 51% on the final reforecast a pleasing result and testament to the resilience of the business and its staff.

For the Life business, key contributors to profit included the launch of a new single-premium product in April. In 9 months, this product achieved FJD 15.5m in sales, up 25% on budget. This injection of cash assisted the business maintain cash flow above required levels and supported investments related initiatives. Sales on standard products closed at FJD 11.5m, below budget but above reforecast, a satisfactory outcome considering external challenges.

Costs were well contained, down 12% on budget with a recruitment freeze, withdrawal of non-essential operational and capital expenditure, leave liability reduced, amongst a raft of cost containment measures. To mitigate the risk of Inforce depletion, there was increased customer engagement with options made available to assist retention of policies supplemented by a special relief package for those who lost jobs. Pleasingly, Life In-force grew by over FJD 3m for the year (versus a potential decline of FJD 8m) eclipsing the FJD 80m mark for the first time. Since BSP's acquisition of the business from Colonial in 2010, Inforce has grown by close to 80%. Inforce market share as at end September 2020 (based on Reserve Bank statistics) is 55% and is anticipated to grow marginally when full year results are released. This is a turnaround from 45% ten years ago.

The Investments portfolio grew by 6.7% from FJD 760m last year to FJD 815m this year, passing the FJD 800m mark for the first time. This contrasts with the potential significant reduction that could have occurred had the portfolio been heavily reliant on only a few asset classes, including Tourism. The portfolio has more than doubled over the last ten years from its base of FJD 375m at the time of acquisition. The growth in 2020 is particularly pleasing and is reflective of the sound and balanced nature of the fund. Despite the reduction in Tourism investments, the balance of the fund grew, providing overall net growth. The resilience built up over recent years has enabled continued growth in a depressed environment. BSP Life is the second largest institutional investor in Fiji, second only to the National Provident Fund.

The Health business faced challenges with border closures limiting overseas medical evacuations to New Zealand, which is more expensive than destinations like India. A few air ambulance cases were also processed in 2020 hiking claims costs. On Inforce, staff layoffs meant lower numbers of insureds for large Groups, depleting premium income. Aggressive competition continued with competitors using price to win business. The business purposefully retained its strategy of focusing on value, not price, and built on its strong service reputation. Closer customer engagement supported this strategy enabling a satisfactory year-end outcome. The business has produced consecutive profits in the last five years compared to the consecutive losses sustained in the prior 3 years.

Digital innovation supported both businesses providing the tools to communicate effectively with customers over the lockdown period and through the remainder of the year. From a low base of less than 10%, we now have 70% of customers on e-mail receiving regular updates. A new website was launched in March with increased online advertising and launch on social media later in the year. This has supported brand awareness, sales and business retention. A new customer self-service

The year 2020 started with the launch of the eagerly anticipated, endowment insurance product - Wantok Delite.

Leading into 2020, strategic focus for the BSP Life Fiji (Group) was to enhance customer engagement, drive digital and product innovation, expand distribution, and accelerate investments-related initiatives to support business growth.

portal and live chat facility were other innovations that improved customer engagement. Internally, real-time dashboards were introduced to produce overnight results for key business metrics that now support effective decision-making.

The outlook for 2021 is challenging with border closures in place for the foreseeable future. The effects of a category 5 tropical cyclone in late 2020 will add further economic and social pressures. For the BSP Life Fiji Group, the focus is on staying the course and building on the platforms in place. Whilst 2020 results were pleasing, the immediate future remains uncertain so the urgency and effective execution of set strategies remain an ongoing focus.

PNG

The year 2020 started with the launch of the eagerly anticipated, endowment insurance product - Wantok Delite, which is a long-term savings and protection insurance product. It had taken two years to launch this product, which included establishing the business processes, recruitment and training of staff and agents and the launch of the life insurance system. BSP Life PNG is the only insurer in PNG to sell an endowment insurance product.

While the business was optimistic of achieving its strategic objectives for the year, its plans have been derailed by COVID-19. The lockdowns and social distancing requirements made it difficult for our agents to go out and sell our Wantok Delite Product. In addition, most brokers preferred to renew the Group Term Life cover with existing insurers, which affected the business's ability to grow the Group Term Life portfolio. The business was further challenged due to being unable to secure good reinsurance support. The existing reinsurer approves individual schemes hence due to COVID-19, that support was placed on hold for over six months during the year.

Despite the setbacks, the business has issued over 610 Wantok Delite policies with annual premiums of PGK 1.4m whilst the Wantok Group Term Life new business for the year stood at PGK 0.9m. BSP Life's financial performance is expected to be on budget and both solvency and capital adequacy ratios are tracking above targets.

On 7 December 2020, BSP life successfully launched its new website. The website is instrumental for growth as it includes information about the business, its products and its operations and an online quote calculator, which is the key feature of the website. The premium quote calculator is a first for PNG and will assist more Papua New Guineans acquire a life insurance cover.

During the year, the company collaborated with the Centre for Excellence in Financial Inclusion (CEFI) and other insurance players in a nationwide insurance awareness campaign, which was targeted at increasing awareness on insurance and how it can be used to mitigate risks. As part of the corporate social responsibility and BSP life's first community project. The team contributed PGK 30, 000 of medical and refurbishment items to the emergency department at the Port Moresby General Hospital (POMGEN).

BSP Life's strategic focus for 2021 we be on delivering rapid premium income growth from the Wantok Group Term Life and Wantok Delite endowment product, and continue capacity building for staff and agents through regular and targeted training programs. To increase our geographical footprint in Papua New Guinea, BSP life will be launching its new sales office in Lae in April 2021 and Mount Hagen in January 2022.

Wantok Delite

BSP Life issued over 610 Wantok Delite policies with annual premiums of PGK 1.4m whilst the Wantok Group Term Life new business for the year stood at K0.9m. BSP Life's financial performance is expected to be on budget and both solvency and capital adequacy ratios are tracking above targets.

Corporate Governance Report

Corporate Governance Report

BSP has adopted an approach to corporate governance that is underpinned by our Core Values of Integrity, Leadership, People, Professionalism, Quality, Teamwork and Community.

This approach is supported by a comprehensive framework of corporate governance principles and policies. The BSP Board has demonstrated its commitment to developing and maintaining a standard of corporate governance that seeks to match global practice. The Board ensures that it complies with the requirements of the PNG Exchange Markets (PNGX).

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea and the various countries that BSP operates in. The Board has adopted a statement of Corporate Governance Principles which outlines the approach BSP has adopted to corporate governance. These Corporate Governance Principles provide a framework that helps to ensure that BSP deals fairly and openly with all its stakeholders – regulators, shareholders , customers and staff alike.

BSP's Corporate Governance Principles are available in the Investor Relations section of BSP's website at www.bsp.com.pg.

BSP also complies with the Prudential Standards/Statements dealing with corporate governance issued by the regulators/central banks in the various countries that it operates in. These Prudential Standards/Statements currently include: -

- The Bank of Papua New Guinea (BPNG) Banking Prudential Standard BPS 300: Corporate Governance (issued under Section 27 of the Banks and Financial Institutions Act 2000).
- The Reserve Bank of Fiji Banking Supervision Policy Statement No. 11: Governance (Oct 2007).
- The National Reserve Bank of Tonga Prudential Statement No. 9 (revised 2014): Governance.

THE BOARD OF DIRECTORS

Roles and Responsibility of the Board

The roles and responsibilities of the Board are defined in the Board Charter. This document also details the matters reserved for the Board and matters that have been delegated to management with oversight by the Board.

The Board, with the support of its Committees, is responsible to the Shareholders for the overall performance of BSP, including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising BSP performance and increasing shareholder value. The key functions of the Board are:

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

A number of these responsibilities have been delegated by the Board to various Committees. The Committees and their responsibilities are detailed in the Board Committee section.

The Board has delegated to management responsibility for:

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

Membership, Expertise, Size and Composition of the Board

The Corporate Governance Principles affirm that the majority of the Board should be independent.

Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interest in advance, and absenting themselves from any consideration of matters where a conflict might arise. The BSP's Corporate Governance Principles require Directors to disclose any new directorships and equity interests at each Board Meeting.

The maximum number of Directors, as prescribed by the Constitution approved by Shareholders, is ten. At the date of this report there are ten Directors, with nine Non - Executive all of whom (including the Chairman) are considered by the Board to be independent; and the Chief Executive Officer who is not considered to be independent by reason of being an Executive of BSP. BSP in the ordinary course of business conducts transactions with Directors, their spouses, parents and children and/ or parties which any of them control. These transactions include loans, deposits, and foreign currency transactions. Such transactions are carried out on commercial terms at market rates and do not require shareholder approval under Papua New Guinea Company Law. Where they involve loans, procedures follow BSP's standard credit approval and review processes which do not have any involvement of Directors, and BSP holds security in accordance with its standard procedures. As a result, BSP considers that Directors are able to maintain their independence even where a Director is a party to a transaction of this kind because they would not have been involved in the approval process for that transaction.

Under the Constitution, at each Annual General Meeting (AGM) one-third of the BSP's Directors, in addition to any Director appointed during the year, excluding the Chief Executive Officer, must offer themselves for re-election by the Shareholders.

A Director is normally appointed for an initial term of three years. At the end of the term of three years, the Director will become eligible for reappointment by the Shareholders for a further term of three years and, if not reappointed, retires automatically. A Director is not permitted to hold office for a period exceeding three terms of three years or nine years, whichever is the lesser. Details regarding the length of service of each Director are set out in the "Board of Directors" section.

The Board has undertaken a renewal and succession planning process in recent years with the aim of maintaining a proactive and effective Board in line with the directions of the BSP Group. The Board has implemented an independent Board evaluation process to underpin the assessment of its performance.

BSP has a Board skills matrix process. These skills include Risk Management, Regulatory/ Government Policy, business and financial acumen, experience as a Non-Executive Director, remuneration and corporate governance.

The Board, therefore, has a broad range of skills, experience and expertise that enables it to meet its objectives. Details of the Directors' business backgrounds and experience are provided on pages 8 - 11. The Board accepts that it has a responsibility to Shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership.

Consequently, the Board gives careful consideration to setting criteria for new appointments it may recommend to Shareholders in accordance with the Constitution. It has delegated the initial screening process involved to its Remuneration and Nomination Committee which, in accordance with its Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

BSP undertakes appropriate checks before appointing a person as a Director or offering them to Shareholders as a candidate for election, and has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in notices of meeting provided to Shareholders.

Nominees of the Board and/or Shareholders must meet the 'fit and proper person' criteria outlined in BPNG Banking Prudential Standard BPS310: Fit and Proper Requirements before they can take their place on the Board.

BSP has a program for inducting new Directors and providing appropriate professional development opportunities for Directors.

On joining the Board, new Directors are provided with an Appointment Letter setting out the terms of the appointment, a Board induction pack and undertake a comprehensive induction program. In particular, the Appointment Letter specifies the term of appointment, BSP's expectations in relation to time commitment and Committee work, the Director's remuneration arrangements, the Director's disclosure and confidentiality obligations, the Director's insurance and indemnity entitlements, and BSP's key corporate governance policies.

BSP's Senior Management also enter into employment contracts which set out their terms of employment, including their position, duties, reporting lines, remuneration and termination arrangements.

Role and Selection of the Chairman

The Chairman is elected by the Directors and holds the position for a maximum of six consecutive years unless in a certain exceptional instance. The role includes:

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

Director Independence and Conflict of Interest

Directors are determined to be independent if they are judged to be free from any material or other business relationship with BSP that would compromise their independence.

Prior to appointment, Directors are required to provide information to the Board for it to assess their independence.

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

- the Director is not an executive of the Group;
- the Director is not a substantial shareholder of BSP or otherwise associated directly with a substantial shareholder of BSP;
- the Director has not within the last three years been a material consultant or a principal of a material professional adviser to BSP, or an employee materially associated with a service provider;
- the Director is not a material supplier to BSP, or a material consultant to BSP, or an employee materially associated with a material supplier or customer;
- the Director has no material contractual relationship with BSP other than as a Director of BSP;
- the Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of BSP.

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

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

Corporate Governance Report

BSP fully complies with the requirements of the BPNG Prudential Standard 4/2003 – Limits on Loans to Related Parties.

Related Party Transactions are summarised in Financial Note 34. The Directors' information on page 122 provides details of the Directors' Interests.

Meetings of the Board and Attendance

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

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess BSP's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board members one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Financial Note 36, Directors' and Executive remuneration, provides attendance details of Directors at Board meetings during 2020.

Review of Board Performance

Consistent with Recommendation 1.6, BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The key findings of the 2020 Performance Review are available in Investor Relations section of BSP's website at www.bsp.com.pg.

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

The Board with the assistance of the Remuneration and Nomination Committee sets the targets for the Chief Executive Officer and Senior Management members under BSP's employee incentive arrangements described below. These incentive arrangements are administered by the Remuneration and Nomination Committee. Performance against the relevant targets is assessed periodically throughout the year and a formal evaluation is undertaken annually.

Board Access to Information and Advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties.

The General Managers of each PNG Strategic Business Unit, Heads of Subsidiaries and Country Managers make regular presentations to the Board on their areas of responsibility.
The Chairman and the other Non-Executive Directors have the opportunity to meet with the Chief Executive Officer, General Managers, Heads of Subsidiaries and Country Managers for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

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

Company Secretary

The Company Secretary, through the Chairman, is directly accountable to the Board for proper functioning of the Board. Each Director may seek the advice of the Company Secretary. Under the Constitution, the Company Secretary may only be appointed or removed by the Board.

BOARD COMMITTEES

Board Committees and Membership

During 2020, four Committees of the Board were in operation whose functions and powers were governed by their respective charters. These Committees were the Board Audit and Compliance Committee (BACC), Board Risk Committee (BRC), the Remuneration and Nomination Committee (RNC) and the Disclosure Committee. Membership of the Committees and a record of attendance at Committee meetings during the year are detailed in table below.

Remuneration details are provided in Financial Note 36.

Membership of Board Committees during 2020:

Board Audit & Compliance Commitee *	
Geoff Robb	6/6
Ernest Gangloff	6/6
Arthur Sam	6/6
Stuart Davis	6/6
Frank Bouraga[1]	6/6

Board Risk Committee *	
Geoff Robb	6/6
Ernest Gangloff	6/6
Arthur Sam	6/6
Charles Lee[1]	6/6
Priscilla Kevin[1]	6/6
Stuart Davis	6/6

Remuneration and Nomination Committee	
Robert Bradshaw	7/7
Faamausili Dr Matagialofi Lua'iufi	6/7
Augustine Mano[2]	1/7
Priscilla Kevin[2]	1/7

[1]Charles Lee was appointed by the Board as an Independent Committee Member (ICM) of the Board Risk Committee (BRC) for Board development purposes. Frank Bouraga and Priscilla Kevin are non executive and non directors, appointed by the board for board

development purposes. Priscilla Kevin was appointed as a Director in April 2020 and Frank Bouraga was appointed as Director in December 2020.

[2]Augustine Mano retired as a Director on 1 July 2020 and as a member of the Remuneration & Nomination Committee and was replaced by Priscilla Kevin as a Committee Member of the Remuneration Committee.

* Board members who attend BACC to discuss the year end and half year accounts.

* During 2019 the Board allocated the responsibility of compliance to the BAC which was renamed BACC with BRCC now BRC focusing on risk issues. The amendment was to provide enhanced monitoring of BSP's Compliance Risk, AML/CTF & regulatory requirements.

Sir Kostas G. Constantinou is not a member of any Board Committee.

The names and relevant qualifications and experience of Committee members, and the number of times the Committees met and the number of meetings each member attended, are set out in the "Board of Directors" section.

Board and Committee Charters

BSP's Board and Committee Charters are available in the Investor Relations section of BSP's website at www.bsp.com.pg. The BACC and BRC Charters were updated to reflect the changed responsibilities.

Committee Structure

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

Board Audit & Compliance Committee

The BACC assists the Board to discharge its responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of the BACC include monitoring:

- the integrity of BSP's financial statements and their independent audit;
- the financial reporting principles and policies, controls and procedures;
- BSP's internal audit process;
- the effectiveness of internal controls;
- the controls and effectiveness of BSP's compliance obligations;
- the systems for ensuring operational efficiency and cost control;
- the systems for approval and monitoring of expenditure including capital expenditure; and
- the processes for monitoring compliance with laws and regulations (both in PNG and in overseas jurisdictions, where BSP operates) and the implementation of Board decisions by management.

Membership of the BACC is formed amongst the Non-Executive Directors, excluding the Chairman. The BACC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BACC additional individuals who are not executives or members of the Board who have specialised skills to assist the BACC. The chairman of the BACC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BACC must meet at least four times annually and special meetings may be convened as required. All meetings must be minuted and tabled at the subsequent BACC meeting. The BACC regularly reports to the Board at the earliest possible Board meeting after each BACC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

Board Risk Committee

The Board Risk Committee assists the Board to discharge its responsibilities of oversight and governance in relation to the implementation of BSP's risk management framework. The responsibilities of the BRC are to:

- review and monitor the principles, policies, strategies, processes and control frameworks for the management of risk (such as credit risk, market risk, liquidity risk, operational risk, cyber security, reputational risk and other risks that may arise including COVID-19);
- oversee BSP's risk profile and risk management strategy, and recommend BSP's risk appetite statement.

Membership of the BRC is formed amongst the Non-Executive Directors, excluding the Chairman. The BRC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BRC additional individuals who are not executives or members of the Board who have specialised skills to assist the BRC. The chairman of the BRC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BRC must meet at least four times annually and special meetings may be convened as required. All meetings must be minuted and tabled at the subsequent BRC meeting. The BRC regularly reports to the Board at the earliest possible Board meeting after each BRC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

Remuneration and Nomination Committee

The RNC assists BSP in fulfilling its oversight responsibilities regarding the remuneration, succession and recruitment of Directors, Executives and other BSP employees. The responsibilities of the RNC are:

- to oversee the selection and appointment of a Chief Executive Officer, and setting of an appropriate remuneration and benefits package for recommendation to the full Board;
- to determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- in conjunction with the Chief Executive Officer, to identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly; and
- to ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfill its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

The RNC is comprised of three Non-Executive Directors. The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board.

Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the Board.

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

Disclosure Committee

The Board has established a disclosure committee comprising of the Chairman (or in his absence another Non-Executive Director), the GCEO, the Group Chief Financial Officer of BSP, the Group Chief Risk Officer and the Company Secretary (Disclosure Committee). The chairman of the

Corporate Governance Report

Disclosure Committee is the most senior Director present. The members of the Disclosure Committee may vary from time to time, but will consist of at least a Non-Executive Director, two Executive Employees (not including the Company Secretary) and the Company Secretary.

The Disclosure Committee is responsible for, among other things:

(a) approving the release of any announcement to PNGX, other than:
  (i) an announcement that relates to a matter which is both material and strategically important, which will require approval by the Board; or
  (ii) procedural matters such as notice of changes to equity securities or directors' holdings, which will require approval by the Disclosure Officer;
(b) considering whether BSP is obliged or is required to respond to a market rumour or media speculation; and
(c) overseeing the Disclosure Officer's administration of the Continuous Disclosure Policy.

Annual Financial Statements

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

- pays attention to complex and/or unusual transactions;
- focuses on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies;
- meets with management and the external auditors to review the financial statements and the results of the audit; and
- satisfies itself as to the accuracy of the financial accounts, and signs off on the financial accounts of BSP before they are submitted to the Board.

External Audit

The BACC is responsible for making recommendations to the Board on appointment and terms of engagement of BSP's external auditors. The selection is made from appropriately qualified auditors in accordance with Board policy.

The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. In line with the Prudential Standard of the BPNG, the signing partner in the external audit firm must be rotated every five years.

The Committee reviews annually the performance of the external auditors and, where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the BPNG's Prudential Standard No. 7/2005 - External Auditors, while ensuring their independence is in line with Board policy.

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

The Committee ensures that significant findings and recommendations made by the external auditors are received and discussed promptly, and that management responds to recommendations by the external auditors in a timely manner.
The duly appointed external audit firm may not be engaged by BSP to provide specialist advisory or consultancy services to a bank while that same auditor/audit firm is engaged for services to conduct BSPs annual audit and related services. Services related to the preparation of a bank's corporate tax return are not prohibited. The external auditor is invited to the Annual General Meeting of Shareholders and is available to answer relevant questions from Shareholders.

The BPNG Prudential Standards provide for a tri-partite meeting between BPNG, the external auditors, and BSP, if required.

BSP's external audit firm is currently PricewaterhouseCoopers (PwC). Representatives of PwC will attend the next Annual General Meeting in May 2021, and be available to answer shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. The BACC approves, on the recommendation of management, the appointment of the Head of Internal Audit. The Committee meets regularly with the Head of Internal Audit.

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

The BACC meets separately with the internal auditors to discuss any matters that the Committee, or the internal auditors, believe should be discussed privately. The internal auditor has direct access to the BACC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Compliance

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

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

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

RISK MANAGEMENT

Approach to Risk Management

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

The Board or a Committee reviews the risk management framework at least annually.

BSP recognises the following major risks:

Credit Risk: The potential for financial loss where a customer or counter party fails to meet its financial obligation to the Group.

IT Risk: The current and potential threat to earnings, capital or reputation as a result of a failure of information systems managed, maintained and operated by the Bank.

Market Risk: The potential financial loss arising from the Group's activities in financial, including foreign exchange, markets.

Liquidity Risk: The risk of failure to adequately meet cash demand in the short term.

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

Compliance AML Risk: The risk of loss or penalties imposed by a regulator for non compliance with regulations, prudential standards and policies.

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

Cyber Risk: Targetted hacking, leakage/theft of customer confidential information, unauthorised financial transactions, random attacks including malware, phisihing and ransomware .

The Credit Committee monitors credit risk. The Group Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and operational risk is monitored by the Operational Risk Committee.

Compliance and AML is monitored by the Compliance and AML business unit, including the maintenance of a risk register system that has been implemented across the Group. The Executive Committee and the Board overview the highest tier of risks within these risk registers.

The Group's Risk Management Policy ensures that the Group has in place acceptable limits for the risks identified by employees. The risk management approach encompasses the following:

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

Risk Management Roles and Responsibilities

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

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

The Board defines the accountabilities (including delegated approval/ control authorities/limits) and reporting/monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the SBU Risk Registers, is used to determine the approval/control authorities/limits. The Board undertakes an annual review of the Group's Enterprise Risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Group is able and willing to assume. These guidelines are detailed in the Group's Risk Appetite Statement and Risk Policy and Procedures Manual which have been approved by the Board. The Board has also delegated to the BRC responsibility for overview of loss control and for overseeing the risk management function.

The BRC is responsible for receiving reports and providing regular updates and recommendations to the Board on the risk management activities of the Group, especially relating to risk issues that are outside of the authority of the Group's Executive Committee and other delegated Committees to approve.

Management Assurance

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

- in their opinion, the financial records of the Group have been properly maintained;
- in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSP; and
- their opinions above have been formed on the basis of a sound system of risk management and internal control applying to BSP, which is operating effectively;
- Additionally all General Managers and Country Heads provide bi-annual statements attesting that;
- they have assessed and documented the risks and internal control procedures in their Strategic Business Unit;
- they have identified any changes in business, operations and computer systems and the risks that may arise from those changes;
- the risk management and internal compliance and control systems are appropriate and operating efficiently and effectively; and
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

Corporate Governance Report

ETHICAL BEHAVIOUR

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

- a Code of Conduct for both Directors and members of the Executive Management Team of the Group and stipulated that each Director comply with the Code; and
- a Corporate Mission, Objectives, and Core Values Statement which establishes principles to guide all employees in the day to day performance of their individual functions within the Group.

While BSP's Corporate Governance Principles provides that the Board must ensure it maintains an appropriate mix of skills and experience without gender bias.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board encourages Senior Management to periodically issue staff Toksaves to reinforce both the Code and Core Values Statements. All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues.

BSP is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct. The Group has adopted a whistle-blowing policy that is designed to support and encourage staff to report in good faith matters such as:

- unacceptable practices;
- irregularities or conduct which is an offence or a breach of laws of the countries in which BSP operates in (actions and decisions against the laws of relevant countries including non-compliance);
- corruption;
- fraud;
- misrepresentation of facts;
- decisions made and actions taken outside established BSP policies & procedures;
- sexual harassment;
- abuse of Delegated Authorities;
- misuse of Group assets;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other employees;
- damage to the environment;
- other unethical conduct;
- failure to comply with appropriate professional standards;
- abuse of power, or use of the Group's powers and authority for any unauthorised purpose or personal gain; and
- breach of statutory codes of practice.

BSP's Code of Conduct for Employees and Directors is available at www.bsp.com.pg in the Investor Relations section.

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

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

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

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

MARKET DISCLOSURE

The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities. An important aspect of the Group's shareholder communication policy is to comply with the continuous disclosure regime and to implement best practice disclosure policy. BSP has adopted a Continuous Disclosure Policy. This is available at www.bsp.com.pg in the Investor Relations section.

Market announcements are posted to BSP's website immediately after release to the market. All market announcements made by BSP since 2017 are currently available on the website. Where BSP provides financial results' briefings to analysts or media, these briefings are published on the website as soon as possible after the event. In any event, no material information which has not been previously released to the market is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

The Group's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that Shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its continuous disclosure policies and the dealing rules applying to its employees and Directors. BSP has adopted a Securities Dealing Policy. This is available at www.bsp.com.pg in the Investor Relations section.

SHAREHOLDER COMMUNICATIONS

BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

Our Shareholder Communication Policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. Our framework for communicating with Shareholders is to concisely and accurately communicate:

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

The Group uses shareholder forums such as the Annual General Meeting, and quarterly investor briefings, within disclosure policies, to communicate financial performance and strategies.

BSP's Shareholder Communication Policy is available at www.bsp.com.pg in the Investor Relations section.

BSP gives Shareholders the option to send and receive communications from BSP and its share registry electronically. Since 2017, BSP and its share registry have used technology to facilitate the participation of Shareholders in meetings.

To facilitate effective communication between BSP and its Shareholders, potential investors, analysts and other financial markets participants, BSP conducts periodic market briefings, including half and full year results announcements and attendance at conferences. Shareholders, potential investors, analysts and other financial markets participants are given access to BSP Directors and Senior Management at these events, and the presentation material provided at these events announcement to the market prior to commencement and subsequently uploaded to BSP's website.

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea and the various countries that BSP operates in. *Pictured: Customers at new Yangoru Sub-Branch, East Sepik Province.*

The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities.

Remuneration Report

Remuneration Report

1.0 Message from the Remuneration and Nominations Committee Chairman

The aim of the Remuneration Report is to provide details that the Board believes are essential for shareholders to understand BSP's remuneration framework. This is intended to deliver specific operating financial and non-financial outcomes. There is no statutory requirement for Remuneration Reporting under International Accounting Standards (IAS).

2.0 Message from the Remuneration and Nominations Committee Chairman

I am pleased to present on behalf of the Remuneration and Nominations Committee (RNC) and of the Board, the annual Remuneration Report for Bank South Pacific (BSP) Limited. BSP recognises that our staff are the most valuable asset in its business and ensures that remuneration and benefits are fair and competitive in the market. This is highlighted in the fact that despite the economic challenges and reduced business activities in 2020, all staff were paid performance based short term incentives reflective of BSPs performance and the contribution of staff across broad based operational and financial key performance indicators.

The RNC, comprising of three Non-Executive Directors and a Chairman, are assisted by non-voting management including the Group Chief Executive Officer (GCEO), Group General Manager Human Resources and the Company Secretary. The RNC annual activities are based on the RNC charter and covers the various aspects or focus areas including Compliance and Governance, Remuneration Management, Succession Planning, Recruitment and Performance Management for Board Directors, Non-Executive Directors and Executive Management.

In the first section, the report discloses the Key Management Personnel (KMP) for BSP. The KMP comprises of the Non-executive Directors and the Group Executives. These are people within BSP with the authority and responsibility for planning, directing and controlling the activities of BSP. The KMP listing consists of both current Non-executive Directors, Group Executives and non-executive directors and group executives who left BSP in 2020. The Board ultimately approves RNC endorsed executive remuneration packages annually in line with the remuneration guidelines. BSP remuneration for executives comprises of a fixed component and a risk component. The fixed component takes into the account the nature of the role, pay levels in the market, and the individual and business performance, whereas the at risk component is a combination of short-term and long-term incentives.

The report discusses the remuneration strategy in detail with a key focus on individual aspects of remuneration including; fixed remuneration, short-term incentives, long-term incentive plan, performance based bonus and non-performance based bonus. The main purpose of this strategy is to attract and retain employees by paying market competitive remuneration for roles and being provided with incentives and benefits as an additional reward for being an employee of BSP. The additional incentives and benefits that fall under the categories stated above consists of cash rewards, salary reviews, staff discount on lending interest rates for both personal and home loans, opportunities to participate in leadership programs, learning and development opportunities and job promotion and appointment opportunities. These initiatives are geared towards retaining the services of staff occupying critical roles and high potential employees for a longer term.

In November 2015, the Board approved a long term incentive that uses EPS as a proxy for the share price and with a payment matrix that adjusts the LTI payment relative to the EPS hurdle. No LTI is payable if the EPS is below 79.99 % of the hurdle rate and maximum payable is 100%. BSP reported a net profit after tax of K806 million for 2020 and as the lower threshold of the hurdle rate was not met the LTI were not vested and no payments were made.

BSP's non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool. They are not paid any retirement or superannuation benefits nor do they participate in any employee incentive schemes.

In recognition of employees' efforts during this challenging pandemic year, the BSP Board approved the payment of the 2020 Performance Bonus to all employees. The Board understands that the failure to achieve financial targets was solely due to the economic effects of COVID-19, which was beyond the control of management All employees including Executives were rewarded with an 80% of bonus that employees would otherwise be eligible for.

3.0 Key Management Personnel

The remuneration of Key Management Personnel (KMP) for Bank of South Pacific Limited (BSP) is disclosed in this Report. In 2020, KMP comprised the GCEO, Group Executives and Non-executive Directors as set out in the table below. KMP is defined as those persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Name	Position	KMP Term
Board Members		
Sir Kostas G. Constantinou, OBE	Chairman	Full year
Ernest Brian Gangloff	Director	Full year
Robert Bradshaw	Director	Full year
Geoffrey J Robb	Director	Full year
Arthur Sam	Director	Full year
Stuart Davis	Director	Full year
Dr. Matagialofi Faamausili Lua'iufi	Director	Full year
Priscilla Kevin	Director	Part year [1]
Frank Bouraga	Director	Part year [2]
Augustine Mano	Director	Part year [3]
Executives		
Robin Fleming, CSM	Group Chief Executive Officer	Full year
Frank van der Poll	Group Chief Operating Officer	Part year [4]
Ronesh Dayal	Group Chief Financial Officer	Part year [5]
Mike Hallinan	Group Chief Risk Officer	Full year
Peter Beswick	Group General Manager Corporate Banking	Full year
Rohan George	Group General Manager Treasury	Full year
Hari Rabura	General Manager Human Resources	Full year
Daniel Faunt	Group General Manager Retail Bank	Full year [6]
Nuni Kulu	General Manager Digital	Full year
Kili Tambua	General Manager Offshore Branches	Part year [7]
Andy Roberts	General Manager BSP Finance Limited	Part year [8]
Former Group Executives		
Robert Loggia	Group Chief Operating Officer	Resigned 30 October 20
Eddie Ruha	Group Chief Financial Officer	Resigned 29 May 20
Paul Thornton	Group General Manager Retail Banking	Resigned 1 December 20
Christophe Michaud	General Manager BSP Finance Limited	Resigned 30 June 20
Adam Fenech	Group General Manager Compliance	Resigned 17 November 20

1. Priscilla Kevin, newly appointed Director as at 6 April 2020
2. Frank Bouraga, newly appointed Director as at 20 December 2020
3. Augustine Mano, resigned on 30 June 2020
4. Frank van der Poll was Deputy Chief Operating Officer, appointed to Group Chief Operating Officer on 1 November 2020
5. Ronesh Dayal was Chief Financial Officer - PNG, appointed to Group Chief Financial Officer on 11 June 2020
6. Daniel Faunt was General Manager Offshore Branches, appointed to Group General Manager Retail Bank on 2 December 2020
7. Kili Tambua was Deputy General Manager for Retail Sales, appointed to General Manager Offshore Branches on 2 December 2020.
8. Andy Roberts appointed as General Manager BSP Finance Limited on 17 August 2020.

Remuneration Report

4.0 Executive Remuneration

BSP remuneration policy for Executives is comprised of a fixed component and an at risk component that is a combination of short term and long term incentives.

Remuneration packages are reviewed by the RNC, and details are approved by the Committee to the Board.

Fixed remuneration is reviewed annually taking into account the nature of the role, comparable market pay levels, and individual and business performance.

Executives who serve as Directors of subsidiaries of BSP receive no fees for their service as a Director.

Executive Remuneration – Non-Statutory Disclosure

All amounts are expressed in K'000

Name	Year	Salary	Short-term incentive	Value of benefits	Long-term incentive	Leave Encash-ment	Final Entitle-ments	Total
Current Executives								
Robin Fleming	2020	3,856	934	57	-	-	-	**4,847**
Group Chief Executive Officer	2019	3,659	1,751	31	1,557	489	-	**7,487**
Rohan George	2020	1,172	189	63	-	-	-	**1,424**
Group General Manager Treasury	2019	1,080	254	48	304	-	-	**1,686**
Peter Beswick	2020	1,189	102	121	-	-	-	**1,412**
General Manager Corporate Banking	2019	1,095	213	104	309	-	-	**1,721**
Michael Hallinan	2020	1,189	150	55	-	-	-	**1,394**
Group Chief Risk Officer	2019	1,095	206	42	309	-	-	**1,721**
Daniel Faunt	2020	982	171	197	-	-	-	**1,350**
Group General Manager Retail Bank	2019	887	175	161	250	-	-	**1,473**
Nuni Kulu	2020	850	134	117	-	97	-	**1,198**
General Manager Digital	2019	739	169	100	211	-	-	**1,218**
Hari Rabura	2020	812	98	172	-	-	-	**1,082**
General Manager Human Resource	2019	747	105	143	211	-	-	**1,206**
Ronesh Dayal	2020	728	123	130	-	-	-	**981**
Group Chief Financial Officer	2019	-	-	-	-	-	-	**-**
Andy Roberts	2020	379	29	28	-	-	-	**435**
General Manager BSP Finance Limited	2019	-	-	-	-	-	-	**-**

Name	Year	Salary	Short-term incentive	Value of benefits	Long-term incentive	Leave Encash-ment	Final Entitle-ments	Total
Frank van der Poll	2020	89	13	105	-	-	-	**207**
Group Chief Operating Officer	2019	-	-	-	-	-	-	**-**
Kili Tambua	2020	106	22	54	-	-	-	**182**
General Manager Offshore Branches	2019	-	-	-	-	-	-	**-**

Former Executives for 2020

Name	Year	Salary	Short-term incentive	Value of benefits	Long-term incentive	Leave Encash-ment	Final Entitle-ments	Total
Robert Loggia	2020	1,408	-	200	-	-	641	**2,249**
Group Chief Operating Officer	2019	1,501	273	218	423	-	-	**2,415**
Paul Thornton	2020	1,134	248	35	-	-	571	**1,988**
General Manager Retail Bank	2019	1,095	164	27	309	-	-	**1,595**
Edward Ruha	2020	753	-	23	-	-	372	**1,148**
Group Chief Financial Officer	2019	1,321	321	55	373	-	-	**2,072**
Christophe Michaud	2020	475	-	27	-	-	361	**863**
General Manager								
BSP Finance Limited	2019	901	155	41	254	-	-	**1,352**
Adam Fenech	2020	894	-	82	-	-	92	**1,068**
General Manager Compliance	2019	255	-	7	-	-	-	**262**
TOTAL	2020	16,016	2,213	1,466	-	97	2,037	**21,829**
TOTAL	2019	14,375	3,788	977	4,510	489	-	**24,139**

Note: Remuneration reflected in the table above relates to the period the staff member was in a KMP role.

Remuneration Report

4.1 Fixed Remuneration

BSP's fixed remuneration comprises of cash salary, salary sacrifice, employer superannuation contributions for citizen staff and contractual benefits. The purpose of fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required of the business. This may include salary, fixed pay allowance, cash in lieu of 3 months notice and other cash allowances in accordance with local market practices. These payments are fixed and do not vary with performance.

4.2 Short Term Incentive (STI)

STI are incentives that BSP awards to all staff at a given time of up to one year. BSP refers to the STI as the Annual Performance based bonus scheme. The scheme focuses on rewarding high-performing employees and is paid at the end of each calendar year for all staff excluding Executives (Group Chief Executive Officer, Strategic Business Unit General Managers, and Deputy General Managers) and Country Heads who are paid in March the following year after audited accounts are available.

This incentive is determined by the staff's individual performance and the overall BSP Group performance, based on the achievement of Key Performance Indicators (KPIs). KPIs are split between;

i. Net Profit After Tax (NPAT) budget,
ii. Target cost to income ratio,
iii. Individual Strategic Business Unit (SBU) performance including achieving SBU budget,
iv. Implementation of critical strategic imperatives,
v. Important SBU performance matrices.
vi. Specific individual KPI's such as promoting vision and values, staff training, customer survey outcomes, staff engagement survey feedback and the like.

Management also takes into consideration whether the SBU is a customer facing SBU or not.

4.3 Benefits

These values cover accommodation, airfares, motor vehicle, school fees, club fees and club memberships based on industry wide practice and amount vary annually depending on market rates.

4.4 Long Term Incentive Plan (LTIP)

BSP also has a LTIP for certain senior employees. BSP's LTIP is designed to align executive compensation to shareholder interests and to reward Executives (includes Deputy General Managers and Country Heads), Senior Managers and high potential employees such as Leadership and Management Developing Program participants for their contribution to long-term financial results that drive shareholder value. The LTIP assists in the recruitment, retention and motivation of Executives, Senior Managers and Critical and High Performing employees of the BSP Group. The LTIP is a two (2) year performance based plan which starts its performance cycle on the 1 January of the first year and ends on 31 December of the second year.

Key features under LTIP include;

i. The Group Earnings Per Share (EPS) is the performance measure or the proxy to share price.
ii. The vesting period is two years based on BSP Financial Year (FY) cycle. For example, performance rights issued in 2019 will be vested in 2021.

Number	Approved EPS Hurdles	EPS target to be achieved	Target NPAT	Percentage of Perfor-mance Rights to exercise
1	107.5%>	As recommended by RNC and approved by Board each LTIP cycle	As recommended by RNC and approved by Board each LTIP cycle	150% of Performance rights
2	102.5%>			100% of Performance rights
3	97.5%			50% of Performance rights

Exercising the performance rights is subject to the condition that BSP's net profit after tax (NPAT) for the vesting year is above BSP's NPAT in the issuing year.

Participants are personally responsible for any income tax liability in respect of payments made under the LTIP. If a participant resigns their employment for health reasons or retires prior to vesting, awards may be made in full or pro rata at the time of exit, at the discretion of the Board. If a participant resigns or their employment is terminated on disciplinary grounds prior to the vesting, awards are not granted.

BSP offers all its employees rewards/benefits that are performance based and non-performance based in-line with each staff's roles and responsibilities.

4.5 Performance Based

Performance based benefits are awarded to employees when Key Performance Indicators (KPI) are met. This is inclusive of the following:

i. Short Term Incentive

The BSP staff bonus (cash bonus) is purely performance driven and is focused solely on staff achieving KPI objectives at the end of each financial year. All staff excluding Senior Executives are paid at the end of each year whilst Senior Executive bonuses are paid in March the following year after the audit is completed.

Each staff performance is rated from 1 to 5 in order of the performance exceeding target to very poor performance respectively.

ii. Annual Salary Review

In line with the performance bonus rating scale above, BSP also conducts annual salary reviews each year. Staff salaries are reviewed and adjusted based on the performance rating scored in the prior year's performance review and the Consumer Price Index rate for a particular jurisdiction.

iii. Staff Loans - National Staff Home Ownership Scheme and Unsecured Personal Loans

BSP offers its staff concessional lending rates to staff who have satisfactorily completed the probation period and have formally been appointed a permanent employee status.

iv. Leadership and Management Development Program (LMDP)

BSP LMDP is a three year program derived specifically for high potential employees who have been identified as possible successors to senior and executive management roles. Participants are nominated by their SBU GMs and approved by the Group CEO.

In order to be selected to participate in the program, candidates must at least score a minimum objective rating of 3 or better in the last three years. Continuation in the program will be determined by the staff's active participation and individual performance objective rating of 3 or better each year.

v. Learning and Development

Performance ratings are also considered for staff who wish to seek BSP sponsored trainings internally and externally. A minimum rating of 3 or better is considered subject to the SBU General Manager's endorsement.

vi. Job Promotions and Appointments

BSP also considers staff individual performance objective ratings when in the process of filling internal vacancies, internal job promotions and appointments. Staff who had achieved very poor performance results in the last three years are not considered for internal promotional appointments.

4.6 Non-Performance Based

Non-Performance based benefits are not determined by the staff's performance and are applicable to all staff. These benefits include the following:

i. Medical Cover for all staff
ii. Life Insurance
iii. Superannuation
iv. Leave Management (Sick Leave, Annual Leave, Flexi Leave and Long Service Leave, Maternity Leave)
v. Specialist allowances for critical roles

4.7 Retention Plan

As part of BSPs retention strategy, BSP has developed a number of initiatives to ensure staff occupying critical roles and high potential employees are better rewarded in order to retain their services for BSP for a long term. These initiatives include:

i. Short and Long-Term Incentive Plans
ii. Leadership and Management Development Program (LMDP)
iii. National Staff Home Ownership Scheme

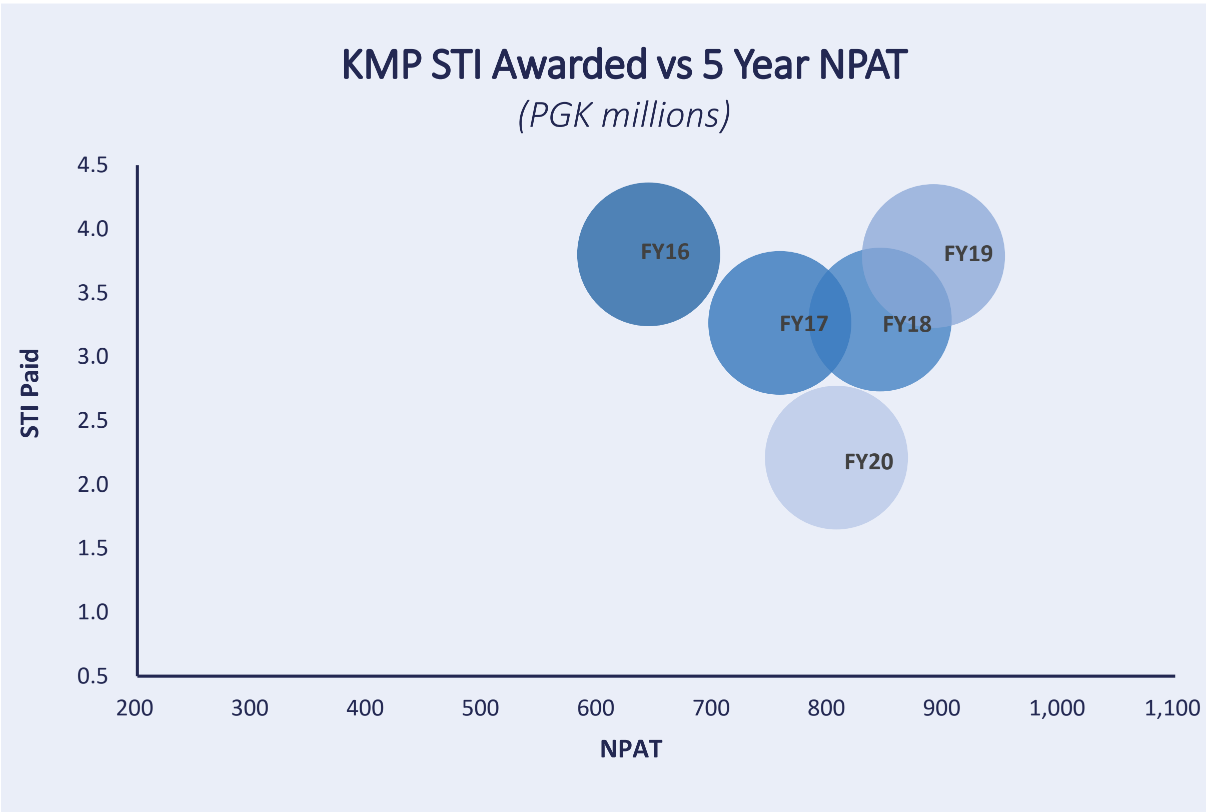
5.0 Linking performance & reward outcomes – Variable Remuneration

The Group's policy is to pay executive STI subsequent to the full audit of the financial statements. The Board determined that a STI award of approximately 80 percent of the target was appropriate for all staff and KMP after assessing performance across group and divisional/individual performance measures, with a particular risk overlay. The senior executive team strongly executed the Group's strategic agenda and demonstrated sound leadership, moving to adapt to new ways of operating while preserving efficiency and providing our clients with committed support.

5.1 Short Term Incentive (STI) Outcomes

The Group's financial performance is summarised in the table below together with its relationship to the aggregate amount of Short Term Incentives (STI) paid to Executives. This section discloses STI for the various years relative to the financial performance for those years.

	FY16	FY17	FY18	FY19	FY20
Net Profit After Tax K 000	643,451	757,003	844,072	890,363	806,218
Earnings per Share	137.7	162.0	180.6	190.6	172.6
Cost to income ratio	42.9%	42.6%	41.0%	37.7%	37.4%



The below table details the bonus pool measures and outcomes for the financial year.

Target Area	Weighting	Measure	Outcomes
Group Performance	15%	Achieve budgeted NPAT and Cost to income ratio	The Group's NPAT was below budget. However, target cost to income ratio was achieved due to strict cost containment measures to offset reduced income levels. There were no reductions to any employee fixed remuneration and benefits as part of the cost reduction initiatives.
Implementation of critical strategic imperatives	50%	Various deliverable targets to be achieved	Key strategic imperatives for the year focused around expanding the Group's digital coverage and capability, expanding to new markets, upgrading the current core systems and improving compliance. These targets were partially met during the year. Despite the various challenges considerable progress has been made in a number of critical imperatives.
Individual Assessment	35%	Various Key Performance indicators	Generally objectives in these areas were met. Despite COVID-19 the executive management team and the overall workforce demonstrated great commitment during this period.

The table below shows the STI outcomes for FY20 relative to target opportunities.

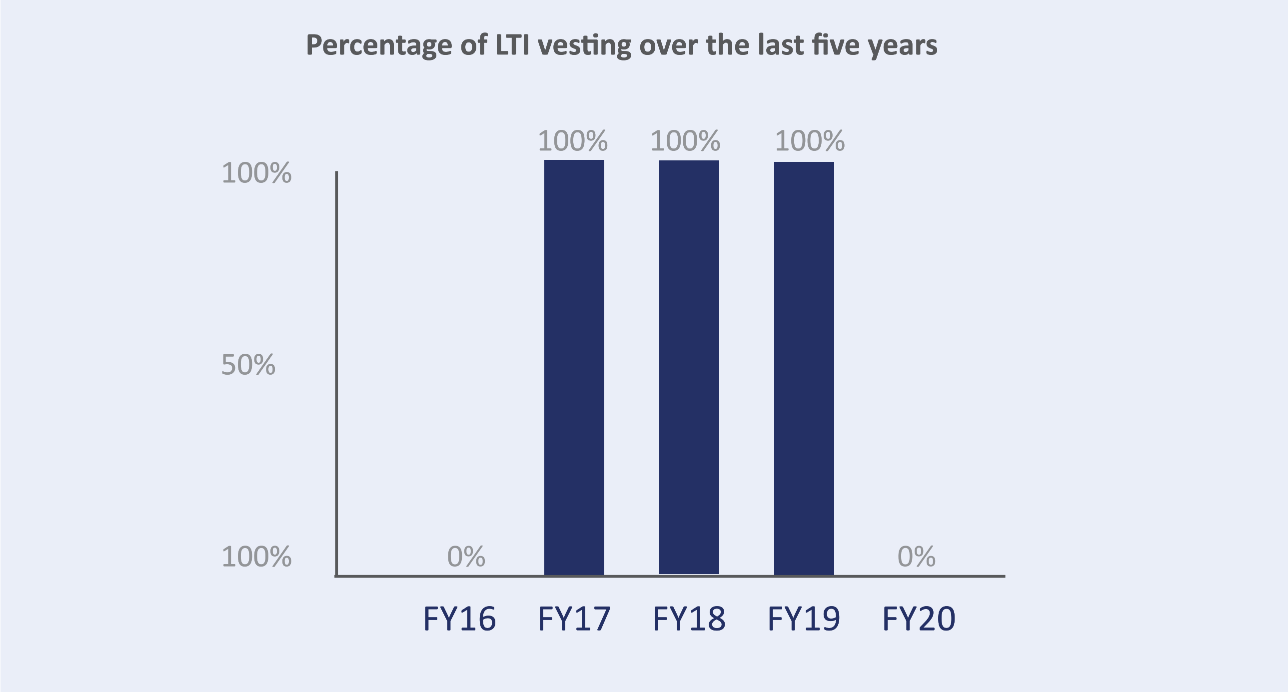
Name	Title	STI Awarded K'000	STI as % of Gross Base	Maximum STI K'000	Actual STI % of Maximum STI
Robin Fleming	Group Chief Executive Officer	934	22%	2,886	32%
Rohan George	Group General Manager Treasury	189	15%	388	49%
Peter Beswick	General Manager Corporate Banking	102	8%	393	26%
Michael Hallinan	Group Chief Risk Officer	150	11%	393	38%
Daniel Faunt	Group General Manager Retail Bank	172	13%	390	44%
Nuni Kulu	General Manager Digital	134	15%	268	50%
Hari Rabura	General Manager Human Resource	98	11%	268	37%
Ronesh Dayal	Group Chief Financial Officer	211	14%	467	45%
Andy Roberts	General Manager	80	7%	323	24%
Frank van der Poll	Group Chief Operating Officer	148	9%	467	32%
Kili Tambua	General Manager Offshore Branches	132	14%	289	46%

Note: STI awarded reflects full year 2020 payments including former BSP roles for new KMP's.

5.2 2020 LTI Outcomes

The 2020 LTIP reward matrix was approved in November 2018. BSP's LTIP uses the earnings per share (EPS) as a proxy for BSP's share price as a determinant for achieving long term value for shareholders. Vesting of the LTIP rights is subject to achievement of the target EPS for 2020, which is calculated using the 2020 group NPAT budget as the baseline with payments based on specified percentages of the maximum rights, if 2020 EPS is within the payment band as detailed in the table below.

2020 Hurdles on EPS	EPS target to achieve	Target NPAT	Percentage of Performance rights to exercise
107.5%>	215	K1,005.2 million	150%
102.5%>	205	K958.5 million	100%
97.5%>	192	K911.7 million	50%



The Group achieved a net profit of K806m and EPS was recorded at 172.60 and these were lower than the EPS and NPAT target set above. Based on these outcomes the Board determined that no LTI will be vested and paid for the 2020 financial year.

6.0 Employment Agreements

KMP Contracts
Contracts for Senior Management and Executives other than the Group CEO are for a three year term in most cases. Further extensions are subject to business requirements and employee performance.

GCEO employment agreement
The Group CEO's contractual arrangement is a three year contract. The Board approves the GCEO's employment contract.

7.0 Remuneration Policy and Government Framework

BSP recognizes that staff are the most valuable asset of BSP. The Group ensures that remuneration and benefits are fair and competitive in the market. The remuneration strategy is supported by objectives applicable to all employees and include:

i. Business results, including performance against strategic objectives and metrics in the Group's risk assessment/position and compliance with AML/CTF regulations;
ii. Performance against Groups strategic objectives set out in performance scorecards. Core aspects of the Group's risk assessments are also incorporated into the scorecards of Executive Directors and the Board and cascaded down to the Strategic Business Units;
iii. Adherence to the Group's values, business principles, Group-risk related policies and procedures and international standards
iv. Individual performance; and
v. Local Market position and practice.

The above key features of the remuneration framework enable the group to also achieve alignment between risk, performance and reward.

7.1 Remuneration and Nominations Committee (RNC)

The RNC assists BSP in fulfilling its oversight responsibilities regarding the remuneration, succession and recruitment of Directors, Executives and other BSP employees. The responsibilities of the RNC are:

- to oversee the selection and appointment of a Group CEO, and setting of an appropriate remuneration and benefits package for recommendation to the full Board;
- to determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- in conjunction with the Group CEO, to identify and maintain a clear succession plan for the Executive Management ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly; and
- to ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfill its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

The RNC is comprised of three Non-Executive Directors. The Chairman of the RNC must be one of the independent Directors, other than the Chairman of the Board.

Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the Board.

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

8.0 Non-Executive Director Remuneration

Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool approved periodically by shareholders.

Under the Constitution, the Board determines the total amount paid to each Non-Executive Director as remuneration, subject to the aggregate amount not exceeding the amount fixed by the Shareholders.

Directors may also be reimbursed their reasonable travel and other expenses incurred in attending to BSP business. Directors may also receive additional remuneration if they perform any additional services at the request of the Board.

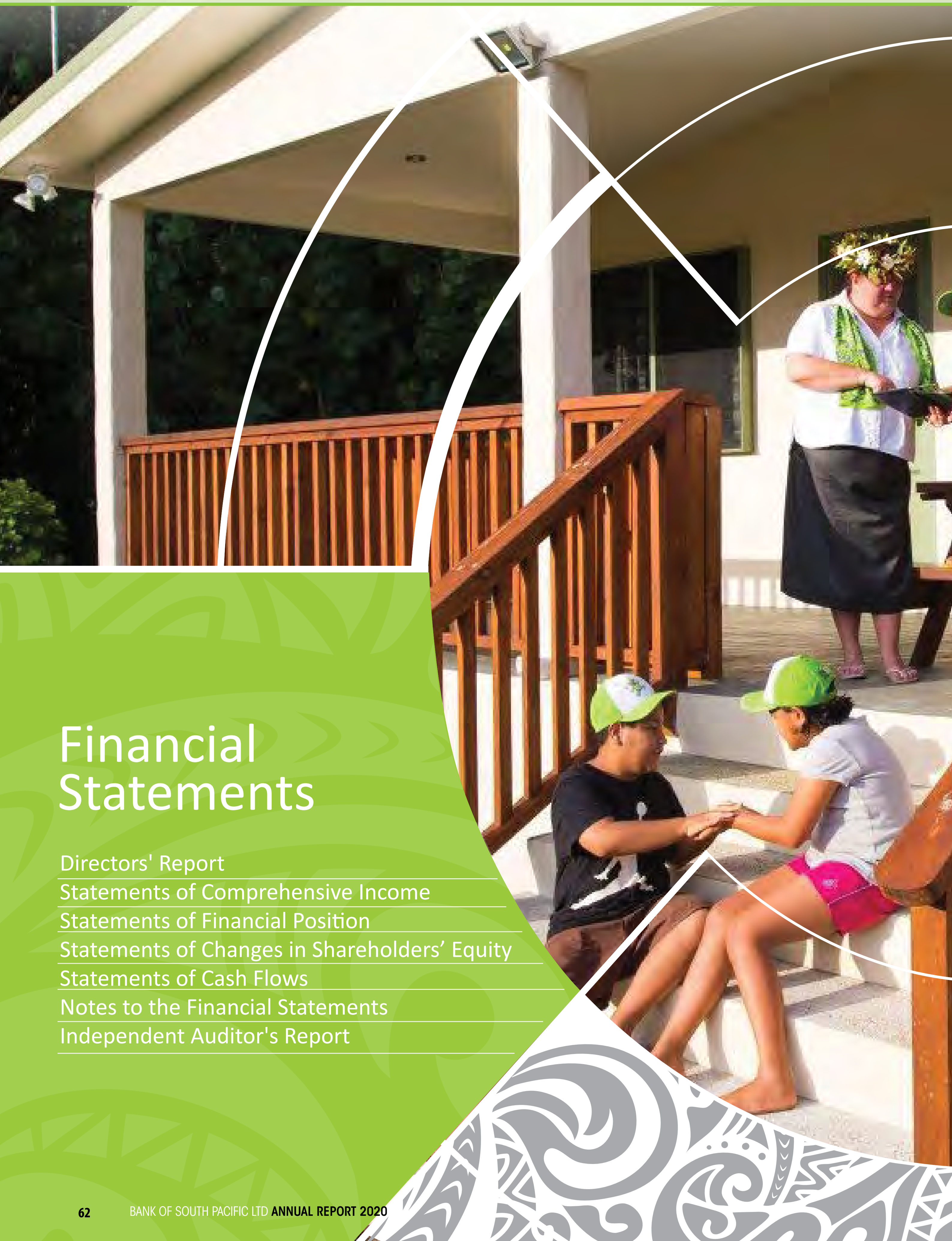
Non-Executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share or share option programs or the employee incentive schemes described below.

8.1 Fee Pool

As mentioned above, BSPs Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors "Fee Pool" approved periodically by Shareholders. Shareholders are required to approve any change to this aggregate amount. The current Shareholder approved fee pool is PGK 4.5million. Total payment to directors for the 2020 financial year within the fee pool was as follows:

All amounts are expressed in K'000

Name of Director	Base Fee	Chair-person	BACC Fee	BRC Fee	RNC Fee	Bank Total	Sub. Fees	Total Fees
Kostas Constantinou	280,652	280,652	-	-	-	561,304	300,000	**861,304**
Robert Bradshaw	280,652	-	-	-	37,500	318,152	-	**318,152**
Stuart Davis	280,652	-	25,000	25,000	-	330,652	-	**330,652**
Dr Matagialofi Lua'iufi	280,652	-	-	-	25,000	305,652	60,000	**365,652**
Geoff Robb	280,652	-	25,000	-	34,375	340,027	120,000	**460,027**
Ernie Gangloff	280,652	-	37,500	25,000	-	343,152	60,000	**403,152**
Arthur Sam	280,652	-	25,000	28,125	-	333,777	-	**333,777**
Priscilla Kevin	210,489	-	-	28,850	-	239,339	-	**239,339**
Augustine Mano	207,989	-	-	-	6,250	214,239	45,000	**259,239**
Frank Bouraga	-	-	40,400	-	-	40,400	-	**40,400**
Total	**2,383,042**	**280,562**	**152,900**	**106,975**	**103,125**	**3,026,604**	**585,000**	**3,611,604**



Financial Statements

Directors' Report

for the year ended 31 December 2020

The Directors take pleasure in presenting the Financial Statements of the Bank of South Pacific Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2020. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

Principal activities
The principal activity of the Bank of South Pacific Limited (BSP) is the provision of commercial banking and finance services 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), 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 the 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
For the year ended 31 December 2020, the Group's profit after tax was K806.218 million (2019: K890.363 million). The Bank's profit after tax was K759.452 million (2019: K845.828 million).

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

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

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

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

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

Dividends
Dividends totalling K569.355 million were paid in 2020 (2019: K653.940 million). A detailed breakup of this is provided in Note 28.

Directors and officers
The following were directors of the Bank of South Pacific Limited at 31 December 2020:

Sir K Constantinou, OBE	Mr. R Fleming, CSM	Mr. S Davis	Ms. P Kevin	Mr. E B Gangloff	Mr. F Bouraga
Mr. R Bradshaw	Mr. A Sam	Mr. G Robb, OAM	Dr. F Lua'iufi		

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

The company secretary is Mary Johns.

Independent auditor's report
The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 113. Details of amounts paid to the auditors for audit and other services are shown in Note 37 of the Notes to the Financial Statements.

Donations and sponsorships
Donations and sponsorship by the Group during the year amounted to K4.582 million (2019: K5.581 million).

Change in accounting policies
Changes to accounting policies that impacted the Group's result during the year are included in Note 1(A) of the Notes to the Financial Statements.

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 24th day of February 2021.

Sir Kostas G. Constantinou, OBE
Chairman

Robin Fleming, CSM
Group Chief Executive Officer/Managing Director

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2020**	**2019**	**2020**	**2019**
Interest income	3	1,591,992	1,585,773	1,477,343	1,477,235
Interest expense	3	(144,980)	(193,989)	(126,059)	(180,464)
Net interest income		**1,447,012**	**1,391,784**	**1,351,284**	**1,296,771**
Net fee and commission income	4	345,179	384,761	311,619	346,951
Other income	4	323,934	364,130	330,214	373,366
Net insurance operating income	31	29,525	30,675	-	-
Net operating income before impairment and operating expenses		**2,145,650**	**2,171,350**	**1,993,117**	**2,017,088**
Impairment on financial assets	6	(201,273)	(99,183)	(189,011)	(88,092)
Operating expenses	5	(802,542)	(819,248)	(730,885)	(740,729)
Profit before income tax		**1,141,835**	**1,252,919**	**1,073,221**	**1,188,267**
Income tax expense	7	(335,617)	(362,556)	(313,769)	(342,439)
Net profit for the year		**806,218**	**890,363**	**759,452**	**845,828**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency	29	97,995	10,620	53,381	5,493
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve movement	29	6,190	3,642	6,190	3,664
Fair value gain / (loss) on re-measurement of investment securities	29	72	(14)	72	(14)
Net movement in asset revaluation	29	(18,914)	(5,719)	(20,055)	(5,714)
Other comprehensive income, net of tax		**85,343**	**8,529**	**39,588**	**3,429**
Total comprehensive income for the year		**891,561**	**898,892**	**799,040**	**849,257**
Earnings per share - basic and diluted (toea)	**8**	**172.6**	**190.6**	**162.5**	**181.0**

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

Statements of Financial Position

as at 31 December 2020

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2020**	**2019**	**2020**	**2019**
ASSETS					
Cash and operating balances with Central Banks	10	2,897,195	1,816,564	2,379,542	1,510,406
Amounts due from other banks	11	1,187,461	1,022,469	1,130,805	997,816
Treasury and Central Bank bills	12	2,841,006	2,459,497	2,801,339	2,420,088
Cash reserve requirement with Central Banks	13	1,559,284	1,766,601	1,475,103	1,693,300
Other financial assets	14	3,242,225	2,121,071	2,653,577	1,572,755
Loans and receivables from customers	15	13,506,660	13,200,807	12,058,241	11,819,970
Property, plant and equipment		895,476	879,942	691,634	698,755
Asset subject to operating lease		36,434	48,133	36,434	48,133
Investment in subsidiaries		-	-	385,078	378,263
Deferred tax assets	7	290,484	250,846	284,605	246,086
Other assets	16	1,067,212	961,188	537,186	505,281
Total assets		**27,523,437**	**24,527,118**	**24,433,544**	**21,890,853**
LIABILITIES					
Amounts due to other banks	17	126,270	83,931	229,098	162,145
Customer deposits	18	21,654,024	19,339,056	20,104,351	17,981,756
Insurance policy liabilities	31	1,043,990	890,147	-	-
Other liabilities	19	1,230,172	1,065,409	1,066,198	946,329
Deferred tax liabilities	7	35,376	31,542	-	-
Total liabilities		**24,089,832**	**21,410,085**	**21,399,647**	**19,090,230**
SHAREHOLDERS' EQUITY					
Ordinary shares	28	372,189	372,310	372,189	372,310
Retained earnings	29	2,622,249	2,394,382	2,360,983	2,173,836
Other reserves	29	438,516	346,513	300,725	254,477
Equity attributable to the members of the company		**3,432,954**	**3,113,205**	**3,033,897**	**2,800,623**
Minority interests		651	3,828	-	-
Total shareholders' equity		**3,433,605**	**3,117,033**	**3,033,897**	**2,800,623**
Total equity and liabilities		**27,523,437**	**24,527,118**	**24,433,544**	**21,890,853**

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

Sir Kostas G. Constantinou, OBE
Chairman

Robin Fleming, CSM
Group Chief Executive Officer/Managing Director

All amounts are expressed in K'000	Note	Share capital	Reserves	Retained earnings	Minority interests	Total
Bank						
Balance as at 1 January 2019		**372,364**	**252,384**	**1,976,138**	**-**	**2,600,886**
Net profit		-	-	845,828	-	845,828
Other comprehensive income		-	3,429	-	-	3,429
Total comprehensive income		-	3,429	845,828	-	849,257
Dividends paid during the year	28	-	-	(649,466)	-	(649,466)
Share buyback	28	(54)	-	-	-	(54)
Total transactions with owners		(54)	-	(649,466)	-	(649,520)
Transfer from asset revaluation reserve	29	-	(4,933)	4,933	-	-
BSP Life policy reserve	29	-	3,597	(3,597)	-	-
Balance at 31 December 2019		**372,310**	**254,477**	**2,173,836**	**-**	**2,800,623**
Net profit		-	-	759,452	-	759,452
Other comprehensive income		-	39,588	-	-	39,588
Total comprehensive income		-	39,588	759,452	-	799,040
Dividends paid during the year	28	-	-	(565,354)	-	(565,354)
Share buyback	28	(121)	-	-	-	(121)
Total transactions with owners		(121)	-	(565,354)	-	(565,475)
Transfer from asset revaluation reserve	29	-	(1,032)	741	-	(291)
BSP Life policy reserve	29	-	7,692	(7,692)	-	-
Balance at 31 December 2020		**372,189**	**300,725**	**2,360,983**	**-**	**3,033,897**
Group						
Balance as at 1 January 2019		**372,364**	**339,320**	**2,156,873**	**3,578**	**2,872,135**
Net profit		-	-	890,363	-	890,363
Other comprehensive income		-	8,529	-	-	8,529
Total comprehensive income		-	8,529	890,363	-	898,892
Dividends paid during the year	28	-	-	(653,940)	-	(653,940)
Share buyback	28	(54)	-	-	-	(54)
Gain attributable to minority interests		-	-	(250)	250	-
Total transactions with owners		(54)	-	(654,190)	250	(653,994)
Transfer from asset revaluation reserve	29	-	(4,933)	4,933	-	-
BSP Life policy reserve	29	-	3,597	(3,597)	-	-
Balance at 31 December 2019		**372,310**	**346,513**	**2,394,382**	**3,828**	**3,117,033**
Net profit		-	-	806,218	-	806,218
Other comprehensive income		-	85,343	-	-	85,343
Total comprehensive income		-	85,343	806,218	-	891,561
Dividends paid during the year	28	-	-	(569,191)	(164)	(569,355)
Share buyback	28	(121)	-	-	-	(121)
Gain attributable to minority interests				(2,209)	2,209	-
Acquisition of minority interest		-	-	-	(5,222)	(5,222)
Total transactions with owners		(121)	-	(571,400)	(3,177)	(574,698)
Transfer from asset revaluation reserve	29	-	(1,032)	741	-	(291)
BSP Life policy reserve	29	-	7,692	(7,692)	-	-
Balance at 31 December 2020		**372,189**	**438,516**	**2,622,249**	**651**	**3,433,605**

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

Statements of Cash Flows

for the Year Ended 31 December 2020

		Consolidated		Bank	
All amounts are expressed in K'000	**Note**	**2020**	**2019**	**2020**	**2019**
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,556,496	1,605,387	1,443,885	1,480,232
Fees and other income		697,930	779,565	641,246	719,567
Interest paid		(89,307)	(167,913)	(71,615)	(153,354)
Amounts paid to suppliers and employees		(886,940)	(776,812)	(756,232)	(646,339)
Operating cash flow before changes in operating assets & liabilities	**9**	**1,278,179**	**1,440,227**	**1,257,284**	**1,400,106**
Net (increase)/ decrease in:					
Loans and receivables from customers		(448,960)	(737,195)	(371,177)	(644,594)
Cash reserve requirements with the Central Banks		207,317	(81,058)	218,197	(71,265)
Bills receivable and other assets		(39,982)	(201,387)	33,310	(98,089)
Net increase/ (decrease) in:					
Customer deposits		2,314,968	1,106,290	2,122,595	1,022,586
Bills payable and other liabilities		218,669	(184)	(36,312)	(207,231)
Net cash flow from operations before income tax		**3,530,191**	**1,526,693**	**3,223,897**	**1,401,513**
Income taxes paid	**7**	(372,872)	(383,287)	(346,003)	(363,837)
Net cash flow from operating activities		**3,157,319**	**1,143,406**	**2,877,894**	**1,037,676**
CASH FLOW FROM INVESTING ACTIVITIES					
Sale/(purchase) of government securities		(1,502,663)	429,961	(1,462,073)	561,386
Expenditure on property, plant and equipment		(63,945)	(82,780)	(45,994)	(79,249)
Expenditure on software development costs		(46,530)	(52,108)	(46,330)	(49,979)
Proceeds from disposal of property, plant and equipment		1,787	7,076	1,787	7,076
Additional funding of subsidiaries	**32**	-	-	(6,815)	(30,666)
Net cash flow from/ (used in) investing activities		**(1,611,351)**	**302,149**	**(1,559,425)**	**408,568**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	**28**	(121)	(54)	(121)	(54)
Dividends paid	**28**	(569,355)	(653,940)	(565,354)	(649,466)
Principal repayments of borrowings		(113,418)	(61,153)	(113,418)	(61,153)
Proceeds from borrowings	**19**	242,215	33,670	242,215	33,670
Subordinated debt securities matured		-	(75,525)	-	(75,525)
Net cash flow used in financing activities		**(440,679)**	**(757,002)**	**(436,678)**	**(752,528)**
Net (decrease)/increase in cash and cash equivalents		**1,105,289**	**688,553**	**881,791**	**693,716**
Exchange rate movements on cash and cash equivalents		97,995	10,620	53,381	5,493
Cash and cash equivalents at the beginning of the year	**9**	2,755,102	2,055,929	2,346,077	1,646,868
Cash and Cash Equivalents at the end of the year	**9**	**3,958,386**	**2,755,102**	**3,281,249**	**2,346,077**

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

1. FINANCIAL STATEMENTS PREPARATION

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The assets and liabilities are presented in order of liquidity on the Statements of Financial Position.

A. Basis of Presentation and General Accounting Policies

The Financial Statements of the Bank of South Pacific Limited and the Group are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of these standards issued by the International Financial Reporting Interpretations Committee. They are prepared on the basis of the historical cost convention, as modified by the revaluation of certain non-current assets, financial instruments and liabilities.

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

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

Standards, amendments and interpretations effective in the year ended 31 December 2020

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2020.

- Amendments to IFRS 3 – definition of a business. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- Amendments to IAS 1 and IAS 8 on the definition of 'material'. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
  - use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting
  - clarify the explanation of the definition of material; and
  - incorporate some of the guidance in IAS 1 about immaterial information
- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform. These Phase 1 amendments provide relief in relation to hedge accounting and interest rate benchmark reform and have the effect that IBOR reform should not generally cause hedge accounting to terminate. Any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the relief will affect companies in all industries who do hedge accounting.
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. This amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2020 or adopted early

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2021 or later periods, but the entity has not early adopted them:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective1 January, 2021) - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1 January, 2022).
  - Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in the income statement.
  - Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.
- IFRS 17 'Insurance contracts" (effective 1 January 2023) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2020, and their results for the year then ended.

Controlled entities are those over which the Group has the power to govern financial and operating policies, generally accompanied by a shareholding that commands the majority of voting rights, and are commonly referred to as subsidiaries.

Subsidiaries are accounted for at acquisition under the acquisition method of accounting, where:

- consideration transferred is measured at fair value of assets transferred, equity issued and liabilities assumed;
- identifiable net assets are recorded initially at acquisition, at their fair values;
- any excess of the acquisition cost over the relevant share of identifiable net assets acquired is treated as goodwill, and any deficiency is recognised directly in the Statement of Comprehensive Income.

All intercompany transactions and balances are eliminated.

C. Foreign currency

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

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

Foreign operations

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

D. Critical accounting estimates and judgments

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

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

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

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

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

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

Detailed information about the judgements and estimates made by the Group in the above areas are set out in note 15.

Impact of COVID-19

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus have had a significant impact on global economies and financial markets. As a result, this has increased the uncertainty and judgement required in relation to our critical accounting assumptions and estimates, primarily relating to expected credit losses as there is a higher than usual degree of uncertainty associated with these assumptions and estimates, the actual economic conditions are likely to be different from those forecast which may significantly impact accounting estimates included in these financial statements. The impact of COVID-19 is discussed further in each of the related notes.

Financial Performance

2. SEGMENT REPORTING

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

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

Consolidated

All amounts are expressed in K'000	PNG Bank	Offshore Banks	Non-Bank Entities	Adjust Inter Segments	Total
Analysis by segments					
Year ended 31 December 2020					
Net interest income	1,148,684	263,807	32,289	2,232	1,447,012
Other income	496,137	196,194	24,344	(47,562)	669,113
Net insurance income	-	-	32,246	(2,721)	29,525
Total operating income	**1,644,821**	**460,001**	**88,879**	**(48,051)**	**2,145,650**
Operating expenses	(581,448)	(207,639)	(18,755)	5,300	(802,542)
Impairment expenses	(146,472)	(48,845)	(5,956)	-	(201,273)
Profit before income tax	**916,901**	**203,517**	**64,168**	**(42,751)**	**1,141,835**
Income tax	(274,985)	(50,191)	(10,441)	-	(335,617)
Net profit after income tax	**641,916**	**153,326**	**53,727**	**(42,751)**	**806,218**
Assets	18,579,915	8,566,675	1,921,829	(1,544,982)	27,523,437
Liabilities	(16,104,050)	(7,463,833)	(1,418,414)	896,465	(24,089,832)
Net assets	**2,475,865**	**1,102,842**	**503,415**	**(648,517)**	**3,433,605**
Year ended 31 December 2019					
Net interest income	1,115,454	241,808	30,772	3,750	1,391,784
Other income	542,027	243,347	18,496	(54,979)	748,891
Net insurance income	-	-	34,999	(4,324)	30,675
Total operating income	**1,657,481**	**485,155**	**84,267**	**(55,553)**	**2,171,350**
Operating expenses	(582,740)	(220,439)	(20,393)	4,324	(819,248)
Impairment expenses	(58,555)	(36,244)	(4,384)	-	(99,183)
Profit before income tax	**1,016,186**	**228,472**	**59,490**	**(51,229)**	**1,252,919**
Income tax	(297,480)	(58,085)	(6,991)	-	(362,556)
Net profit after income tax	**718,706**	**170,387**	**52,499**	**(51,229)**	**890,363**
Assets	16,841,489	7,527,333	1,728,459	(1,570,163)	24,527,118
Liabilities	(14,495,105)	(6,565,047)	(1,274,339)	924,406	(21,410,085)
Net assets	**2,346,384**	**962,286**	**454,120**	**(645,757)**	**3,117,033**

3. NET INTEREST INCOME

Accounting Policy

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

Interest income includes coupons earned on Government inscribed stock, accrued 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 Statement of Comprehensive Income in the period in which they are incurred.

Net interest income	**Consolidated**		**Bank**	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Interest income				
Loans, advances and other receivables from customers[1]	1,199,823	1,238,453	1,084,444	1,125,395
Other financial assets - inscribed stock	220,328	198,484	219,956	198,164
Treasury and Central Bank bills	163,332	141,573	162,287	140,086
Cash and balances with Central Bank	6,138	6,189	8,005	9,714
Other	2,371	1,074	2,651	3,876
	1,591,992	**1,585,773**	**1,477,343**	**1,477,235**
Less: **Interest expense**				
Customer deposits	136,688	178,053	116,387	162,912
Other banks	8,292	12,396	9,672	14,012
Subordinated debt securities	-	3,540	-	3,540
	144,980	**193,989**	**126,059**	**180,464**
	1,447,012	**1,391,784**	**1,351,284**	**1,296,771**

[1]Group interest income includes K20.511m (Bank K18.915m) recognized on impaired loans (Stage 3) to customers, 2019: K13.079m (Bank K12.957m). The Group takes up required provisions on such interest income as detailed in the accounting policy in note 15.

4. NON-INTEREST INCOME

Accounting Policy

Fee and commission income

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

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

Foreign exchange income or losses

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

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Net Fee and commission income				
Product related	178,512	182,220	163,186	169,131
Trade and international related	19,320	21,259	18,185	20,366
Electronic banking related	116,514	143,801	112,572	132,861
Other	30,833	37,481	17,676	24,593
	345,179	**384,761**	**311,619**	**346,951**
Other income				
Foreign exchange related[1]	288,203	327,705	260,181	291,308
Operating lease rentals	7,503	7,503	7,503	7,503
Other	28,228	28,922	62,530	74,555
	323,934	**364,130**	**330,214**	**373,366**

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

5. OPERATING EXPENSES

Accounting Policy

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

Superannuation expense includes expenses relating to defined contribution plans. Defined contribution expense is 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. The right-of-use assets are recognized under IFRS 16. Leases are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation of Property, Plant and Equipment.

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

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

Operating Expenses	**Consolidated**		**Bank**	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Administration	109,703	95,246	99,115	90,694
Computing	109,719	125,412	93,899	111,245
Depreciation	75,202	80,959	68,257	63,405
Amortisation of computer development costs	25,597	28,173	25,375	22,577
Non-executive directors costs	4,234	3,639	3,538	3,044
Non-lending losses	10,775	2,318	10,349	1,654
Fixed asset impairment expenses	640	1,975	640	1,975
Premises and equipment	86,179	87,940	80,424	83,442
	422,049	**425,662**	**381,597**	**378,036**
Staff costs				
Wages and salaries	301,887	312,239	275,676	286,004
Defined contribution plans	14,787	15,531	13,358	14,133
Statutory benefit contributions	10,890	10,929	10,061	10,320
Other staff benefits	52,929	54,887	50,193	52,236
	380,493	**393,586**	**349,288**	**362,693**
	802,542	**819,248**	**730,885**	**740,729**

6. IMPAIRMENT OF FINANCIAL ASSETS

Accounting Policy

Impairment

All 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, provision is recognised equivalent to lifetime ECL. All bad debts are written off against available specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries are credited to the provision for loan losses in the Statement of Comprehensive Income.

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

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

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

Note 15 provides more detail of how the expected credit loss allowance is measured.

Impairment on financial assets by asset class as follows:

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Loans and receivables from customers (note 15)	183,352	101,882	171,200	90,861
Treasury and Central Bank Bills (note 12)	8,125	(1,865)	7,949	(1,865)
Other financial asset (note 14)	9,796	(834)	9,862	(904)
	201,273	**99,183**	**189,011**	**88,092**

7. INCOME TAX

Accounting Policy

Current Tax

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

Deferred tax

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

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

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

Current and deferred tax for the period

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

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.

7. INCOME TAX (Continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Income tax expense				
Current tax	366,976	368,467	343,853	348,760
Deferred tax	(36,156)	(8,675)	(32,452)	(9,510)
Current year	330,820	359,792	311,401	339,250
Adjustment to prior year estimates	4,797	2,764	2,368	3,189
	335,617	**362,556**	**313,769**	**342,439**
Tax calculated at 30% of bank profit before tax	321,966	356,480	321,966	356,480
Tax calculated at respective subsidiary tax rates	14,664	10,759	-	-
Expenses not deductible for tax	7,233	6,072	845	995
Tax loss not recognised	1,024	5,548	-	-
Income not recognized for tax purposes	(14,067)	(19,067)	(11,410)	(18,225)
Adjustment to prior year estimates	4,797	2,764	2,368	3,189
	335,617	**362,556**	**313,769**	**342,439**
Tax recoverable				
At 1 January	27,588	12,753	30,275	17,020
Income tax provision	(366,976)	(368,467)	(343,853)	(348,760)
Adjustment to prior year estimates	(138)	579	-	1,004
Other tax related items	(459)	(564)	(6)	(2,826)
Foreign tax paid	20,321	18,412	-	-
Tax payments made	352,551	364,875	346,003	363,837
At 31 December	**32,887**	**27,588**	**32,419**	**30,275**
Specific allowance for losses on Loans and receivables from customers	67,101	56,215	64,594	53,558
General allowance for losses on Loans and receivables from customers	162,889	137,768	155,764	131,960
Employee related provisions	25,361	26,721	23,785	25,944
Prepaid expenses	(1,156)	(1,349)	(1,213)	(1,323)
Other provisions	42,279	47,422	46,649	45,396
Property, plant and equipment	(65,333)	(70,969)	(23,300)	(30,223)
Unrealised foreign exchange gains	(957)	(1,876)	(957)	(1,876)
Accruals	24,924	25,372	19,283	22,650
At 31 December	**255,108**	**219,304**	**284,605**	**246,086**
Represented by:				
Deferred tax asset	290,484	250,846	284,605	246,086
Deferred tax liability	(35,376)	(31,542)	-	-
At 31 December	**255,108**	**219,304**	**284,605**	**246,086**
Deferred taxes movement:				
At 1 January	219,304	208,444	246,086	234,391
Current year movement	36,156	8,675	32,452	9,510
Adjustment to prior year estimates	4,935	2,185	2,368	2,185
Other movements	(5,287)	-	3,699	-
At 31 December	**255,108**	**219,304**	**284,605**	**246,086**

8. EARNINGS PER ORDINARY SHARE

Accounting Policy

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

	Consolidated		Bank	
All amounts are expressed in K'000	2020	2019	2020	2019
Net profit attributable to shareholders (K'000)	806,218	890,363	759,452	845,828
Weighted average number of ordinary shares in use (000)	467,235	467,242	467,235	467,242
Basic and diluted earnings per share (expressed in toea)	**172.6**	**190.6**	**162.5**	**181.0**

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

9. RECONCILIATION OF OPERATING CASH FLOW

	Consolidated		Bank	
All amounts are expressed in K'000	2020	2019	2020	2019
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	806,218	890,363	759,452	845,828
Add: Tax expense	335,617	362,556	313,769	342,439
Operating profit before income tax	1,141,835	1,252,919	1,073,221	1,188,267
Major non cash amounts				
Depreciation	75,202	80,959	68,257	63,405
Amortisation of computer development costs	25,597	28,173	25,375	22,577
Net (Gain)/loss on sale of fixed assets	(707)	(2,088)	(587)	33
Impairment on financial assets	201,273	99,183	189,011	88,092
Movement in payroll provisions	(3,795)	9,956	8,104	8,391
Impairment of fixed assets	640	1,975	640	1,975
Net changes in assets and liabilities	(161,866)	(30,850)	(106,737)	27,366
Operating cash flow before changes in operating assets & liabilities	**1,278,179**	**1,440,227**	**1,257,284**	**1,400,106**
Cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity.				
Cash and balances with Central Banks (note 10)	2,897,195	1,816,564	2,379,542	1,510,406
Amounts due from other banks (note 11)[1]	1,187,461	1,022,469	1,130,805	997,816
Amounts due to other banks (note 17)	(126,270)	(83,931)	(229,098)	(162,145)
	3,958,386	**2,755,102**	**3,281,249**	**2,346,077**

[1]The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks includes deposit of K51.609 million held with counter-party Banks that are not available for use by the Group.

Financial Instruments: Financial Assets

Accounting Policy

Recognition

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

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

De-recognition

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

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

Classification and measurement

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

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

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for, sales in previous periods and expectations of sales in future periods.

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

Debt instruments

If the debt instruments have contractual cash flows which represent SPPI on the principal balance outstanding they are classified at:
- amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect these cash flows; or
- fair value through other comprehensive income (FVOCI) if they are held within a business model whose objective is achieved either through collecting these cash flows or selling the financial asset; or
- FVIS if they are held within a business model whose objective is achieved through selling the financial asset.

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

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

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

Equity securities

Equity securities are measured at FVOCI where they:
- are not held for trading; and
- an irrevocable election is made by the Group.

Otherwise, they are measured at FVIS.

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

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

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

Derivative financial instruments and acceptances

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

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

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

10. CASH AND OPERATING BALANCES WITH CENTRAL BANKS

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Notes, coins and cash at bank	466,069	513,241	412,729	496,694
Balances with Central Banks other than statutory deposit	2,431,126	1,303,323	1,966,813	1,013,712
At 31 December	**2,897,195**	**1,816,564**	**2,379,542**	**1,510,406**

11. AMOUNTS DUE FROM OTHER BANKS

Items in the course of collection	11,944	29,692	11,944	29,693
Placements with other banks	1,175,517	992,777	1,118,861	968,123
At 31 December	**1,187,461**	**1,022,469**	**1,130,805**	**997,816**

12. TREASURY AND CENTRAL BANK BILLS

Treasury and Central Bank bills – face value	2,940,164	2,513,084	2,908,416	2,478,589
Unearned interest	(91,413)	(50,788)	(91,414)	(50,787)
Less allowance for impairment	(15,839)	(7,714)	(15,663)	(7,714)
	2,832,912	**2,454,582**	**2,801,339**	**2,420,088**
Financial assets carried at fair value through profit and loss				
Treasury bills	8,094	4,915	-	-
At 31 December	**2,841,006**	**2,459,497**	**2,801,339**	**2,420,088**
Allowance for impairment				
At 1 January	7,714	9,579	7,714	9,579
Provision/(release) for impairment	8,125	(1,865)	7,949	(1,865)
At 31 December	**15,839**	**7,714**	**15,663**	**7,714**

13. CASH RESERVE REQUIREMENT WITH CENTRAL BANKS

The Bank and the Group complies with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that it operates in. The CRR specifies that a bank must hold an amount equal to a percentage of its total customer deposits in the form of cash in an account maintained by the respective Central Banks. The Bank and Group complies with this requirement on an ongoing basis. CRR requirements applicable for each jurisdiction at balance date were: PNG 7% (2019: 10%), Fiji 10% (2019: 10%), Solomon Islands 5% (2019: 7.5%), Samoa 4.5% (2019: 4.5%), Tonga 10% (2019: 10%) and Vanuatu 5.25% (2019: 5.25%).

14. OTHER FINANCIAL ASSETS

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Inscribed stock – issued by Central Bank	2,696,749	1,357,845	2,668,385	1,577,701
Less allowance for impairment	(14,966)	(5,170)	(14,808)	(4,946)
	2,681,783	**1,352,675**	**2,653,577**	**1,572,755**
Financial assets carried at fair value through profit and loss:				
Government inscribed stock	291,042	513,024	-	-
Equity securities	269,400	255,372	-	-
At 31 December	**3,242,225**	**2,121,071**	**2,653,577**	**1,572,755**
Allowance for impairment				
At 1 January	5,170	6,004	4,946	5,850
Provision/(release) for impairment	9,796	(834)	9,862	(904)
At 31 December	**14,966**	**5,170**	**14,808**	**4,946**

15. LOANS AND RECEIVABLES FROM CUSTOMERS

Accounting Policy

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

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Overdrafts	812,271	1,008,876	737,484	933,819
Lease financing	278,813	295,381	246,595	258,659
Term loans	10,340,695	9,903,563	9,503,636	9,114,411
Mortgages	2,813,399	2,605,311	2,350,019	2,159,668
Policy loans	105,193	88,280	-	-
Gross loans and receivables from customers net of reserved interest	**14,350,371**	**13,901,411**	**12,837,734**	**12,466,557**
Less allowance for losses on loans and receivables from customers	(843,711)	(700,604)	(779,493)	(646,587)
At 31 December	**13,506,660**	**13,200,807**	**12,058,241**	**11,819,970**

The spread of the loans are detailed in the maturity analysis table in Note 22. The loans are well-diversified across various sectors and are further analysed in Note 22. Allowance for losses includes K50.082m (Bank K44.963m), 2019: K29.976m (Bank K28.192m) provision taken up for interest recognized on stage 3 loans.

Lease financing

The Bank and the Group provide lease financing to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles and plant and equipment. Finance leases are included within Loans and receivables from customers and are analysed as follows:

15. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	2020	2019	2020	2019
Gross investment in finance lease receivable				
Not later than 1 year	54,550	23,152	49,863	19,241
Later than 1 year and not later than 5 years	253,168	309,154	220,139	269,514
	307,718	**332,306**	**270,002**	**288,755**
Unearned future finance income				
Not later than 1 year	(2,290)	(1,319)	(2,115)	(1,116)
Later than 1 year and not later than 5 years	(26,615)	(35,606)	(21,292)	(28,980)
	(28,905)	**(36,925)**	**(23,407)**	**(30,096)**
Present value of minimum lease payments receivable	**278,813**	**295,381**	**246,595**	**258,659**
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	52,260	21,833	47,748	18,125
Later than 1 year and not later than 5 years	226,553	273,548	198,847	240,534
At 31 December	**278,813**	**295,381**	**246,595**	**258,659**

Allowance for Expected Credit Losses

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 due from subsidiaries: as a reduction of the carrying value of the financial asset through an offsetting provision account;
- 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.

<u>Model stages</u>

The three stages are as follows:

Stage 1: 12 months ECL - performing

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

Stage 2: Lifetime ECL – performing

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

Stage 3: Lifetime ECL – non-performing

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

Collective and individual assessment

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

Expected life

In considering the 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. credit cards and revolving lines of credit), the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit our exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

Movement between stages

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

15. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Off-Balance Sheet amounts

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

Definition of default

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

Critical accounting assumptions and estimates

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

Significant increase in credit risk

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

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

Customers in hardship arrangements are normally treated as an indication of a significant increase in credit risk but the deferral of payments under the current COVID-19 relief packages has not, in isolation, been treated as an indication of SICR. The Group has classified these relief packages into different categories of risk, which have been assessed for an increased likelihood of a risk of default to determine whether a SICR has occurred.

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

Probability weighting of each scenario.

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

- Base case scenario
  This scenario utilises external economic forecasts used for strategic decision making and forecasting.
- Upside scenario
  This scenario represents a modest improvement on the base case scenario.
- Downside scenario
  This scenario represents a moderate recession.

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.

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.

15. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

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	**2020**	**2019**	**2020**	**2019**
Provision for impairment				
Movement in allowance for losses on loans, advances and other receivables from customers:				
Balance at 1 January	700,604	633,567	646,587	589,238
Net new and increased provisioning	143,823	79,064	132,807	65,049
Loans written off against provisions / (Write back of provisions no longer required)	(716)	(12,027)	99	(7,700)
At 31 December	**843,711**	**700,604**	**779,493**	**646,587**
Provision for impairment is represented by				
Collective provision for on balance sheet	517,456	429,932	477,553	394,382
Individually assessed or specific provision	272,821	223,299	250,278	206,721
Total provisions for on balance sheet exposure	**790,277**	**653,231**	**727,831**	**601,103**
Collective provision for off balance sheet exposure	53,434	47,373	51,662	45,484
At 31 December	**843,711**	**700,604**	**779,493**	**646,587**
Loan impairment expense				
Net collective provision funding	79,045	17,552	77,377	13,478
Net new and increased individually assessed provisioning	64,778	61,512	55,430	51,571
Total new and increased provisioning	**143,823**	**79,064**	**132,807**	**65,049**
Recoveries during the year	(56,495)	(64,042)	(54,633)	(58,178)
Net (write back) / write off	96,024	86,860	93,026	83,990
At 31 December	**183,352**	**101,882**	**171,200**	**90,861**

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Net financial assets originated, which includes additional allowances for new financial instruments recognised during the period, net of releases for financial instruments de-recognised in the period;
- Movement in risk parameters and other changes arising from regular refreshing of inputs to models, foreign exchange retranslations for assets denominated in foreign currencies and other movements;
- Management temporary adjustments taken up during the reporting period relating to the impact of COVID-19 on ECL have been reflected as transfers from Stage 1 to Stage 2.

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

EAD - Loans and receivables from customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2019	**11,560,656**	**1,253,275**	**350,285**	**13,164,216**
Transfers to/(from)				
Stage 1	(413,939)	334,851	56,142	(22,946)
Stage 2	135,032	(187,033)	36,394	(15,607)
Stage 3	-	697	(847)	(150)
Net financial assets originated	858,825	(32,641)	(50,286)	775,898
Total movement in EAD during 2019	**579,918**	**115,874**	**41,403**	**737,195**
31 December 2019	**12,140,574**	**1,369,149**	**391,688**	**13,901,411**

15. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

All amounts are expressed in K'000				
ECL – Loans and receivables from customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2019	**185,687**	**231,124**	**179,222**	**596,033**
Transfers to/(from)				
Stage 1	(11,328)	52,332	16,866	57,870
Stage 2	5,278	(25,077)	13,013	(6,786)
Stage 3	-	71	(54)	17
Net financial assets originated	33,979	911	2,063	36,953
Movements due to risk parameter and other changes	(25,868)	(17,177)	24,216	(18,829)
Total net P&L charge during 2019	**2,061**	**11,060**	**56,104**	**69,225**
Loans written off against provision/(write back of provision no longer required)	-	-	(12,027)	(12,027)
31 December 2019	**187,748**	**242,184**	**223,299**	**653,231**
EAD - Loans and receivables from customers				
1 January 2020	**12,140,574**	**1,369,149**	**391,688**	**13,901,411**
Transfers to/(from)				
Stage 1	(1,087,236)	979,312	89,196	(18,728)
Stage 2	81,201	(153,301)	57,290	(14,810)
Stage 3	-	1,158	(1,422)	(264)
Net financial assets originated	576,289	(45,644)	(47,883)	482,762
Total movement in EAD during the year	**(429,746)**	**781,525**	**97,181**	**448,960**
31 December 2020	**11,710,828**	**2,150,674**	**488,869**	**14,350,371**
ECL – Loans and receivables from customers				
1 January 2020	**187,748**	**242,184**	**223,299**	**653,231**
Transfers to/(from)				
Stage 1	(31,099)	122,691	19,936	111,528
Stage 2	1,296	(20,265)	13,204	(5,765)
Stage 3	-	93	(108)	(15)
Net financial assets originated	38,744	(6,917)	5,694	37,521
Movements due to risk parameter and other changes	(12,912)	(4,107)	11,512	(5,507)
Total net P&L charge during 2020	**(3,971)**	**91,495**	**50,238**	**137,762**
Loans written off against provision/(write back of provision no longer required)	-	-	(716)	(716)
31 December 2020	**183,777**	**333,679**	**272,821**	**790,277**

15. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

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

	2020		2019	
All amounts are expressed in K'000	Stage 1		Stage 1	
	Gross exposure	Loss allowance	Gross exposure	Loss allowance
1 January	2,567,433	47,373	2,232,389	37,534
Net increase/(decrease)	416,711	6,061	335,044	9,839
At 31 December	**2,984,144**	**53,434**	**2,567,433**	**47,373**

Write-off policy

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

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

16. OTHER ASSETS

	Consolidated		Bank	
All amounts are expressed in K'000	2020	2019	2020	2019
Financial Assets				
Funds in transit and other assets[1]	140,638	194,315	102,794	146,054
Accrued interest – Government inscribed stock	61,272	37,446	60,688	36,709
Accrued interest – loans and receivables from customers	75,289	63,620	66,305	56,826
Intercompany account	-	-	3,026	6,960
Outstanding premiums	21,030	17,681	-	-
Prepayments	38,723	32,524	33,921	27,815
Accounts receivable	4,642	3,571	2,938	2,254
Tax receivable	32,887	27,588	32,419	30,275
	374,481	**376,745**	**302,091**	**306,893**
Non-Financial Assets				
Inventory	11,649	17,837	-	-
Investment in Joint Ventures	202,546	202,040	27,879	20,787
Intangible Assets	220,846	196,206	207,216	177,601
Investment properties	257,690	168,360	-	-
	692,731	584,443	235,095	198,388
At 31 December	**1,067,212**	**961,188**	**537,186**	**505,281**

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

Financial Instruments: Financial Liabilities

Accounting Policy

Recognition

Financial liabilities are recognised when an obligation arises.

Classification and subsequent measurement

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

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

De-recognition

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

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

Financial guarantee contracts and loan commitments

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

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

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

Expected credit loss on loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 15). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision liability.

17. AMOUNT DUE TO OTHER BANKS

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Vostro account balances	57,529	47,083	76,185	66,786
Other borrowings	68,741	36,848	152,913	95,359
At 31 December	**126,270**	**83,931**	**229,098**	**162,145**

18. CUSTOMER DEPOSITS

On demand and short term deposits	17,990,094	15,322,280	17,097,544	14,605,182
Term deposits	3,663,930	4,016,776	3,006,807	3,376,574
At 31 December	**21,654,024**	**19,339,056**	**20,104,351**	**17,981,756**

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

19. OTHER LIABILITIES

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Insurance liabilities				
Premiums received in advance	29,144	6,329	-	-
Outstanding claims	23,894	18,679	-	-
Claims incurred but not reported (IBNR)	2,146	2,297	-	-
Other insurance liabilities	151,491	132,768	-	-
At 31 December	**206,675**	**160,073**	**-**	**-**
Creditors and accruals	104,891	184,941	70,801	122,218
Items in transit and all other liabilities	463,555	399,916	554,437	520,720
Borrowings[1]	245,614	116,817	245,614	116,817
Other provisions	209,437	203,662	195,346	186,574
At 31 December	**1,230,172**	**1,065,409**	**1,066,198**	**946,329**

[1]A loan amounting to K242.215 million (USD 70 million) was drawn down in 2020 with quarterly interest repayments commencing in the third quarter. The Bank pre-paid an existing obligation of K78.215 million (USD 22.5 million) at the same time.

20. CONTINGENT LIABILITIES AND COMMITMENTS

Commitments for capital expenditure				
Amounts with firm commitments, and not reflected in the accounts	**44,120**	**55,829**	**29,753**	**51,313**
Off balance sheet financial instruments				
Letters of credit	97,420	121,600	96,366	117,057
Guarantees and indemnities issued	289,579	366,170	290,123	341,373
Commitments to extend credit	2,599,995	2,088,924	2,509,139	2,003,881
At 31 December	**2,986,994**	**2,576,694**	**2,895,628**	**2,462,311**

Contingent liabilities includes forward exchange contracts of K2.880m which is not part of the credit exposure.

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 20. Based on information available at 31 December 2020, the Group estimates a contingent liability of K17.7 million (2019: K15.8 million) in respect of these proceedings.

The Bank 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 Bank expects to result in a material economic outflow of resources.

Risk Management

21. RISK MANAGEMENT FRAMEWORK AND CONTROLS

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

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

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

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

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

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

22. CREDIT RISK AND ASSET QUALITY

22.1 Credit risk

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

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

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

22.1.1 Credit risk measurement

Loans and advances (incl. loan commitments and guarantees)

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

Credit risk grading

The Group uses an internal credit risk grading system that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Group Chief Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group's rating method comprises 11 rating levels for instruments not in default (1 to 11) and three default classes (12 to 14). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

Group Internal Scale	S&P Letter Grade	Description 2020
1	BBB+	Standard Monitoring
2	BBB	
3	BBB-	
4	BB+	
5	BB	
6	BB-	
7	B+	
8	B	
9	B-	

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.1 Credit risk measurement(continued)

Group Internal Scale	S&P Letter Grade	Description 2020
10	CCC+	Special Monitoring
11	CCC	
12	CCC-	Substandard
13	D-I	Doubtful
14	D-II	Loss

22.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition, as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 22.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 22.1.2.2 for a description of how the Group defines credit-impaired and default.

  Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 22.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 22.1.2.3 includes an explanation of how the Group has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9.

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

22.1.2.1 Significant increase in credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Qualitative Criteria - if the instrument meets one or more of the following criteria:
  - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
  - Actual or expected forbearance or restructuring
  - Actual or expected significant adverse change in operating results of the borrower
  - Significant change in collateral value (secured facilities only) which is expected to increase risk of default
  - Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans
- Quantitative criteria - applies to performing loans risk graded at 10 or 11 as per BSPs credit rating system which are 'watch list' categories. By definition, these have experienced a SICR event since inception hence need to be classified as Stage 2, with lifetime PDs applicable. This criteria applies regardless of whether loans in these two RGs are in arrears or not.
- Backstop - A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instrument in the year ending 31 December 2020.

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:
- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

22.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

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

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 (%)

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

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

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2020 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

Economic Variable	Scenario	2020	2021	2022	2023	2024
GDP Growth (%)	Base	3.40%	3.40%	3.40%	3.40%	3.40%
	Upside	3.65%	3.65%	3.65%	3.65%	3.65%
	Downside	1.20%	1.20%	2.90%	3.00%	2.80%
Change in Unemployment (% total lab force) (%)	Base	-3.00%	-3.00%	-2.00%	-2.00%	-2.00%
	Upside	-4.00%	-4.00%	-3.00%	-3.00%	-3.00%
	Downside	0.00%	0.00%	0.00%	0.00%	0.00%
Change in Equity Index (%)	Base	-3.51%				
	Upside	-3.54%				
	Downside	-3.51%				
Change in Energy Index (%)	Base	7.75%	10.07%	2.45%	2.39%	2.34%
	Upside	8.14%	10.58%	2.57%	2.51%	2.45%
	Downside	7.36%	9.57%	2.33%	2.27%	2.22%
Change in Non-Energy Index (%) *(Per World Bank commodities price forecast)*	Base	0.12%	-0.24%	-0.24%	-0.24%	-0.24%
	Upside	0.13%	-0.25%	-0.25%	-0.25%	-0.25%
	Downside	0.11%	-0.23%	-0.23%	-0.23%	-0.23%
Change in the Proportion of Downgrades (%)	Base	3.32%				
	Upside	-2.00%				
	Downside	10.00%				

The weightings assigned to each economic scenario at 31 December 2020 were as follows:

Scenario	Base	Upside	Downside
Weight	50.00%	10.00%	40.00%

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

Sensitivity Analysis

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.

iii) Change in scenario weighting given the uncertainty surrounding the economic impact of COVID-19.

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

All amounts are expressed in K'000	2020		2019	
	[-25%]	**[+10%]**	**[-20%]**	**[+10%]**
GDP Growth Rate	37,287	(11,041)	42,060	(19,342)
(GDP growth rate assumptions tested at 75% and 110% for all 3 scenarios)				
	[-7%]	**[+20%]**	**[-5%]**	**[+20%]**
Change in proportion of downgrades	(945)	8,533	(1,088)	5,662
((Upside scenario increased from -2% to-7% (2019:-5%), downside scenario increased from 10% to 20%)				

All amounts are expressed in K'000	2020	2019
Change in Scenario weighting	(39,735)	(32,714)

(Upside scenario increased from 10% to 20%, downside scenario decreased from 40% to 20% and base scenario increased from 50% to 60%).

Change in Scenario weighting	11,090	-

(Upside scenario decreased from 10% to 5%, downside scenario increased from 40% to 45% and base scenario remaining at 50%).

22.1.2.4 Grouping of instruments for losses measured on a collective basis

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

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

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

22.1.3 Credit risk exposure

22.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

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

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

All amounts are expressed in K'000	2020				2019
ECL staging	**Stage 1**	**Stage 2**	**Stage 3**		
(PGK'000)	**12-month**	**Lifetime**	**Lifetime**	**Total**	**Total**
Credit grade					
Standard monitoring	11,710,828	1,676,312	-	13,387,140	13,006,714
Special monitoring	-	474,362	-	474,362	503,009
Default	-	-	488,869	488,869	391,688
Gross carrying amount	**11,710,828**	**2,150,674**	**488,869**	**14,350,371**	**13,901,411**
Loss allowance	(183,777)	(333,679)	(272,821)	(790,277)	(653,231)
Net carrying amount	**11,527,051**	**1,816,995**	**216,048**	**13,560,094**	**13,248,180**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 15 'Expected credit loss measurement'. The gross carrying amount includes off balance sheet items which are in scope for impairment.

The total balance of investment securities measured at amortised cost (K5,936.049 million) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K30.805 million.

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

Maximum exposure to credit risk		
All amounts are expressed in K'000	**2020**	**2019**
Trading assets		
• Equity Securities	269,400	255,372

22.1.3.2 Collateral and other credit enhancements

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

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

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

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

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

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

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

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.3.2 Collateral and other credit enhancements (continued)

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

Consolidated

31 December 2020 *All amounts are expressed in K'000*	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**
Credit-impaired assets				
Loans to individuals:				
• Overdrafts	7,730	1,758	5,972	13,685
• Credit cards	389	198	191	-
• Term loans	21,399	9,252	12,147	25,031
• Mortgages	100,294	40,996	59,298	159,690
Loans to corporate entities:				
• Large corporate customers	274,994	179,981	95,013	215,659
• Small and medium-sized enterprises (SMEs)	83,475	40,464	43,011	137,283
• Others	588	172	416	1,351
Total credit-impaired assets	**488,869**	**272,821**	**216,048**	**552,699**

31 December 2019				
Total credit-impaired assets	**391,688**	**223,299**	**168,389**	**413,838**

22.1.4 Credit Quality – Prudential guidelines

The Bank of Papua New Guinea has maintained a revised prudential standard for asset quality since October 2003. The revised standard specifies more detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those gradings.

An analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.4 Credit Quality – Prudential guidelines (continued)

Consolidated

31 December 2020 *All amounts are expressed in K'000*	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
Neither past due nor impaired	**747,218**	**9,699,015**	**2,441,397**	**264,445**	**105,193**	**13,257,268**
Past due but not impaired						
- Less than 30 days	48,722	244,109	133,554	4,594	-	430,979
- 30 to 90 days	3,727	167,932	92,966	2,734	-	267,359
	52,449	**412,041**	**226,520**	**7,328**	**-**	**698,338**
Individually impaired loans						
- Less than 30 days	5,226	4,216	7,113	109	-	16,664
- 30 to 90 days	-	20,684	8,118	238	-	29,040
- 91 to 360 days	776	88,930	16,431	976	-	107,113
- More than 360 days	6,602	115,809	113,820	5,717	-	241,948
	12,604	**229,639**	**145,482**	**7,040**	**-**	**394,765**
Total gross loans and receivables from customers	**812,271**	**10,340,695**	**2,813,399**	**278,813**	**105,193**	**14,350,371**
Less impairment provisions	(43,962)	(737,439)	(50,801)	(11,509)	-	(843,711)
Net loans and receivables from customers	**768,309**	**9,603,256**	**2,762,598**	**267,304**	**105,193**	**13,506,660**

22.1.5 Credit related commitments

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

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

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

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

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.6 Economic sector risk concentrations

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

Consolidated as at 31 December				
All amounts are expressed in K'000	**2020**	**%**	**2019**	**%**
Commerce, finance and other business	7,123,057	53	7,159,863	54
Private households	3,232,599	24	2,987,459	23
Government and public authorities	157,811	1	252,134	2
Agriculture	434,215	3	327,151	2
Transport and communication	1,218,790	9	1,311,306	10
Manufacturing	383,725	3	332,344	3
Construction	956,463	7	830,550	6
Net loan portfolio balance	**13,506,660**	**100**	**13,200,807**	**100**

22.1.7 Loan segment concentration

Concentration by customer loan segments are as follows:

Consolidated as at 31 December	2020	%	2019	%
Corporate / Commercial	8,025,709	59	7,703,341	58
Government	2,247,793	17	2,510,817	19
Retail	3,233,158	24	2,986,649	23
Net loan portfolio balance	**13,506,660**	**100**	**13,200,807**	**100**

22.1.8 Impact of overlays on the provision for ECL

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

	2020	2019
Modelled provision for ECL	433,620	401,704
Overlays	137,270	74,445
Total	**570,890**	**476,149**

22.1.8.1 COVID-19 overlay

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

22. CREDIT RISK AND ASSET QUALITY (continued)

22.1.8.1 COVID-19 overlay (continued)

The COVID-19 pandemic has had, and continues to have, an impact on businesses around the world and the economic environments in which they operate. There also exists significant uncertainty regarding the duration and severity of COVID-19 impacts and the associated disruption to the economy and our customers. While the impacts on the broader economy are included in the assumptions used in the economic scenarios and the weightings applied to these scenarios, these general economy wide impacts may not fully reflect the specific impact on individual customers, and therefore the potential risk is not captured in the underlying modelled ECL. As overlays require the application of expert judgment, they are documented and subject to comprehensive internal governance and oversight.

The Group's COVID-19 overlay as of 31 December 2020 is K138.08 million.

The repayment holiday and interest only arrangements are normally treated as an indication of a significant increase in credit risk but the repayment holidays under the current COVID-19 relief packages in isolation have not been treated as an indication of SICR.

As highlighted by the IASB in its guidance document 'IFRS 9 and COVID-19' issued on 27 March 2020, in these changed circumstances it may not be appropriate to apply previously established approaches to assessing significant increase in credit risk for payment holidays in a mechanistic manner.

These relief packages are available to customers who require assistance because of COVID-19 and who otherwise had up to date payment status prior to the onset of COVID-19. The relief packages allow for repayment holidays for up to 6 months. During this period, the deferred interest will be capitalized and the deferred principal along with the capitalized interest, will be repaid over the remaining term of the loan. These packages have been designed to provide short-term cash flow support while the most significant COVID-19 restrictions are in place. Further extensions were based on local Central Banks approvals. The extension will not be automatic and will require up-to-date financial information on each borrower to confirm that there is a reasonable prospect to repay the loan.

As the situation has evolved since March 2020, the Group has classified the relief packages into different categories of risk. Each of these categories are assigned a corresponding IFRS 9 staging level based on whether SICR is deemed to have occurred because of the increased likelihood of a risk of default. The group has identified a proportion of relief packages as higher credit risk and has identified a SICR event to have occurred on these customers. An overlay estimation has been done on this base of customers.

The Group continues to monitor our lending portfolios closely and reassess our provisioning levels as the situation around COVID-19 evolves. At the cessation of the COVID-19 support packages, it is likely that some customers will move into Stage 2.

22.1.8.2 COVID-19 relief packages

The customers under COVID-19 relief packages at 31 December 2020 is K1.626 billion. These loans and the related provision for ECL are as follows:

All amounts are expressed in K'000	Total Credit Exposures	Expected Credit Loss
Stage 1	659,147	48,021
Stage 2	966,858	44,003
Stage 3	-	-
Total	**1,626,005**	**92,024**

23. LIQUIDITY RISK

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

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

Short-term mismatch of asset and liability maturity at 31 December 2020

The maturity profile of material Assets and Liabilities as at 31 December 2020 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Group, and does not impair the ability of the Group to meet its financial obligations as they fall due.

Maturity of assets and liabilities

Consolidated
All amounts are expressed in K'000

As at 31 December 2020	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	3,973,012	-	-	-	483,467	4,456,479
Treasury and Central Bank bills	611,384	616,990	1,702,704	2,533	4,277	2,937,888
Amounts due from other banks	1,092,892	59,819	34,750	-	-	1,187,461
Loans, advances and other receivables from customers	2,038,752	324,571	2,360,167	5,917,381	5,875,628	16,516,499
Other financial assets	2,390,783	351,479	736,769	2,027,860	1,897,463	7,404,354
Total assets	**10,106,823**	**1,352,859**	**4,834,390**	**7,947,774**	**8,260,835**	**32,502,681**
Liabilities						
Amounts due to other banks	12,478	89,738	24,054	-	-	126,270
Customer deposits	18,616,789	971,280	1,583,504	413,582	346,655	21,931,810
Lease liability	-	-	-	44,968	164,038	209,006
Other liabilities	2,379,124	428	5,287	9,725	106,883	2,501,447
Other provisions	198,939	875	4,311	249	5,063	209,437
Total liabilities	**21,207,330**	**1,062,321**	**1,617,156**	**468,524**	**622,639**	**24,977,970**
Net liquidity gap	**(11,100,507)**	**290,538**	**3,217,234**	**7,479,250**	**7,638,196**	**7,524,711**
As at 31 December 2019						
Total assets	8,109,293	2,070,054	5,164,106	6,685,164	6,261,178	28,289,795
Total liabilities	16,040,140	1,194,142	1,802,509	719,961	2,021,445	21,778,197
Net liquidity gap	**(7,930,847)**	**875,912**	**3,361,597**	**5,965,203**	**4,239,733**	**6,511,598**

24. OPERATIONAL RISK

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Group conducts its business. Examples of operational risks include employee errors, systems failures, fire, floods, or similar losses to physical assets, fraud, or criminal activity. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring.

An operational risk management function is responsible for the maintenance of these policies, procedures practices and monitoring the organization's compliance with them. The Operational Risk Committee coordinates the management process across the organization.

An independent internal audit function also conducts regular reviews to monitor compliance with approved BPNG standards and examines the general standard of control.

The Operational Risk Committee and the internal audit function mandatorily report to the Board Risk and Compliance Committee.

25. FOREIGN EXCHANGE RISK

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

The Group accepts foreign currency denominated transactions and therefore has exposure to movements in foreign currency. The Group has a policy to offset these transactions to minimise daily exposure. As foreign exchange contracts generally consist of offsetting commitments, they involve only limited foreign exchange risk to the Group and material loss is not envisaged.

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

Consolidated *All amounts are expressed in K'000*						
As at 31 December 2020	**PGK**	**FJD**	**SBD**	**USD**	**Other**	**Total**
Assets						
Cash and balances with Central Banks	2,150,591	1,059,431	636,025	2,370	608,062	4,456,479
Treasury and Central Bank bills	2,778,202	12,116	19,114	-	31,574	2,841,006
Amounts due from other banks	115,956	330,746	14,000	384,461	342,298	1,187,461
Loans and receivables from customers	7,917,985	3,305,723	513,556	528,501	1,240,895	13,506,660
Other financial assets	2,662,225	551,794	159	-	28,047	3,242,225
Other assets	1,388,100	733,124	57,722	1,594	109,066	2,289,606
Total assets	**17,013,059**	**5,992,934**	**1,240,576**	**916,926**	**2,359,942**	**27,523,437**
Liabilities						
Amounts due to other banks	(75,598)	(36,677)	(10,031)	-	(3,964)	(126,270)
Customer Deposits	(14,225,150)	(3,712,304)	(926,891)	(549,558)	(2,240,121)	(21,654,024)
Other liabilities	(527,650)	(1,416,424)	(30,238)	(265,584)	(69,642)	(2,309,538)
Total liabilities	**(14,828,398)**	**(5,165,405)**	**(967,160)**	**(815,142)**	**(2,313,727)**	**(24,089,832)**
Net on-balance sheet position	**2,184,661**	**827,529**	**273,416**	**101,784**	**46,215**	**3,433,605**
Off-balance sheet position	*25,393*	-	-	*(155,724)*	*137,131*	*6,800*
Credit commitments	*2,267,067*	*556,094*	*46,965*	-	*116,868*	*2,986,994*
31 December 2019						
Total Assets	15,207,153	4,941,049	1,193,401	740,480	2,445,035	24,527,118
Total Liabilities	(13,326,239)	(4,424,064)	(946,797)	(655,738)	(2,057,247)	(21,410,085)
Net on-balance sheet position	**1,880,914**	**516,985**	**246,604**	**84,742**	**387,788**	**3,117,033**
Off-balance sheet position	*798*	-	-	*(139,868)*	*140,009*	*939*
Credit commitments	*1,879,065*	*517,433*	*60,433*	-	*119,763*	*2,576,694*

25. FOREIGN EXCHANGE RISK (continued)

The following table presents sensitivities of profit or loss and equity to possible changes in exchange rates applied at the end of the reporting period, relative to the functional currency of the respective Group entities, with all other variables held constant:

All amounts are expressed in K'000	At 31 December 2020		At 31 December 2019	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 5% (2019 – 1%)	7,664	7,664	356	356
USD dollar weakening by 15% (2019 – 1%)	(2,068)	(2,068)	(349)	(349)
AUD strengthening by 5% (2019 – 1%)	(399)	(399)	(36)	(36)
AUD dollar weakening by 15% (2019 – 1%)	108	108	35	35

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

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

Forward exchange contracts outstanding at 31 December 2020 stated at the face value of the respective contracts are:

All amounts are expressed in respective FCY'000 AND K'000								
As at 31 December 2020		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Other**	**Total**
Selling	FCY	(47,232)	(3,567)	(1,069)	(5)	(86,102)	(844)	-
	Kina	(165,728)	(9,641)	(4,610)	(22)	(2,929)	(2,962)	(185,892)
Buying	FCY	2,851	18,660	30	40	60,100	29,780	-
	Kina	10,004	50,438	129	191	2,045	104,491	167,298
As at 31 December 2019								
Selling	FCY	(49,183)	(2,529)	(900)	(21)	(181,179)	(2,110)	-
	Kina	(167,576)	(6,039)	(3,437)	(88)	(5,525)	(7,188)	(189,853)
Buying	FCY	8,132	14,800	20	1,200	137,500	34,444	-
	Kina	27,708	35,338	76	5,125	4,193	117,357	189,797

26. INTEREST RATE RISK

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

These mismatches are actively managed as part of the overall interest rate risk management process governed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Group. The objective of interest rate risk control is to minimise these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. The table below illustrates the interest sensitivity of assets and liabilities at the balance date.

26. INTEREST RATE RISK (continued)

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

Consolidated *All amounts are expressed in K'000*						
As at 31 December 2020	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**
Assets						
Cash and Central Banks assets	711,765	-	-	-	-	2,185,430
Treasury and Central Bank bills	609,603	590,534	1,631,207	5,386	4,276	-
Amounts due from other banks	341,561	51,540	2,181	-	-	792,179
Statutory deposits - Central Banks	-	-	-	-	-	1,559,284
Loans and receivables from customers	10,874,738	112,213	397,917	321,126	1,705,563	95,103
Other Financial Assets	642,205	209,532	577,043	1,258,350	757,641	-
Other assets	11,463	98,510	583	-	-	1,976,504
Total assets	**13,191,335**	**1,062,329**	**2,608,931**	**1,584,862**	**2,467,480**	**6,608,500**
Liabilities						
Amounts due to other banks	28,387	11,382	24,053	-	-	62,448
Customer deposits	8,545,533	878,736	1,375,840	146,657	-	10,707,258
Other liabilities	238	-	-	74,872	85,527	1,944,399
Other provisions	5,507	200	-	-	-	198,795
Total liabilities	**8,579,665**	**890,318**	**1,399,893**	**221,529**	**85,527**	**12,912,900**
Interest sensitivity gap	**4,611,670**	**172,011**	**1,209,038**	**1,363,333**	**2,381,953**	**(6,304,400)**

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

As at 31 December 2019						
Total assets	13,007,025	1,114,574	2,781,083	1,461,656	376,863	5,785,917
Total liabilities	8,709,354	1,082,072	1,628,037	299,468	73,019	9,618,135
Interest sensitivity gap	**4,297,671**	**32,502**	**1,153,046**	**1,162,188**	**303,844**	**(3,832,218)**

Given the profile of assets and liabilities as at 31 December 2020 and prevailing rates of interest, a 100bps increase in market rates will result in a K46.4 million increase in net interest income, whilst a 100bps decrease in rates will result in a K54.4 million decrease in net interest income.

27. FAIR VALUES OF FINANCIAL AND NON-FINANCIAL ASSETS AND LIABILITIES

There is no material difference between the fair values and carrying values of the financial assets and liabilities of the Group.

The table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy.

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

27. FAIR VALUES OF FINANCIAL AND NON-FINANCIAL ASSETS AND LIABILITIES (continued)

Consolidated				
All amounts are expressed in K'000	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	265,727	3,673	269,400
Treasury bills	-	8,094	-	8,094
Government inscribed stock	-	291,042	-	291,042
Non-financial assets				
Land & Buildings	-	-	701,627	701,627
Assets subject to operating lease	-	-	36,434	36,434
Total assets	**-**	**564,863**	**741,734**	**1,306,597**
b) Financial liabilities				
Policy liability	-	-	1,043,990	1,043,990
Total liabilities	**-**	**-**	**1,043,990**	**1,043,990**
As at 31 December 2019				
a) Financial assets				
Equity security	-	252,277	3,095	255,372
Treasury bills	-	4,915	-	4,915
Government inscribed stock	-	513,024	-	513,024
Non-financial assets				
Land & Buildings	-	-	708,284	708,284
Assets subject to operating lease	-	-	48,133	48,133
Total assets	**-**	**770,216**	**759,512**	**1,529,728**
b) Financial liabilities				
Policy liability	-	-	890,147	890,147
Total liabilities	**-**	**-**	**890,147**	**890,147**

Consolidated

Financial asset at fair value through profit & loss	**2020**	**2019**
Opening balance	3,095	2,696
Total gains and losses recognized in:		
-Profit & loss	578	399
-Other comprehensive income	-	-
Closing balance	**3,673**	**3,095**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2020. Property, plant and equipment represents commercial land and buildings owned by the Group based on valuations provided by independent valuers.

The valuation is based on the capitalisation method with an assessment of the property based on its potential earning capacity. There is an increased level of uncertainty with the valuation obtained for the financial year 2020 accounts given the volatile economic climate driven by COVID-19. A higher degree of caution should be attached to the valuation than would normally be the case, noting that the value is current at the date of the valuation only. The assessed value may change materially and unexpectedly over a relatively short period of time due to the impact of COVID-19.

Capital and Dividends

28. ORDINARY SHARES

Accounting Policy

Share issue costs

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

Number of shares in '000s, Book value in K'000		
	Number of shares	Book value
At 31 December 2018/1 January 2019	**467,246**	**372,364**
Share buyback	(6)	(54)
At 31 December 2019/1 January 2020	**467,240**	**372,310**
Share buyback	(11)	(121)
At 31 December 2020	**467,229**	**372,189**

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. As at 31 December 2020, a total of K9.313m has been bought back under this scheme.

Dividends on ordinary shares

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

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

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Dividends paid on ordinary shares				
Interim ordinary dividend (2020: 25 toea; 2019: 38 toea)	117,604	177,551	116,808	177,551
Final ordinary dividend (2019: 96 toea; 2018: 101 toea)	451,751	476,389	448,546	471,915
	569,355	**653,940**	**565,354**	**649,466**

29. RETAINED EARNINGS AND OTHER RESERVES

RETAINED EARNINGS

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
At 1 January	2,394,382	2,156,873	2,173,836	1,976,138
Net profit for the year	806,218	890,363	759,452	845,828
Dividends paid	(451,587)	(476,389)	(448,546)	(471,915)
Interim Dividends paid	(117,604)	(177,551)	(116,808)	(177,551)
Disposal of assets – Asset revaluation	741	4,933	741	4,933
BSP Life policy reserve	(7,692)	(3,597)	(7,692)	(3,597)
Gain attributable to minority interest	(2,209)	(250)	-	-
At 31 December	**2,622,249**	**2,394,382**	**2,360,983**	**2,173,836**
Other reserves comprise:				
Asset revaluation reserve	129,063	142,819	115,828	130,725
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	52,267	44,503	52,267	44,503
Foreign currency translation reserve	234,973	136,978	131,995	78,614
	438,516	**346,513**	**300,725**	**254,477**
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	142,819	149,829	130,725	137,708
Asset revaluation increment/(decrement)	(18,914)	(5,719)	(20,055)	(5,714)
Transfer asset revaluation reserve to retained earnings	(1,032)	(4,933)	(1,032)	(4,933)
Deferred tax on disposal of properties	6,190	3,642	6,190	3,664
At 31 December	**129,063**	**142,819**	**115,828**	**130,725**
Capital reserve				
At 1 January	635	635	635	635
At 31 December	**635**	**635**	**635**	**635**
General reserve				
At 1 January	44,503	40,920	44,503	40,920
BSP Life policy reserve	7,692	3,597	7,692	3,597
Fiji Government green bond revaluation	72	(14)	72	(14)
At 31 December	**52,267**	**44,503**	**52,267**	**44,503**
Exchange reserve				
At 1 January	136,978	126,358	78,614	73,121
Movement during the year	97,995	10,620	53,381	5,493
At 31 December	**234,973**	**136,978**	**131,995**	**78,614**

29. RETAINED EARNINGS AND OTHER RESERVES (continued)

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 dividend equal to the amount of dividend to be paid on BSP Ordinary Shares.
(ii) The same voting rights as a BSP Ordinary Share and effected through a special voting share held by the Chairman of BSP.
(iii) The Fiji Class Share may be exchanged on a one for one basis into BSP Ordinary Shares at a subsequent date and at the option of BSP on the occurrence of certain prescribed events.

30. CAPITAL ADEQUACY

The Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Laos are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF), Central Bank of Solomon Islands (CBSI), The Financial Supervisory Commission (FSC), Central Bank of Samoa (CBS), National Reserve Bank of Tonga (NRBT), Reserve Bank of Vanuatu (RBV), the National Bank of Cambodia (NBC) and Bank of Lao P.D.R.. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2020, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%.

The measure of capital used for the purposes of prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the Statement of Financial Position and is made up of tier 1 capital (core) and tier 2 capital (supplementary). Tier 1 capital is obtained by deducting from equity capital and audited retained earnings (or losses), intangible assets including deferred tax assets. Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinated loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions. The leverage capital ratio is calculated as Tier 1 capital divided by total assets on the balance sheet.

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

The Group's capital adequacy level is as follows (unaudited):

	Balance sheet / notional amount		Risk-weighted amount	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Balance sheet assets (net of provisions)				
Currency	4,456,479	3,583,165	95,677	69,942
Loans and receivables from customers	13,506,660	13,230,783	10,824,914	10,539,279
Investments and short term securities	6,083,231	4,580,568	229,235	224,510
All other assets	3,477,067	3,132,602	1,978,591	1,839,673
Off-balance sheet items	2,986,994	2,576,694	242,027	286,666
Total	**30,510,431**	**27,103,812**	**13,370,444**	**12,960,070**

	Capital (K'000)		Capital Adequacy Ratio (%)	
Capital Ratios	**2020**	**2019**	**2020**	**2019**
a) Tier 1 Capital	2,787,626	2,526,509	20.8%	19.5%
Total Capital	3,095,927	2,848,773	23.2%	22.0%
b) Leverage Capital Ratio			10.3%	10.5%

Group Structure

31. INSURANCE

Life and General Insurance Business

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

(a) Recognition and Measurement

Short Term Insurance Contracts

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

These contracts protect the Group's customers from the consequences of events such as death, disability and medical emergency. Benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the Statement of Financial Position date is reported as the unearned premium liability.

Premiums are shown before deduction of commission

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or beneficiary. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Statement of Financial Position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are based on the sum insured or cost of approved medical services plus an allowance for claims incurred but not reported based on statistical analysis and related claim expenses. Case estimates are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long Term Insurance Contracts

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

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

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

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

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

(b) Methods and Assumptions

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

(i) Discount Rates

For contracts in Statutory Fund 1 which have a DPF, the discount rate used is linked to the assets which back those contracts. For 31 December 2020 this was 5.95% per annum. For contracts without DPF and Accident Business, the Fiji Insurance business at 31 December 2020 used a rate of 5.95% per annum. The pricing rates were used given market subjectivity. The PNG life insurance business at 31 December 2020 used the accumulation methodology for contracts without DPF.

ii) Investment and Maintenance Expenses

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

iii) Taxation

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

(iv) Mortality and Morbidity

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the BSP Life (PNG) and BSP Life (Fiji). Estimates are made as to the expected number of deaths for each of the years in which the BSP Life (PNG and Fiji) are exposed to risk. The BSP Life (Fiji) bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted, where appropriate, to reflect the Group's own experience.

The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty is that epidemics and wide-

31. INSURANCE (continued)

ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which BSP Life (Fiji) has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where BSP Life (Fiji) is exposed to longevity risk. For contracts without fixed mortality risk charges, it is assumed that BSP Life (Fiji) will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male, modified for local experience.

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

(v) Rates of Discontinuance

Pricing assumptions for the incidence of withdrawal and discontinuance vary duration.

(vi) Basis of Calculation of Surrender Values

Surrender values are based on the provisions specified in the policy contracts and legislation. For the PNG life business, surrender values are determined by the Company in accordance with the provisions specified in the policy contracts and legislation.

(vii) Discretionary Participating Business

For most participating business, bonus rates are set such that, over long periods, the returns to contract holders are commensurate with the investment returns achieved on the pool of assets which provide security for the contract, together with other sources of profit arising from this business. Profits from these policies are split between contract holders and shareholders in accordance with the policy conditions which allow for shareholders to share in allocations at a maximum rate of 20%.

Assumed future bonus rates included in the liability for the long term insurance contracts were set such that the present value of the liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

(c) Reinsurance

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

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

Reinsurance recoveries are recognised as claim recoveries in profit or loss. This is netted off against the claim expenses. Reinsurance premiums are recognised as Reinsurance Expenses.

Insurance

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

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Net insurance premium income	199,172	158,390
Outward reinsurance expense	(4,142)	(3,221)
Net premium income	**195,030**	**155,169**
Investment income	220,666	210,325
Other income	995	2,723
Total operating income	**416,691**	**368,217**
Claims, surrenders and maturities	(121,396)	(120,287)
Claim recoveries	194	550
Net claims incurred	**(121,202)**	**(119,737)**

31. INSURANCE (continued)

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Commission	(15,776)	(14,312)
Increase in policy liabilities	(74,324)	(59,746)
Interest expenses	(564)	(513)
Other operating expenses	(148,765)	(148,710)
Total operating expenses	**(239,429)**	**(223,281)**
Share of profit of associates and jointly controlled entities	(26,535)	5,476
Profit from ordinary activities before tax	**29,525**	**30,675**
Income tax expense/ (benefit) attributable to profit from ordinary activities	(6,642)	(3,471)
Profit after Income tax expense	**22,883**	**27,204**

The balance sheets as at 31 December 2020 categorised by Shareholder Fund and Assets Supporting Policy Liability are shown below. The allocation between the two funds is maintained notionally as the funds are invested as a single pool of assets.

	Consolidated 2020			Consolidated 2019		
All amounts are expressed in K'000	**Policy Related Fund**	**Shareholder Fund**	**Total**	**Policy Related Fund**	**Shareholder Fund**	**Total**
Assets						
Cash and Cash Equivalents	128,709	24,260	**152,969**	49,424	7,558	**56,982**
Equity security investments	338,148	65,754	**403,902**	337,933	67,819	**405,752**
Debt security investments	395,671	77,751	**473,422**	399,493	83,750	**483,243**
Property investments	303,052	59,116	**362,168**	211,382	42,554	**253,936**
Other assets	76,863	15,042	**91,905**	71,888	12,043	**83,931**
Total assets	**1,242,443**	**241,923**	**1,484,366**	**1,070,120**	**213,724**	**1,283,844**
Liabilities						
Policy liabilities	1,043,990	-	**1,043,990**	890,147	-	**890,147**
Other liabilities	127,170	24,321	**151,491**	112,888	19,880	**132,768**
Total liabilities	**1,171,160**	**24,321**	**1,195,481**	**1,003,035**	**19,880**	**1,022,915**
Shareholders' equity						
Equity & retained earnings	71,283	217,602	**288,885**	67,085	193,844	**260,929**
Total shareholders' equity	**71,283**	**217,602**	**288,885**	**67,085**	**193,844**	**260,929**
Total equity and liabilities	**1,242,443**	**241,923**	**1,484,366**	**1,070,120**	**213,724**	**1,283,844**

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Policy Liabilities		
Opening balance	890,147	818,198
Translation movement	73,433	11,221
Increase in policy liabilities	74,324	59,746
Increase in policy liabilities on revaluation of land	6,086	982
Total policy liabilities	**1,043,990**	**890,147**

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

31. INSURANCE (continued)

Insurance and Financial Risk Management

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

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

Insurance Risk

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

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

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

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

Terms and conditions of insurance contracts

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

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

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

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

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. The largest single exposure for the Life business is K11.701m of which K11.185m is reinsured (2019: K11.121m of which K9.533m is reinsured). This relates to life insurance lines.
- The largest single lump sum exposure for the health insurance business is K8.604m, of which K8.431m is reinsured. The largest single net exposure is K1.067m. This relates to health insurance lines.

- Geographic concentrations due to employee Company schemes. The largest single scheme exposure is K121.654m, of which K58.848m is reinsured. BSP Life (PNG) participates in the Term Life reinsurance programme.

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

32. INVESTMENT IN SUBSIDIARIES

Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership %	Balance of investment 2020	Balance of investment 2019
BSP Capital Limited	Fund Management/ Investment Banking	PNG	100%	2,448	2,448
BSP Life (Fiji) Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Life (PNG) Limited	Life Insurance	PNG	100%	25,000	25,000
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	89,318	82,503
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,610	71,610
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,712	70,712
Bank South Pacific Vanuatu Ltd	Bank	Vanuatu	100%	38,020	38,020
At 31 December				**385,078**	**378,263**
Represented by:					
At 1 January				378,263	347,597
Additional capital				6,815	30,666
At 31 December				**385,078**	**378,263**

Other

33. FIDUCIARY ACTIVITIES

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

34. RELATED PARTY TRANSACTIONS

Related parties are considered to be enterprises or individuals with whom 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 Group, by virtue of being able to control, dominate or participate in a fiduciary capacity, in decision-making functions or processes. The Group conducted transactions with the following classes of related parties during the year:

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

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates. For the year ended 31 December 2020, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Customer Deposits		
Opening balances	45,220	30,925
Net movement	(17,921)	14,295
Closing balance	**27,299**	**45,220**
Interest paid	**7**	**17**
Loans and receivables from customers		
Opening balances	914,468	899,451
Loans issued	173,405	61,750
Interest	22,358	66,032
Charges	2,379	3,869
Loan repayments	(160,040)	(116,634)
Outgoing Director	(313,776)	-
Closing balance	**638,794**	**914,468**

Subsidised transactions are provided for staff. Such transactions include marginal discounts on interest rates, and specific fee concessions. These benefits are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2020, staff account balances were as follows:

Housing loans	220,407	192,749
Other loans	80,979	68,197
	301,386	**260,946**
Cheque accounts	6,159	6,643
Savings accounts	15,671	20,824
	21,830	**27,467**

35. EVENTS OCCURRING AFTER BALANCE SHEET DATE

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

36. DIRECTORS AND EXECUTIVE REMUNERATION

Directors' remuneration

Directors of the company received remuneration including benefits during 2020 as detailed below:

All amounts are expressed in K'000				Total remuneration		
Name of Director	**Meetings attended / total held**	**Appointed/ (Resigned)**	**2020 Bank**	**2020 Subsidiaries**	**2020 Total**	**2019 Total**
Sir K. Constantinou, OBE	10/10	-	561,304	300,000	861,304	921,304
R. Fleming, CSM*	10/10	-	-	-	-	-
G. Robb, OAM	10/10	-	340,027	120,000	460,027	463,152
F. Talao	0/10	(Dec 2019)	-	-	-	378,152
E. B Gangloff	10/10	-	343,152	60,000	403,152	403,152
A. Mano	3/10	(Jun 2020)	214,239	45,000	259,239	340,652
A. Sam	10/10	-	333,777	-	333,777	330,652
Dr. F Lua'iufi	9/10	-	305,652	60,000	365,652	305,652
S. Davis	10/10	-	330,652	-	330,652	330,652
R. Bradshaw	10/10	-	318,152	-	318,152	305,652
P. Kevin	8/8	Apr 2020	239,339	-	239,339	-
F. Bouraga	0/0	Dec 2020	40,400	-	40,400	-
			3,026,694	**585,000**	**3,611,694**	**3,779,020**
Shareholder Approved Cap					**4,500,000**	**4,500,000**

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

Executive Remuneration

The specified executives as at 31 December 2020 were:

Robin Fleming, CSM
Nuni Kulu
Hari Rabura
Frank van der Poll
Peter Beswick
Andy Roberts
Ronesh Dayal
Rohan George
Daniel Faunt
Mike Hallinan
Kili Tambua

All amounts are expressed in K'000							
Year	**Salary**	**Short term incentive**	**Value of benefits**	**Long term incentive**	**Leave encashment**	**Final entitlements[1]**	**Total**
2020 executive remuneration	16,016	2,213	1,466	-	97	2,037	**21,829**
2019 executive remuneration	14,375	3,787	979	4,509	489	-	**24,139**

[1]Final entitlements paid were for executives who exited the Bank in 2020 and constitutes statutory leave pay outs.

36. DIRECTORS AND EXECUTIVE REMUNERATION (continued)

Executive remuneration

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

Remuneration	2020	2019	Remuneration	2020	2019	Remuneration	2020	2019
K'000	No.	No.	K'000	No.	No.	K'000	No.	No.
100 – 110	122	53	530 – 540	2	2	1030 – 1040	1	-
110 – 120	71	61	540 – 550	4	-	1050 – 1060	2	-
120 – 130	76	47	550 – 560	1	1	1060 – 1070	2	2
130 – 140	43	31	560 – 570	1	-	1070 – 1080	1	1
140 – 150	47	29	570 – 580	2	2	1080 – 1090	2	-
150 – 160	33	17	580 – 590	-	1	1090 – 1100	1	-
160 – 170	19	20	590 – 600	1	2	1100 – 1110	1	-
170 – 180	25	23	600 – 610	1	1	1110 – 1120	1	1
180 – 190	26	16	610 – 620	2	3	1120 – 1130	-	1
190 – 200	21	11	620 – 630	2	1	1130 – 1140	-	1
200 – 210	13	15	630 – 640	2	-	1140 – 1150	2	1
210 – 220	20	14	640 – 650	1	1	1150 – 1160	1	-
220 – 230	13	9	650 – 660	3	2	1170 – 1180	1	-
230 – 240	9	8	660 – 670	1	2	1180 – 1190	-	1
240 – 250	12	16	680 – 690	1	1	1190 –1200	1	1
250 – 260	10	4	690 – 700	1	-	1200 – 1210	-	1
260 – 270	11	4	700 – 710	-	1	1210 – 1220	-	1
270 – 280	4	5	710 – 720	2	-	1220 – 1230	-	1
280 – 290	5	-	720 – 730	-	1	1240 – 1250	1	-
290 – 300	3	5	730 – 740	1	1	1250 – 1260	1	-
300 – 310	12	4	740 – 750	-	1	1260 – 1270	-	1
310 – 320	1	5	750 – 760	-	1	1270 – 1280	1	-
320 – 330	9	-	760 – 770	1	-	1280 – 1290	-	1
330 – 340	3	2	770 – 780	-	2	1350 – 1360	1	1
340 – 350	1	1	780 – 790	1	3	1360 – 1370	1	-
350 – 360	4	2	790 – 800	1	3	1370 – 1380	1	-
360 – 370	1	2	810 – 820	2	-	1390 – 1400	1	-
370 – 380	4	5	820 – 830	2	1	1400 – 1410	1	1
380 – 390	3	-	840 – 850	2	1	1410 – 1420	1	-
390 – 400	5	1	850 – 860	2	-	1420 – 1430	1	-
400 – 410	7	2	860 – 870	1	1	1430 – 1440	-	1
410 – 420	3	1	870 – 880	1	2	1470 – 1480	-	1
420 – 430	5	11	880 – 890	1	1	1480 – 1490	1	-
430 – 440	4	2	890 – 900	3	1	1590 – 1600	-	1
440 – 450	3	3	900 – 910	-	1	1610 – 1620	1	-
450 – 460	3	1	910 – 920	2	-	1650 – 1660	-	1
460 – 470	2	4	930 – 940	-	2	1680 – 1690	-	1
470 – 480	4	3	960 – 970	-	1	1720 – 1730	-	1
480 – 490	3	2	970 – 980	2	-	1980 – 1990	2	-
490 – 500	6	4	980 – 990	-	1	2070 – 2080	-	1
500 – 510	2	3	990 – 1000	1	-	2410 – 2420	-	1
510 – 520	-	2	1000 – 1010	-	1	2240 – 2250	1	-
520 – 530	6	4	1020 – 1030	-	1	4840 – 4850	1	-
						7480 – 7490	-	1
						Total	**756**	**523**

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

37. REMUNERATION OF AUDITOR

All amounts are expressed in K'000	Consolidated		Bank	
	2020	**2019**	**2020**	**2019**
Financial statement audits	5,054	4,347	3,749	3,126
Other services	434	514	434	463
	5,488	**4,861**	**4,183**	**3,589**

The external auditor PricewaterhouseCoopers is also engaged in providing other services to the Bank and Group as required and as permitted by prudential standards. The provision of other services included taxation.

Independent auditor's report

To the shareholders of Bank of South Pacific Limited

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

Our opinion

We have audited the financial statements of Bank of South Pacific Limited (the Bank), which comprise the statements of financial position as at 31 December 2020, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2020 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020, and their financial performance and cash flows for the year then ended.

Basis for opinion

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

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

Independence

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

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

Our audit approach

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

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

PricewaterhouseCoopers, PwC Haus, Level 6, Harbour City, Konedobu, PO Box 484 Port Moresby, Papua New Guinea
T: (675) 321 1500 / (675) 305 3100, www.pwc.com/pg

Materiality

- For the purpose of our audit of the Group we used overall group materiality which represents approximately 5% of the Group's profit before taxes.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.
- We chose Group profit before taxes as, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark.
- We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds.

Audit Scope

- We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea (PNG) which is the most significant to the Group, and directed the scope of the audit of other subsidiaries included in the Group financial statements sufficient to express an opinion on the financial statements as a whole.
- For the Group's activities in Fiji, Solomon Islands, Samoa, Tonga, Cambodia, Cook Islands, and Vanuatu the audit work was performed by other PwC network firms or other firms operating under our instructions.
- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key Audit Matters

- Amongst other relevant topics, we communicated the following key audit matters to the Board Audit & Compliance Committee:
  - Loan loss provisioning
  - IT General Control Environment
- These matters are further described in the Key audit matters section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current year. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report. Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	How our audit addressed the key matter
Loan loss provisioning - Refer to Note 15 of the financial statements for a description of the accounting policies and to Note 22 for an analysis of credit risk Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, impairment of loans and advances is an area of significance in the current year audit of the Bank and its subsidiaries. IFRS 9 *Financial Instruments* (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application. The key areas of judgement included: • The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables (refer to Note 15 and Note 22) • The identification of exposure for which there has been a significant increase in credit risk • Assumptions used in the expected credit loss model such as valuation of collateral and assumptions made on future values, financial condition of counterparties, expected future cash flows and forward looking macroeconomic factors • The need to apply additional model adjustments to reflect current or future external factors that are not appropriately captured by the expected credit loss model The developing COVID 19 pandemic has meant assumptions regarding economic outlook and the consequential impact on the Bank's customers is uncertain, increasing the degree of judgement required in calculating the loan loss provisions. This includes judgements regarding the impact of COVID 19 on forward looking information, including variables used in macroeconomic scenarios and their associated weightings.	The procedures we performed to support our audit conclusions, included: • Consideration of the appropriateness of accounting policies and assessment of the loan impairment methodology applied, compared to the requirements of IFRS 9. This included obtaining an understanding and assessment of the reasonableness of the key outputs of the model, as well as key judgements and assumptions used by management in implementation of the model, the mathematical accuracy of the IFRS 9 provisioning model and a particular focus on the impact of COVID 19. • Reviewing the design and operating effectiveness of key controls around the credit origination processes, the credit monitoring processes and the credit inspection unit's customer loan file reviews. • Review of the impairment methodology to establish the critical fields used in the computation of Stage 1 and Stage 2 provisions. On a sample basis testing the critical fields identified to have an impact on the expected credit loss provision by agreeing this back to source documentation. • For loans and advances in Stage 1 and Stage 2, critically examining the model methodology for consistency and appropriateness. This included evaluation of the appropriateness of the estimates made on the Probability of Default, Loss Given Default and Exposure at Default. This also included assessing the appropriateness of probability-weighted and staging criteria. • For Stage 3 loans and advances, audit procedures were carried out over the completeness of the credit watch list and delinquencies, assumptions made in the valuation of collateral and recovery cash flows. • For model adjustments, we considered the basis for and data used to determine the adjustments. This included making an independent assessment of both the credit environment and the macro-environment in which the Group operates. • For IFRS 9 related disclosures in the financial statements, we reviewed the accuracy and completeness in line with the Bank's accounting policies and IFRS 9 requirements.
IT General Control Environment We focused on this area because the Group is heavily dependent on complex IT systems for the capture, processing, storage and extraction of significant volumes of transactions. There are some areas of the audit where we seek to place reliance on system functionality including certain automated controls, system calculations and reports. Our reliance on these is dependent on the Group's IT General Control (ITGC) environment, in particular, user access maintenance and changes to IT systems being authorised and made in an appropriate manner.	For significant financial statement line items, we gained an understanding of the business processes, key controls and IT systems used to generate and support those line items. Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key ITGCs which support the continued integrity of the in-scope IT systems. Our procedures over ITGCs focused on user access and change management and we also carried out tests, on a sample basis, of system functionality that was key to our audit approach. Where we identified design or operating effectiveness matters relating to ITGCs and system functionality relevant to our audit, we performed alternative or additional audit procedures.

Information other than the financial statements and auditor's report

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2020:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Bank as far as appears from an examination of those records.

Who we report to

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

PricewaterhouseCoopers

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
24 February 2021

Shareholder Information

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

Rights attaching to Ordinary Shares

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

General meeting and notices

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

Voting rights

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

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

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

Issues of further shares

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

Variation of rights

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

Transfer of shares

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

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

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

Partly paid shares

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

Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests. The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, each share in a class of shares in respect of which a dividend has been declared will be equally divided. Each share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (excluding any amount paid in advance of calls) bears to the total issue price of the share.

Dividend payouts over the last four years are disclosed in the Historical Summary section of this Annual Report.

Liquidation

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

Directors

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

Appointment of directors

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

Powers of the Board

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

Share buy backs

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

Officers' indemnities

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

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

Twenty largest registered fully paid ordinary shareholders.

As at 31 December 2020, the twenty largest registered fully paid shareholders of the Company were:

		Share Held	%
1	Kumul Consolidated Holdings Limited	84,811,597	18.15%
2	Nambawan Super Limited	56,499,584	12.09%
3	Petroleum Resources Kutubu Limited	46,153,840	9.88%
4	NASFUND	45,318,417	9.70%
5	The Fiji National Provident Fund	40,547,063	8.68%
6	Credit Corporation (PNG) Limited	33,294,081	7.13%
7	Motor Vehicles Insurance Limited	31,243,736	6.69%
8	PNG Sustainable Development Program Limited	23,827,156	5.10%
9	Teachers Savings and Loans Society	15,317,366	3.28%
10	Comrade Trustee Services Limited	12,456,052	2.67%
11	IFC Capitalization (Equity) Fund LP	4,213,877	0.90%
12	International Finance Corporation	4,213,877	0.90%
13	Lamin Trust Fund	3,518,132	0.75%
14	Capital Nominees Limited	3,279,230	0.70%
15	Credit Corporation Finance Limited	3,000,000	0.64%
16	Samoa National Provident Fund	2,984,804	0.64%
17	Mineral Resources OK Tedi No. 2 Limited	2,890,000	0.62%
18	Solomon Islands National Provident Fund	2,500,001	0.53%
19	Nominees Niugini Limited	2,369,495	0.51%
20	Catholic Diocese of Kundiawa	2,217,798	0.47%
	Other Shareholders	46,572,875	9.97%
		467,228,981	**100%**

Distribution of shareholding

As at 31 December 2020, the Company had 5,549 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1 to 1000	4,584	1,188,664
1001 to 5,000	589	1,232,558
5,001 to 10,000	97	732,947
10,001 to 100,000	178	6,522,213
100,001 and above	101	457,552,599
	5,549	**467,228,981**

Unmarketable Parcels:

As at 31 December 2020, the BSP Share Price was K12.00. There were 583 shareholders (0.01% of total shareholdings) who held less than a marketable parcel of BSP shares, being holdings of K1,000 or less in market value.

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
R Fleming	93,000	0.00

Registered Office

Section 34, Allotment 6 & 7,
Klinki Street, Waigani Drive, Port Moresby.
National Capital District, PAPUA NEW GUINEA
Telephone: +675 322 9700

Australian Registered Office

Level 26
181 William Street, Melbourne VIC 3000
Australia

Home Exchange for BSP Shares

PNG Exchange Markets (PNGX)
PO Box 1531
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 320 1980

Home Exchange for BSP Convertible Notes

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

Share Registry

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

Australian Share Registry

Link Market Services Ltd
Level 12, 680 George Street, Sydney
NSW 2000

APRA Disclaimer:

BSP is not authorised under the Banking Act 1959 (Commonwealth of Australia) and is not supervised by the Australian Prudential Regulation Authority (APRA). BSP's products are not covered by the depositor protection provisions in section 13A of the Banking Act 1959 and will not be covered by the financial claims scheme under Division 2AA of the Banking Act 1959

Waigani Drive Branchless banking Team David Manoka & Jeremiah Baniyama at the UPNG mini Expo in 2020.

WBC Branch Manager Alex Kuna signing on PNGDF Major General Gilbert Toropo, CBE onto the Home Loan Scheme.

Directors' Information

Name	Nature of Interest	
Sir K. Constantinou, OBE	Director	Bank of South Pacific Ltd, BSP Capital Ltd, BSP Finance Ltd, Bank South Pacific Tonga Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, Southern Seas Investments Ltd, Texas Chicken South Pacific Ltd, Loloata Island Resort, OPH Ltd, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand, Air Niugini, Vision Projects Ltd, Hospitality Plus Hotels Ltd, C G A Properties Ltd, The Papua Hotel Development Ltd, Airways Development Ltd, Airways Residences Ltd, Lamana Development (Samoa) Ltd, Taumeasina Development Corporation Ltd, Taumeasina Villas Ltd, TC Nambawan Ltd, TC Tupela Ltd, TC3 Ltd, TC4 Ltd, TC Faipela Ltd in New Zealand, TC Sikispela, TC Faipela Ltd in Papua New Guinea, Hebou Constructions (PNG) Ltd, Monier Ltd, Poly Allied Products Ltd, Tiare No. 23 Ltd, Six 97 Ltd, Oasis Apartments Ltd, Central Sand Supplies Ltd and Anglicare Foundation
	Shareholder	Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Texas Chicken South Pacific Ltd and K G Property Ltd
	Patron	Burnet Institute and Kokoda Track Foundation
	Member	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
R. Fleming, CSM, MBA, MMGT	Director	Bank of South Pacific Ltd, BSP Capital Ltd, BSP Convertible Notes Ltd, BSP PNG Holding Ltd, BSP Life (Fiji) Ltd, BSP Saleco Ltd, BSP Nominees Ltd, BSP Finance Ltd, BSP Finance (PNG) Ltd, BSP Finance (Fiji) Ltd, BSP Health Care (Fiji) Ltd, Bank South Pacific Tonga Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, 3 Kundu Services Pte Ltd, 3 Kundu Holdings PTE Ltd, BSP Finance (Solomon) Ltd, BSP Life PNG Ltd, BSP Finance (Cambodia) Plc, Devco Leasing (Lao) PTE Ltd, Platform Pacific Ltd
	Shareholder	Bank of South Pacific Ltd, BSP Saleco Ltd
	Member/Trustee	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
A. Sam, BComm, CPA, MAICD, GAICD	Director	Bank of South Pacific Ltd, Sam Kiak Tubangliu Certified Practising Accountants, Silver Dawn Holdings Ltd
	Shareholder	Sam Kiak Tubangliu Certified Practising Accountants, Silver Dawn Holdings Ltd
	Member/Graduate	CPA PNG, PNG Institute of Directors, Australian Institute of Company Directors
S. Davis, LLB	Director	Bank of South Pacific Ltd, Next DC Ltd, PayPal Australia Ltd, Asia Society of Australia, Australia India Business Council
	Graduate/Member	Australian Institute of Company Directors, Avondale Golf Club Ltd

Name	Nature of Interest	
R. Bradshaw, LLB	Director	Bank of South Pacific Ltd, Jiwaka Provincial Health Authority, Post PNG Limited
	Shareholder	Koitaki CC Ltd, Koitaki Country Club, Wahgi Arabicas Ltd, Waghi Valley Country Club, The Kofi Club, Songkan Ltd
	Member	Papua New Guinea Law Society
G. Robb, BA, MBA, OAM, MAICD, GAICD	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Bank of South Pacific Tonga Ltd
	Member/Graduate	Australian Institute of Company Directors
E. B. Gangloff, CPA, MAICD, MIIA, PNGID	Director	Bank of South Pacific Ltd, Gangloff Consulting Ltd, New Britain Palm Oil Ltd, Sir Theophilus Constantinou Foundation, BSP Finance (Fiji) Ltd, Pacific Training Consortium Ltd, Highlands Pacific Ltd
	Member	Institute of National Affairs (President), MSME Council Inc. (Vice President), Australian Institute of Company Directors, Papua New Guinea Institute of Directors (Founding member), CPA PNG, Institute of Internal Auditors, School of Business and Public Administration, University of Papua New Guinea (Adjunct Professor).
Faamausili Dr. M. Lua'iufi, BA, MSc, PhD	Director	Bank of South Pacific Ltd, Paradise Consulting, National University of Samoa
	Shareholder	Paradise Consulting
	Member	Executive Committee of the National University of Samoa, Samoa Institute of Directors, British Institute of Consulting, Technical Advisor to the newly establsihed Samoa Human Resources Institute (November 2018), Australian Institute of Company Directors
P. KEVIN, BSCS, MAICD	Director	Bank of South Pacific Ltd, Institute of National Affairs (INA) Council, In4net Ltd, PNG Digital ICT Cluster Inc., PNG Women in STEM Inc., PNG Computer Society Inc.
	Shareholder	In4net Ltd
	Employee	In4net Ltd
F. BOURAGA, CPA, MAICD	Director	Bank of South Pacific, Inside Out Ltd, Star Management Services Ltd, Papua New Guinea Cancer Foundation, Star No.57 Ltd
	Shareholder	Inside Out Ltd, Lalokau FM, Star Manage-ment Services Ltd, Star No.57 Ltd
	Employee	SBC Solutions

Management Teams

Executive Management

Robin Fleming, CSM
Group Chief Executive Officer

Robin Fleming was appointed GCEO of Bank of South Pacific Ltd in April 2013. Before his appointment as GCEO, he had been Deputy GCEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNGBC, Mr Fleming held senior management roles with PNGBC. He has worked in PNG for over 36 years and holds an MBA and a Master of Management from Charles Sturt University. Mr Fleming was made a Companion of the Star of Melanesia (CSM) in 2015 by the PNG Government for services to banking and the community.

FRANK W.M. van der POLL
Group Chief Operating Officer

Frank joined BSP in May 2019 as the Deputy GCOO and commenced in the GCOO role on 1st November, 2020. Primary responsibilities include Information Technology, Project Management Office, and Project Compass, BSP's Core Banking System upgrade, IT and has direct responsibilities for Transaction Channel Support, International Operations, Lending Support & Collections, Customer Service & Contact Centre, Support Services and Security Services. Frank started his career in the Information Technology field with various director roles at ICL/Fujitsu and Gandalf Technologies (Data communication) where he served as Vice President East, Middle East & Africa. In 1997, Frank moved into the Financial Services Industry; starting at Maduro & Curiel's Bank in the West Indies, Banque Populaire du Rwanda and Standard Chartered Southern Africa. Prior to joining BSP, Frank was the Chief Executive Officer for the First Micro Finance Bank Afghanistan.

RONESH DAYAL
Group Chief Financial Officer

Mr. Ronesh Dayal was appointed the Group Chief Financial Officer on 11th June, 2020. Mr. Dayal is an experienced and detail-oriented CFO with over 17 years experience in the financial services industry, having worked in the Life Insurance and Banking businesses in Fiji and Papua New Guinea.

He progressed into executive roles when he was appointed as the CFO for BSP Fiji Branch in December 2010 and was the first local CFO for the Bank. He was later appointed to the position of Deputy CFO - BSP PNG in 2014 when he moved to Papua New Guinea, before being appointed as the CFO for PNG Bank in 2017.

Mr. Dayal holds a Bachelor of Arts Degree with double Majors in Accounting and Financial Management and Information Systems from the University of South Pacific. He is currently the President of CPA Australia - PNG Branch and acts as mentor to a number of BSP's Leadership and Management Development program participants. He is a member of Chartered Accountants of CPA Australia, Chartered Accountant of CPA PNG and Chartered Accountant of The Fiji Institutes of Accountants.

Daniel Faunt
Group General Manager Retail

Mr Faunt was appointed Group General Manager Retail in December 2020 following the retirement of Paul Thorton. He assumes responsbility for the Group Retail Bank function econompassing the management of the 81 branches and sub-branches in PNG along with the Paramount Banking division and Group Marketing. Mr Faunt was previously the groups General Manager Offshore Branches with responsibility over banking operations in Fiji, Solomon Islands, Tonga, Samoa, Vanuatu and Cook Islands.

Mr Faunt has more than 20 years of banking experience in various senior management roles in PNG, Australia and the Pacific. He holds a Masters of Business Administration in Economics from Deakin University and a Bachelor of Business in Banking and Finance from the Queensland University of Technology.

Peter Beswick
Group General Manager Corporate Banking

Peter Beswick was appointed General Manager of BSP Corporate Banking in June 2011. He has over 25 years Banking and Finance experience, covering Australia and South East Asia with Commonwealth Bank of Australia, National Australia Bank and Bank of New Zealand; holding senior executive positions in Risk Management and Business Development. Mr Beswick's most recent appointment has been CEO of a national wholesale, import and retail business in Australia. He has extensive experience in the Finance, Government, Retail, Wholesale, Telecommunications and Property sectors, with extensive knowledge in foreign exchange, risk management and governance. Mr Beswick qualified as a Chartered Accountant with PWC and most recently completed an MBA with Macquarie University in Australia.

Mike Hallinan
Group Chief Risk Officer

Mike Hallinan, was appointed Group Chief Risk Officer, following Haroon Ali's move to Fiji as Country Head in 2018. Mr Hallinan, commenced employment with BSP in 2013, as Chief Credit Officer. His professional career expands over 40 years in Banking and Finance holding various senior positions in Risk Management and Senior Relationship Executive roles with Commonwealth Bank of Australia, specifically managing corporate and institutional relationships including government departments, both domestically and internationally. Recent experience prior to joining BSP included the financial industry group and infrastructure project financing. Mike is familiar with PNG having previously worked for the former Papua New Guinea Banking Corporation holding the position of Executive Manager Lending Division. Mike is a qualified CPA and is a Fellow of the Australian Bankers Institute.

Executive Management (Continued)



Rohan George
General Manager Treasury

Rohan George was appointed General Manager Treasury in February 2015. Mr George has extensive knowledge in developed and emerging financial markets. His experience spans over 30 years, covering fixed income, foreign exchange, commodities and structured derivatives markets. He is passionate about financial markets, managing market risk, liquidity risk and providing value add solutions for clients. Prior to joining BSP, Mr George worked at ANZ as Head of Global Markets, Cambodia & Laos (5 years), at Westpac as Treasurer PNG & PINS (8 years), and at BNP Paribas Investment Management in Sydney, as Head of Fixed Income. Mr George holds a Master of Applied Finance degree from Macquarie University and is accredited by both the Australian Financial Markets Association and the Sydney Futures Exchange.

Hari Rabura
General Manager Human Resources

Hari Rabura was appointed General Manager Human Resource in April 2016. She first joined BSP as a graduate trainee in 2001 and worked in various positions within HR in BSP and various private firms. Ms Rabura is the first female employee to reach executive management level as a General Manager in one of the key Strategic Business Unit (SBU) within the organisation. She is experienced in implementing and delivering HR strategies, policies, and services that create, support and sustain a high performance culture in BSP. As a former member of the Leadership and Management Development Program (LMDP) in BSP, she has undergone General Management training in INSEAD Business School in France and Melbourne Business School in Australia.

KILI TAMBUA
General Manager Offshore Branches

Kili Tambua was appointed to GM OSB on 2 November 2020 overseeing banking operations in Fiji, Solomon Islands, Tonga, Samoa, Cook Islands and Vanuatu.

Kili's professional career expands over 29 years in Banking and Finance - including senior management roles within Retail Banking. He holds a Master’s degree in Business Administration from the University of PNG and is an affiliate to the Australian Institute of Banking & Finance.

Nuni Kulu
General Manager Digital

Nuni Kulu was appointed as General Manager Digital effective as of 1st January, 2019. Her appointment makes her the second female to be appointed to the Executive of BSP as she joins Hari Rabura, General Manager Human Resources. Nuni joined the former PNG Banking Corporate (PNGBC) as a graduate and has undertaken numerous roles in Treasury and Retail Banking during the course of her career. She was a member of the BSP's Leadership Development Program and has benefited from leadership and management training at Melbourne Business School and Insead College in France. Nuni hails from Manus Province and holds a Bachelor of Commerce attained at the Australian National University with many years of experience with PNGBC/BSP. She is now the President of the Business Council of PNG.

Vandhna Narayan
Group General Manager Compliance

Vandhna Narayan was appointed as Group General Manager Compliance effective 23 February 2021. Vandhna oversees BSP's Anti-Money Laundering & Compliance; Internal Audit; and Credit Inspection Business Units to ensure BSP continues to meet its ongoing regulatory obligations and advancements in industry standards. Vandhna was formerly the Group Head of Compliance and AML for BSP, and has also held roles as General Manager Legal & Compliance for BSP Life Fiji and Colonial National Bank Fiji (now BSP Fiji). Vandhna is a qualified Solicitor (admitted in Fiji, New Zealand and New South Wales) with over 25 years diverse professional and leadership experience, including 10 years in the Banking and Insurance sector. Vandhna successfully completed CBA's Executive Development Program in 2010, and holds a Bachelors Degree in Law from Victoria University of Wellington, New Zealand, and a Masters Degree in Human Rights Law and Policy from the University of New South Wales.

Andy Roberts
General Manager BSP Finance Ltd

Andy Roberts was appointed General Manager of BSP Finance Ltd on 17 August 2020. Prior to joining BSP, Mr Roberts held various management positions in equipment finance and corporate banking with Westpac and NAB in Australia in a career spanning 25 years. More recently he spent just over 2 years with Credit Corporation in PNG before joining BSP. Andy is currently completing his Master of Business Administration at Torrens University in Australia.

Broader Group

COOK ISLANDS

Standing (L-R):
Henry Napa – Head of Operations
David Street – Country Head
Achaal Narayan – Manager Digital
Tokoa Harmon – Branch Manager

Seated (L - R):
Grace Tangata – Operational Risk and Compliance Manager
Tutu Inamata – Business Manager
Gabe Raymond – Head of Finance
Chris Doran – Head of Corporate

FIJI

Standing (L-R):
Alvina Ali – General Manager Legal & Compliance
Esala Halafi – Head of Operational Risk & Compliance
Omid Saberi – Chief Information Officer
Ravindra Singh – General Manager Retail
Maikash Ali – General Manager Corporate
Sunil Rohit – Head of Credit

Seated (L - R):
William Wakeham – Chief Operating Officer
Haroon Ali – Country Head
Rajeshwar Singh – General Manager Corporate Services & Chief Financial Officer

SAMOA

Standing (L - R):
Rodney Greed – Facilities Management and Project Manager
Maiava Ieli Tovia-Leota – Business Manager
Edward Yee – Head of Corporate

Seated (L - R):
Epeli Racule – Head of Operations
Peti Leiataua – Manager Operational Risk
Shirley Greed – Head of Retail
Taitu'uga Maryann Lameko-Vaai – Country Manager
Jennifer Fruean – Head of Finance
Bharat Chovhan – Head of Treasury

SOLOMON ISLANDS

Standing (L - R):
David Anderson – Country Manager
Lucy Bonunga – Manager Operational Risk
Daniel Henson – Head of Corporate
Lynnette Taoti – Manager Lending Management Unit

Seated (L - R):
Freda Fa'aitoa – Manager Human Resources
Sharneet S Singh – Head of Finance
Genevieve Apusae – Manager Internal Audit
Dennis Suia – Manager Lending Support Unit
Lyn Fa'arodo – Manger E-banking
Winterford Maehau – Manager Information Services

TONGA

Standing (L - R):
Emilio Tapueluelu – Head of Retail
Iunisi Polutele – Manager Operational Risk
Mele Ikahihifo Latu – Head of Treasury
Emele Hia – Head of Corporate
Meleana Fifita – Head of Operations
Emeline Fiefia – Training officer
Manavahe Seluini – AML and Compliance Officer

Seated (L - R):
Viliami Vailea – Head of Finance
Marcellina Wolfgramm Haapai – Country Head
Viliami Hia – Manager Loans Management Unit

VANUATU

Standing (L - R)
Ronal Prasad – Head of Finance
Nik Regenvanu – Country Head
Warren Bobbin – Head of Corporate
Josiah Kalfabun – Manager Compliance
Edmond Williamson – Manager Operational Risk

Seated (L - R)
Teresa Jordan – Head of Operations
Moana Korikalo – Head of Retail
Irene Tabi – Head of Treasury

Overseas and Subsidiaries Directory

Cook Islands

Country Head	David Street	682 22829
Head of Corporate	Chris Doran	682 22014
Rarotonga Branch	Tokoa Harmon	682 22014
Aitutaki Branch	Rosa Henry	682 31714

Fiji

Country Head	Haroon Ali	679 3214454
Damodar City Branch	Sanjani Devi	679 3342333
Thomson St Branch	Shailendra Roy	679 3314400
Nausori Branch	Pio Vatanitawake	679 3478499
Pacific Harbour Branch(OIC)	Ravikashni Prakash	679 3452030
Samabula Sales & Bus. Centre	Mereani Peters	679 3387999
Suva Central Branch	Shalit Kumar	679 3314400
Ba Branch	Reginald Kumar	679 6674599
Westfield Branch	Devendran Pillay	679 6661769
Nadi Branch	Ann Pesamino	679 6700988
Namaka Branch	Razia Tahir	679 6627320
Rakiraki Branch (OIC)	Ronica Prakash	679 6694200
Sigatoka Branch	Nacanieli Vadei	679 6500900
Tavua Branch (OIC)	Mohammed Azeem	679 6681507
Labasa Branch	Eka Takayawa	679 8811888
Savusavu Branch (OIC)	Vineeta Prasad	679 8850199
Taveuni Branch	Anaseini Senivika	679 8880433

Samoa

Country Head	Maryanne Lameko - Vaai	685 66115
Retail Head	Shirley Greed	685 66170
Apia Branch	Siuli Aiono	685 66172
Vaitele Branch	Folototo Leaumoana	685 23005/685 23057
Salelologa Branch	Leilani Kelemete	685 51208/ 685 51066

Solomon Islands

Country Head	David Anderson	677 21874
Auki Branch	Lency Saeni	677 40484
Gizo Branch	Clotilda Londeka	677 60539
Heritage Park Branch	Joy Vave	677 21814
Honiara Central	Jeremy Bosukuru	677 21222
Munda Branch	Joseph Rabaua	677 62177
Noro Branch	Richard Bero	677 61222
Point Cruz Branch	Saverio Votu	677 21874
Ranadi Branch	Tricia Tura	677 39403

Tonga

Country Head	Marcellina Wolfgramm Haapai	676 20807
Nuku'alofa Branch	Mele Lily Cocker	676 20830
Vava'u Branch	Sosefina Tangitau	676 71268
Ha'apai Sub Branch	Ta'ufoou Maloni	676 60933
'Eua Sub Branch	Tokilupe Toe'api	676 50145

Vanuatu

Country Head	Nik Regenvanu	678 5580038
Head of Retail & Marketing	Moana Korikalo	678 5580009
Santo Branch	Edwige Wensi	678 5580034
Port Vila Branch	Danica Rapouel	678 5580016
Tanna Branch	Dolores Charlie	678 5580041
Freswota Branch	Lina Niatu	678 5580051

Subsidiaries

BSP Finance

Country Head (PNG)	Adam Bailey	675 7024 5681
Country Head (Fiji)	Krishna Raju	679 323 4451
Country Head (Cambodia)	Buo Choeun	855 (0) 2388 52064
Country Head (Lao)	Panyathip Vongsouli	856 (0) 20 55 538 682

BSP Life

Country Head (Fiji)	Michael Nicola	679 326 1743
Country Head (PNG)	Nilson Singh	675 305 6361

BSP Capital

General Manager (PNG)	Gheno Minia	675 309 8521

Subsidiaries

BSP FINANCE HOLDING

Standing L-R
Sharon Andoiye – Quality Assurance Manager
Natasha Lagani – Financial Controller
Andy Roberts – General Manager
Janet Seta – Operational Risk and Compliance Manager

Sitting L-R
Anna Puri – Credit Manager
Remu Ruape – AML/CTF Compliance Officer

BSP FINANCE - PAPUA NEW GUINEA

Standing (L – R):
Connie Tauledo - Lending Support Officer
Richard Matanga - Accountant
Michael Timi - Snr Lending Officer
Adam Bailey - Country Manager
Jonah Luke - Collections Officer
Jina Charis Mark - Lending Officer
Rahab Kuiaha - Lending Support Officer

Sitting (L – R):
Delilah Tomala - Collections Officer
Roger Kauk - Team Leader Operations
Beverly Hamora - Receptionist

BSP FINANCE - FIJI

Standing (L-R):
Sanjeet Narsey – Finance Manager
Shelvina Sharon Lata – Accountant
Niranjan Singh – Compliance & Operations Risk Mnagement Officer
Animul Sheryn Khan – Supervisor Lending Support
Sudeshwar Ram – Area Manager East

Sitting (L-R):
Shainesh Vikash Lal – Area Manager West
Krishna Raju – General Manager
Shirraz Narayan – Collections Supervisor

BSP FINANCE - CAMBODIA

Standing (L-R):
Kou Porlia – Senior Field Collection Officer
Heng Brosoer – Finance Manager
Morm Sreyhouch – Senior Lending Support
Seng Sokha – Head of Lending Sales
Khay Bunthoeurn – Operations Manager

Sitting (L-R):
Im Boromey – OR & Compliance & AML Supervisor
Buo Choeun – Country Head
Phum Sreyneang – Senior Lending Coordinator

BSP FINANCE - LAO

Standing(L-R):
Phonepaseuth Rattana – Collection Officer
Vilaiphone Silakoune – Loan & Recovery officer
Vatsrinh Vongsack – Finance Manager
Viengsavanh Danchampa – Operation Manager
Buangeun Sayavong – Lending Officer

Sitting (L-R):
Nampherng Luangchalern – Admin Assistant Officer
Vatthana Vannolath – Compliance Officer
Panyathip Vongsouli – Country Manager
Nith Chanthavongdeuane – Admin Administration Officer

BSP LIFE - FIJI

Standing (L - R):
Michael Nacola – Managing Director
Pramesh Sharma – Chief Investments Officer
Curtis Mar – General Manager Distribution & Marketing

Sitting (L - R):
Emily King – General Manager Legal & Compliance
Munendra Naidu – Chief Financial Officer

BSP LIFE - PNG

Standing (L - R):
Matthew Hasu – Head of Sales
Nilson Singh – Country Manager

Sitting (L - R):
Gynellevin Tanabi-Hemetsberger – Operations Manager
Doris Yenbari – Quality Assurance and Compliance Manager

BSP CAPITAL LTD

Standing (L - R):
Mabata Gabutu – QA & Compliance Manager
Gheno Minia – General Manager BSP Capital

Sitting (L - R):
Willie Konga – Manager, Funds Management
Theresa Kalivakoyo – Financial Controller

PNG Branch Managers

Mathew Danti
Aitape

Martin Gilo
Alotau

Rosemary Paula Seeto
Arawa

Dora Raphael
Bialla

Ruby Patu
Boroko

Julie Warren
Buka

Roslyne P. Kanini
Bulolo

Ruben Attai
Daru

Livikonimo Koki
Goroka

Antonia Dru
Gordons

Rawalo Rawalo
BSP Haus

Marco Hamen
Kainantu

Mathias Manawo
Kavieng

Betty Posangat
Kimbe

Ivy David
Kiunga

Joe Makinta
Kokopo

Rita Singut
Kundiawa

Bevilon Homuo
Lae Top Town

Gabriel Ak
Lae Market

Robinson Panako
Lae Commercial

Johnson Tetaga
Lihir

Ruth Kagl
Lorengau

Philip Solala
Mendi

Bau Kiso
Moro

Theresa Pilamp
Mt Hagen

Samuel Okti
Popondetta

Mary Koi
Porgera

Stanley Bole
Port Moresby

Kalat Tiriman
Rabaul

Dianne Rali
Tabubil

John Tomba
Tari

Delilah Kanit
Vanimo

Susie Yapen
Vision City

Thomas Tembil
Wabag

Alex Kuna
Waigani B/Centre

Madeleine Leka
Waigani Drive

Nelson Kerua
BSP First HC

Richard La'a
SME - Lae

Samuel Mulina
SME - Goroka

Carol Nokop
Waterfront
Premium Centre

Reuben Elijah
Area Manager
Highlands

Barry Namongo
Area Manager
Momase

Jeffrey Singer
Area Manager
NGI

Dennis Lamus
Area Manager
NCD

Billy Veveloga
Area Manager
Southern

Papua New Guinea Branch Directory

Aitape	Mathew Danti	457 2042
Alotau	Martin Gilo	641 1284
Arawa	Rosemary Paula Seeto	276 9244
Bialla	Dora Raphael	983 1095
Boroko	Ruby Patu	303 4320
BSP Haus	Rawalo Rawalo	305 7135
Buka	Julie Warren	973 9042
Bulolo	Roselyn P. Kanini	474 5331
Daru	Ruben Attai	645 9416
Goroka	Livikonimo Koki	532 1633
Gordons	Antonia Dru	302 5202
Kainantu	Marco Hamen	537 1251
Kavieng	Mathias Manowo	9842082
Kimbe	Betty Posangat	983 5166
Kiunga	Ivy David	649 1313
Kokopo	Joe Makinta	982 9088
Kundiawa	Rita Singut	535 1025
Lae Top Town	Bevilon Homuo	473 9876
Lae Market	Gabriel Ak	473 9609
Lae Commercial	Robinson Panako	472 9088
Lihir	Johnson Tetaga	986 4062
Lorengau	Ruth Kagl	970 9244
Madang	Maureen Robert	422 2477
Mendi	Philip Solala	549 1070
Moro	Bau Kiso / Ali Albert	276 1566
Motukea	Stanley Geno	321 7701
Mt Hagen	Theresa Pilamp	542 1877
Popondetta	Samuel Okti	629 7443
Porgera	Mary Koi	547 6900
Port Moresby	Stanley Bole	305 7104
Rabaul	Kalat Tiriman	982 1744
Tabubil	Dianne Rali	649 9179
Tari	John Tomba	276 1651
Vanimo	Delilah Kanit	457 1025
Wabag	Thomas Tembil	547 1237
Waigani	Alex Kuna	305 6102
Waigani Drive	Madeleine Leka	302 5301
Wewak	Robert Jomino	456 2344

SME

Vision City	Susie Yapen	305 7786
Lae	Richard La'a	479 5676
Goroka	Samuel Mulina	532 1006

Premium

Boroko	Sheila John	303 4354
Gordons	Antonia Dru	302 5202
Kokopo	Kessie Guboro	982 9068
Madang	Jennifer Passingan	422 2477
Mt Hagen	Maggie Wara	542 1877
Port Moresby	Imelda Konabe	305 7790
Waigani	Pakar Tata	300 9131
Waterfront	Carol Nokop	305 6431

BSP First

Gordons	Therea Mulina	302 5245
Harbour City	Nelson Kerua	305 7935
Lae	Elizabeth Gavul	478 4949
Port Moresby	Jessie Toran	305 7724

Regional Area Managers

Highlands	Reuben Elijah	542 2002
Momase	Barry Namongo	478 4998
NCD	Dennis Lamus	305 7195
NGI	Jeffrey Singer	982 9088
Southern	Billy Veveloga	305 7886

Sub Branch Directory

Aiyura	Gomah Benson	7230 8313
Banz	Kessy Elly	7100 9078
Buin	Rosemary Paula Seeto	7106 3610
Chuave	Shandah Bai	7197 6001
Daulo	Kurai Gunurei	7100 6763
Gusap	Vivian Sae	7091 1396
Henganofi	Rachael Saime	7100 7859
Higaturu	Stephanie Orovo	7100 3761/2
Hoskins	Genevieve Sela	7031 2627
Ialibu	Philemon Kumi	7041 1624
Kabwum	Inna Buneng	7346 1426
Kamtai	Josephine Kun	7243 4695
Kerema	Toru Levo	7100 2889
Kerevat	Minamar Mathew	7190 8231
Kerowagi	Gariki Towa	7100 9077
Kinim	Malapun Bannick	7100 7861
Kikori	Sam Yawehe	7276 1566
Komo	Mark Tom	7104 0534
Konos	Helen Warange	7197 6006
Kupiano	Andrew Baine Jnr	7288 4140
Laba	Auda Morea	7197 6008
Lakurumau	Lorraine Koma	7197 6005
Losuia	Lorna Solomon	7031 2617
Maprik	Christian Tatu	7168 7815
Minj	James Mare	7100 9076
Mutzing	Gordon Robert	7100 2488
Namatanai	Mathew Tabakas	7197 6007
Navo	Hennah Brunim	7090 4272
Ningerum	Dewang Joseph	7341 2207
Okapa	Arafat Tovari	7055 0955
Padipadi	Lelly Mick	7090 4463
Palmalmal	Freda Nablup	7323 9181
Pangia	Debra Poria	7197 6003
Simberi	Rebecca Maragit	7449 8381
Telefomin	Jobartan Bickie	7255 8421
Wakunai	Melvin Kusa	7100 7856
Walium	Brenda Igusam	7031 2127
Wapenamanda	Feta Isin	7100 7862
Yangoru	Brendon Iromo	7127 0000
Yonki	Usik Asino	7185 5768

Corporate Social Responsibility


23/10/20
K 6,900-00

Investing in Sports - BSP School Kriket Program

This multiple global award winning Junior Development program in Papua New Guinea has reached over over 1.5 million participation from students in schools and communities since 2009. The BSP School Kricket program is by far the largest junior school program in the country and BSP is committed to developing the sport of cricket in PNG.

In 2020, BSP Kriket Program was awarded the Global Cricket Award.

> "The program is very beneficial not only to schools but the communities as well. I'm very proud that through the program and the support of our valuable partner BSP, we have produced some of the best players in the men's National Team and also the Women's Team."
>
> **GREG CAMPBELL, CRICKET PNG CEO**

BSP delivers more than just banking to the communities, customers and the countries that we operate in. We deliver balanced and sustainable outcomes for our customers, community, people and shareholders.

We respect, value and support the communities in which we operate in. At the core of our business, we know that, our people belong to a bigger community.
In 2020, BSP's Corporate Social Responsibility (CSR) contribution was over K4.6 million including sponsorships and donations as a group.

BSP Fiji supports Lifeline Fiji.

Corporate Social Responsibility

Sponsorships and Donations groupwide including BSP Subsidiaries

K4.6m
Corporate Social Responsibility

Total amount invested in CSR in 2020 which includes Sponsorships, Donations and Community Projects in **BSP Groupwide**

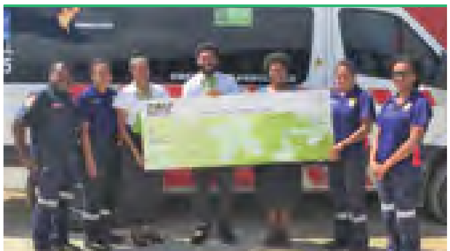
BSP Life Managing Director, Michael Nacola handing over food vouchers to PS Housing and Community Development, Sanjeeva Perera.

Corporate Social Responsibility

Sponsorships and Donations in Papua New Guinea

K3.8m
Corporate Social Responsibility

Total amount invested in CSR in 2020 which includes Sponsorships, Donations, Go Green Campaign and Community Projects in **Papua New Guinea**



BSP Vanuatu supports Promedical.

Giving back to the community

Nasautoka District School received funding to upgrade their walkway and shelter through BSP Fiji's Communituy Project initiative.

Our Sponsorships

Investing in Sports, Environment, Corporate Events, Professional Development and Culture & Tourism.

K1.4m
for Sponsorship in Papua New Guinea

K313k
for Go Green Campaign in Papua New Guinea

OUR SPONSORSHIPS

- Certified Practicing Accountants PNG
- PNG Human Resources Institute
- Business and Professional Women's Club of Port Moresby
- Haus Ples Ltd
- Port Moresby Bilum Mothers Association
- Young Professionals Network of PNG
- WNB Rugby League Franchise Board
- Brisbane Broncos Corporation Pty Ltd
- David Mead- BSP Brand Ambassador
- Rabaul Golf & Squash Club
- PNG Olympic Committee
- Papua New Guinea Volleyball Association Inc.
- Bulolo Golf Club
- BSP School Kricket Program
- Boroko Amateur Swimming Club
- Port Moresby FissPotts Rugby Football Club
- Pasifik Women Network
- Moresby Arts Theatre
- Port Moresby Nature Park
- Karimui Conservation Agriculture & Cultural Show

Contributing to education

"It is wonderful to see the children so engaged in our new numeracy program and we are grateful to BSP for their generous long-term support. The BSP team have developed a very clever real-life application program, which paired with the BbP curriculum will make the children little number experts."

ANNE-SOPHIE HERMANN, BbP FOUNDER AND CHAIR – BUK BILONG PIKININI

Our Donations

Support Charities, Hospitals,Orphanages and other worthy causes.

K864k
for Donations in Papua New Guinea

OUR DONATIONS

- Burnet Institute
- Buk Bilong Pikinini
- PNG Kidney Foundation Inc.
- Operation Open Heart
- Kokoda Track Foundation
- Sir Theo Foundation
- Salvation Army
- PNG Cancer Foundation
- Friends of POM Gen
- Library for All Project Initiative
- Cheshire disAbility Services of PNG
- Port Moresby General Hospital
- Lamana Bush Fire Appeal
- Susu Mama's POM Inc.
- Hope for Poor Kids Care Inc.
- Rotary Club of Madang
- PNG Australian Alumni Association
- Project Yumi – Thomas Suaga Silasil Library

Donation of vehicle to PNG Kidney Foundation.

Community Projects
in Papua New Guinea

K11.36m
invested in community Projects since 2009

46 projects for PNG in 2020
23 Education
23 Equipping Hospitals

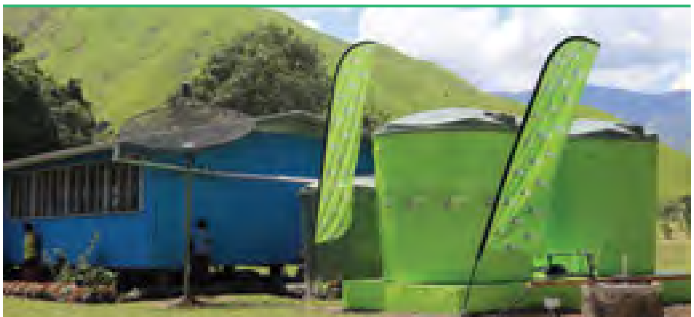
K1.3m
invested in community Projects for Papua New Guinea in 2020

105 Wash Stations
COVID-19 Response Project

As a part of the communities we live in, we would like to build these relationships and strengthen our community involvement. BSP's Community Projects initiative provides an avenue for each of our staff to contribute to make a difference. Since its inception in 2009, we're proud that every Branch Manager, Head of Department and Executive Management and their teams have made a personal commitment to this program, devoting their own time, backed by the resources of BSP.

Community Projects in Papua New Guinea

- **Aitape**
  Construction of double classroom at Rome Primary School
- **Alotau**
  Provision of medical equipment to Alotau Urban Clinic
- **Arawa**
  Refurbishment and provision of mattresses for Wakunai Health Centre Maternity Ward
- **Bialla**
  Donation of mattresses and baby cots to Bialla Heath Centre Maternity Ward
- **Boroko**
  Refurbishment of library at Veifa'a High School
- **BSP Capital**
  Donation of medical equipment to Tokarara Clinic
- **BSP Finance**
  Provision of examination lights for Port Moresby General Hospital Labour Ward
- **BSP Haus**
  Refurbishment and donation of computers, printer and air conditioners for Badihagwa Secondary School
- **BSP Life**
  Donation of medical equipement for POMGEN Emergency ward
- **Buka**
  Provision of medical equipment for Buka Hospital
- **Bulolo**
  Donation of computers, printer and furniture for Bayune Lutheran High School
- **Lae Corporate & BSP Finance**
  Water supply maintenance and donation of water pump for Wampar Health Centre
- **Daru**
  Refurbishment & supply of medical equipment for Daru Hospital Labour Ward
- **Digital**
  eLibrary set up for Kila Kila Secondary School
- **F&P, Credit & Risk, Treasury, Retail and Compliance**
  Purchase of 4 probe ultrasound scanner & minor refurbishment of POM Gen Radiology Department
- **Gordons Commercial Branch**
  Completion of double classroom at Bomana Primary School
- **Goroka**
  Donation of computers & printer for Ginitoka High School
- **Kainantu**
  Renovation of the Kainantu District Hospital staff room
- **Kavieng**
  Refurbishment of Lemakot Vocational school mess
- **Kimbe**
  Donation of medical equipment to Kimbe Hospital
- **Kiunga**
  Donation of a coulter counter machine for Kiunga Rumginae Hospital
- **Kokopo**
  Refurbishment of classroom and donation of computers to Tanaka Primary School
- **Kundiawa**
  Refurbishment of Chuave Secondary School ablution block
- **Lae Commercial**
  Provision of medical equipment for Lae, Raunwara and Salamanda Susu Mama clinics
- **Lae Market**
  Donation of computers & printer for Malahang Secondary School library
- **Lae Top Town**
  Water project for Ragiampung Seventh Day Adventist Primary School
- **Lihir**
  Provision of medical equipment for Palie Health Centre



BSP Lae Top-Town Water project for Ragiampung Seventh Day Adventist Primary School .

BSP Aitape Branch staff handover Handwash basin at Raihu District hospital.

Corporate Social Responsibility
across the Pacific

K112k
CSR Spend in Cook Is.

K46k
CSR Spend in Solomon Is.

K240k
CSR Spend in Fiji

K148k
CSR Spend in Samoa

K48k
CSR Spend in Tonga

K108k
CSR Spend in Vanuatu

BSP takes pride in supporting professional groups, organisations, and worthy causes that are important to our customers, employees and people throughout PNG and the Pacific.

BSP has built partnerships with various organising committees, events and charities who champion, cultural unity, professional development, environment sustainability, education, sports, health and well being.

bsp Capital

K25k
BSP Capital

bsp life

K37k
BSP Life PNG

K110k
BSP Life Fiji

bsp Finance

K35k
BSP Finance Group

Community Projects in Papua New Guinea (Continued)

- **Lorengau**
  Refurbishment of Library & Donation of computers & printer for Ecom Secondary School
- **Madang**
  Refurbishment of classroom and donation of water tank for Walium Primary School
- **Mendi**
  Refurbishment & provision of medical equipment for Mogol Health Centre
- **Moro**
  Installation of solar system and provision of medical equipment to Inu Aid Post
- **Mt Hagen**
  Provision of medical equipment for Mt Hagen General Hospital
- **Operations & IT, HR & Corporate**
  Donation of portable ultrasound scanner for Gerehu General Hospital
- **Port Moresby**
  Donation of computers and printer for Koki Vocational Centre
- **Popondetta**
  Provision of medical equipment to Saiho Health Centre
- **Porgera**
  Donation of medical equipement to Porgera District Hospital
- **Rabaul**
  Completion of classroom for Malagan Primary School
- **Tabubil**
  Renovation of Hauswin at Cheshire Home
- **Tari**
  Donation of computers and printer to Hoeba Secondary School
- **Vanimo**
  Donation of computers and printer to Don Bosco Secondary School
- **Wabag**
  Water tank donation and refurbishment of ablution block at Yaibos Health Centre
- **Waigani Banking Centre**
  Donation of computers and printer for Tokarara Secondary School
- **Waigani Drive**
  Donation of computers and printer to Limana Vocational School
- **Wewak**
  Donation of computers and printer to St Andrews Technical Vocational School
- **Marketing Committee/CEO Selection**
  eLibrary set up for De La Salle Secondary School


BSP Life PNG team with Emergency Department team of POMGH.


BSP Capital GM Gheno Minia and his team with Tokarara Clinic sister-in-charge Olive Ume and NCD Health Staff in front of the TB Consultation room.


Donation of computers and printers for Tokarara Secondary school by Waigani Banking Centre.


BSP Staff with Group CEO Robin Fleming hand over Ultrasoud machine and other equipment to POMGH CEO Dr Paki Molumi and his team.

Community Projects in the Pacific

62 Community Projects
Delivered across the group

16 Projects delivered through Offshore Branches **in the Pacific**

5 Projects delivered through **SBUs**

3 Projects delivered through **BSP Subsidiaries**

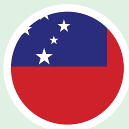
38 Projects delivered through **PNG Branches**

COOK ISLANDS

1 Project in Cook Islands

- **Traditional Arts Centre**
  Construction of toilet and bathroom and volunteered time in a series of working bees to clean and tidy the Arts Centre.

David Street packing away local milled wood during a 3hr working bee.



SAMOA

1 Project in Samoa

- **Falealili District Hospital**
  Building a new ablution block

The official opening and handover ceremony was conducted on the 22nd of December in the presence of the Hon. Minister of Health Faimalotoa Kika Stowers-Ah Kau, Reverend Letone Uili, High Chief of Poutasi, Tuatagaloa Joe Annandale and Member of Parliament Aumua Isaia Lameko.

TONGA

2 Projects in Tonga

- Children's Ward, Vaiola Hospital - Tonga
- Tonga Youth Employment and Enterprising (TYEE)

Donation of computers at Children's Ward, Vaiola Hospital.

VANUATU

2 Projects in Vanuatu

- **Port Vila Branch**
  Vanuatu Central Hospital – Children's ward upgrade
- **Tanna Branch**
  Osnalmok Disable Organisation

Vanuatu Central Hospital – Children's ward upgrade.

SOLOMON ISLANDS

4 Projects in Solomon Islands

- **Auki Branch**
  Auki Primary School classroom painting
- **Gizo Branch**
  Hand Wash station
- **Heritage Park Branch**
  Marara clinic water project
- **Ranadi**
  Built Ablution block for United Pentecostal church

FIJI

6 Projects in Fiji

- **Nausori Branch**
  The Reading Place at Namuka Village.
- **Pacific Harbour Branch**
  Hand washing station
- **Tavua Branch**
  Maintenance work and provision to solar power at Nadrau Health Station.
- **Head Office**
  Construction of walkway at Nasautoka District School
- **Rakiraki Branch**
  Digitalisation at Malake District School
- **Savusavu Branch**
  Hand washing station and water tank at Nasavusavu Special School.

BSP also donated sports balls to help with the schools' PE Program at various schools in Fiji.

#BlackThursday Campaign - Our Commitment to Social Well Being

In 2020, BSP launched its biggest social justice campaign in July, called the #BlackThursday Campaign to Advocate for survivors of family and sexual violence (FSV) and gender based violence (GBV) and create awareness on the issue. Staff and family created awareness by wearing black every Thursday and continued to stand in solidarity against FSV & GBV.

The Bank is advocating a change in mind-set to represent resistance and resilience. BSP's #BlackThursday campaign symbolises the bank's long standing commitment to empowering our people with information that can support victims and survivors of FSV and GBV, and awareness that can help the community to identify or stop violence in the family and community.

GO GREEN – Our Commitment to the environment.

BSP recognises the effect it has on the environment and is committed to promoting sustainable ways to care for the environment.

Under the BSP GO GREEN Campaign, the bank observes, Earth Day and Earth Hour, and World Environment Day.

Through BSP's GO GREEN Campaign, BSP hosts the largest clean-up campaign in the Pacific, conducted through over 120 schools across all Pacific Island countries that BSP operates in, bringing together thousands of students to participate.

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

Our GO GREEN Message is simple: 'Recycle, Reuse, Respect'

- **Recycle:** Collect and deposit discarded items at an operation where these materials can be recycled into new products, e.g. scrap metal/ plastic buyers.
- **Reuse:** Remove wastes or 'patch up' damaged areas on an item or its components, to use again for the same purpose.
- **Respect:** Dispose your unwanted items properly- tied up in bags & put in a rubbish bin. Respect the environment.

Financial Literacy and Banking Education

Delivering Financial Literacy in PNG

With growth, comes added responsibilities of ensuring that our people, shareholders and customers are empowered in financial literacy and banking education.

Financial Literacy and Banking Education is an important part of BSP's contribution to the communities that we operate in. These trainings are delivered by trained Financial Literacy trainers, through BSP branches across the Pacific.

We reach schools, churches, organised community groups, businesses and corporate organisations.

Financial Literacy is also delivered in all countries that BSP operates in.
Pictured students from Cook Islands showing their certificate after a training.

140

Qualified Financial Literacy Trainers in branches in PNG.

6,440

Individuals participated in Financial Literacy in PNG. 47% were women.

230

Communities and organisations reached since 2014.

OUR BANK **OUR PEOPLE**

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