

Bank of South Pacific Limited and Subsidiaries

Half-year financial report

For the half-year ended

30 June 2011



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Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2011.

Directors and officers

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

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

Principal activities

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


Review of operations

The net profit of the Group for the half year ended 30 June 2011, after tax and non-controlling interests was K158.548 million (Half year ended 30 June 2010: K163.449 million).

Dated and signed at Port Moresby this 2nd day of September 2011



K Constantinou, OBE
Chairman



I B Clyne

Chief Executive Officer/Director

Independent Auditor's Review Report

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

We have reviewed the accompanying half-year financial report of Bank of South Pacific Limited and its subsidiaries, which comprise the condensed consolidated statement of financial position as at 30 June 2011, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in shareholders equity for half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the Bank and the entities it controlled at the end of the half-year or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

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

Conclusion

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

- (a) giving a true and fair view of the Bank of South Pacific's financial position as at 30 June 2011 and of its performance for the half-year ended on that date in accordance with International Accounting Standards 34 *Interim Financial Reporting*; and
- (b) proper accounting records have been kept by the company

Other information

We have no interest in the company or any relationship other than that of auditor of the company.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu



By: Suzaan Theron

Registered under the Accountants Act 1996

Partner, Chartered Accountants

Port Moresby, this 2nd day of September 2011

STATEMENT BY THE DIRECTORS

FOR THE HALF YEAR ENDED 30 JUNE 2011

The directors declare that:

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

Dated and signed in accordance with a resolution of the directors at Port Moresby this 2nd day of September 2011.



K Constantinou, OBE
Chairman



I B Clyne
Chief Executive Officer/Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2011

		Group		Bank	
		Half Year Ended		Half Year Ended	
	Note	30 June		30 June	
		2011	2010	2011	2010
<i>All amounts are expressed in K'000</i>					
CONTINUING OPERATIONS					
Interest income	2(a)	330,553	321,950	320,244	288,126
Interest expense	2(a)	(39,544)	(61,878)	(35,600)	(48,138)
Net interest income		291,009	260,072	284,644	239,988
Fee and Commission income	2(b)	166,957	72,319	166,957	66,664
Other income	2(c)	117,422	78,301	26,354	71,735
Net operating income		575,387	410,692	477,955	378,387
Bad and doubtful debts (expense)/recovery	2(d)	(17,163)	(7,242)	(18,499)	(7,781)
Other operating expenses	2(e)	(335,269)	(193,085)	(238,450)	(161,606)
Operating profit		222,955	210,365	221,006	209,000
Share of loss of associate		-	(364)	-	(364)
Loss recognised -disposal of interest in associate		-	(953)	-	(953)
Profit before tax		222,955	209,048	221,006	207,683
Income tax expense		(64,407)	(48,423)	(63,792)	(47,281)
Profit for the period from continuing operations		158,548	160,625	157,214	160,402
DISCONTINUED OPERATION					
Profit for the period from discontinued operations	5	-	2,824	-	-
Profit for the period		158,548	163,449	157,214	160,402
Other comprehensive income					
Exchange difference - translation of foreign operations/subsidiaries		1,379	(2,374)	1,379	297
Net value gain on revaluation of share options		657	426	657	426
Other comprehensive income, net of tax		2,036	(1,948)	2,036	723
Total comprehensive income for the period		160,584	161,501	159,250	161,125
Earnings per share (toea per share)					
From continuing and discontinued operations:					
Basic and diluted		-	3.58	-	3.51
From continuing operations: Basic and diluted		0.34	3.52	0.33	3.51

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

		Group		Bank	
		Half Year Ended	Year Ended	Half Year	Year Ended
		30 June 2011	31 December	Ended	31 December
	Note	2010	2010	30 June 2011	2010
<i>All amounts are expressed in K'000</i>					
ASSETS					
Cash and balances with Central Bank		1,062,048	1,042,029	957,224	744,280
Treasury & Central Bank bills		3,026,603	2,280,816	3,026,603	2,280,816
Amounts due from other banks		280,672	302,061	280,672	295,028
Loans and advances to customers	4	4,166,531	4,091,297	4,082,959	3,276,747
Property, plant and equipment		431,714	364,154	407,060	312,024
Assets subject to operating lease		73,208	77,480	73,208	77,480
Other financial assets		1,435,344	1,521,915	1,356,542	1,318,174
Investment in associates		52,449	54,456	12,563	12,563
Investment in subsidiaries		-	-	215,517	215,517
Intangible asset		15,762	16,158	-	-
Investment properties		67,467	74,816	-	-
Deferred tax assets		71,928	64,968	70,444	52,569
Other assets		288,726	137,140	216,794	80,114
Total assets		10,972,452	10,027,290	10,699,586	8,665,312
LIABILITIES					
Amounts due to other banks		16,649	23,638	36,670	29,497
Amounts due to customers		8,878,824	7,984,657	8,989,365	7,185,575
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		682,805	683,993	218,126	150,424
Provision for income tax		63,792	30,484	59,716	28,513
Deferred tax liabilities		40,430	30,166	40,029	31,792
Other provisions		75,975	64,430	71,549	54,642
Total liabilities		9,834,000	8,892,893	9,490,980	7,555,968

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	Group		Bank	
		Half Year Ended	Year Ended	Half Year Ended	Year Ended
		30 June	31 December	30 June	31 December
<i>All amounts are expressed in K'000</i>		2011	2010	2011	2010
SHAREHOLDERS EQUITY					
Ordinary shares		461,633	461,633	461,633	461,633
Assigned Capital-Fiji	6	-	-	95,839	-
Retained earnings		591,738	588,977	579,798	578,372
Other reserves		85,081	83,787	71,336	69,339
Total shareholders' equity		1,138,452	1,134,397	1,208,606	1,109,344
Total equity and liabilities		10,972,452	10,027,290	10,699,586	8,665,312

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2011

	Notes	Share capital	Assigned capital	Reserves	Retained earnings	Total
<i>All amounts are expressed in K'000</i>						
GROUP						
Balance at 1 January 2011		461,633	-	83,787	588,977	1,134,397
Other comprehensive income		-	-	2,036	-	2,036
Profit for the period		-	-	-	158,548	158,548
Final dividend declared for 2010		-	-	-	(149,845)	(149,845)
Prior year adjustments		-	-	(742)	(5,942)	(6,684)
Balance at 30 June 2011		461,633	-	85,081	591,738	1,138,452
GROUP						
Balance at 1 January 2010		318,014	-	62,171	553,912	934,097
Other comprehensive income		-	-	(3,658)	1,710	(1,948)
Profit for the period		-	-	-	163,449	163,449
Final dividend declared for 2009		-	-	-	(182,374)	(182,374)
Equity component of convertible notes		-	-	18,218	-	18,218
Balance at 30 June 2010		318,014	-	76,731	536,697	931,442
BANK						
Balance at 1 January 2011		461,633	-	69,339	578,372	1,109,344
Other comprehensive income		-	-	2,036	-	2,036
Profit for the period		-	-	-	157,214	157,214
Assigned Capital Fiji	6	-	95,839	-	-	95,839
Prior Year Adjustments		-	-	(39)	(5,943)	(5,982)
Final dividend declared for 2010		-	-	-	(149,845)	(149,845)
Balance at 30 June 2011		461,633	95,839	71,336	579,798	1,208,606
BANK						
Balance at 1 January 2010		318,014	-	66,439	551,625	936,078
Other comprehensive income		-	-	723	-	723
Profit for the period		-	-	-	160,402	160,402
Final dividend paid for 2009		-	-	-	(182,374)	(182,374)
Balance at 30 June 2010		318,014	-	67,162	529,653	914,829

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE HALF-YEAR ENDED 30 JUNE 2011

<i>All amounts are expressed in K'000</i>	Notes	Group		Bank	
		Half Year Ended		Half Year Ended	
		30 June		30 June	
		2011	2010	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		303,079	330,651	303,079	289,607
Fees and other income		254,280	204,537	192,233	139,335
Interest paid		(37,946)	(92,952)	(37,568)	(46,225)
Amounts paid to suppliers and employees		(243,632)	(184,304)	(187,789)	(141,853)
Operating cash flow before changes in operating assets		275,781	257,932	269,955	240,864
Increase in loans		(89,221)	(250,525)	(94,797)	(248,599)
Increase in bills receivable and other assets		(40,587)	(42,217)	(40,587)	(42,217)
Increase in deposits		592,644	255,240	861,498	236,826
Decrease in bills payable and other liabilities		86,858	(39,728)	86,858	(39,727)
Net cash flow from operations before income tax		825,475	180,703	1,082,927	147,147
Income taxes paid		(41,556)	(45,471)	(41,532)	(41,141)
Net cash flow from operating activities		783,919	135,231	1,041,395	106,006
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease/(increase) in Government securities		(543,645)	(146,092)	(618,427)	(137,034)
Payments for property, plant & equipment		(83,119)	(53,383)	(80,028)	(43,860)
Proceeds from disposal of property, plant & equipment		3,228	581	3,212	-
Proceeds from disposal of interest in former associate		-	100	-	100
Movement in share trading activities		1,128	3,233	-	-
Dividends/interest received		-	17,751	-	-
Investment income received		-	2,041	-	-
Net cash flow on acquisition of subsidiary		-	(371)	-	(371)
Net cash flow from investing activities		(622,408)	(176,140)	(695,243)	(181,165)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE HALF-YEAR ENDED 30 JUNE 2011

		Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
<i>All amounts are expressed in K'000</i>	Notes	2011	2010	2011	2010
CASH FLOW FROM FINANCING ACTIVITIES					
Issue of share capital		-	352	-	-
Repayment of borrowings		-	-	-	-
Proceeds from issue of convertible notes		-	22,395	-	-
Proceeds of borrowings from related party		3,198	-	-	21,016
Increase in regulatory deposits		-	(14,029)	-	-
Dividends paid		(149,845)	-	(149,845)	-
Client Management trust		(2,324)	(99)	-	-
Net cash flow from financing activities		(148,971)	8,619	(149,845)	21,016
Net Increase/(decrease) in cash and cash equivalents		12,539	(32,289)	196,306	(54,143)
Effect of exchange rate movements on cash and cash equivalents		(6,920)	(2,171)	(4,891)	(559)
Cash and cash equivalent at the beginning of the period		1,320,452	1,161,687	1,009,811	970,650
Cash and Cash Equivalents at the end of the year	12	1,326,071	1,127,227	1,201,226	915,948

See accompanying Notes to the condensed consolidated financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

1. Statement of significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2010 financial report for the financial year ended 31 December 2010. These accounting policies are consistent with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

<i>All amounts expressed are in K'000</i>	Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
	2011	2010	2011	2010
Interest Income				
Domestic loans and advances	222,909	197,112	213,796	167,759
Offshore loans and advances	82,161	2,953	81,661	506
Other	25,483	121,885	24,787	119,861
	330,553	321,950	320,244	288,126
Interest Expense				
Current and term deposits	(38,782)	(60,124)	(35,589)	(46,694)
Deposits from other banks	(762)	(1,754)	(11)	(1,444)
	(39,544)	(61,878)	(35,600)	(48,138)
	291,009	260,072	284,644	239,988
(b) Fee and commission income				
Fees and commissions	166,957	72,319	166,957	66,664
(c) Other income				
Foreign exchange earnings	12,739	64,096	11,533	61,835
Other	104,683	14,205	14,822	9,900
	117,422	78,301	26,355	71,735
(d) Bad and doubtful debts (expense)/recovery				
Bad debts written off	(8,693)	(4,746)	(8,693)	(5,285)
Charge to doubtful debts provision	(18,670)	(20,220)	(20,006)	(20,220)
Recoveries	10,200	17,724	10,200	17,724
	(17,163)	(7,242)	(18,499)	(7,781)
(e) Other operating expenses				
Staff	(129,399)	(76,970)	(117,554)	(69,138)
Depreciation	(27,288)	(24,196)	(24,437)	(21,898)
Computing	(15,681)	(6,961)	(15,681)	(6,961)
Premises and equipment expenses	(34,697)	(15,124)	(34,697)	(15,124)
Administration and other expenses	(128,204)	(69,834)	(46,081)	(48,485)
	(335,269)	(193,085)	(238,450)	(161,606)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

3. Dividends

On 20 May 2011, the directors declared a final dividend of 3.13 toea per share. An interim dividend was previously paid in November 2010 on 2010 profits of 4.5 toea per share. This final dividend amount of K149.8m was paid on the 30th June 2011.

4. Loans and advances to customers

	Group		Bank	
	Half year	Year	Half year	Year
	ended	Ended	ended	Ended
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
<i>All amounts expressed are in K'000</i>				
Gross loans and advances net of reserved interest	4,359,101	4,249,975	4,240,583	3,384,025
Allowances for losses on loans and advances	(192,570)	(158,678)	(157,624)	(107,278)
Net loans and advances to customers	4,166,531	4,091,297	4,082,959	3,276,747
Industry Concentration of loans and advances to customers				
Commerce, finance and other business	2,410,482	1,661,184	2,373,109	1,693,098
Private households	547,115	882,512	500,916	452,004
Government and public authorities	30,853	116,041	30,853	32,760
Agriculture	122,749	334,157	122,749	136,899
Transport and communication	403,741	426,733	403,741	363,230
Manufacturing	250,132	261,464	250,132	238,507
Construction	401,459	409,206	401,459	360,249
	4,166,531	4,091,297	4,082,959	3,276,747

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

5. Discontinued operations

BSP Life Ltd (formerly Colonial Fiji Life Limited) is no longer available for sale (available for sale in 2009) and disclosed as a discontinued operation. A full consolidation has been performed in 2010 annual financial and this half year.

The financial performance and cash flow information of the discontinued operation (BSP Life Ltd, formerly CFLL) are set out below:

	Half-year ended 30 June	
<i>All amounts expressed are in K'000</i>	2011	2010
Revenue	-	65,858
Operating expenses	-	(58,908)
Operating profit	-	6,950
Loss from associates	-	(2,366)
Operating profit before tax	-	4,584
Income tax expense	-	(1,760)
Profit after income tax	-	2,824
Net cash inflow from ordinary activities	-	1,867
Net cash inflow from investing activities	-	26,236
Net income in cash generated by CFLL	-	28,103

6. Assigned capital

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

7. Colonial National Bank conversion to branch

Following the acquisition of the National Bank of Fiji, trading as Colonial National Bank (CNB) from CBA, BSP has merged CNB with BSP's existing Branch Operations in Fiji. The conversion of CNB 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. The decree was gazetted with an effective date from 28th February 2011.

All assets and liabilities of CNB were taken up at book value under the Branch structure. The conversion of CNB to a branch structure is not be 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

The assets, liabilities and equity of Colonial National Bank following its conversion to a branch structure are as follows:

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

8. Capital Adequacy and Liquid Assets Ratio

The Bank and Group are required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2011, the Bank and Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

	Group		Bank	
	June 2011	Dec 2010	June 2011	Dec 2010
Risk Weighted Capital Ratios	%	%	%	%
Tier 1 Capital	14.9	14.4	14.9	14.4
Tier 2 Capital	7.1	9.2	7.1	9.2
Total	22.0	23.6	22.0	23.6

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

- The Bank and Group complies with the Minimum Liquid Assets Ratio ("MLAR") and Cash Reserve Requirement ("CRR") set by the regulatory authority, the Bank of Papua New Guinea ("BPNG"). The MLAR is the minimum ratio of liquid assets to total customer deposits considered by the regulator as sufficient to support exceptional liquidation by depositors, of their funds. The requirement to hold a minimum of 25% of the value of total customer deposits in the form of prescribed liquid assets is now reduced to zero percent in accordance with Bank of Papua New Guinea ("BPNG") monetary policy statement issued in September 2010. As at 30 June 2011, the Bank and the Group's Liquid Asset Ratio was approximately 45.21% (2010: 42.96%).
- The CRR specifies that a Bank must hold an amount equal to 4% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and Group complies with this daily requirement on an ongoing basis. The BPNG increased the CRR to 6% in August 2011.

9. Contingent Liabilities and Commitments

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

Off-balance-sheet Financial Instruments

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

	Group		Bank	
	Year		Year	
	Half Year Ended	Ended	Half Year ended	Ended
	30 June	31 December	30 June	31 December
<i>All amounts expressed are in K'000</i>	2011	2010	2011	2010
Standby letters of credit	43,303	28,671	42,344	27,470
Guarantees and indemnities issued	215,123	286,409	210,326	281,407
Trade letters of credit	14,836	17,814	14,836	17,815
Commitments to extend credit	1,037,901	887,720	1,016,098	863,938
	1,311,163	1,220,614	1,283,604	1,190,630

Commitments for Capital Expenditure

Commitments for Capital Expenditure not included in the accounts as at 30 June 2011 amounted to K38.62 million (31 December 2010: K37.69million).

Legal proceedings

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 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 30 June 2011, the Bank and Group estimates a contingent liability of K83.044 million in respect of these proceeding (31 December 2010: K73.833 million).

Statutory Deposit

Cash reserve requirement – from 4% of all amounts due to customers in PNG	374,163	363,680	297,128	274,206
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

Operating Lease Commitments

	Group		Bank	
	Year		Year	
	Half Year	Ended	Half Year	Ended
	Ended	31 December	Ended	31 December
<i>All amounts expressed are in K'000</i>	30 June 2011	2010	30 June 2011	2010
Not later than 1 year	16,201	11,449	14,689	7,578
Later than 1 year and not later than 5 years	18,599	20,718	12,378	7,049
Later than 5 years	9,789	20,904	-	-
	44,589	53,071	27,067	14,627

10. Derivative Financial Instruments

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

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

Forward exchange contracts outstanding at 30 June 2011, stated at the face value of the respective contracts are:

	Group		Bank	
	Year		Year	
	Half Year	Ended	Half Year	Ended
	Ended	31 December	Ended	31 December
<i>All amounts expressed are in K'000</i>	30 June 2011	2010	30 June 2011	2010
Forward exchange contracts				
Buying	(113,094)	(126,083)	(113,094)	(126,083)
Selling	105,674	63,571	105,674	63,571
	(7,420)	(62,512)	(7,420)	(62,512)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

11. Related party

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

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

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

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

	Group		Bank	
	Half Year	Half Year	Half Year	Half Year
	Ended	Ended	Ended	Ended
	30 June	30 June	30 June	30 June
<i>All amounts expressed are in K'000</i>	2011	2010	2011	2010
Loans to :				
Parties where the related party interest is primarily in shares	3,326	78,002	3,326	78,002
Parties where the related party interest is primarily in an executive capacity	182,094	216,047	182,094	216,047
General staff	15,645	21,775	15,645	21,775
All other related parties	28,355	77,381	28,355	77,381
All other related parties	229,420	393,205	229,420	393,205

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

12. Notes to condensed consolidated statements of cash flows

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

	Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
<i>All amounts expressed are in K'000</i>	2011	2010	2011	2010
Cash and balances with Central Bank	1,062,048	781,260	957,224	685,254
Due from other banks	280,672	254,351	280,672	248,340
Due to other banks	(16,649)	(33,113)	(36,670)	(17,646)
	1,326,071	1,002,498	1,201,226	915,948
Cash and bank balances included in CFLL held for sale	-	124,729	-	-
	1,326,071	1,127,227	1,201,226	915,948

13. Segment information

The Group has adopted IFRS 8 *Operating Segments*. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard IAS14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving as the only starting point for the identification of such segments.

The Group's reportable segment under IFRS 8 is as follows:

- Retail
- Wholesale
- Insurance
- Subsidiaries – BSP Capital and its subsidiary and BSP Life Limited and its subsidiaries
- Others

NOTES TO THE CONDENSED CONSOLIDATED FINANCIALS STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

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

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

June 2010	Retail	Wholesale	Fiji Subsidiary Bank	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	167,441	291,588	31,229	65,858	1,672	208,606	63,673	830,067
Costs	(173,381)	(114,625)	(26,631)	(61,274)	(3,540)	(77,966)	(160,778)	(618,195)
Operating results	(5,940)	176,963	4,598	4,584	(1,868)	130,640	(97,105)	211,872
Income tax expense								(48,423)
Profit after tax								163,449

14. Subsequent events

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 has commenced in July 2011 with 274,412 shares bought at value of K1,861,577.

In August 2011, the BPNG increased the Cash Reserve Requirement to 6%.

In August 2011, BSP increased its indicator lending rate by 0.5%.