

ANNUAL REPORT AND STATEMENT BY DIRECTORS

The Directors present the Annual Report and Financial Statements for the year ended 31 December 2001.

Operating Profit

The operating profit for the year ended 31 December 2001, after income tax expense amounted to K18,971,009 (2000 K15,655,824).

Dividends

An interim dividend amounting to K5,953,396 was paid during the year and the Directors declared a final dividend of K7,316,665 in respect of the year ended 31 December 2001 making a full year dividend of K13,270,061 (2000 K7,820,581).

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 (resigned)	Mr. N. R. Smith MBE
Mr. J. G. Jeffery	

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 8th day of March 2002.

N.N. Beangke

Chairman

N.R. Smith MBE

Managing Director

Statement by the Directors

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

- (a) 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 2001.
- (b) 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 2001.
- (c) 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 2001.
- (d) 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 2001.

Dated and signed at Port Moresby this 8th day of March 2002.

N.N. Beangke

Chairman

N.R. Smith MBE

Managing Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF BANK OF SOUTH PACIFIC LIMITED

Scope

We have audited the attached financial statements of Bank of South Pacific Limited for the year ended 31 December 2001. 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 2001, 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 18th day of March 2002.

DELOITTE TOUCHE TOHMATSU

By: **David J. Murray, Partner**

Registered under the Accountants Act 1996

INCOME STATEMENT

		Year Ended 31 Dec 2001	Year Ended 31 Dec 2000
	Note	Kina	Kina
Revenue	14	83,313,625	86,614,976
Other operating income	14	17,415,666	14,020,701
		100,729,291	100,635,677
Deduct:			
Staff costs		15,901,538	13,592,425
Depreciation		2,706,464	2,088,740
Other operating expenses		56,302,461	64,649,300
Total operating expenses		74,910,463	80,330,465
Operating profit before income tax		25,818,828	20,305,212
Deduct: Tax expense	3	6,847,819	4,649,388
Net profit for the year		18,971,009	15,655,824

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

BALANCE SHEET

	Note	As at 31 Dec 2001 Kina	As at 31 Dec 2000 Kina
Assets			
Coins, notes and cash at banks		44,612,685	32,732,886
Balances due from other banks		68,403,405	56,435,510
Bills receivable and remittances in transit		6,455,860	2,226,275
Investment securities	4	297,193,210	187,673,833
Loans and other receivables	5	285,298,967	289,263,213
Fixed assets	6	37,584,933	24,745,900
Future income tax benefits	3	3,059,590	2,367,954
Other assets		25,801,820	11,264,846
Total Assets		768,410,470	606,710,417
Liabilities			
Demand deposits		221,418,605	189,780,774
Term deposits		434,715,690	320,937,768
Balances due to other banks		14,560,861	9,155,107
Provision for income tax		3,630,422	264,231
Deferred tax liability		2,519,273	2,559,381
Other liabilities	7	14,131,315	16,041,552
Total Liabilities		690,976,166	538,738,813
Net Assets		77,434,304	67,971,604
Shareholders' Equity			
Share capital	8	17,918,941	17,918,941
Reserves	9	10,281,174	10,281,174
Final Dividend Declared		7,316,665	3,555,300
Retained profits		41,917,524	36,216,189
Total Shareholders' Equity		77,434,304	67,971,604

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 1999	17,919	7,600	635	2,000	5,538	28,381	62,073
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)	-
Balance at 31 December 2000	17,919	7,646	635	2,000	3,555	36,216	67,971
Changes in accounting policies	-	-	-	-	-	-	-
Deficit on revaluation of properties	-	-	-	-	-	-	-
Surplus on revaluation of investments	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-
Net gains and losses not recognised in income statement	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	18,971	18,971
Dividends - 2000 Final Paid	-	-	-	-	(3,555)	-	(3,555)
- 2001 Interim Paid	-	-	-	-	-	(5,953)	(5,953)
- 2001 Final Declared	-	-	-	-	7,317	(7,317)	-
Issue of Share Capital	-	-	-	-	-	-	-
Balance at 31 December 2001	17,919	7,646	635	2,000	7,317	41,917	77,434

STATEMENT OF CASH FLOWS

	Note	Year Ended 31 Dec 2001	Year Ended 31 Dec 2000
		Kina	Kina
Cash flows from operating activities			
Interest received		83,313,625	86,614,976
Other operating income		17,415,666	14,020,701
Interest paid		(42,329,196)	(52,239,753)
Cash payments to employees and suppliers		(34,144,956)	(34,318,813)
Operating cash flow before changes in operating assets	2(i)	24,255,139	14,077,111
<u>Changes in net assets and liabilities</u>			
(Increase)/Decrease in:			
Loans and other receivables		3,964,246	(13,500,392)
Other assets		(14,536,974)	(5,345,220)
Increase/(Decrease) in:			
Term deposits		31,637,831	86,160,430
Demand deposits		113,777,922	38,607,203
Other liabilities		(1,910,240)	(1,389,252)
Net cash from operating activities		132,932,785	104,532,769
Cash flows from investing activities			
Net (increase)/decrease in investment securities		(109,519,377)	(69,411,807)
Purchase of property, plant and equipment		(15,651,343)	(4,516,927)
Proceeds from sale of property, plant and equipment		162,628	180,737
Net cash from (used in) investing activities		(125,008,092)	(73,747,997)
Cash flows from financing activities			
Issue of share capital		-	-
Repayment of capital on leased assets		-	-
1999 Dividends written back		387	-
2000 Dividends paid		(3,555,300)	(5,537,806)
2001 Interim Dividends paid		(5,953,394)	(4,265,280)
Net cash from (used in) financing activities		(9,508,307)	(9,803,086)
Net increase/(decrease) in cash and cash equivalents		22,671,525	35,058,797
Cash and cash equivalents at beginning of the year		82,239,564	47,180,767
Cash and cash equivalents at end of the year	2(ii)	104,911,089	82,239,564

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

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 Guinean 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

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 market 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	K 000's
Tier 1. Core Capital	59,412
Tier 2. Supplementary Capital	8,845
Total Risk Weighted Capital	371,119
Risk Asset Ratio	18.39%

Central Bank Guidelines

The Directors of the Company confirm that Bank of South Pacific Limited has complied with all Central Bank guidelines throughout 2001.

Fiduciary Activities

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

Amalgamation with Papua New Guinea Banking Corporation

The Privatisation Commission, on behalf of the Government of Papua New Guinea recently offered for sale a 51% interest in PNGBC through a competitive trade sale process. The Company participated in this process by lodging a bid whereby it proposed to effect the acquisition of PNGBC by way of an amalgamation under the Companies Act rather than through a sale and purchase.

Following an appraisal of all bids lodged in relation to the acquisition of PNGBC, the Commission agreed to accept the Company's bid. The Company, the Commission and PNGBC have since executed the amalgamation Deed which provides for the implementation of the amalgamation.

The amalgamation will result in the merger of both BSP's and PNGBC's banking operations to create a leading private sector bank in Papua New Guinea.

For BSP, the amalgamation is an opportunity to fully leverage a wider distribution platform presented by the extensive PNGBC branch network. Furthermore, the increased market share of the amalgamated company in the Papua New Guinea banking sector, provides potential to realise significant synergies as common operational, technological and processing platforms are implemented.

The amalgamation also heralds a new era for the BSP's shareholders, as owners of Papua New Guinea's pre-eminent financial institution. The amalgamation provides an opportunity for shareholders to derive superior returns, as the amalgamated company benefits from the discipline and expertise provided by BSP's management. We believe the amalgamated company has the potential to set new benchmarks and high standards in new products, the delivery of services and ultimately in shareholder returns.

The Board of Directors unanimously supports the amalgamation and, the Shareholders by way of a special resolution will need to consider the proposal at the General Meeting of Shareholders on 8 March 2002.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Year Ended 31 Dec 2001	Year Ended 31 Dec 2000
	Kina	Kina
2. Notes to the Statement of Cash Flows		
<i>(i) Reconciliation of Operating Profit after Income Tax to Net Cash</i>		
	18,971,009	15,655,824
Operating profit after income tax		
Adjustments to reconcile operating profit after income tax to net cash		
Provided by operating activities:		
Depreciation	2,706,463	2,088,740
Loss (Profit) on sale of fixed assets	(56,781)	(60,459)
Accruals (net effect)	2,634,448	(3,606,994)
Total Adjustments	5,284,130	(1,578,713)
Operating profit before changes in operating assets	24,255,139	14,077,011
 <i>(ii) Reconciliation of Cash</i>		
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	44,612,685	32,732,886
Other Short-Term Liquid Assets	6,455,860	2,226,275
Due from other Banks	68,403,405	56,435,510
Due to other Banks	(14,560,861)	(9,155,107)
Total Cash and Cash Equivalents	104,911,089	82,239,564
 3. Income Tax Expense		
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	25,818,828	20,305,212
Prima facie income tax at 25%	6,454,707	5,076,303
Add/(Deduct) tax effect of permanent differences	393,112	(426,915)
Total Income Tax Expense	6,847,819	4,649,388
Total income tax expense is made up of:		
Current income tax provision	7,579,562	2,910,006
Future income tax benefit	(691,636)	(17,827)
Deferred income tax	(40,107)	1,757,209
	6,847,819	4,649,388
Future Income Tax Benefit		
Future income tax benefit reflects the future benefit at 25% of the following items:		
Provisions:		
Doubtful debts	2,460,085	1,899,272
Employee entitlements	749,996	632,087
Insurance Prepayment	(150,491)	(163,405)
	3,059,590	2,367,954

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Year Ended 31 Dec 2001	Year Ended 31 Dec 2000
	Kina	Kina
4. Investment Securities		
Papua New Guinea Treasury Bills (at face value less unearned interest)	297,193,210	187,673,833
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		
5. Loans and Other Receivables	297,859,303	299,272,365
Deduct:		
Unearned income	2,719,996	2,412,102
Provision for doubtful debts (see below)	9,840,340	7,597,050
	285,298,967	289,263,213
Provision for doubtful debts:		
Opening Balance	7,597,050	7,340,783
Bad debts recovered	134,178	202,010
Bad debts written off	(324,043)	(1,707,172)
Funding from income statement	2,433,155	1,761,429
Closing Balance	9,840,340	7,597,050
Comprised of:		
Specific element	4,932,113	65,531
General element	4,908,227	7,531,519
Total Provision	9,840,340	7,597,050

Impaired Assets

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)	(K000's)
Non-accrual loans without specific provision	8,018	8,983
Non-accrual loans with specific provision	5,898	287
Restructured loans and the amount provided for impairment	-	-
Sub-standard loans and specific provisions for impairment	3,112	5,003
The amount of interest and other revenue recognised on sub-standard assets	7	192
The amount of interest and other revenue not taken to account on non-accrual loans	8,420	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.

Analysis of loans and advances by industry

	(K000's)	(K000's)
Investment Securities (Treasury Bills)	297,193	187,674
Government - Other	732	1,296
Public Authorities	11,787	36,670
Private Individuals	41,564	40,219
Property Investment	70,906	72,722
Transport & Construction	43,390	45,838
Retail & Wholesale	62,229	50,805
Other	166,123	130,968

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Year Ended 31-Dec-01	Year Ended 31-Dec-00
	Kina	Kina
6. Fixed Assets		
Land and buildings		
Opening net book value	13,468,895	13,904,865
Additions	6,523,000	-
Revaluation	-	-
Disposals	-	(85,422)
Depreciation	(370,872)	(350,548)
Net book value	19,621,023	13,468,895
Independent valuation carried forward	7,600,623	7,600,623
Cost	13,620,901	7,097,900
	21,221,524	14,698,523
Less accumulated depreciation	1,600,501	1,229,628
Net book value	19,621,023	13,468,895
Leasehold improvements		
Opening net book value	999,774	1,038,598
Additions	3,168	112,891
Depreciation	(154,333)	(151,715)
Net book value	848,609	999,774
Cost	1,742,305	1,739,137
Less accumulated depreciation	(893,696)	(739,363)
Net book value	848,609	999,774
Furniture, fixtures & fittings		
Opening net book value	2,056,601	1,631,653
Additions	1,333,248	671,098
Disposals	(59,501)	(1,202)
Depreciation	(260,002)	(244,948)
Net book value	3,070,346	2,056,601
Cost	5,030,979	3,757,232
Less accumulated depreciation	(1,960,633)	(1,700,631)
Net book value	3,070,346	2,056,601
Data processing and other equipment		
Opening net book value	7,342,155	4,881,000
Additions	7,006,092	3,453,447
Disposals	-	(1,000)
Depreciation	(1,489,056)	(991,292)
Net book value	12,859,191	7,342,155
Cost	18,480,435	11,474,342
Less accumulated depreciation	(5,621,244)	(4,132,187)
Net book value	12,859,191	7,342,155
Motor vehicles		
Opening net book value	878,475	972,166
Additions	785,836	279,492
Disposals	(288,910)	(22,945)
Depreciation	(189,637)	(350,238)
Net book value	1,185,764	878,475
Cost	2,361,290	1,864,365
Less accumulated depreciation	(1,175,526)	(985,890)
Net book value	1,185,764	878,475
Sub Total net book value	37,584,933	24,745,900
Lae Branch – Work in progress due to renovation	4,736,484	4,659,235
Total	42,321,418	29,405,135

Valuation of land and buildings

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Year Ended 31-Dec-01	Year Ended 31-Dec-00
	Kina	Kina
7. Other Liabilities		
Annual Leave	635,548	779,563
Long Service Leave	2,364,418	1,748,765
Expenditure Accruals	5,073,934	8,468,529
Other	6,057,415	5,044,695
Total Other Liabilities	14,131,315	16,041,552
8. Issued and Paid up Capital		
17,015,502 ordinary shares	17,918,941	17,918,941
Share premium reserve reclassified as share capital		-
Issued and Paid up Capital	17,918,941	17,918,941
9. Reserves		
General Reserves		
Opening Balance	2,000,000	2,000,000
Transfer from retained profits	-	-
Closing Balance	2,000,000	2,000,000
Capital Reserve		
Balance	634,740	634,740
Asset Revaluation Reserve		
Opening Balance	7,646,434	7,600,623
Revaluation increment on land, buildings and fixtures	-	45,811
Closing Balance	7,646,434	7,646,434
Share Premium Reserve		
Balance	-	-
Reclassified as share capital	-	-
Closing Balance	-	-
Total Reserves	10,281,174	10,281,174

10. Related Party Transactions

Loans were granted to the following parties:

1. Baibua No 4 Ltd, K405,329 which Mr. N.N. Beangke is a shareholder, and
2. Mr. N.N. Beangke K97,250.
3. Ontrack Ltd, K680,016 which Mr. T.E. Fox is a shareholder.
4. Kramer Consultants Ltd K576,336 which Mr. T.E. Fox is a Director.
5. Zen No. 33 Ltd K1,060,028 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 2001

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:

	31/12/2001		31/12/2000	
	K'000 Credit Notional (1)	K'000 Contract or Equivalent Amount	K'000 Credit Notional (1)	K'000 Contract or Equivalent Amount
Credit risk related instruments:				
Standby letters of credit	-	-	95	95
Trade letters of credit (2)	2,360	472	518	104
Non-financial guarantees (3)	4,934	2,467	4,381	2,190
Commitments to extend credit – residual				
Maturity less than 1 year	37,453	-	32,947	-
Total credit risk related instruments	44,747	2,939	37,941	2,389
Exchange rate contracts:				
Forwards	10,186	-	12,060	-
Total Off-Balance Sheet Exposure	54,933	2,939	50,001	2,389

- (1) Credit equivalents are determined in accordance with the Bank of Papua New Guinea draft 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 2001

Due no later than 1 year:	440,776	110,000
Due later than 1 year but not later than 2 years	-	49,500
Due later than 2 years but not later than 5 years:	-	1,172,401
	440,776	1,331,901

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

13. Maturities of Monetary Assets and Liabilities

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total
	K'000	K'000	K'000	K'000
As at 31 December 2001				
Assets				
Coins, notes and cash at banks	44,613	-	-	44,613
Balances due from other banks	68,403	-	-	68,403
Bills receivable and remittances in transit	6,456	-	-	6,456
Investment securities	297,193	-	-	297,193
Loans and other receivables	97,068	111,624	76,607	285,299
All other monetary assets	25,802	-	-	25,802
Total Monetary Assets	539,535	111,624	76,607	727,766
Liabilities				
Demand deposits	221,420	-	-	221,420
Term deposits	434,520	197	-	434,717
Balances due to other banks	14,561	-	-	14,561
All other monetary liabilities	14,131	-	-	14,131
Total Monetary Liabilities	684,632	197	-	684,829
As at 31 December 2000				
Assets				
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
Total Monetary Assets	342,344	80,707	156,545	579,596
Liabilities				
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
Total Monetary Liabilities	535,562	354	-	535,916

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Year Ended 31-Dec-01	Year Ended 31-Dec-00
	Kina	Kina
14. Operating Profit Before Income Tax Expense		
Operating profit for the year is determined after including:		
Income		
<u>Interest income</u>		
Loans	51,384,351	54,035,290
Deposits with other financial institutions	353,471	402,322
Trading securities	27,623,652	28,744,627
Other	3,952,151	3,432,737
Total	83,313,625	86,614,976
<u>Non-Interest Income</u>		
Lending fees	4,086,300	3,653,737
Transaction fees and commissions received	2,742,891	1,617,879
Foreign exchange income	7,430,207	6,390,461
Profit on sale of fixed assets	67,369	57,821
Profit on sale of property	-	2,638
Other operating income	3,088,899	2,298,165
Total	17,415,666	14,020,701
Total Income	100,729,291	100,635,677
Expenses		
<u>Interest expense</u>		
Current and term deposits	42,018,894	51,486,794
Deposits from other banks	301,747	439,308
Other	8,555	313,651
	42,329,196	52,239,753
<u>Non-Interest Expenses</u>		
<u>Staff Expenses</u>		
Salaries & wages	11,623,231	9,639,181
Provision for employee entitlements	615,653	383,965
Staff accommodation	1,384,122	1,234,720
Travelling and removal	513,528	619,300
Other	1,765,004	1,715,259
	15,901,538	13,592,425
<u>Operating Expenses</u>		
Operating leases	809,235	866,429
Loss on sale of fixed assets	10,588	-
Provisions for doubtful debts	2,243,290	256,267
Other expenses	12,953,259	12,794,955
Donations	22,985	24,663
Superannuation	365,237	258,907
Auditors' Remuneration		
- Audit of the accounts	61,500	55,900
- Other services	213,636	241,166
Total	16,679,730	14,498,287
Total Expenses	74,910,464	80,330,465

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

15. Directors and Employees Remuneration

a) Directors Remuneration

Directors of the Company received remuneration, including benefits during 2001 as detailed below:

	K
N. N. Beangke	32,858
T. E. Fox	27,854
P. Auru	4,693
B. A. Flynn	24,104
B. J. Hanson	22,229
N. R. Smith	967,279

b) Directors Shareholding Interests

	Shares	
T.E. Fox	45,000	
B.A. Flynn	110,000	(held by Pricewaterhouse Nominees (PNG) Ltd)
B.A. Flynn	5,000	
B.J. Hanson	42,632	(held by Pricewaterhouse Nominees (PNG) Ltd)
B.J. Hanson	20,000	
N.R. Smith	100,000	(held by Superannuation Fund)
N.R. Smith	142,000	

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 K10,000.

	2001	2000
K100,000 - K109,999	-	1
K120,000 - K129,999	1	-
K150,000 - K159,999	-	1
K190,000 - K199,999	1	1
K210,000 - K219,999	-	2
K220,000 - K229,999	-	1
K230,000 - K239,999	1	2
K240,000 - K249,999	1	4
K250,000 - K259,999	2	1
K260,000 - K269,999	2	3
K270,000 - K279,999	1	4
K280,000 - K289,999	3	2
K290,000 - K299,999	2	2
K300,000 - K309,999	1	2
K310,000 - K319,999	4	1
K320,000 - K329,999	2	-
K330,000 - K339,999	1	-
K340,000 - K349,999	-	1
K350,000 - K359,999	1	-
K380,000 - K389,999	1	-
K390,000 - K399,999	1	-
K400,000 - K409,999	-	1
K420,000 - K429,999	1	-
K580,000 - K589,999	1	-
K590,000 - K599,999	1	-
Total number of employees	27	28