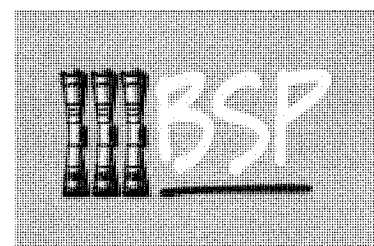


Bank of South Pacific Limited and Subsidiaries

Financial Statements

For the year ended

31 December 2011



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Directors' Report

for the Year Ended 31 December 2011

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

Principal activities

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

Review of operations

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

Dividends

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

Directors and officers

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

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

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

The company secretary is Mary Johns.

Independent Audit Report

The consolidated financial statements have been audited and should be read in conjunction with the independent audit report on page 48. Details of amounts paid to the auditors for audit and other services are shown in Note 5 of the Notes to the consolidated financial statements.

Donations

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

Directors' Report

for the Year Ended 31 December 2011

Interests Register

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

Change in accounting policies

No changes in accounting policies occurred during the year.

For, and on behalf of, the Directors.

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



Kostas Constantinou, OBE
Chairman



Ian B Clyne
Chief Executive Officer/Director

Statement by the Directors

for the Year Ended 31 December 2011

The directors declare that:

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

Additional Statutory Information

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

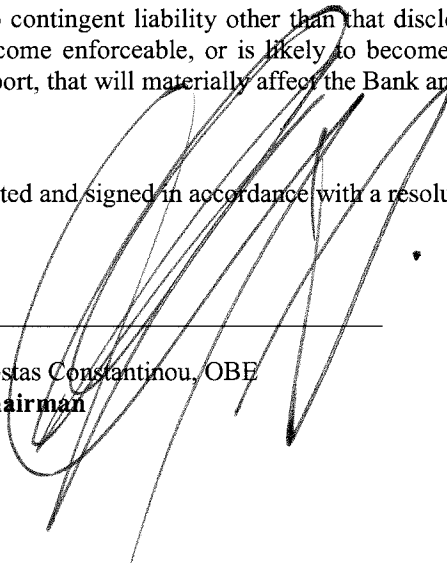
In the opinion of the Directors, no circumstances have arisen that make adherence to the existing method of valuation of assets or liabilities of the Bank and the Group misleading or inappropriate.

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

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

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

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



Kostas Constantinou, OBE
Chairman



Ian B Clyne
Chief Executive Officer/Director

Statement of Comprehensive Income

for the Year Ended 31 December 2011

	Note	Consolidated		Bank	
		2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>					
Interest income	1	666,320	646,044	672,781	576,481
Interest expense	1	(68,841)	(102,042)	(75,330)	(80,390)
Net interest income		597,479	544,002	597,451	496,091
Fee and commission income	2	202,136	152,058	198,589	145,581
Other income	3	382,731	258,915	228,378	155,075
Net operating income		1,182,346	954,975	1,024,418	796,747
Bad and doubtful debts (expense)/recovery	4	(25,234)	(20,581)	(25,234)	(19,112)
Other operating expenses	5	(688,621)	(522,828)	(532,987)	(375,174)
Operating profit		468,490	411,566	466,196	402,461
Share of loss from associates accounted for using the equity method	13	6,496	(762)	-	(364)
Profit before tax		474,986	410,804	466,196	402,097
Income tax expense	6(a)	(119,039)	(127,657)	(117,206)	(125,527)
Operating profit/(loss) from ordinary activities after tax		355,947	283,147	348,989	276,570
Other comprehensive income					
Exchange difference on translation of foreign operations/subsidiaries	27	19,772	2,739	20,541	2,242
Net value gain on revaluation of share options	27	1,270	657	1,270	657
Net movement in asset revaluation	27	91,518	-	91,517	-
Other comprehensive income for the year, net of tax		112,559	3,396	113,328	2,899
Total comprehensive income for the year		468,506	286,543	462,317	279,469
Earnings per share - basic & diluted (in toea per share)	26 & 33	75.1	5.9	73.6	5.8

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

Statement of Financial Position

As at 31 December 2011

	Note	Consolidated		Bank	
		2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>					
ASSETS					
Cash and balances with Central Bank	14	1,188,048	1,042,029	1,086,766	744,280
Treasury & Central Bank bills	15	3,316,410	2,280,816	3,316,410	2,280,816
Amounts due from other banks	16	313,410	302,061	313,410	295,028
Loans and advances to customers	17	4,300,913	4,091,297	4,235,974	3,276,747
Properties held for sale	18(a)	-	-	-	-
Property, plant and equipment	18(b)	622,903	364,154	597,522	312,024
Assets subject to operating lease	18(c)	68,936	77,480	68,936	77,480
Other financial assets	19	1,352,601	1,521,915	1,268,801	1,318,174
Investment in associates	13	54,957	54,456	12,563	12,563
Investment in subsidiaries		-	-	215,517	215,517
Intangibles	12	21,933	16,158	-	-
Investment properties	18(d)	60,308	74,816	-	-
Deferred tax assets	20	87,625	64,968	87,336	52,569
Other assets	21	293,249	137,140	215,005	80,114
Total assets		11,681,293	10,027,290	11,418,240	8,665,312
LIABILITIES					
Amounts due to other banks	22	77,889	23,638	95,820	29,497
Amounts due to customers	23	9,366,281	7,984,657	9,446,389	7,185,575
Subordinated debt securities	24(b)	75,525	75,525	75,525	75,525
Other liabilities	24 (a)	628,871	683,993	220,910	150,424
Provision for income tax	6(b)	77,961	30,484	73,684	28,513
Deferred tax liabilities	20	19,028	30,166	18,627	31,792
Other provisions	25	91,550	64,430	87,682	54,642
Total liabilities		10,337,105	8,892,893	10,018,637	7,555,968
SHAREHOLDERS EQUITY					
Ordinary shares	26	426,444	461,633	426,444	461,633
Assigned capital	7	-	-	24,882	-
Retained earnings	27	721,399	588,977	697,698	578,372
Other reserves	27	196,345	83,787	250,579	69,339
Total shareholders' equity		1,344,188	1,134,397	1,399,603	1,109,344
Total equity and liabilities		11,681,293	10,027,290	11,418,240	8,665,312

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

Statement of Changes In Shareholders' Equity

As at 31 December 2011

Bank	Notes	Share capital	Assigned Capital	Reserves	Retained earnings	Total
<i>All amounts are expressed in K'000</i>						
Balance as at 1 January 2010	26 & 27	318,014	-	66,439	551,625	936,078
Net profit	27	-	-	-	276,570	276,570
Dividend paid	27	-	-	-	(247,959)	(247,959)
Deferred income 2010		-	-	-	(1,864)	(1,864)
Issue of ordinary shares		143,619	-	-	-	143,619
Other comprehensive income		-	-	2,900	-	2,900
Balance at 31 December 2010	26 & 27	461,633		69,339	578,372	1,109,344
Net profit	27	-	-	-	348,989	348,989
Dividend paid	27	-	-	-	(223,526)	(223,526)
Deferred income 2011		-	-	-	(307)	(307)
Prior year adjustments		-	-	-	(5,830)	(5,830)
Share buyback	26	(35,189)	-	-	-	(35,189)
Assigned capital - Fiji		-	24,882	-	-	24,882
Other comprehensive income		-	-	113,328	-	113,328
Capital adequacy reserve – Fiji		-	-	67,912	-	67,912
Balance at 31 December 2011	26 & 27	426,444	24,882	250,579	697,698	1,399,603
Consolidated						
Balance as at 1 January 2010	26 & 27	318,014	-	62,171	553,912	934,097
Net profit	27	-	-	-	283,147	283,147
Dividend paid	27	-	-	-	(247,959)	(247,959)
Deferred income 2010		-	-	-	(1,864)	(1,864)
Prior year adjustments		-	-	-	1,741	1,741
Issue of ordinary shares		143,619	-	-	-	143,619
Equity component of convertible notes		-	-	18,218	-	18,218
Other comprehensive income		-	-	3,398	-	3,398
Balance at 31 December 2010	26 & 27	461,633		83,787	588,977	1,134,397
Net profit	27	-	-	-	355,947	355,947
Dividend paid	27	-	-	-	(223,526)	(223,526)
Share buyback	26	(35,189)	-	-	-	(35,189)
Other Comprehensive income		-	-	112,558	-	112,558
Balance at 31 December 2011	26 & 27	426,444		196,345	721,399	1,344,188

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

Statement of Cash Flow

As at 31 December 2011

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

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

Accounting Policies

For the year ended 31 December 2011

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

A Basis of presentation and general accounting policies

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

Estimates and assumptions have been used to achieve conformity with generally accepted accounting principles in the preparation of these consolidated 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 consolidated financial statements are presented in Papua New Guinea Kina, expressed in thousands of Kina, as permitted by Papua New Guinea Accounting Standards.

B Consolidation

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Bank and the Group as at 31 December 2011, and their results for the year then ended.

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

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

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

C Investment in Associates

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

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

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

D Derivative financial instruments and acceptances

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

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

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

Accounting Policies

For the year ended 31 December 2011

E Revenue

Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income on an accrual basis using the effective yield method. The income arising from the various forms of installment credit has been determined using the effective interest method.

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

Short term insurance contracts

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

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

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

Long Term Insurance Contracts

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

For all these contracts, 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 generated benefits, additional benefits or bonuses.

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

The policy liability is calculated in a way that allows for the systematic release of planned profit margins as services are provided to policy owners and the revenues relating to those services are received (Margin on 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.

F Fee and commission income

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

Accounting Policies

For the year ended 31 December 2011

G Borrowing expenses

Expenses associated with the borrowing of funds are charged to the statement of comprehensive income in the period in which they are incurred.

H Loans and provisions for loan impairment

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

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

General provisions for impairment are maintained to cover incurred losses unidentified at balance date in the overall portfolio of loans and advances. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria. The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the statement of comprehensive income.

I Goodwill

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

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

J Computer systems development costs

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

K Property, plant and equipment

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

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

Accounting Policies

For the year ended 31 December 2011

K Property, plant and equipment (continued)

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

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

The following basis and method of depreciation is used:

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

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

L Leases

Bank is lessee

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

Bank is lessor

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

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

M Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise notes and coins, and balances due to and from other banks.

N Provisions

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

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

Accounting Policies

For the year ended 31 December 2011

O Employee benefits

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

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

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

Post employment benefits - defined contribution plans

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

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

P Income tax

Current Tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Accounting Policies

For the year ended 31 December 2011

Q Investments

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

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

R Foreign Currency

The consolidated financial statements of the Bank are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these consolidated 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 consolidated 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.

S Share capital

Share issue costs

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

Dividends on ordinary shares

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

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

Share options

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

Accounting Policies

For the year ended 31 December 2011

T Asset Impairment

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

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

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

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

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

U Non-current assets held for sale

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

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

V Convertible Notes

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

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

W Comparatives

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

Financial Risk Management

For the year ended 31 December 2011

A Bank operations, risks and strategies in using financial instruments

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the Bank and the Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These market risks (risk of an 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 Bank and the Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. These margins are achieved and increased by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

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

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

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

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

B Capital adequacy

The Bank and the Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2011, the Bank and the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk base capital ratio 14% and the leverage ratio 6%.

The measure of capital used for the purposes of prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the statement of financial position and is made up of tier 1 capital (core) and tier 2 capital (supplementary). Tier 1 capital is obtained by deducting from equity capital and audited retained earnings (or losses), intangible assets including deferred tax assets. Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinated loan capital, specified asset revaluation reserves, unaudited 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.

Financial Risk Management

For the year ended 31 December 2011

B Capital adequacy (continued)

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

The Bank and the Group's capital adequacy level is as follows:

<i>All amounts are expressed in K'000</i>	Balance sheet / notional amount		Risk-weighted amount	
	2011	2010	2011	2010
Balance sheet assets (net of provisions)				
Currency	1,188,048	1,042,029	-	-
Loans and advances	4,300,913	4,091,297	4,050,768	3,977,693
Investments and short term securities	4,669,011	3,802,731	-	-
All other assets	1,523,321	1,091,233	1,390,108	863,830
Off balance sheet items	1,089,679	1,220,614	352,353	503,154
Total	12,770,972	11,247,904	5,793,229	5,344,677

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2011	2010	2011	2010
a) Before YTD profits included in Tier 1 Capital				
Tier 1 capital	810,661	768,769	13.8%	14.4%
Tier 1 + Tier 2 capital	1,425,207	1,261,714	24.2%	23.6%
b) After YTD profits included in Tier 1 Capital				
Tier 1 capital	1,166,608	1,051,916	19.8%	19.7%
Tier 1 + Tier 2 capital	1,425,207	1,261,714	24.2%	23.6%
c) Leverage Capital Ratio – Before YTD profits included in Tier 1 Capital			7.0%	7.7%
d) Leverage Capital Ratio – After YTD profits included in Tier 1 Capital			10.0%	10.5%

C Credit risk and asset quality

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

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

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

Financial Risk Management

For the year ended 31 December 2011

C Credit risk and asset quality (continued)

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

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

Credit related commitments

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

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

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

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

Economic sector risk concentrations

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

All amounts are expressed in K'000

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

Financial Risk Management

For the year ended 31 December 2011

D Liquidity risk

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

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

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

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

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

Maturity of assets and liabilities

All amounts are expressed in K'000

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	1,188,048	-	-	-	-	1,188,048
Treasury & Central Bank bills	802,638	1,309,605	1,204,167	-	-	3,316,410
Due from other banks	313,410	-	-	-	-	313,410
Loans and advances	1,224,569	237,592	487,923	1,953,644	397,185	4,300,913
Other Financial Assets	-	-	56,072	501,651	794,878	1,352,601
Total assets	3,528,665	1,547,197	1,748,162	2,455,295	1,192,063	10,471,382

Financial Risk Management

For the year ended 31 December 2011

D Liquidity risk (continued)

All amounts are expressed in K'000

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Due to other banks	77,889	-	-	-	-	77,889
Due to customers	7,193,529	1,062,857	664,926	444,969	-	9,366,281
Other liabilities	582,506	44,213	-	-	75,525	702,244
Other provisions	109,632	41,116	-	-	39,943	190,691
Total liabilities	7,963,556	1,148,186	664,926	444,969	115,468	10,337,105
Net liquidity gap	(4,434,891)	399,011	1,083,236	2,010,326	1,076,595	134,277
As at 31 December 2010						
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	2,748,313	1,151,404	1,741,926	1,827,466	1,769,009	9,238,118
Total liabilities	7,088,701	1,025,062	539,647	35,471	185,236	8,874,117
Net liquidity gap	(4,340,388)	126,343	1,202,279	1,791,995	1,583,773	364,001

E Operational risk

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Bank and the Group conducts its business. Examples of operational 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 policy and regulatory environment and examines the general standard of control.

F Foreign exchange risk

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

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

Financial Risk Management

For the year ended 31 December 2011

F Foreign exchange risk (continued)

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

All amounts are expressed in K'000

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

Financial Risk Management

For the year ended 31 December 2011

G Interest rate risk

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

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

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

All amounts are expressed in K'000

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing
Assets						
Cash & Balances with Central Bank	-	-	-	-	-	1,188,048
Treasury & Central Bank bills	802,638	1,309,605	1,204,167	-	-	-
Due from other banks	313,410	-	-	-	-	-
Loans and advances	2,348,518	324,550	390,447	756,780	480,615	4
Other financial assets	-	-	56,072	501,651	794,878	-
Other assets	-	-	-	-	-	1,209,910
Total assets	3,464,566	1,634,155	1,650,686	1,258,431	1,275,493	2,397,962
Liabilities						
Due to other banks	77,889	-	-	-	-	-
Due to customers	5,191,873	596,670	845,336	68,564	-	2,663,837
Other liabilities	-	-	-	-	75,525	817,410
Total liabilities	5,269,762	596,670	845,336	68,564	75,525	3,481,247
Interest sensitivity gap	(1,805,196)	1,037,485	805,350	1,189,867	1,199,968	(1,083,285)

Financial Risk Management

For the year ended 31 December 2011

G Interest rate risk (continued)

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

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing
Assets						
Cash and balances with Central Bank	-	-	-	-	-	1,042,029
Treasury and Central Bank bills	645,146	736,200	899,470	-	-	-
Due from other banks	302,061	-	-	-	-	-
Loans and advances	1,989,354	510,339	740,327	565,058	286,215	-
Investments	-	-	238,103	349,642	934,170	-
Other assets	-	-	-	-	-	789,176
Total assets	2,936,561	1,246,539	1,877,900	914,700	1,220,385	1,831,205
Liabilities						
Due to other banks	23,638	-	-	-	-	-
Due to customers	4,669,132	642,114	339,147	33,471	5	2,300,788
Other liabilities	-	-	-	-	75,525	809,073
Total liabilities	4,692,770	642,114	339,147	33,471	75,530	3,109,861
Interest sensitivity gap	(1,756,209)	604,425	1,538,753	881,229	1,144,855	(1,278,656)

Effective interest rates as at 31 December

Amounts are expressed in % p.a.

	2011	2010
Assets		
Cash and Central Bank assets	7.75	7.00
Treasury and Central Bank bills	4.00	3.50
Due from other banks	7.00	7.00
Loans and advances	12.50	12.50
Investments	10.00	9.70
Liabilities		
Due to other banks	7.00	7.00
Due to customers	1.50	3.00

H Fair values of financial assets and liabilities

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

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

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

Financial Risk Management

For the year ended 31 December 2011

H Fair values of financial assets and liabilities (continued)

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

I Policy liabilities

Key assumptions used in determining this liability are as follows:

(i) Discount Rates

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

(ii) Investment and Maintenance Expenses

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

(iii) Taxation

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

(iv) Mortality and Morbidity

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

(v) Rates of Discontinuance

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

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

Financial Risk Management

For the year ended 31 December 2011

I Policy liabilities (continued)

(vi) Basis of Calculation of Surrender Values

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

(vii) Discretionary Participating Business

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

In applying the contract holders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of contracts in force. Assumed future bonus rates included in the liability for 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.

Reinsurance

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1	Net Interest income	Consolidated		Bank	
		2011	2010	2011	2010
	<i>All amounts are expressed in K'000</i>				
	Interest income				
	Cash and short term funds	7,764	1,339	7,764	1,339
	Treasury bills, Central Bank bills and other financial assets	213,381	228,619	213,381	223,061
	Loans and advances	442,251	412,260	448,712	351,531
	Other	2,924	3,826	2,924	550
		666,320	646,044	672,781	576,481
	Less:				
	Interest expense				
	Customer deposits	57,580	90,202	64,069	68,550
	Other banks	1,484	32	1,484	32
	Subordinated debt securities	8,581	9,278	8,581	9,278
	Other borrowings	1,196	2,530	1,196	2,530
		68,841	102,042	75,330	80,390
		597,479	544,002	597,451	496,091
2	Net fee and commission income				
	Fee and commission income				
	Credit related	52,404	49,167	52,404	44,639
	Trade and international related	8,930	143	8,930	143
	Electronic banking related	24,005	13,449	24,005	13,449
	Brokerage and fee income	3,547	1,957	-	-
	Other	115,156	87,725	115,156	87,733
		204,042	152,441	200,495	145,964
	Less:				
	Fee and commission expenses				
	Agencies	1,906	383	1,906	383
		1,906	383	1,906	383
		202,136	152,058	198,589	145,581

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

3	Other income	Consolidated		Bank	
		2011	2010	2011	2010
	<i>All amounts are expressed in K'000</i>				
	Foreign exchange related	192,812	139,260	192,812	132,566
	Net insurance premium income	161,938	89,074	-	-
	Other	27,981	30,581	35,566	22,509
		382,731	258,915	228,378	155,075
	Included in other income:				
	Profit/(loss) on sale of fixed assets	508	1,166	508	498
	Change in fair value of assets held through profit and loss	18,497	10,119	-	-
	Foreign Exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets				
4	Bad and doubtful debts (expense)/recovery				
	Bad debts recovered - net	34,002	34,479	34,002	31,690
	Net charge to doubtful debts provision	(59,236)	(55,060)	(59,236)	(50,802)
		(25,234)	(20,581)	(25,234)	(19,112)
5	Other operating expenses				
	Administration	171,270	171,520	126,390	99,548
	Auditors remuneration	1,494	1,893	1,225	1,597
	Computing	36,240	22,234	36,240	22,234
	Depreciation	52,497	53,499	49,442	43,261
	Amortization of computer development	512	645	512	645
	Non-executive Directors costs	623	1,533	623	1,533
	Non-lending losses	26,875	5,812	26,875	4,292
	Fixed Asset write off (write back)	-	645	-	645
	Premises and equipment	49,924	33,069	49,924	30,332
	Increase/(decrease) in policy liabilities	33,589	2,576	-	-
	Claims, surrender and maturities	54,895	5,106	-	-
		427,919	298,532	291,231	204,087
	Staff costs				
	Defined contribution plans	8,258	7,836	7,389	5,011
	Statutory benefit contributions	6,170	10,841	6,170	8,016
	Wages and salaries	189,113	164,413	173,222	125,784
	Other	57,161	41,206	54,975	32,276
		260,702	224,296	241,756	171,087
		688,621	522,828	532,987	375,174

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

Further information about deferred taxes is presented in note 20.

6(b) Income tax recoverable / (Provision for income tax)

Recoverable / (provision) comprise:

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

7 Assigned capital

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8 National Bank of Fiji Limited conversion to branch

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

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

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

	<u>K'000</u>
Total assets	1,048,815
Total liabilities	923,496
Equity	125,319

9 Borrowings

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

10 Convertible Notes

On 20 April 2010, the Group issued 3,064,967 Fiji Dollars (FJD) denominated mandatory convertible notes through its wholly owned subsidiary BSP Convertible Notes Limited (BSP CN) at an issue price of FJD5.25 (K7.30) per note. Each note entitles the holder to convert to ten (10) Fiji Class shares. On conversion all notes are redeemed for their face value and the proceeds of that redemption are applied as the subscription price for Fiji Class shares. Notes can only be redeemed in cash at the election of BSP CN Fiji with regulatory approval. The amount payable at redemption will be greater of the market value or face value of the note plus accrued interest.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

11 CDO Provisions

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

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

12 Intangible asset

	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Gross carrying amount	21,933	16,158	-	-
Impairment adjustment	-	-	-	-
	21,933	16,158	-	-

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

13 Investments in Associates

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

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

	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Investment in associate	54,456	47,733	12,563	1,417
Movement	(5,995)	(5,078)	-	(1,053)
Additional	-	12,563	-	12,563
Share of profit/(loss) for year ended 31 December 2011	6,496	(762)	-	(364)
Net investment in associate	54,957	54,456	12,563	12,563
Summarised financial information of associate:				
Total assets	121,327	188,011	-	41,738
Total liabilities	(48,081)	(103,184)	-	(38,794)
Net assets	73,246	84,827	-	2,944
Net profit/(loss)	10,916	(1,536)	-	(1,138)
Share of associate's profit or loss:				
Share of associate's profit/(loss)	6,496	(762)	-	(364)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

14 Cash and balances with Central Bank	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Notes and coins	388,553	278,484	287,271	173,626
Balances with Central Bank other than statutory deposit	213,260	258,688	213,260	155,271
Included in cash and cash equivalents	601,813	537,172	500,531	328,897
Statutory deposits with Central Bank	586,235	504,857	586,235	415,383
	1,188,048	1,042,029	1,086,766	744,280
15 Treasury and Central Bank bills				
Treasury and Central Bank bills - face value	3,321,895	2,312,609	3,321,895	2,312,609
Discount for interest receivable	(5,485)	(31,793)	(5,485)	(31,793)
	3,316,410	2,280,816	3,316,410	2,280,816
Treasury and Central Bank bills are debt securities issued by the Central Bank. These bills are classified as assets held for trading and carried at fair value.				
16 Amounts due from other banks				
Items in the course of collection	223,739	259,586	223,739	259,586
Placements with other banks	89,671	42,475	89,671	35,442
Included in cash and cash equivalents	313,410	302,061	313,410	295,028
17 Loans and advances to customers				
Loans originated by the BSP Group:				
Overdrafts	981,748	680,475	981,748	615,482
Leases	162,340	174,171	162,340	174,171
Term loans	2,439,997	2,692,603	2,408,660	2,430,426
Mortgages	846,383	654,761	845,400	163,946
Policy loans	38,517	47,965	-	-
Gross loans and advances net of reserved interest	4,468,985	4,249,975	4,398,148	3,384,025
Less allowance for losses on loans and advances	(168,072)	(158,678)	(162,174)	(107,278)
	4,300,913	4,091,297	4,235,974	3,276,747
Allowance for losses on loans and advances				
Movement in allowance for losses on loans and advances:				
Balance at 1 January	158,678	129,760	107,278	85,524
New Provision	25,000	39,847	25,000	30,000
Loans written off against provisions / (Write back of provisions no longer required)	(15,606)	(10,929)	29,896	(8,246)
Balance at 31 December	168,072	158,678	162,174	107,278

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

17 Loans and advances to customers (continued)	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Loans and advances to customers includes finance lease receivables, analysed as follows:				
Investment in finance leases receivable				
Not later than 1 year	28,747	23,522	28,747	23,522
Later than 1 year and not later than 5 years	153,334	161,773	153,334	161,773
Later than 5 years	-	-	-	-
	182,081	185,295	182,081	185,295
Unearned future finance income	(19,741)	(11,124)	(19,741)	(11,124)
Net investment in finance leases	162,340	174,171	162,340	174,171
The net investment in finance leases is analysed as follows:				
Not later than 1 year	28,132	22,984	28,132	22,984
Later than 1 year and not later than 5 years	134,208	151,187	134,208	151,187
Later than 5 years	-	-	-	-
	162,340	174,171	162,340	174,171
18(a) Properties held for sale				
Premises	-	9,011	-	-
Disposal	-	(9,011)	-	-
	-	-	-	-
18(b) Property, plant and equipment				
(i) Carrying value				
Capital Work in Progress	244,401	94,061	243,498	77,815
Premises	354,658	241,073	334,496	216,212
Accumulated depreciation	(58,119)	(59,398)	(53,238)	(41,357)
	296,539	181,675	281,258	174,855
Equipment	324,463	305,623	300,367	231,421
Accumulated depreciation	(242,500)	(217,205)	(227,601)	(172,067)
	81,963	88,418	72,766	59,354
	622,903	364,154	597,522	312,024
(ii) Reconciliations				
Capital WIP				
At 1 January	94,061	58,347	77,815	46,284
Additions	534,104	115,669	531,684	100,907
Transfers	(383,764)	(79,955)	(366,001)	(69,376)
At 31 December	244,401	94,061	243,498	77,815

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

18(b) Property, plant and equipment (continued)	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Premises				
At 1 January	181,675	177,078	174,855	168,271
Additions	19,449	14,697	19,271	13,859
Disposals	(292)	(330)	(292)	(20)
Net movement	4,565	1,895	5,570	1,895
Revaluation increases	100,568	-	90,843	-
Depreciation expense	(9,426)	(11,665)	(8,989)	(9,150)
At 31 December	296,539	181,675	281,258	174,855
Equipment				
At 1 January	88,418	46,821	59,354	28,747
Additions	24,270	76,672	19,883	55,517
Disposals	(9,290)	(5,330)	(8,889)	(2,888)
Net movement	13,092	3,545	34,327	3,545
Depreciation expense	(34,527)	(33,290)	(31,909)	(25,567)
At 31 December	81,963	88,418	72,766	59,354

Freehold land and buildings carried at fair value

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

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

Freehold land	14,531	11,467	11,434	11,467
Buildings	102,444	89,561	86,192	89,561
At 31 December	116,975	101,028	97,626	101,028

18(c) Assets subject to operating lease

(i) Carrying value

Aircraft	115,041	115,041	115,041	115,041
Accumulated depreciation	(46,105)	(37,561)	(46,105)	(37,561)
	68,936	77,480	68,936	77,480
Reconciliations				
Aircraft				
At 1 January	77,480	86,024	77,480	86,024
Depreciation	(8,544)	(8,544)	(8,544)	(8,544)
At 31 December	68,936	77,480	68,936	77,480

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

18(c) Asset subject to operating lease (continued)	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
(ii) Future minimum lease payments				
Not later than 1 year	1,730	7,509	1,730	7,509
Later than 1 year and not later than 5 years	1,730	3,461	1,730	3,461
	3,460	10,970	3,460	10,970

18(d) Investment Properties

Opening net book value	74,816	70,990	-	-
Net movement	(15,935)	5,038	-	-
Gain/loss on revaluation	1,427	(1,212)	-	-
At 31 December	60,308	74,816	-	-

19 Other financial assets

Securities - held to-maturity:

Inscribed stock - issued by Central Bank	1,331,988	1,499,615	1,268,801	1,318,174
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Financial assets carried at fair value through profit and loss:

Equity securities	20,613	22,300	-	-
At 31 December	1,352,601	1,521,915	1,268,801	1,318,174

20 Deferred Tax Asset

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

Specific allowance for losses on loans and advances	40,548	8,173	40,548	7,951
General allowance for losses on loans and advances	8,105	24,543	8,105	24,233
Employee related provisions	13,068	11,896	12,780	10,336
Prepaid expenses	(599)	(253)	(599)	(253)
Other provisions	18,604	24,770	18,605	6,147
Depreciation and amortization	(8,767)	(24,916)	(8,767)	(26,030)
Unrealised foreign exchange gains	(9,262)	(5,509)	(9,262)	(5,509)
Deferred expenditure	6,900	(3,902)	7,299	3,902
	68,597	34,802	68,709	20,777

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20 Deferred Tax Asset (continued)	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
The movements on the deferred income tax accounts are as follows:				
At 1 January	34,802	20,722	20,777	9,329
Specific allowance for losses on loans and advances	32,375	(7,159)	32,597	(1,809)
General allowance for losses on loans and advances	(16,438)	4,874	(16,128)	8,336
Employee related provisions	1,171	2,365	2,444	2,458
Depreciation and amortization	(345)	(1,374)	(346)	(3,464)
Prepaid expenses	(6,166)	(253)	12,457	(253)
Other provisions	16,149	12,961	17,264	2,454
Unrealised foreign exchange gains	(3,753)	3,805	(3,753)	3,806
Deferred expenditure	10,802	(1,139)	3,397	(80)
At 31 December	68,597	34,802	68,709	20,777
Represented by:				
Deferred tax asset	87,625	64,968	87,336	52,569
Deferred tax liability	(19,028)	(30,166)	(18,627)	(31,792)
At 31 December	68,597	34,802	68,709	20,777

Taxable & deductible temporary differences arise from the following:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20 Deferred Tax Asset (continued)

All amounts are expressed in K'000

2011	Bank					
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Disposal	Closing balance
Gross deferred tax liabilities	(31,792)	20,077	-	(6,912)	-	(18,627)
Gross deferred tax assets	52,569	34,767	-	-	-	87,336
	20,777	54,844	-	(6,912)	-	68,709

2010	Bank					
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Disposal	Closing balance
Gross deferred tax liabilities	(31,881)	9,767	(6,018)	4,289	(7,949)	(31,792)
Gross deferred tax assets	41,210	10,840	519	-	-	52,569
	9,329	20,607	(5,499)	4,289	(7,949)	20,777

21 Other Assets

All amounts are expressed in K'000

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

22 Amounts due to other banks

Items in the course of collection	77,889	23,638	95,820	29,497
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23 Amounts due to customers

Demand / current	7,614,630	6,141,624	7,618,664	5,747,076
Term	1,751,651	1,843,033	1,827,725	1,438,499
	9,366,281	7,984,657	9,446,389	7,185,575

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

24(a) Other liabilities

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

24(b) Subordinated debt securities

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

25 Other provisions

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

26 Ordinary Shares – Bank

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26 Ordinary Shares – Bank (continued)

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

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

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

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

Share Options - Executive Management Share Option Plan (EMSOP)

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

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

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

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

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

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

The 2010 share options have been valued in compliance with IFRS 2 and classified as equity on the balance sheet.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

26 Ordinary Shares – Bank (continued)

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

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

27 Reserves and retained earnings/accumulated losses

	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Retained earnings				
At 1 January	588,977	553,912	578,372	551,625
Net profit for the year	355,947	283,147	348,989	276,570
Dividend paid	(223,526)	(247,959)	(223,526)	(247,959)
Deferred income and prior year adjustments	-	(123)	(6,137)	(1,864)
At 31 December	721,399	588,977	697,698	578,372
Dividend paid represented by:				
Interim dividend	73,681	65,585	73,681	65,585
Final dividend	149,845	182,374	149,845	182,374
	223,526	247,959	223,526	247,959
Reserves comprise:				
Revaluation reserve	160,293	68,776	160,293	68,776
Capital reserve	635	635	635	635
Equity component of convertible notes (note 10)	18,218	18,218	-	-
BSP Fiji branch - capital adequacy reserve	-	-	67,912	-
Options reserve	3,237	1,968	3,237	1,967
General reserve	2,875	2,875	2,875	2,875
Exchange reserve (Note 35)	11,087	(8,685)	15,627	(4,914)
	196,345	83,787	250,579	69,339

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

27 Reserves and retained earnings/accumulated losses (continued)

	Consolidated		Bank	
	2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>				
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	68,776	68,776	68,776	68,776
Asset revaluation	98,429	-	98,429	-
Deferred tax on asset revaluation	(6,912)	-	(6,912)	-
At 31 December	160,293	68,776	160,293	68,776
Capital reserve				
At 1 January	635	635	635	635
BSP Fiji branch - capital adequacy reserve	-	-	67,912	-
At 31 December	635	635	68,547	635
Options reserve				
At 1 January	1,967	1,311	1,967	1,311
Movement during the year	1,270	657	1,270	656
At 31 December	3,237	1,968	3,237	1,967
General reserve				
At 1 January	2,875	2,875	2,875	2,875
At 31 December	2,875	2,875	2,875	2,875
Exchange reserve				
At 1 January	(8,685)	(11,424)	(4,914)	(7,156)
Movement during the year	19,772	2,739	20,541	2,242
At 31 December	11,087	(8,685)	15,627	(4,914)

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

28 Contingent Liabilities and Commitments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

28 Contingent Liabilities and Commitments (continue)

Legal Proceedings

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

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

29 Cash and cash equivalents

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

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

30 Related Party Transactions

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

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

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

	2011	2010
<i>All amounts are expressed in K'000</i>		
Deposits		
Opening balances	44,439	21,758
Net movement	163,920	22,681
Closing balance	208,359	44,439
Interest paid	6,066	2,461

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

30 Related Party Transactions (continued)

<i>All amounts are expressed in K'000</i>	2011	2010
Loans and advances		
Opening balances	83,571	65,795
Loans issued	125,401	24,954
Interest	2,577	61
Charges	27,969	6,925
Loan repayments	(82,479)	(14,164)
Closing balance	157,039	83,571

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

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

Interests Register

The following are transactions recorded in the interests register:

Name	Nature of Interest	
K. Constantinou, OBE	Director	Bank of South Pacific Ltd ¹ , BSP Capital Ltd ¹ , Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Hebou Constructions Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Airlines PNG Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Kimbe Bay Hotel Ltd, Grand Pacific Hotel, Hotel Technical Services Ltd, C.G.A Properties Ltd, City Centre Development Ltd, Coastwatchers Court Ltd, Fairhaven No. 57 Ltd
	Shareholder	Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Hotel Technical Services Ltd, C.G.A Properties, Fairhaven No. 57 Ltd.
	Member	Australian Institute of Company Directors, PNG Institute of Directors.
T. E. Fox	Director	Bank of South Pacific Ltd ² , BSP Capital Ltd, Teyo No. 1 Ltd ⁵ , Capital Life Insurance Company Ltd.
	Shareholder	Bank of South Pacific Ltd, Teyo No. 1 Ltd, Citigold Corporation Ltd, Marengo Gold Ltd, New Guinea Energy Ltd.
	Trustee/Member	Institute of National Affairs ⁸ , PNG Institute of Directors

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

30 Related Party Transactions (continued)

Interests Register (continued)

Name	Nature of Interest	
Ian B. Clyne	Director	Bank of South Pacific Ltd ⁹ , BSP Capital Ltd, BSP Convertible Notes Ltd, BSP Rural Ltd, BSP Life Ltd.
	Member	Commercial Bankers Association.
J. G. Jeffery	Director	Bank of South Pacific Ltd, National Superannuation Fund Ltd ^{1,5} , Jayliss Ltd, City Pharmacy Ltd, Airlines PNG Ltd.
	Shareholder	Highlands Pacific Ltd, Oil Search Ltd, Jayliss Ltd ¹ .
G. Aopi	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Oil Search Ltd ⁷ , Steamships Trading Co Ltd, POMSoX Ltd, Marsh Ltd, Hiram Ltd, Wahinemo Ltd, FM Morobe Ltd, Telikom PNG Ltd ¹ , CDI Foundation, Independent Public Business Corporation ¹ .
	Shareholder	Bank of South Pacific Ltd, Oil Search Ltd ⁷ , Hiram Ltd, Wahinemo Ltd, Lihir Gold Ltd, Highlands Pacific Ltd, Melanesian Trustees (ICPNG), Kumul Asset Management.
	Member/Trustee	Institute of National Affairs, Business Council of PNG.
Dr I. Temu	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Tipi Enterprise Ltd, PNG Ports Corporation ¹ .
	Shareholder	Telstra Ltd, Nautilus Minerals Niugini Ltd.
	Employee	Barrick Gold Ltd.
	Member	Divine Word University, Chamber of Mining & Petroleum.
C. C. Procter	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Sun Hung Kai Ltd, Allied Overseas Ltd.
Sir N. Bogan	Director	Bank of South Pacific Ltd, Nambawan Super Ltd ^{1,5} , In Touch Media Ltd ¹ , Coprez Communications Ltd ¹ , Coprez Holdings Ltd, Inventive Nook Ltd, James Cook Ltd, Niugini Cocoa Factory, Ahi Holdings Ltd.
	Shareholder	In Touch Media Ltd, Coprez Holdings Ltd, Inventive Nook Ltd, James Cook Ltd, Niugini Cocoa Factory.
	Member	Evangelical Lutheran Church Finance Committee.

¹Chairman, ²Deputy Chairman, ³Managing Director, ⁴Executive Director, ⁷General Manager, ⁸Councillor

⁵Company is shareholder of Bank of South Pacific Limited, or shareholder of company that is shareholder

⁶Company has commercial banking facilities with Bank of South Pacific Limited, ⁹Chief Executive Officer

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

Notes to the Consolidated Financial Statements

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31 Directors and executive remuneration

Directors remuneration

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

All amounts are in K

Name of Director	Meetings attended / total held	Appointed/ (Resigned)	Base emolument	Bonus shares	Other compensation	Total remuneration	
						2011	2010
K. Constantinou, OBE	8/8	-	119,559	-	-	119,559	69,521
T. E. Fox	8/8	-	84,647	-	-	84,647	99,109
N. N. Beangke	4/8	(09/12/11)	74,093	-	-	74,093	102,259
Dr. I. Temu	6/8	-	45,112	-	-	45,112	74,097
C. C. Procter	7/8	-	59,223	-	-	59,223	96,300
Sir N. Bogan	7/8	-	42,068	-	-	42,068	65,210
I. B. Clyne*	8/8	-	-	-	-	-	-
J. G. Jeffery	8/8	-	74,426	-	-	74,426	87,300
G. Aopi	8/8	-	47,927	-	-	47,927	76,384
J K Natto	2/8	(09/10/11)	39,482	-	-	39,482	66,072

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

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

The specified executives during the year were:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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

33 Earnings Per Share

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

Net Profit attributable to shareholders (K'000)	355,947	283,147	348,989	276,570
Weighted average number of ordinary shares in use ('000)	473,882	4,787,295	473,882	4,787,295
Basic and diluted earnings /(loss) per share (expressed in toea)	75.1	5.9	73.6	5.8

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

34 Segment Information

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

All amounts are expressed in K'000

Analysis by business segments:

Year ended 31 December 2011

	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	374,406	502,312	69,625	168,400	3,547	19,010	310,802	1,448,102
Costs	(289,291)	(201,087)	(65,416)	(155,645)	(7,481)	(38,394)	(215,802)	(973,116)
Operating results	85,115	301,225	4,209	12,755	(3,934)	(19,384)	95,000	474,986
Income tax expense								(119,039)
Profit after tax								355,947

Year ended 31 December 2010

	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	365,498	524,599	91,893	89,074	3,772	336,957	88,886	1,500,679
Costs	(349,594)	(194,463)	(89,836)	(77,531)	(7,338)	(154,798)	(216,315)	(1,089,875)
Operating results	15,904	330,136	2,057	11,543	(3,566)	182,159	(127,429)	410,804
Income tax expense								(127,657)
Profit after tax								283,147

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

35 Events occurring after balance sheet date

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

Independent Audit Opinion to the members of Bank of South Pacific Limited and subsidiaries

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Audit Opinion

In our opinion,

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

Other Information

We also have provided other advisory services during the year.


DELOITTE TOUCHE TOHMATSU



Suzaan Theron

Registered under the Accountants Act 1996

Partner, Chartered Accountants

Port Moresby, 20th day of March 2012.