

# Financial Statements FOR THE YEAR ENDED 31 DECEMBER 2000

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## Annual Report and Statement by Directors

The Directors present the Annual Report and Financial Statements for the year ended 31 December 2000.

### Operating Profit

The operating profit for the year ended 31 December 2000, after income tax expense amounted to K15,655,824 (1999 K19,569,792).

### Dividends

An interim dividend amounting to K4,265,280 was paid during the year and the Directors declared a final dividend of K3,555,300 in respect of the year ended 31 December 2000 (1999 K 5,537,806).

### Reserves and Provisions

There were no other material transfers made to or from reserve accounts during the year other than those disclosed in the financial statements.

### Directors

The names of the Directors of the Company in office during the financial year are:

Mr. N.N. Beangke	Mr. B. A. Flynn OBE
Mr. T. E. Fox OBE	Rev. B. J. Hanson
Mr. P. Auru	Mr. N. R. Smith
Mr. G. McIlwain OBE (Resigned 11/9/00)	
Mr. H.T. Fabila MBE (Resigned 25/08/00)	

### Directors and Employee Remuneration

These have been disclosed fully in note 15 to the accounts.

### Additional Statutory Information

The results of the Company'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 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 Company 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 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 financial statements misleading. No contingent liability 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 company in its ability to meet obligations as and when they fall due.

For and on behalf of the Directors.

Signed in Port Moresby this 20th day of February 2001.

**N.N. Beangke**  
Chairman

**N.R. Smith**  
Managing Director

Statement by the Directors In the opinion of the Directors of Bank of South Pacific Limited:

- the Income Statement is drawn up so as to give a true and fair view of the results of the business of the Company for the year ended 31 December 2000.
- the Balance Sheet is drawn up so as to exhibit a true and fair view of the state of affairs of the Company as at 31 December 2000.
- The Statement of Cash Flows is drawn up to exhibit a true and fair view of the movements in cash of the Company for the year ended 31 December 2000.
- The Statement of Changes in Equity is drawn up to exhibit a true and fair view of the changes in equity for the financial year ended 31 December 2000.

Dated and signed at Port Moresby this 20th day of February 2001.

**N.N. Beangke**  
Chairman

**N.R. Smith**  
Managing Director

# Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

### Scope

We have audited the attached financial statements of Bank of South Pacific Limited for the year ended 31 December 2000. The Company's Directors are responsible for the financial statements. We have conducted an independent audit of the financial statements in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with International Standards on Auditing to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with generally accepted accounting practice (which require, amongst other things, compliance with International Accounting Standards and Statements of Accounting Standards of the PNG Institute of Accountants), and other statutory requirements, so as to present a view which is consistent with our understanding of the Company's financial position, the results of its operations, its cash flows and changes in equity. We believe that our audit provides a reasonable basis for our opinion.

During the course of our audit we have obtained all information and explanations that were required.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion:

- a) the financial statements of Bank of South Pacific Limited are properly drawn up as required by the Companies Act 1997 so as to give a true and fair view of the Company's affairs as at 31 December 2000, and of the results of its operations, cash flows and the changes in equity for the year then ended in accordance with generally accepted accounting practice; and
- b) proper accounting records have been kept by

the Company.

### Other Information

In addition to providing audit services, we also provide Bank of South Pacific Limited other services including taxation advice.

Port Moresby, this 27th day of March 2001.

**DELOITTE TOUCHE TOHMATSU**

**By: P.J. ROY, Partner**

**Registered under the Accountants Act 1996**

# Income Statement

	Note	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
Revenue	14	86,614,976	82,606,290
Other operating income	14	14,020,701	13,813,178
		<b>100,635,677</b>	<b>96,419,468</b>
Deduct:			
Staff costs		13,592,425	10,948,218
Depreciation		2,088,740	1,800,495
Other operating expenses		64,649,300	58,035,442
<b>Total operating expenses</b>		<b>80,330,465</b>	<b>70,784,155</b>
Operating profit before income tax		20,305,212	25,635,313
Deduct: Tax expense	3	4,649,388	6,065,520
<b>Net profit for the year</b>		<b>15,655,824</b>	<b>19,569,792</b>

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

# Income Statement

	Note	As at 31 Dec 2000 Kina	As at 31 Dec 1999 Kina
<b>Assets</b>			
Coins, notes and cash at banks		32,732,886	26,413,228
Balances due from other banks		56,435,510	17,061,538
Bills receivable and remittances in transit		2,226,275	4,380,381
Investment securities	4	187,673,833	118,262,026
Loans and other receivables	5	289,263,213	275,762,821
Fixed assets	6	24,745,900	22,428,281
Future income tax benefits	3	2,367,954	2,350,127
Other assets		11,264,846	5,919,626
<b>Total Assets</b>		<b>606,710,417</b>	<b>472,578,028</b>
<b>Liabilities</b>			
Demand deposits		189,780,774	151,173,571
Term deposits		320,937,768	234,777,338
Balances due to other banks		9,155,107	674,380
Provision for income tax		264,231	5,646,944
Deferred tax liability		2,559,381	802,172
Other liabilities	7	16,041,552	17,430,804
<b>Total Liabilities</b>		<b>538,738,813</b>	<b>410,505,209</b>
<b>Net Assets</b>		<b>67,971,604</b>	<b>62,072,819</b>
<b>Shareholders Equity</b>			
Share capital	8	17,918,941	17,918,941
Reserves	9	10,281,174	10,235,363
Final Dividend Declared		3,555,300	5,537,806
Retained profits		36,216,189	28,380,709
<b>Total Shareholders Equity</b>		<b>67,971,604</b>	<b>62,072,819</b>

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

# Statement of Changes in Equity

	Share Capital K'000	Revaluation Reserve K'000	Capital Reserve K'000	General Reserve K'000	Dividends K'000	Retained Profits K'000	Total K'000
Balances as at 31 December 1998	17,919	5,766	635	2,000	5,516	18,414	50,250
Changes in accounting policies	-	-	-	-	-	-	-
Deficit on revaluation of properties	-	1,834	-	-	-	167	2,001
Surplus on revaluation of investments	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-
Net gains and losses not recognised in income statement	-	1,834	-	-	-	167	2,001
Net profit for the period	-	-	-	-	-	19,570	19,570
Dividends - 1998 Final Paid	-	-	-	-	(5,516)	-	(5,516)
- 1999 Interim Paid	-	-	-	-	-	(4,232)	(4,232)
- 1999 Final Declared	-	-	-	-	5,538	(5,538)	-
<b>Balance at 31 December 1999</b>	<b>17,919</b>	<b>7,600</b>	<b>635</b>	<b>2,000</b>	<b>5,538</b>	<b>28,381</b>	<b>62,073</b>
Changes in accounting policies	-	-	-	-	-	-	-
Deficit on revaluation of properties	-	46	-	-	-	-	46
Surplus on revaluation of investments	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-
Net gains and losses not recognised in income statement	-	46	-	-	-	-	46
Net profit for the period	-	-	-	-	-	15,655	15,655
Dividends - 1999 Final Paid	-	-	-	-	(5,538)	-	(5,538)
- 2000 Interim Paid	-	-	-	-	-	(4,265)	(4,265)
- 2000 Final Declared	-	-	-	-	3,555	(3,555)	-
Issue of Share Capital	-	-	-	-	-	-	-
<b>Balance at 31 December 2000</b>	<b>17,919</b>	<b>7,646</b>	<b>635</b>	<b>2,000</b>	<b>3,555</b>	<b>36,216</b>	<b>67,971</b>

# Statement of Cash Flows

	Note	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
<b>Cash flows from operating activities</b>			
Interest received		86,614,976	80,278,108
Other operating income		14,020,701	13,813,178
Interest paid		(52,239,753)	(39,488,716)
Cash payments to employees and suppliers		(34,318,813)	(28,063,339)
Operating cash flow before changes in operating assets	2(i)	14,077,111	26,539,231
<b>Changes in net assets and liabilities</b>			
(Increase)/Decrease in:			
Loans and other receivables		(13,500,392)	(40,320,205)
Other assets		(5,345,220)	(505,142)
Increase/(Decrease) in:			
Term deposits		86,160,430	(26,225,924)
Demand deposits		38,607,203	11,757,742
Other liabilities		(1,389,252)	(4,477,288)
Net cash from operating activities		104,532,769	(33,231,586)
<b>Cash flows from investing activities</b>			
Net (increase)/decrease in investment securities		(69,411,807)	53,579,568
Purchase of property, plant and equipment		(4,516,927)	(3,836,719)
Proceeds from sale of property, plant and equipment		180,737	720,411
Net cash from (used in) investing activities		(73,747,997)	50,463,260
<b>Cash flows from financing activities</b>			
Issue of share capital		-	-
Repayment of capital on leased assets		-	-
1999 Dividends paid		(5,537,806)	(9,747,721)
2000 Interim Dividends paid		(4,265,280)	-
Net cash from (used in) financing activities		(9,803,086)	(9,747,721)
Net increase/(decrease) in cash and cash equivalents		35,058,797	7,483,953
Cash and cash equivalents at beginning of the year		47,180,767	39,696,814
Cash and cash equivalents at end of the year	2(ii)	82,239,564	47,180,767

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

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

### 1. Principal Accounting Policies and Basis of Preparation

#### Prior Year Comparatives

Where necessary, comparative figures have been restated to comply with current disclosure requirements including reclassification of final dividends as required by International Accounting Standard 10.

#### Historical Cost

The Company's accounts are based on historical cost and therefore do not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except where indicated.

The carrying amounts of all non-current assets are reviewed at least annually to determine whether they are in excess of their recoverable amounts. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is discounted to its present value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

#### Foreign Currencies

All amounts are expressed in Papua New Guinea currency unless otherwise stated.

All foreign currency monetary assets and liabilities are revalued at the rates of exchange ruling at balance date. Unrealised profits and losses arising from these revaluations are recognised immediately in the income statement.

#### Fee Income and Interest Income & Expense

Income and expenses are taken to the income statement in accordance with the principle of matching income and expenditure.

#### Leasing

##### (i) Finance Leases

Finance leases, in which the Company is the lessor, are included in Loans and Other Receivables and are accounted for using the finance method. Where the Company is the lessee, leased assets are capitalised and the corresponding liability is recognised in Other Liabilities.

##### (ii) Operating Leases

Lease rentals receivable and payable on operating leases are recognised in the income statement in periodic amounts over the effective lease term.

#### Unearned Income

Unearned income on the Company's instalment lending and leasing is calculated on an accrual basis.

#### Bad and Doubtful Debts

A specific provision is made for all identified doubtful debts. Interest on doubtful accounts ceases to be taken to the income statement when its payment is considered to be unlikely. All bad debts are written off against specific provision in the period in which they are realised.

In addition, a general provision is maintained to cover bad

debts which are inherent in the loan portfolio but which are not yet identified. The level of the general provision is determined having regard to asset growth, economic conditions, the level of risk weighted assets and other general risk factors. The level of the general provision is determined without regard to the tax deductibility of the provision.

The amount necessary to bring the provisions to their assessed levels, after net write-offs, is charged to the income statement. Details of the provisions are set out in Note 5.

All loans are subject to continuous management surveillance.

#### Income Tax

The Company adopts tax-effect accounting using the liability method.

The tax-effect of timing differences, which occur where items are allowed for income tax purposes in a period different from that when they are recognised in the accounts, is included in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates.

The future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

In view of the nature of the general provision for doubtful debts, the Company has determined that the timing of the provision's eventual utilisation to absorb bad debts, inherent in the loan portfolio but which are not yet identified, cannot be predicted.

As a consequence, the timing of the realisation of the future income tax benefits associated with the general provision is considered to be uncertain and these benefits are not recognised.

#### Investment Securities

Investment securities are public and other debt securities, which are purchased primarily with the intention of holding until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums and accretion of discounts to maturity. Any unrealised losses related to permanent diminution in the value of investment securities would be recognised in the income statement and the recorded values of those securities adjusted accordingly. Any profit and losses on sales of investment securities would be taken to the income statement when realised.

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

### Fixed Assets

It is the Company's practice to revalue land and buildings at regular intervals, not longer than three years. The Directors value these properties on the basis of open market values, discounted appropriately. Such values assume existing use, being continuing occupation of properties by the Company, tenancies to external parties, or vacancies, as applicable. All other fixed assets and land and buildings acquired since the last revaluation are carried at the lower of cost less accumulated depreciation, and recoverable amount.

Increments arising from property revaluations are credited to the Asset Revaluation Reserve account. Revaluation decrements, being reversals of increments previously credited to and included in the balance of the Asset Revaluation Reserve account are charged against that reserve.

With the exception of land, all fixed assets including leasehold buildings and improvements are depreciated or amortised by the straight-line method at rates appropriate to their estimated useful lives.

Depreciation rates for the main categories are:

Buildings	3%
Furniture & Fittings	10 - 20%
Office Equipment	20%
Motor Vehicles	20%

Profit and loss on sale of fixed assets is treated as operating income or expense. Any Asset Revaluation Reserve realised upon sale is transferred to Capital Reserve.

### Employee Entitlements

The provision for long service leave is based on legal, contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases.

The provision for annual leave is accrued based on employee salary levels.

### Risk Management

The Company has sound procedures in place to identify and manage potential risks. These procedures are described below. In the opinion of the Directors, such risk management systems and processes continue to operate effectively.

### Interest Rate Risk

Interest rates are monitored on a daily basis. The interest rates paid for deposits are determined in conjunction with the market rate of that day and the Company's requirement for funding.

All interest rates on customer loans are variable at the

Company's discretion. Exposure to interest rate fluctuation is thereby eliminated as rates may be increased or decreased as a result of movements in the Company's cost of funding or competition in the market place. Where fixed rates exist on particular instruments, exposures are restricted by the close matching of asset and liability maturities. Allowing positive interest rate margins to be maintained and the risk to adverse movements avoided.

### Credit Risk

Each client's borrowing arrangements are granted in accordance with the Company's policy guidelines. These guidelines are based on a comprehensive range of credit criteria including where appropriate, security in support of the facility, and limit risk in terms of industry, foreign exchange and customer concentration.

### Currency Risk

The Company ensures its exposure to foreign currency risk is minimal. Foreign currency positions are regularly revalued on a mark to market basis.

### Liquidity Management

Maturities of assets and liabilities are monitored on a daily basis in order to match investment against funding. Co-ordination of all instruments of investment and funding and their respective maturities is necessary in order to minimise cost of funds, maximise return and maintain flexibility in the Company's balance sheet.

### Capital Adequacy Requirement

The Company is in compliance with the required 10% capital adequacy ratio.

Capital Adequacy Ratio	K000's
Tier 1. Core Capital	54,402
Tier 2. Supplementary Capital	8,303
Total Risk Weighted Capital	354,741
<b>Risk Asset Ratio</b>	<b>17.68%</b>

### Central Bank Guidelines

The Directors of the Company confirm that Bank of South Pacific Limited has complied with all Central Bank guidelines throughout 2000.

### Fiduciary Activities

The Company was not involved in any fiduciary or custodial activities during the period.

### Events Subsequent to Balance Date

On 20/02/01 the Directors announced the approval in principle of a proposed merger between Bank of South Pacific Limited and Credit Corporation (PNG) Limited. The proposal is subject to extensive work by way of due diligence and is driven by the need for the Bank to have a stronger equity position to enable it to aggressively compete for business at the top end of the commercial and corporate market.

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
<b>2. Notes to the Statement of Cash Flows</b>		
(i) Reconciliation of Operating Profit after Income Tax to Net Cash		
Operating profit after income tax	15,655,824	19,569,793
Adjustments to reconcile operating profit after income tax to net cash		
Provided by operating activities:		
Depreciation	2,088,740	1,800,495
Loss (Profit) on sale of fixed assets	(60,459)	(143,659)
Accruals (net effect)	(3,606,994)	711,595
<b>Total Adjustments</b>	<b>(1,578,713)</b>	<b>2,368,431</b>
<b>Operating profit before changes in operating assets</b>	<b>14,077,011</b>	<b>21,938,224</b>
(ii) Reconciliation of Cash		
For the purposes of reporting cash flows, cash and cash equivalents include cash and short-term liquid assets, amounts due from other banks and due to other banks. Cash at the end of the financial year as shown in the statement of cash flows reconciled to the related items in the balance sheet as follows:		
Cash	32,732,886	26,413,228
Other Short-Term Liquid Assets	2,226,275	4,380,381
Due from other Banks	56,435,510	17,061,538
Due to other Banks	(9,155,107)	(674,380)
<b>Total Cash and Cash Equivalents</b>	<b>82,239,564</b>	<b>47,180,767</b>
<b>3. Income Tax Expense</b>		
Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit:		
Operating profit before income tax	20,305,212	25,635,312
Prima facie income tax at 25%	5,076,303	6,408,828
Add/(Deduct) tax effect of permanent differences	(426,915)	(343,308)
<b>Total Income Tax Expense</b>	<b>4,649,388</b>	<b>6,065,520</b>
Total income tax expense is made up of:		
Current income tax provision	2,910,006	6,514,521
Future income tax benefit	(17,827)	(853,928)
Deferred income tax	1,757,209	404,927
	<b>4,649,388</b>	<b>6,065,520</b>
<b>Future Income Tax Benefit</b>		
Future income tax benefit reflects the future benefit at 25% of the following items:		
Provisions:		
Doubtful debts	1,899,272	1,853,955
Employee entitlements	632,087	496,172
Insurance Prepayment	(163,405)	-
	<b>2,367,954</b>	<b>2,350,127</b>

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
<b>4. Investment Securities</b>		
Papua New Guinea Treasury Bills (at face value less unearned interest)	187,673,833	118,262,026
The market value of the quoted investment securities equals book value as the Treasury Bills may only be redeemed at that value with the Central Bank.		
<b>5. Loans and Other Receivables</b>	<b>299,272,365</b>	<b>286,483,611</b>
Deduct:		
Unearned income	2,412,102	3,380,007
Provision for doubtful debts (see below)	7,597,050	7,340,783
<b>Total</b>	<b>289,263,213</b>	<b>275,762,821</b>
Provision for doubtful debts:		
Opening Balance	7,340,783	4,683,327
Bad debts recovered	202,010	209,452
Bad debts written off	(1,707,172)	(175,811)
Funding from income statement	1,761,429	2,623,815
<b>Closing Balance</b>	<b>7,597,050</b>	<b>7,340,783</b>
Comprised of:		
Specific element	65,531	259,683
General element	7,531,519	7,081,100
<b>Total Provision</b>	<b>7,597,050</b>	<b>7,340,783</b>
<b>Impaired Assets</b>		
Impaired assets consist of non-accrual and sub-standard loans.		
The Bank's policy is to transfer loans to non-accrual where loss of principle and/or interest is possible.		
	(K000's)	
Non-accrual loans without specific provision	8,983	
Non-accrual loans with specific provision	287	
Restructured loans and the amount provided for impairment	0	
Sub-standard loans and specific provisions for impairment	5,003	
The amount of interest and other revenue recognised on sub-standard assets	192	
The amount of interest and other revenue not taken to account on non-accrual loans	4,250	
The Bank's total provisions comfortably satisfy minimum standards specified in Bank of Papua New Guinea prudential guidelines for asset quality and provisioning.		
<b>Analysis of loans and advances by industry</b>		
	(K000's)	
Investment Securities (Treasury Bills)	187,674	
Government - Other	1,296	
Public Authorities	36,670	
Private Individuals	40,219	
Property Investment	72,722	
Transport & Construction	45,838	
Retail & Wholesale	50,805	
Other	130,968	

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
<b>6. Fixed Assets</b>		
Land and buildings		
Opening net book value	13,904,865	11,493,098
Additions	-	1,510,518
Revaluation	-	1,659,185
Disposals	(85,422)	(429,670)
Depreciation	(350,548)	(328,266)
Net book value	13,468,895	13,904,865
Independent valuation carried forward	7,600,623	7,600,623
Cost	7,097,900	7,187,901
Less accumulated depreciation	14,698,523	14,788,524
Net book value	1,229,628	883,659
Net book value	13,468,895	13,904,865
<b>Leasehold improvements</b>		
Opening net book value	1,038,598	1,086,949
Additions	112,891	98,086
Depreciation	(151,715)	(146,437)
Net book value	999,774	1,038,598
Cost	1,739,137	1,626,246
Less accumulated depreciation	(739,363)	(587,648)
Net book value	999,774	1,038,598
<b>Furniture, fixtures &amp; fittings</b>		
Opening net book value	1,631,653	1,436,478
Additions	671,098	413,615
Disposals	(1,202)	(222)
Depreciation	(244,948)	(218,218)
Net book value	2,056,601	1,631,653
Cost	3,757,232	3,087,336
Less accumulated depreciation	(1,700,631)	(1,455,683)
Net book value	2,056,601	1,631,653
<b>Data processing and other equipment</b>		
Opening net book value	4,881,000	4,395,809
Additions	3,453,447	1,248,172
Disposals	(1,000)	-
Depreciation	(991,292)	(762,981)
Net book value	7,342,155	4,881,000
Cost	11,474,342	8,021,896
Less accumulated depreciation	(4,132,187)	(3,140,896)
Net book value	7,342,155	4,881,000
<b>Motor vehicles</b>		
Opening net book value	972,166	1,134,757
Additions	279,492	334,945
Disposals	(22,945)	(167,085)
Depreciation	(350,238)	(330,451)
Net book value	878,475	972,166
Cost	1,864,365	1,714,670
Less accumulated depreciation	(985,890)	(742,504)
Net book value	878,475	972,166
<b>Total net book value</b>	<b>24,745,900</b>	<b>22,428,281</b>

### Valuation of land and buildings

The net book value of properties are at Directors valuation based on independent valuations carried out in 1999.

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
<b>7. Other Liabilities</b>		
Annual Leave	779,563	619,863
Long Service Leave	1,748,765	1,364,800
Expenditure Accruals	8,468,529	7,084,118
Other	5,044,695	8,362,023
<b>Total Other Liabilities</b>	<b>16,041,552</b>	<b>17,430,804</b>
<b>8. Issued and Paid up Capital</b>		
16,921,202 ordinary shares	17,918,941	17,868,941
Share premium reserve reclassified as share capital	-	50,000
<b>Issued and Paid up Capital</b>	<b>17,918,941</b>	<b>17,918,941</b>
<b>9. Reserves</b>		
<b>General Reserves</b>		
Opening Balance	2,000,000	2,000,000
Transfer from retained profits	-	-
<b>Closing Balance</b>	<b>2,000,000</b>	<b>2,000,000</b>
<b>Capital Reserve</b>		
Balance	634,740	634,740
<b>Asset Revaluation Reserve</b>		
Opening Balance	7,600,623	5,766,794
Revaluation increment on land, buildings and fixtures	45,811	1,833,829
<b>Closing Balance</b>	<b>7,646,434</b>	<b>7,600,623</b>
<b>Share Premium Reserve</b>		
Balance	-	50,000
Reclassified as share capital	-	(50,000)
<b>Closing Balance</b>	<b>-</b>	<b>-</b>
<b>Total Reserves</b>	<b>10,281,174</b>	<b>10,235,363</b>

### 10. Related Party Transactions

During the year the Company entered into transactions with Banklink Ltd, a Company which provides electronic banking facilities. The Bank owns 40% of Banklink Ltd. The associate Company does not have a significant value in the Balance Sheet and equity accounting has not been adopted.

Loans were granted to the following parties:

1. Baibua No 4 Ltd, K414,363 which Mr. N.N. Beangke is a shareholder, and
2. Mr. N.N. Beangke K112,462.
3. Ontrack Ltd, K617,461 which Mr. T.E. Fox is a shareholder.
4. Kramer Consultants Ltd K500,000 which Mr. T.E. Fox is a Director.
5. Zen No. 33 Ltd K967,845 which Kramer Consultants Ltd is a Shareholder.

All transactions as detailed above are on a commercial basis under normal terms and conditions.

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

### 11. Contingent Liabilities and Off-Balance Sheet Exposures

#### Financial instruments with off-balance sheet risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers, for trading purposes, and to reduce its own exposure to fluctuations in interest and exchange rates. These financial instruments include commitments to extend credit, financial guarantees and standby letters of credit, and forward contracts. Such instruments involve, to varying degrees, elements of credit and exchange rate risk in excess of the amount recognised in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non performance by the other party to the financial instrument for commitments to extend credit, financial guarantees and standby letters of credit is represented by the contract or notional amount of those instruments. However, some commitments to extend credit can be cancelled or revoked at any time at the Company's option. For such instruments as forward contracts, the Company's exposure to credit loss is only a small fraction of the contract or notional amounts.

Details of financial instruments with off-balance sheet risk are as follows:

	K'000	31/12/00 K'000	K'000	31/12/99 K'000
	Contract or Notional Amount	Credit Equivalent (1)	Contract or Notional Amount	Credit Equivalent (1)
Credit risk related instruments:				
Standby letters of credit	95	95	410	410
Trade letters of credit (2)	518	104	2,923	585
Non - financial guarantees (3)	4,381	2,190	3,230	1,615
Commitments to extend credit - residual				
Maturity less than 1 year	32,947	-	31,889	-
<b>Total credit risk related instruments</b>	<b>37,941</b>	<b>2,389</b>	<b>38,452</b>	<b>2,610</b>
Exchange rate contracts:				
Forwards	12,060	-	17,043	-
<b>Total Off-Balance Sheet Exposure</b>	<b>50,001</b>	<b>2,389</b>	<b>55,495</b>	<b>2,610</b>

- (1) Credit equivalents are determined in accordance with the Bank of Papua New Guinea risk-weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as balance sheet assets according to counterparty for capital adequacy purposes.
- (2) Trade letters of credit are for terms up to one year secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.
- (3) Non-financial guarantees include other trade-related letters and obligations backing the performances of commercial contracts.

### 12. Lease Commitments

#### Operating Leases

Minimum lease commitments as at 31 December 2000

Due no later than 1 year:	110,000	78,207
Due later than 1 year but not later than 2 years:	49,500	148,500
Due later than 2 years but not later than 5 years:	1,172,401	1,377,274
	<b>1,331,901</b>	<b>1,603,981</b>

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

### 13. Maturities of Monetary Assets and Liabilities

	Due in 1 year or less K'000	Due after 1 year through 5 years K'000	Due after 5 years K'000	Total K'000
<b>As at 31 December 2000</b>				
<b>Assets</b>				
Coins, notes and cash at banks	32,732	-	-	32,732
Balances due from other banks	56,436	-	-	56,436
Bills receivable and remittances in transit	2,226	-	-	2,226
Investment securities	187,674	-	-	187,674
Loans and other receivables	52,011	80,707	156,545	289,263
All other monetary assets	11,265	-	-	11,265
<b>Total Monetary Assets</b>	<b>342,344</b>	<b>80,707</b>	<b>156,545</b>	<b>579,596</b>
<b>Liabilities</b>				
Demand deposits	189,781	-	-	189,781
Term deposits	320,584	354	-	320,938
Balances due to other banks	9,155	-	-	9,155
All other monetary Liabilities	16,042	-	-	16,042
<b>Total Monetary Liabilities</b>	<b>535,562</b>	<b>354</b>	<b>-</b>	<b>535,916</b>
<b>As at 31 December 1999</b>				
<b>Assets</b>				
Coins, notes and cash at banks	26,413	-	-	26,413
Balances due from other banks	17,062	-	-	17,062
Bills receivable and remittances in transit	4,380	-	-	4,380
Investment securities	118,262	-	-	118,262
Loans and other receivables	65,469	103,607	106,687	275,763
All other monetary assets	5,920	-	-	5,920
<b>Total Monetary Assets</b>	<b>237,506</b>	<b>103,607</b>	<b>106,687</b>	<b>447,800</b>
<b>Liabilities</b>				
Demand deposits	151,174	-	-	151,174
Term deposits	234,707	70	-	234,777
Balances due to other banks	674	-	-	674
All other monetary liabilities	17,431	-	-	17,431
<b>Total Monetary Liabilities</b>	<b>403,986</b>	<b>70</b>	<b>-</b>	<b>404,056</b>

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

	Year Ended 31 Dec 2000 Kina	Year Ended 31 Dec 1999 Kina
<b>14. Operating Profit Before Income Tax Expense</b>		
Operating profit for the year is determined after including:		
<b>Income</b>		
<u>Interest income</u>		
Loans	54,035,290	49,057,229
Deposits with other financial institutions	402,322	205,202
Trading securities	28,744,627	30,663,075
Other	3,432,737	2,680,784
<b>Total</b>	<b>86,614,976</b>	<b>82,606,290</b>
<u>Non-Interest Income</u>		
Lending fees	3,653,737	3,435,909
Transaction fees and commissions received	1,617,879	1,372,220
Foreign exchange income	6,390,461	7,669,374
Profit on sale of fixed assets	57,821	59,907
Profit on sale of property	2,638	117,367
Other operating income	2,298,165	1,158,401
<b>Total</b>	<b>14,020,701</b>	<b>13,813,178</b>
<b>Total Income</b>	<b>100,635,677</b>	<b>96,419,468</b>
<b>Expenses</b>		
<u>Interest expense</u>		
Current and term deposits	51,486,794	45,743,762
Deposits from other banks	439,308	423,390
Other	313,651	405,661
<b>Total</b>	<b>52,239,753</b>	<b>46,572,813</b>
<b>Non-Interest Expenses</b>		
<u>Staff Expenses</u>		
Salaries & wages	9,639,181	7,876,840
Provision for employee entitlements	383,965	642,385
Staff accommodation	1,234,720	1,173,471
Travelling and removal	619,300	476,961
Other	1,715,259	1,122,468
<b>Total</b>	<b>13,592,425</b>	<b>11,065,135</b>
<u>Operating Expenses</u>		
Operating leases	866,429	763,886
Loss on sale of fixed assets	-	33,615
Provisions for doubtful debts	256,267	2,543,496
Other expenses	12,794,955	9,363,450
Donations	24,663	17,480
Superannuation	258,907	239,948
Auditors' Remuneration		
- Audit of the accounts	55,900	51,000
- Other services	241,166	133,332
<b>Total</b>	<b>14,498,287</b>	<b>13,146,207</b>
<b>Total Expenses</b>	<b>80,330,465</b>	<b>70,784,155</b>

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 DECEMBER 2000

### 15. Directors and Employees Remuneration

#### a) Directors Remuneration

Directors of the Company received remuneration, including benefits during 2000 as detailed below:

	K
N. N. Beangke	33,973
T. E. Fox	28,310
P. Auru	22,148
B. A. Flynn	26,822
B. J. Hanson	23,775
G. Mcllwain	16,899
H. Fabila	943
N. R. Smith	958,078

#### b) Directors Shareholding Interests

Shares

N.N. Beangke	25,000	(held by N. Beangke)
T.E. Fox	20,000	
B.A. Flynn	110,000	(held by Pricewaterhouse Nominees (PNG) Ltd)
B.A. Flynn	5,000	
B.J. Hanson	20,000	
B.J. Hanson	41,632	(held by Pricewaterhouse Nominees (PNG) Ltd)
N.R. Smith	97,500	(held by Superannuation Fund)
N.R. Smith	65,000	

#### c) Employees Remuneration

The number of employees or former employees of the Company, not being Directors of the Company who, during the period, received remuneration and any other benefits in their capacity as employees, the value of which was or exceeded K100,000 per annum are detailed below in brackets of K100,000.

	2000	1999
K100,000 - K109,999	1	-
K110,000 - K119,999	-	1
K140,000 - K149,999	-	1
K150,000 - K159,999	1	-
K200,000 - K209,999	-	1
K210,000 - K219,999	2	2
K220,000 - K229,999	1	-
K230,000 - K239,999	2	2
K240,000 - K249,999	4	5
K250,000 - K259,999	1	4
K260,000 - K269,999	3	3
K270,000 - K279,999	4	2
K280,000 - K289,999	2	1
K290,000 - K299,999	2	1
K300,000 - K309,999	2	1
K310,000 - K319,999	1	2
K340,000 - K349,999	1	-
K370,000 - K379,999	-	1
K400,000 - K409,999	1	-
<b>Total number of employees</b>	<b>28</b>	<b>27</b>

# Shareholder Information

## Registered Office & Share Register

Douglas Street, Port Moresby  
P.O. Box 173  
Port Moresby, NCD  
Papua New Guinea  
Telephone: (675) 321 2444  
Facsimile: (675) 321 7302  
Swift: BOSPPGPM  
Email: service@bsp.com.pg  
Website: www.bsp.com.pg

## Major Shareholders

Shareholder Name	% of Shares
Credit Corporation (PNG) Limited	25.58
Motor Vehicles Insurance (PNG) Trust	22.17
National Provident Fund of PNG	11.52
Defence Force Retirement Benefits Funds Board	9.23
Teachers Savings & Loans Society Limited	8.65
Evangelical Lutheran Church of PNG Superannuation Board	7.12

## Auditors

Deloitte Touche Tohmatsu  
P.O. Box 1275  
Port Moresby, NCD  
Papua New Guinea

## Lawyers

Blake Dawson Waldron  
P.O. Box 850  
Port Moresby, NCD  
Papua New Guinea

