

DIRECTORS' REPORT

for the Year Ended 31 December 2004

The Directors take pleasure in presenting the Financial Statements for the year ended 31 December 2004.

Principal activities

The principal activity of the Bank of South Pacific Limited (BSP) is the provision of commercial banking and finance services throughout Papua New Guinea. 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. Its registered office is at Douglas Street, Port Moresby.

Operating profit

For the year ended 31 December 2004, the profit after tax was K86.651 million (2003: K39.981 million profit).

Dividends

No dividends have been declared in respect of the year ended 31 December 2004 (2003: K19.975 million dividend was paid on 19th July 2004 in respect of the year ended 31 December 2003).

Directors and officers

The following were directors of the Bank of South Pacific Limited during the year ended 31 December 2004:

Mr N N Beangke	Mr. J G Jeffery
Mr T E Fox	Mr G Mcllwain
Mr G Aopi	Mr V Reva
Mr N Bogan	Mr C C Procter
Dr I Temu	

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 26 of the Notes to the Financial Statements.

Auditors

Details of amounts paid to the auditors for audit and other services are shown in Note 5 of the Notes to the Financial Statements.

Donations

Donations made by the Company during the year amounted to K91,904.

Interests Register

Transactions recorded in the Interests Register are disclosed in Note 25 of the Notes to the Financial Statements.

For, and on behalf of, the Directors.

Dated and signed in Port Moresby this 11th day of March 2005.



N.N. Beangke
Chairman



Garth Mcllwain
Managing Director

STATEMENT BY THE DIRECTORS

for the Year Ended 31 December 2004

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

- a) The Income Statement is drawn up so as to exhibit a true and fair view of the results of the business of the Company for the year ended 31 December 2004.
- 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 2004.
- c) The Statement of Cash Flows is drawn up so as to exhibit a true and fair view of the movements in cash of the Company for the year ended 31 December 2004.
- d) The Statement of Changes in Equity is drawn up so as to exhibit a true and fair view of the changes in equity for the year ended 31 December 2004.
- e) The Notes to the Financial Statements (including the Accounting Policies and Financial Risk Management disclosures) are drawn up so as to exhibit a true and fair view of the operations and state of affairs of the Company for the year ended 31 December 2004.

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 other than that disclosed in the notes to the attached financial statements has become enforceable, or is likely to become enforceable, within a period of twelve months from the date of this report, that will materially affect the Company in its ability to meet obligations as and when they fall due.

Dated and signed at Port Moresby this 11th day of March 2005.



N.N. Beangke
Chairman



Garth McIlwain
Managing Director

INCOME STATEMENT

for the Year Ended 31 December 2004

All amounts are expressed in K'000

	Note	2004	2003
Interest income	1	191,697	209,990
Interest expense	1	(32,095)	(61,870)
Net interest income		159,602	148,120
Fee and commission income	2	35,889	26,649
Other income	3	75,030	68,515
Net Operating income		270,521	243,284
Bad and doubtful debts (expense)/recovery	4	(601)	8,112
Other operating expenses	5	(166,283)	(191,054)
Operating profit /(loss) before tax		103,637	60,342
Income tax expense	6(a)	(16,986)	(20,361)
Operating profit/(loss) from ordinary activities after tax		86,651	39,981
Earnings per share - basic and diluted (in toea per share)	28	20	9

The attached notes form an integral part of these financial statements

BALANCE SHEET

as at 31 December 2004

All amounts are expressed in K'000

	Note	2004	2003
ASSETS			
Cash and balances with central bank	8	115,580	146,380
Treasury bills	9	692,127	698,142
Amounts due from other banks	10	83,463	101,762
Loans and advances to customers	11	680,174	705,306
Property, plant and equipment	12	148,114	174,947
Investment securities	13	435,786	-
Deferred tax asset	14	2,062	9,965
Income tax recoverable	6 (b)	7,511	-
Other assets	15	31,822	68,415
Total assets		2,196,639	1,904,917
LIABILITIES			
Amounts due to other banks	16	39,552	5,704
Amounts due to customers	17	1,836,729	1,623,645
Other borrowed funds	18	10,000	10,000
Other liabilities	19	38,656	63,098
Provision for income tax	6 (b)	-	2,742
Other provisions	20	16,070	18,988
Total liabilities		1,941,007	1,724,177
SHAREHOLDERS' EQUITY			
Ordinary shares	21	191,131	182,915
Retained earnings/(accumulated losses)	22	44,685	(21,991)
Other reserves	22	19,816	19,816
Total shareholders' equity		255,632	180,740
Total equity and liabilities		2,196,639	1,904,917

The attached notes form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the Year Ended 31 December 2004

<i>All amounts are expressed in K'000</i>	Note	Share capital	Reserves	Retained earnings/ (Accumulated losses)	Total
Balance as at 1 January 2003		182,422	7,987	(43,913)	146,496
Net profit/(loss)		-	-	39,981	39,981
Final dividend paid for 2002		-	-	(18,059)	(18,059)
Issue of ordinary shares		493	-	-	493
Revaluation of property		-	11,829	-	11,829
Balance at 31 December 2003	21 and 22	182,915	19,816	(21,991)	180,740
Net profit/(loss)		-	-	86,651	86,651
Final dividend paid for 2003		-	-	(19,975)	(19,975)
Issue of ordinary shares		8,216	-	-	8,216
Balance at 31 December 2004		191,131	19,816	44,685	255,632

The attached notes form an integral part of these financial statements

CASH FLOW STATEMENT

for the Year Ended 31 December 2004

All amounts are expressed in K'000

	Note	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		207,224	209,191
Fees and other income		110,094	102,186
Interest paid		(34,098)	(60,798)
Amounts paid to suppliers and employees		(145,260)	(148,807)
Operating cash flow before changes in operating assets	27	137,960	101,772
Decrease/(increase) in loans		24,531	5,441
Decrease/(increase) in bills receivable and other assets		26,286	(14,002)
(Decrease)/increase in deposits		213,083	71,485
(Decrease)/increase in bills payable and other liabilities		(25,192)	11,071
Net cash flow from operations before income tax		376,668	175,767
Income taxes paid		(19,335)	(15,212)
Net cash flow from operating activities		357,333	160,555
CASH FLOW FROM INVESTING ACTIVITIES			
Decrease/(increase) in Government securities		(429,771)	(181,744)
Expenditure on property, plant and equipment		(8,961)	(21,067)
Proceeds from disposal of property, plant and equipment		10,611	1,363
Acquisition of Niue Branch – net cash inflow	7	81	-
Net cash flow from investing activities		(428,040)	(201,448)
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		8,216	-
Proceeds from/(Repayment of) borrowings		-	(5,000)
Dividends paid		(19,975)	(18,056)
Net cash flow from financing activities		(11,759)	(23,056)
Effect of exchange rate movements on cash and cash equivalents		(481)	1,220
Net increase/(decrease) in cash and cash equivalents		(82,466)	(62,729)
Cash and cash equivalents at the beginning of the year		242,438	305,167
Cash and cash equivalents at the end of the year	24	159,491	242,438

The attached notes form an integral part of these financial statements

ACCOUNTING POLICIES

for the Year Ended 31 December 2004

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

A Basis of presentation and general accounting policies

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

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

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

B Derivative financial instruments and acceptances

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

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

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

C Interest income and expense

Interest income and expense are recognised in the Income Statement on an accrual basis using the effective yield method. The income arising from the various forms of instalment credit has been determined using the effective interest method.

Interest income includes coupons earned on inscribed stock and accrued discount and premium on treasury bills.

D Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. All non-refundable front-end loan fees and other risk related fees that constitute cost recovery are taken to income when levied.

E Borrowing expenses

Expenses associated with the borrowing of funds are charged to the Income Statement in the period in which they are incurred.

ACCOUNTING POLICIES

for the Year Ended 31 December 2004

F Loans and provisions for loan impairment

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

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

General provisions for impairment are maintained to cover non-identifiable possible losses and latent risks inherent in the overall portfolio of loans and advances. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria. The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the Income Statement.

G Goodwill

Goodwill represents the excess of the cost of any acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the exchange transaction. Goodwill is reported in the Balance Sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life.

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

H Computer systems development costs

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

I Property, plant and equipment

All property is stated at revalued amount less accumulated depreciation. Plant and equipment is stated at cost less accumulated depreciation. Depreciation is assessed from the month of acquisition. The Directors have determined that all bank properties will be revalued within a cycle of three years. Revaluation increments are credited to the premises revaluation reserve, whilst revaluation decrements are debited to the Income Statement unless they relate to the reversal of a pre-valuation revaluation increment of the same property.

The following basis and method of depreciation is used:

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

ACCOUNTING POLICIES

for the Year Ended 31 December 2004

I Property, plant and equipment (continued)

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

J Leases

Bank is lessee

All leases entered into by the Bank are operating leases. Total payments made are charged to the Income Statement reflecting the pattern of benefits derived from the leased assets.

Bank is lessor

Finance leases are included in Loans and Advances to Customers (Note 11) and are accounted for under the finance method whereby income is taken to account over the life of the lease in proportion to the outstanding investment balance.

K Cash and cash equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise notes and coins, and balances due to and from other banks.

L Provisions

Provisions are created when a legal or constructive obligation arises as a result of a past event, it is probable that an outflow of economic value will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

Long service leave entitlements represent the pro-rata statutory entitlement for all existing staff members based on length of service up to balance sheet date.

Provision for annual leave, leave fares and other entitlements are based upon the Bank's personnel policies, contractual obligations and services rendered by employees up to balance sheet date.

M Employee benefits

Post employment benefits - defined contribution plans

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

The Bank pays contributions to publicly or privately administered superannuation plans on a mandatory, contractual or voluntary basis in respect of services rendered up to balance sheet date by all Papua New Guinean staff members. The contributions are at the current rate of 8.4% of employees' gross salary (2003: 7.0%). Once the contributions have been paid, the Bank has no further payment obligations for post-employment benefits from the date an employee ceases employment with the Bank.

ACCOUNTING POLICIES

for the Year Ended 31 December 2004

N Deferred income taxes

The liability method is used to account for deferred income tax arising from temporary differences between the tax bases of assets and liabilities and their carrying values in the Financial Statements.

The major temporary differences relate to depreciation of property, plant and equipment, employee provisions, tax losses carried forward, provisions for bad and doubtful debts and lease receivables.

Deferred income tax is calculated using tax rates ruling at balance sheet date. Deferred income tax assets are recognised only if it is probable that future profits will be available against which temporary differences can be utilised.

Income tax payable on profits, based on the Papua New Guinea Income Tax Act, is recognised as an expense in the period in which the profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

O Borrowings (subordinated debt) and related borrowing costs

Certain interest bearing liabilities arising from sources other than depositors and other banks are subordinated in respect of repayment, to all other classes of liabilities, including depositors' funds and other banks' funds, and are classified as borrowings on the Balance Sheet. These borrowings are in the form of unsecured, subordinated fixed term debt, with interest payable half-yearly and principal repayable in full on or before maturity. They are carried on the Balance Sheet at their principal amount.

The interest on unsecured debt is recognised in the Income Statement as interest expense in the period it is incurred.

P Investments

Investments are classified into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments. During the period the Bank did not hold any investments in this category. Investments with fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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

Q Foreign currency

Foreign exchange held and amounts payable or receivable in foreign currencies have been translated into Papua New Guinea Kina at the mid-market exchange rates applicable at balance sheet date.

ACCOUNTING POLICIES

for the Year Ended 31 December 2004

Q Foreign currency (continued)

Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions or overseas borrowings are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the Income Statement.

R Share capital

Share issue costs

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares

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

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

S Comparatives

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

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

A Bank operations, risks and strategies in using financial instruments

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

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

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

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

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

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

B Capital adequacy

The Bank is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum 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 minimum ratio of base capital to risk weighted assets set by the BPNG in the prior year was 10% until 1 October 2003. On this date, the BPNG issued revised prudential standard 1/2003, Capital Adequacy, that prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also introduces the leverage capital ratio (see below for details). In all months, the Bank complied with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2004, the Bank'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%.

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

B Capital adequacy (continued)

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 subordinated loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions. The Leverage Capital ratio is calculated as Tier 1 Capital divided by total assets.

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%) according to risk classification criteria set by the BPNG. Off-balance sheet exposures are risk-weighted in the same way after converting them to on-balance sheet credit equivalents using BPNG specified credit conversion factors.

The Bank's capital adequacy level is as follows:

<i>All amounts are expressed in K'000</i>	Balance sheet / notional amount		Risk-weighted amount	
	2004	2003	2004	2003
Balance sheet assets (net of provisions)				
Currency	60,103	58,418	954	401
Loans and advances	694,239	722,077	622,415	612,193
Investments and short term securities	1,127,913	698,142	-	-
All other assets	324,425	427,734	208,057	270,116
Off-balance sheet items	192,977	268,632	11,424	25,049
Total	2,399,657	2,175,003	842,850	907,759
	Capital (K'000)		Capital Adequacy Ratio (%)	
Capital Ratios	2004	2003	2004	2003
a) Before Dividend				
Tier 1 capital	235,701	148,841	27.96%	16.40%
Tier 1 + Tier 2 capital	269,129	187,371	31.93%	20.64%
b) After Dividend				
Tier 1 capital	235,701	148,841	27.96%	16.40%
Tier 1 + Tier 2 capital	269,129	187,371	31.93%	20.64%
(c) Leverage Capital Ratio			10.69%	7.83%

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

C Credit risk and asset quality

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

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

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

Large credit exposures are also monitored as part of credit risk management. These are classified as the largest 25 individual accounts or groups of related counter-parties. As at 31 December 2004, the 25 largest exposures totalled K351 million, accounting for over 49.5% of the Bank's total loan portfolio (2003: K397 million, accounting for over 52%).

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

Credit related commitments

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

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 risk as loans.

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

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

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

C Credit risk and asset quality (continued)

Economic sector risk concentrations

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

All amounts are expressed in K'000

As at 31 December	2004	%	2003	%
Commerce, finance and other business	320,960	47	365,011	52
Private households	142,179	21	79,637	11
Government and Public Authorities	4,763	1	8,159	1
Agriculture	44,702	6	48,308	7
Transport and communication	59,810	9	90,124	13
Manufacturing	58,141	9	66,502	9
Construction	49,619	7	47,565	7
Net loan portfolio balance	680,174	100	705,306	100

D Liquidity risk

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

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

Short-term mismatch of asset and liability maturity at 31 December 2004

The maturity profile of material Assets and Liabilities as at 31 December 2004 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to exploit profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Bank, and does not impair the ability of the Bank to meet its financial obligations as they fall due. The Directors are also of the view that the Bank is able to meet its financial obligations as they fall due for the following additional reasons:

- The Bank complies with the Minimum Liquid Asset Ratio ("MLAR") and Cash Reserve Requirement ("CRR") set by the regulatory authority, the Bank of Papua New Guinea ("BPNG"). The MLAR is the minimum ratio of liquid assets to total customer deposits considered by the regulator as sufficient to support exceptional liquidation by depositors, of their funds. All commercial banks are required to hold a minimum of 25% of the value of total customer deposits in the form of prescribed liquid assets. As at 31 December 2004, the Bank's Liquid Asset Ratio was approximately 56% (2003: 52%), significantly in excess of the minimum requirement of 25%.

The CRR specifies that a bank must hold an amount equal to 3% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank complies with this daily requirement on an ongoing basis. The balance of the CRR account is shown in Note 8, Cash and Balances with Central Bank, and Note 23, Contingent Liabilities and Commitments.

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

D Liquidity risk (continued)

Maturity of assets and liabilities

All amounts are expressed in K'000

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and central bank assets	115,580	-	-	-	-	115,580
Treasury bills	142,647	313,320	236,160	-	-	692,127
Due from other banks	65,189	18,274	-	-	-	83,463
Loans and advances	203,399	35,903	153,646	267,893	19,333	680,174
Investments	-	-	27,870	407,916	-	435,786
Total assets	526,815	367,497	417,676	675,809	19,333	2,007,130
Liabilities						
Due to other banks	39,552	-	-	-	-	39,552
Due to customers	1,684,000	76,839	75,429	460	1	1,836,729
Other borrowings	-	-	-	10,000	-	10,000
Other liabilities	7,198	31,458	-	-	-	38,656
Other provisions	2,266	3,117	-	-	10,687	16,070
Total liabilities	1,733,016	111,414	75,429	10,460	10,688	1,941,007
Net liquidity gap	(1,206,201)	256,083	342,247	665,349	8,645	66,123

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	511,398	293,650	347,457	351,135	147,950	1,651,590
Total liabilities	1,466,922	131,689	99,164	10,675	12,985	1,721,435
Net liquidity gap	(955,524)	161,961	248,293	340,460	134,965	(69,845)

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

E Operational risk

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Bank conducts its business. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring. An independent internal audit function also conducts regular reviews to monitor compliance with policy and regulatory environment and examines the general standard of control.

In 2003 Bank South Pacific developed and implemented a redundancy data communications satellite network to ensure remote branches could maintain operations because of Telikom PNG communications service problems. The Bank developed and tested the satellite data network under progressive Test Permits issued by the Papua New Guinea Radiocommunications Telecommunications Technical Authority (PANGTEL) which is the regulator of the Radio Spectrum Act 1996. The Test Permit expired on 11 December 2004 at which time the Bank, Telikom PNG and the satellite service provider agreed to assign contractual responsibility for the delivery of satellite services from the Bank to Telikom PNG.

The Bank utilises the satellite data network only when Telikom PNG data links are unavailable. Currently, nine branches operate permanently using the data satellite network as no available Telikom PNG data link exists. These branches are Aitape, Bialla, Kerema, Kiunga, Kundiawa, Maprik, Mendi, Namatanai and Wabag. Further, up to another ten branches across Papua New Guinea utilise the data satellite network from time to time due to Telikom PNG service issues.

Ongoing availability of the data satellite network is essential for the Bank to continue to service affected locations. Strong and secure data links are required to support the Retail Branch Network in the affected areas and provide satisfactory communications for the Bank's world class core banking system and extensive electronic banking network (ATMs and EFTPOS terminals) throughout Papua New Guinea. Negotiations are progressing satisfactorily with Telikom PNG with future service level availability being an important negotiation issue.

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

F Foreign exchange risk

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

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

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

All amounts are expressed in K'000

As at 31 December 2004	USD	AUD	EURO	PGK	Other	Total
Assets						
Cash and central bank assets	2,125	1,307	87	106,540	5,521	115,580
Treasury bills	-	-	-	692,127	-	692,127
Due from other banks	9,688	50,132	-	15,208	8,435	83,463
Loans and advances	4,801	119	32	654,849	20,373	680,174
Investments	-	-	-	435,786	-	435,786
Other assets	-	-	-	189,509	-	189,509
Total assets	16,614	51,558	119	2,094,019	34,329	2,196,639
Liabilities						
Due to other banks	-	-	-	39,552	-	39,552
Due to customers	4,295	47,608	-	1,783,683	1,143	1,836,729
Other borrowings	-	-	-	10,000	-	10,000
Other liabilities	-	-	-	54,726	-	54,726
Total liabilities	4,295	47,608	-	1,887,961	1,143	1,941,007
Net on-balance sheet position	12,319	3,950	119	206,058	33,186	255,632
Off-balance sheet net notional position	8,864	16,018	-	-	8,011	32,893
Credit commitments	-	-	-	273,680	-	-
As at 31 December 2003						
Total Assets	34,340	56,241	301	1,806,944	7,091	1,904,917
Total Liabilities	1,162	51,627	-	1,670,313	1,075	1,724,177
Net on-balance sheet position	33,178	4,614	301	136,631	6,016	180,740
Off-balance sheet net notional position	31,511	(3,806)	-	-	12,722	40,427
Credit commitments	-	-	-	207,794	-	-

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

G Interest rate risk

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

Given the profile of assets and liabilities as at 31 December 2004 and prevailing rates of interest, a 1% increase in rates will result in a K61 thousand decrease in net interest income, whilst a 1% decrease in rates will result in a K1.2 million decrease in net interest income. A change from the prevailing low interest rate environment is likely to impact upon net interest income in the manner described above, because of the following factors:

- A risk mitigation strategy that has resulted in the overall lengthening of asset maturities as rates have declined;
- An upward change in rates will have a more immediate impact on liabilities because of the re-pricing mismatch;
- A downward change in rates will have a significant impact on assets whilst the impact will be muted in respect of liabilities because further decreases are limited by the current low interest rates on liabilities.

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

All amounts are expressed in K'000

As at 31 December 2004	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing
Assets						
Cash and central bank assets	115,580	-	-	-	-	-
Treasury bills	142,647	313,320	236,160	-	-	-
Due from other banks	49,981	18,274	-	-	-	15,208
Loans and advances	606,762	7,136	30,376	22,753	2,955	10,192
Investments	-	-	27,870	407,916	-	-
Other assets	-	-	-	-	-	189,509
Total assets	914,970	338,730	294,406	430,669	2,955	214,909
Liabilities						
Due to other banks	32,271	7,281	-	-	-	-
Due to customers	1,100,552	76,839	75,430	460	1	583,447
Other borrowings	-	-	10,000	-	-	-
Other liabilities	-	-	-	-	-	54,726
Total liabilities	1,132,823	84,120	85,430	460	1	638,173
Interest sensitivity gap	(217,853)	254,610	208,976	430,209	2,954	-

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

G Interest rate risk (continued)

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

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing
Assets						
Cash and central bank assets	146,380	-	-	-	-	-
Treasury bills	698,142	-	-	-	-	-
Due from other banks	-	101,762	-	-	-	-
Loans and advances	634,775	70,531	-	-	-	-
Investments	-	-	-	-	-	-
Other assets	-	-	-	-	-	253,327
Total assets	1,479,297	172,293	-	-	-	253,327
Liabilities						
Due to other banks	-	5,704	-	-	-	-
Due to customers	1,623,645	-	-	-	-	-
Other borrowings	-	-	10,000	-	-	-
Other liabilities	-	-	-	-	-	84,828
Total liabilities	1,623,645	5,704	10,000	-	-	84,828
Interest sensitivity gap	(144,348)	166,589	(10,000)	-	-	-

Effective interest rates as at 31 December

Amounts are expressed in % p.a.

Assets	2004	2003
Cash and central bank assets	5.00	12.50
Treasury Bills	4.69	18.10
Due from other banks	5.00	12.00
Loans and advances	11.69	12.68
Investments	9.03	-
Liabilities		
Due to other banks	5.00	12.00
Due to customers	0.86	3.27
Other borrowed funds	7.43	20.10

FINANCIAL RISK MANAGEMENT

for the Year Ended 31 December 2004

H Fair values of financial assets and liabilities

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

Derivative financial instruments

In the normal course of trading, the Bank enters into forward exchange contracts. The Bank 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 transacts in foreign currencies. This price risk is minimised by entering into counterbalancing positions for material exposures as they arise. Forward and spot foreign exchange contracts are used.

Forward exchange contracts outstanding at 31 December 2004, stated at the face value of the respective contracts are:

All amounts are expressed in respective FCY'000 and K'000

As at 31 December 2004		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	7,645	6,578	-	1,670	14,009	
	Kina	23,922	16,018	-	10,047	1,827	51,814
Buying	FCY	(4,803)	-	-	(642)	-	
	Kina	(15,058)	-	-	(3,863)	-	(18,921)
As at 31 December 2003		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	13,948	1,318	-	1,635	52,954	
	Kina	46,493	3,295	-	9,692	3,030	62,510
Buying	FCY	(4,495)	-	-	(1,198)	-	
	Kina	(14,982)	-	-	(7,101)	-	(22,083)

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

1 Net interest income

All amounts are expressed in K'000

	2004	2003
Interest income		
Cash and short term funds	1,559	2,932
PNG Public Securities: Treasury bills and Inscribed stock	96,628	102,512
Loans and advances	92,520	103,684
Other	990	862
	191,697	209,990
Less:		
Interest expense		
Customer deposits	29,888	58,465
Other banks	676	757
Other borrowings	1,531	2,648
	32,095	61,870
	159,602	148,120

2 Net fee and commission income

All amounts are expressed in K'000

	2004	2003
Fee and commission income		
Credit related	13,001	9,452
Trade and international related	4,060	4,657
Electronic banking related	2,827	2,619
Other	16,145	10,063
	36,033	26,791
Less:		
Fee and commission expenses		
Agencies	129	38
Other	15	104
	144	142
	35,889	26,649

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

3 Other income

All amounts are expressed in K'000

	2004	2003
Dividend income - available for sale securities	3	8
Foreign Exchange related	70,887	63,379
Other	4,140	5,128
	75,030	68,515

Included in other income:

Profit/(loss) on sale of fixed assets	1,143	23
---------------------------------------	-------	----

Foreign Exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets.

4 Bad and doubtful debts (expense)/recovery

All amounts are expressed in K'000

	2004	2003
Bad debts (written off)/recovered - net	3,930	(2,014)
Net credit / (charge) to doubtful debts provision	(4,531)	10,126
	(601)	8,112

5 Other operating expenses

All amounts are expressed in K'000

	2004	2003
Administration	34,148	43,055
Auditors' remuneration	630	698
Computing	20,139	15,585
Depreciation	25,091	24,645
Amortisation of computer development	636	749
Amortisation of deferred acquisition costs	780	1,069
Non-executive directors' costs	462	243
Non-lending losses	2,403	7,204
Loss on premises revaluation	-	6,180
Fixed asset write off	598	1,936
Premises and equipment	17,250	16,310
Staff costs		
Defined contribution plans	2,254	2,318
Statutory benefit contributions	372	4,782
Wages and salaries	48,717	55,267
Other	12,802	11,013
	64,145	73,380
	166,283	191,054

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

6(a) Income tax expense

<i>All amounts are expressed in K'000</i>	2004	2003
Current tax	31,336	16,284
Deferred tax	(8,741)	(3,815)
Current year	22,595	12,469
Prior year adjustments	(5,609)	5,517
Tax credit in respect of settlement of PNGBC tax obligations at acquisition	-	2,375
	16,986	20,361
Tax calculated at 30% of profit before tax (2003: 30 %)	31,091	18,320
Expenses not deductible for tax	495	531
Deductible expenses not recognised for accounting purposes	(250)	(182)
Tax credit in respect of Community Service Obligations Act	(8,741)	(6,200)
Tax credit in respect of settlement of PNGBC tax obligations at acquisition	-	2,375
Prior year under provision	(5,609)	5,517
	16,986	20,361

Further information about deferred taxes is presented in note 14.

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

<i>All amounts are expressed in K'000</i>	2004	2003
Recoverable / (provision) comprise:		
At 1 January	(2,742)	5,314
Income tax provision	(31,090)	(18,322)
Deferred tax movement	7,903	2,163
Tax credit in respect of Community Service Obligation	8,741	6,200
Tax debit in respect of settlement of PNGBC Tax Obligations at acquisition	-	(2,375)
Expenses not deductible for tax	(495)	(531)
Deductible expenses not recognised for accounting purposes	250	182
Revaluation reserve	-	(5,067)
Prior year over / (under) provision	5,609	(5,517)
Tax payments made	19,335	15,211
At 31 December	7,511	(2,742)

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

7 Acquisition of Westpac Bank Limited Niue Branch

In October 2004, Bank South Pacific under its investment plans purchased the Westpac Bank Limited's Niue Branch for K603 thousand. This branch is the only bank in Niue and also acts as the Central Bank for the country. The currency in Niue is New Zealand dollars. The directors determine that this purchase will strengthen the Bank's position in the region and its overseas currency market.

Assets and liabilities acquired and goodwill arising:

<i>All amounts are expressed in K'000</i>	2004	2003
Cash and cash equivalents	684	-
Loans and advances to customers	722	-
Other assets	11,278	-
Amounts due to customers	(11,846)	-
Other liabilities	(235)	-
Total purchase consideration (discharged by cash)	603	-

Net cash flow on acquisition

<i>All amounts are expressed in K'000</i>	2004	2003
Portion of consideration discharged by cash	(603)	-
Cash acquired	684	-
Net cash inflow on acquisition	81	-

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

8 Cash and balances with central bank

All amounts are expressed in K'000

	2004	2003
Notes and coins	60,103	58,419
Money market placements	-	-
Balances with central bank other than statutory deposit	13	39,505
Included in cash and cash equivalents	60,116	97,924
Statutory deposits with central bank	55,464	48,456
	115,580	146,380

9 Treasury bills

All amounts are expressed in K'000

	2004	2003
Treasury Bills - face value	704,610	750,000
Discount for interest receivable	(12,483)	(51,858)
	692,127	698,142

Treasury bills are debt securities issued by the Bank of Papua New Guinea for a term of three months, six months or a year. Treasury Bills are classified as assets held for trading and carried at fair value.

10 Amounts due from other banks

All amounts are expressed in K'000

	2004	2003
Items in the course of collection	15,208	27,695
Placements with other banks	68,255	74,067
Included in cash and cash equivalents	83,463	101,762

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

11 Loans and advances to customers

All amounts are expressed in K'000

	2004	2003
Loans originated by the Bank		
Overdrafts	162,630	162,379
Leases	19,841	10,133
Term loans	430,444	497,597
Mortgages	95,192	88,256
Gross loans and advances net of reserved interest	708,107	758,365
Less allowance for losses on loans and advances	(27,933)	(53,059)
	680,174	705,306

Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

Balance at 1 January	53,059	63,185
Balance of provisions acquired on amalgamation	-	-
New provision	9,108	7,290
Loans written off against provisions / write back of provisions no longer required	(34,234)	(17,416)
Balance at 31 December	27,933	53,059

Loans and advances to customers includes finance lease receivables, analysed as follows:

All amounts are expressed in K'000

	2004	2003
Investment in finance leases receivable		
Not later than 1 year	11,532	1,554
Later than 1 year and not later than 5 years	12,045	10,628
Later than 5 years	-	-
	23,577	12,182
Unearned future finance income	(3,736)	(2,049)
Net investment in finance leases	19,841	10,133
The net investment in finance leases is analysed as follows:		
Not later than 1 year	9,952	1,354
Later than 1 year and not later than 5 years	9,889	8,779
Later than 5 years	-	-
	19,841	10,133

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

12 Property, plant and equipment

All amounts are expressed in K'000

	Capital WP	Premises	Equipment	Total
At 31 December 2003				
Cost	7,714	105,401	129,502	242,617
Accumulated depreciation	-	(8,124)	(59,546)	(67,670)
Net book amount	7,714	97,277	69,956	174,947
Year ended 31 December 2004				
Opening net book amount	7,714	97,277	69,956	174,947
Additions	10,199	1,855	8,960	21,014
Disposals	(12,459)	(6,031)	(2,676)	(21,166)
Adjustments: – Prior year	-	(5)	(987)	(992)
– Write offs	-	(156)	(442)	(598)
Depreciation charge	-	(3,538)	(21,553)	(25,091)
Closing net book amount	5,454	89,402	53,258	148,114
At 31 December 2004				
Cost	5,454	100,026	124,277	229,757
Accumulated depreciation	-	(10,624)	(71,019)	(81,643)
Net book amount	5,454	89,402	53,258	148,114

13 Investment securities

All amounts are expressed in K'000

	2004	2003
Securities - held to maturity		
Inscribed stock - issued by Bank of Papua New Guinea	435,786	-
Movement for the year in investment securities:		
At 1 January	-	20,286
Additions	435,786	-
Disposals (redemptions)	-	(20,286)
At 31 December	435,786	-

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

14 Deferred tax asset

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% applicable from 1 January 2004 (2003: 30%). Deferred income taxes are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. At 31 December, the net benefit reflects the estimated future tax benefits at applicable income tax rates of the following:

<i>All amounts are expressed in K'000</i>	2004	2003
Specific allowance for losses on loans and advances	4,446	11,072
General allowance for losses on loans and advances	3,935	4,851
Employee related provisions	4,141	5,369
Prepaid expenses	(246)	(314)
Other provisions	726	327
Depreciation and amortisation	(10,216)	(3,022)
Revalued assets	(896)	(7,363)
Deferred expenditure	172	(955)
	2,062	9,965

The movements on the deferred income tax accounts are as follows:

At 1 January	9,965	12,128
Specific allowance for losses on loans and advances	(6,626)	(1,735)
General allowance for losses on loans and advances	(917)	(573)
Employee related provisions	(1,228)	631
Depreciation and amortisation	169	(422)
Prepaid expenses	69	(33)
Other provisions	399	293
Unrealised foreign exchange gains	(896)	(758)
Deferred expenditure	1,127	434
At 31 December	2,062	9,965

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

15 Other assets

All amounts are expressed in K'000

	2004	2003
Items in transit and other assets	13,963	29,333
Accrued income	14,223	25,798
Deferred acquisition costs	-	3,802
Computer development costs	883	950
Prepayments	2,593	8,511
Accounts receivable	160	21
	31,822	68,415

16 Amounts due to other banks

All amounts are expressed in K'000

	2004	2003
Items in the course of collection	39,552	5,704

17 Amounts due to customers

All amounts are expressed in K'000

	2004	2003
Demand / current	1,419,389	1,174,800
Term	417,340	448,845
	1,836,729	1,623,645

18 Other borrowed funds

All amounts are expressed in K'000

	2004	2003
Loan capital		
Subordinated loan	10,000	10,000

The loan capital qualifies as tier 2 capital under current capital adequacy guidelines issued by the Bank of Papua New Guinea. The indebtedness is subordinated to all other classes of liabilities, and is repayable on or before maturity on 30 September 2007. Interest is payable every six months on 1 April and 1 October each year.

Interest rate: actual rate for 182-day treasury bills issued by Bank of Papua New Guinea at the commencement of the interest period + 2%.

19 Other liabilities

All amounts are expressed in K'000

	2004	2003
Creditors and accruals	5,194	9,496
Items in transit and all others	33,462	53,602
	38,656	63,098

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

20 Other provisions

All amounts are expressed in K'000

	2004	2003
Staff related	13,804	17,873
Provision for non lending loss	-	1,090
Provision for dividend payable	2	2
Provision for offshore creditors' GST	2,264	23
	16,070	18,988

21 Ordinary shares

Number of shares in '000s, book value in K'000

	Number of Shares	Book Value
At 31 December 2002 / 1 January 2003	42,353	182,422
Share split (1/10)	381,730	-
Issue of shares – remuneration of employees	62	493
At 31 December 2003 / 1 January 2004	424,145	182,915
Issue of shares – employees' bonus shares	412	473
Dividend Re-Investment Plan	7,436	7,770
Share buy-back	(27)	(27)
At 31 December 2004	431,965	191,131

On 4 September 2004, the Board approved a bonus share to staff for their contribution to the Bank during the Transformation Project. Also on 16 July 2004, shareholders took part in the Dividend Re-Investment Plan to invest their dividends to purchase shares in the Bank.

The issued capital of Bank of South Pacific Limited comprises ordinary shares. Following is a summary of principal shareholders as at 31 December 2004 and their respective percentage holdings.

Major shareholders: % shareholding	2004	2003
Independent Public Business Corporation	24.79	25.25
Motor Vehicles Insurance Limited	12.27	12.50
Credit Corporation (PNG) Limited	11.82	11.45
Public Officers Superannuation Fund Board	11.17	10.88
Petroleum Resources Kutubu Limited	10.68	10.88
National Superannuation Fund Limited	10.28	10.02
Teachers Savings and Loans Society Limited	5.67	5.77
Defence Force Retirement Benefits Fund Board	4.99	4.86
Sir George Constantinou	1.00	0.82
Lamin Trust Fund	0.73	0.72
	93.40	93.15
All Others	6.60	6.85
	100.00	100.00

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

21 Ordinary shares (continued)

Share Options - Executive Management Share Option Plan

An Executive Management Share Option Plan was established at the Annual General Meeting of 27 May 2004. On 4 September 2004, the Board under this plan, granted options over ordinary shares of Bank of South Pacific Limited to employees. These options were issued for nil consideration, are not transferable, and cannot be quoted on any stock exchange.

At balance date, there are 1,491,818 (2003: nil) of these options issued, with a vesting date of 1 July 2006, and an exercise price of K1.10. The overriding exercise conditions of these options are performance hurdles.

22 Reserves and retained earnings/(accumulated losses)

All amounts are expressed in K'000

	2004	2003
Reserves comprise:		
Revaluation reserve	16,986	17,181
Capital reserve	635	635
General reserve	2,195	2,000
	19,816	19,816
Movement in reserves for the year:		
Revaluation reserve		
At 1 January	17,181	5,352
Adjustment for deferred tax liability	-	(5,069)
Disposal of properties	(195)	
Net gains from changes in fair value of property, plant and equipment	-	16,898
At 31 December	16,986	17,181
Capital reserve		
At 1 January	635	635
No movement for the year	-	-
At 31 December	635	635
General reserve		
At 1 January	2,000	2,000
Movement for the year	195	-
At 31 December	2,195	2,000
Movement in retained earnings for the year:		
Retained earnings / (losses)		
At 1 January	(21,991)	(43,913)
Net profit/(loss) for the year	86,651	39,981
Dividend for prior year	(19,975)	(18,059)
Interim dividend for current year	-	-
At 31 December	44,685	(21,991)

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

23 Contingent liabilities and commitments

All amounts are expressed in K'000

	2004	2003
Off balance sheet financial instruments		
Standby letters of credit	6,457	3,415
Guarantees and indemnities issued	54,475	44,620
Trade letters of credit	14,431	12,803
Commitments to extend credit	273,680	207,794
	349,043	268,632

Legal Proceedings

A number of legal proceedings against the Bank were outstanding as at 31 December 2004. No provision has been made as existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 31 December 2004, the Bank estimates a contingent liability of K3.39 million (2003: K8.69 million) in respect of these proceedings.

Statutory deposits with the central bank

Cash reserve requirement - 3% of all amounts due to customers (2003: 3 %)	55,463	48,456
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Commitments for capital expenditure

Amounts with firm commitments, and not reflected in the accounts	1,043	4,899
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Operating lease commitments

Not later than 1 year	7,772	3,225
Later than 1 year and not later than 5 years	14,560	1,050
Later than 5 years	1,325	1,156
	23,657	5,431

24 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following balances with less than 90 days maturity.

All amounts are expressed in K'000

	2004	2003
Cash and balances with central bank (note 8)	115,580	146,380
Due from other banks (note 10)	83,463	101,762
Due to other banks (note 16)	(39,552)	(5,704)
	159,491	242,438

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

25 Related party transactions

Related parties are considered to be enterprises or individuals with whom the Bank 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, by virtue of being able to control, dominate or participate in a fiduciary capacity, in decision-making functions or processes. The Bank conducted transactions with the following classes of related parties during the year:

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

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and at market rates. For the year ended 31 December 2004, balances and transactions of accounts for Directors were as follows:

<i>All amounts are expressed in K'000</i>	2004	2003
Deposits		
Opening balances	2,950	1,091
Net movement	(2,666)	1,859
Closing balance	284	2,950
Interest paid	68	63
Loans and advances		
Opening balances	1,728	1,169
Loans issued	160	860
Interest	198	176
Charges	57	21
Loan repayments	(1052)	(498)
Closing balance	1,091	1,728

Incentive-based transactions are provided for staff. Such transactions include marginal discounts on rates, and specific fee concessions. These incentives are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2004, staff account balances were as follows:

<i>All amounts are expressed in K'000</i>	2004	2003
Housing loans	9,817	14,038
Other loans	1,200	1,578
Leases	-	-
	11,017	15,616
Cheque accounts	2,732	2,826
Foreign currency accounts	522	526
Savings accounts	679	340
Term deposits	-	-
	3,933	3,692

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

25 Related party transactions (continued)

Interests Register

The following are transactions recorded in the interests register:

Name	Nature of Interest	
N. N. Beangke	Director	Oil Search Ltd ² , Credit Corporation (Fiji) Ltd ³ , New Guinea Islands Produce Ltd ⁵ , PNG Coffee Exports Ltd ¹ , Credit Corporation (PNG) Ltd ^{3,5} , Baibua Ltd, Demakuri Ltd ⁵ , Boroma Ltd, Bank of South Pacific Ltd ¹
	Shareholder	Credit Corporation (PNG) Ltd ⁵ , New Guinea Islands Produce ⁵ , Boroma Ltd.
	Family Trust	Niugini Nominees Ltd ⁵ , General Holdings Ltd
T. E. Fox	Director	Kramer Group Ltd, Kramer Consultants Ltd, Kramer Pacific Pty Ltd, Teyo No. 1 Ltd, Kina Investment and Superannuation Ltd, Bank of South Pacific Ltd, Zen No.33 Ltd, International Project Management Pty Ltd, Capital Life Insurance Company Ltd
	Shareholder	Kramer Consultants Ltd, Teyo No. 1 Ltd, Bank of South Pacific Ltd, Zen No 33 Ltd, International Project Management Pty Ltd. Citigold Corporation Ltd
G. McIlwain	Director	Anderson Foodland ⁶ , Tower Insurance Ltd, Niugini Islands Produce Co Ltd ⁵ , East New Britain Supermarkets ⁶ , Rabtrad Madang Ltd, Balimore No. 21 Ltd ⁵ , Demakuri Ltd ⁵ , Bank of South Pacific Ltd ³ , Credit Corporation (Fiji) Ltd,
	Shareholder	Bank of South Pacific Ltd,
	Family Trust	Niugini Nominees Ltd ⁵
	Member	Returned Servicemen League (Port Moresby sub-branch)
J. G. Jeffery	Director	James Barnes (PNG) Ltd ⁷ , NasFund ¹ , Employees Federation of PNG, The Tower Ltd, Bank of South Pacific Ltd, PNG Manufacturers Council, Jayliss Ltd, PNG Power Ltd ¹ , Small Business Development Corporation Ltd ¹ .
V. Reva	Director	Bank of South Pacific Ltd, Melanesian Trustee Services Ltd, Hatumai Ltd.
	Employee	British American Tobacco (PNG) Ltd ⁷
	Member	PNG Business Council, Institute of National Affairs, Port Moresby Chamber of Commerce
G. Aopi	Director	Bank of South Pacific Ltd, Steamships Trading Company, POMSoX Ltd, Hiram Ltd, Marsh Ltd, Kumul Hotels, Endeavour Properties Ltd, Wahinemo Ltd, Institute of National Affairs, National Roads Authority, FM Morobe, CDI Foundation.
	Shareholder	Oil Search Ltd ⁷ , Lihir Gold Ltd, Hiram Ltd, Endeavour Properties Ltd, Wahinemo Ltd
	Employee	Oil Search Ltd ⁷

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

25 Related party transactions (continued)

Interests Register

The following are transactions recorded in the interests register:

Name	Nature of Interest	
G. Aopi	Committee member	Institute of National Affairs, Business Council of PNG, National Events Council, Society of Petroleum Engineers
Dr. I. Temu	Director	Bank of South Pacific Ltd, Tipi Enterprise Ltd, IPBC, PNG Incentive Fund ¹ .
	Shareholder	Telstra
	Employee	Placer Dome Niugini Ltd ⁷ , National Economic Fiscal Commission.
	Committee member	National Economic Fiscal Commission, Divine Word University, Employers Federation of PNG
Sir N. Bogan	Director	Bank of South Pacific Ltd, POSF Ltd ¹ , Coprez Communications Ltd ¹ ,
	Shareholder	Coprez Holdings Ltd, Inventive Nook Ltd, James Cook Ltd, Niugini Cocoa Factory
C. C. Procter	Director	Bank of South Pacific Ltd, Sun Hung Kai Ltd, Quality Health Care Asia Ltd

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

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

⁶Company has commercial banking facilities with Bank of South Pacific Limited

26 Directors' and executive remuneration

Directors' remuneration

Directors of the Company received remuneration including benefits during 2004 as detailed below:

All amounts are in K

Name of Director	Meetings attended/ total held	Appointed/ (Resigned)	Base emolument	Bonus shares	Other compensation	Total remuneration	
						2004	2003
N. N. Beangke	7/8	-	63,052	-	-	63,052	37,500
T. E. Fox	8/8	-	57,464	-	-	57,464	30,000
Dr. I. Temu	8/8	-	61,968	-	-	61,968	27,500
C. C. Procter	3/3	20/7/04	44,500	-	-	44,500	-
Sir N. Bogan	5/8	-	54,445	-	-	54,445	25,000
G. McIlwain *	8/8	-	792,236	-	322,996	1,115,232	776,977
J. G. Jeffery	8/8	-	56,930	-	-	56,930	27,500
G. Aopi	7/8	-	62,537	-	-	62,537	27,500
V. Reva	8/8	-	65,423	-	-	65,423	27,500
N. R. Smith	-	-	31/12/03	-	-	-	- 3,439,112

* During 2004, G. McIlwain received 181,818 share options under the Executive Management Share Option Plan referred to in Note 21. The options are outstanding as at 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

26 Directors' and executive remuneration (continued)

Executive remuneration

The number of employees or former employees whose income from the Bank was equal to or greater than K100,000 during the year, are classified in income bands of K10,000 as follows:

Remuneration K'000	2004 No.	2003 No.	Remuneration K'000	2004 No.	2003 No.	Remuneration K'000	2004 No.	2003 No.
100-110	1	-	310-320	-	1	490-500	1	-
110-120	-	2	320-330	-	2	500-510	2	-
120-130	3	2	330-340	2	1	510-520	1	-
130-140	4	1	340-350	4	-	530-540	-	1
140-150	-	1	350-360	1	1	540-550	-	2
150-160	1	1	360-370	-	3	570-580	-	-
160-170	3	1	370-380	1	2	580-590	-	1
170-180	1	1	380-390	3	5	590-600	-	-
190-200	2	-	390-400	3	3	600-620	-	2
210-220	2	1	400-410	-	1	660-670	1	-
230-240	2	1	410-420	4	3	730-740	-	-
240-250	-	-	420-430	-	3	740-750	-	1
250-260	-	-	430-440	1	1	760-770	-	-
260-269	-	-	440-450	2	2	770-780	-	1
270-280	1	-	450-460	3	2	790-800	1	-
280-290	-	-	460-470	-	-	810-830	1	2
290-300	2	1	470-480	-	2	830-850	1	-
300-310	-	-	480-490	1	1	850-860	1	-
Total							56	55

During 2004, a total of 1,310,000 options over ordinary shares were issued to executives under the Executive Management Share Option Plan referred to in Note 21. The options are outstanding as at 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2004

27 Reconciliation of operating cash flow

All amounts are expressed in K'000

	2004	2003
Reconciliation of operating profit/(loss) after tax to operating cash flow before changes in operating assets		
Operating profit/(loss) after tax	86,651	39,981
Add: Tax expense	16,986	20,361
Operating profit before income tax	103,637	60,342
Major non cash amounts		
Depreciation	25,091	24,645
Amortisation of deferred acquisition and computer development costs	1,417	1,818
Net (profit)/loss on sale of fixed assets	(1,143)	23
Loss on property revaluation	-	6,180
Write off fixed assets	598	1,936
Movement in forex income accrual	(481)	6,088
Movement in provision for doubtful debts	601	(8,112)
Increase in payroll provisions	(4,070)	2,499
Net effect of other accruals	12,310	6,353
Operating cash flow before changes in operating assets	137,960	101,772

28 Earnings per share

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

	2004	2003
Net Profit attributable to shareholders (K'000)	86,651	39,981
Weighted average number of ordinary shares on issue ('000)	427,677	423,681
Basic and diluted earning /(loss) per share (expressed in toea)	20	9

29 Segment reporting

Business segments

The Bank of South Pacific Limited comprises one segment, this being the provision of banking services and products. This determination is based on the risks involved with the provision of services and products and the Bank's management reporting system.

Geographical segments

The Bank of South Pacific Limited's business segment operates in Papua New Guinea and has opened a branch in the country of Niue in October 2004. The Niue Branch results are immaterial to warrant reporting by geographical segments. Refer to Note 7 regarding acquisition of the Niue Branch.

INDEPENDENT AUDIT REPORT

for the Year Ended 31 December 2004

Scope

We have audited the financial statements of Bank of South Pacific Limited for the year ended 31 December 2004 as set out on pages 27 to 62. The Company's directors are responsible for the financial statements. Our responsibility is to express an opinion on the financial statements based on our audit to the members of the Company.

Our audit has been conducted in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our procedures include an assessment of the accounting principles used and significant accounting estimates made by the directors, as well as evaluating the overall financial statements presentation. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with International Financial Reporting Standards and other generally accepted accounting practice and statutory requirements in Papua New Guinea, so as to present a view which is consistent with our understanding of the Company's financial position and performance as represented by the results of their operations, changes in equity and their cash flows.

We have obtained all the information and explanations we have required. We believe that our audit provides a reasonable basis for our opinion.

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

Unqualified audit opinion

In our opinion:

- a) the financial statements of Bank of South Pacific Limited are drawn up as required by PNG Companies Act, 1997 so as to give a true and fair view of the Company's affairs as at 31 December 2004 and the results of its operations, changes in equity and cash flows 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 do not provide Bank of South Pacific Limited any other services.

Dated this 11th day of March 2005.

Deloitte Touche Tohmatsu

Deloitte.

DELOITTE TOUCHE TOHMATSU



By: Paul Barber

Registered under the Accountants Act 1996

SHAREHOLDER INFORMATION

The following is a summary of pertinent issues relating to a shareholding in the Company. The Constitution of BSP may be inspected during normal business at the Registered Office.

Rights attaching to ordinary shares

The rights attaching to shares are set out in Bank of South Pacific Limited's Constitution and in certain circumstances, are regulated by the Companies Act 1997, the POMSoX Listing Rules and general law.

There is only one class of share. All shares have equal rights.

Other rights attached to ordinary shares include:

(a) General meeting and notices

Each member is entitled to receive notice of, and to attend and vote at, general meetings of BSP and to receive all notices, accounts and other documents required to be sent to members under BSP's constitution, the Companies Act or the Listing Rules.

(b) Voting rights

At a general meeting of shareholders every holder of fully paid ordinary shares present in person or by an attorney, representative or proxy has one vote on a show of hands (unless a member has appointed two proxies) and one vote per share on a poll.

A person who holds a share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share.

Where there are two or more joint holders of a share and more than one of them is present at a meeting and tenders a vote in respect of the share, the Company will count only the vote cast by the member whose name appears first in BSP's register of members.

(c) Issues of further shares

The Directors may, on behalf of BSP, issue, grant options over or otherwise dispose of unissued shares to any person on the terms, with the rights, and at the times that the Directors decide. However, the Directors must act in accordance with the restrictions imposed by BSP's constitution, the POMSoX Listing Rules, the Companies Act and any rights for the time being attached to the shares in any special class of those shares.

(d) Variation of rights

Unless otherwise provided by BSP's constitution or by the terms of issue of a class of shares, the rights attached to the shares in any class of shares may be varied or cancelled only with the written consent of the holders of at least three-quarters of the issued shares of that class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

(e) Transfer of shares

Subject to BSP's constitution, the Companies Act and the POMSoX Listing Rules, ordinary shares are freely transferable.

The shares may be transferred by a proper transfer effected in accordance with the POMSoX Business Rules, by any other method of transferring or dealing with shares introduced by POMSoX and as otherwise permitted by the Companies Act or by a written instrument of transfer in any usual form or in any other form approved by either the Directors or POMSoX that is permitted by the Companies Act.

SHAREHOLDER INFORMATION

The Directors may decline to register a transfer of shares (other than a proper transfer in accordance with the POMSoX Business Rules) where permitted to do so under the POMSoX Listing Rules or the transfer would be in contravention of the law. If the Directors decline to register a transfer, BSP must give notice in accordance with the Companies Act and the POMSoX Listing rules, give the party lodging the transfer written notice of the refusal and the reason for refusal. The Directors must decline to register a transfer of shares when required by law, by the POMSoX Listing Rules or by the POMSoX Business Rules.

(f) Partly paid shares

The Directors may, subject to compliance with BSP's constitution, the Companies Act and the POMSoX Listing Rules, issue partly paid shares upon which there are outstanding amounts payable. These shares will have limited rights to vote and to receive dividends.

(g) Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests. The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, each share in a class of shares in respect of which a dividend has been declared will share in the dividend equally.

Each share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (excluding any amount paid in advance of calls) bears to the total issue price of the share.

Dividend payouts over the last seven years are disclosed in the schedule of Historical Financial Performance elsewhere in this Annual Report.

(h) Liquidation

Subject to the terms of issue of shares, upon liquidation assets will be distributed such that the amount distributed to a shareholder in respect of each share is equal. If there are insufficient assets to repay the paid up capital, the amount distributed is to be proportional to the amount paid up.

(i) Directors

BSP's constitution states that the minimum number of directors is three and the maximum is ten.

(j) Appointment of directors

Directors are elected by the shareholders in general meeting for a term of three years. At each general meeting, one third of the number of directors (or if that number is not a whole number, the next lowest whole number) retire by rotation. The Board has the power to fill casual vacancies on the Board, but a director so appointed must retire at the next annual meeting.

(k) Powers of the Board

Except as otherwise required by the Companies Act, any other law, the POMSoX Listing Rules or BSP's constitution, the Directors have power to manage the business of BSP and may exercise every right, power or capacity of BSP to the exclusion of the members.

SHAREHOLDER INFORMATION

(l) Share buy backs

Subject to the provisions of the Companies Act and the POMSoX Listing Rules, BSP may buy back shares in itself on terms and at times determined by the Directors.

(m) Officers' indemnities

BSP, to the extent permitted by law, indemnifies every officer of BSP (and may indemnify any auditor of BSP) against any liability incurred by the person, in the relevant capacity, to another person unless the liability arises out of conduct involving lack of good faith.

BSP may also make a payment in relation to legal costs incurred by these persons in defending an action for a liability, or resisting or responding to actions taken by a government agency or a liquidator.

Twenty largest registered fully paid ordinary shareholders

At the 31 December 2004, the twenty largest registered fully paid shareholders of the Company were:

	Shares Held	%
1. Independent Public Business Corporation	107,108,240	24.79
2. Motor Vehicles Insurance Limited	53,010,510	12.27
3. Credit Corporation (PNG) Limited	51,080,356	11.82
4. Public Officers Superannuation Fund Board	48,234,076	11.17
5. Petroleum Resources Kutubu Limited	46,153,840	10.68
6. National Superannuation Fund Limited	44,414,621	10.28
7. Teachers Savings and Loans Society Limited	24,484,190	5.67
8. Defence Force Retirement Benefits Fund Board	21,544,960	4.99
9. Sir George Constantinou	4,325,019	1.00
10. Lamin Trust Fund	3,166,828	0.73
11. Society of Divine Word	2,528,574	0.59
12. N and R Smith Limited	2,500,000	0.58
13. Bishop William Kurtz and Father Henry Temaarsen	2,050,000	0.48
14. Southern Highlands Provincial Government	2,000,000	0.46
15. Tropicana Limited	1,918,905	0.45
16. Elcom Staff Savings and Loan Society Limited	1,595,114	0.37
17. Local Government Service Benefits Fund	1,000,000	0.23
18. Mission of the Holy Ghost (New Guinea) Property Trust	1,000,000	0.23
19. Federation of Savings and Loan Society Limited	905,270	0.21
20. Christina Constantinou	791,711	0.18
Other shareholders	12,152,780	2.82
	431,964,994	100.00

SHAREHOLDER INFORMATION

Distribution of shareholdings

At the 31 December 2004, the Company had 1,003 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1 - 1,000	709	476,188
1,001 - 5,000	147	396,578
5,001 - 10,000	45	329,681
10,001 - 100,000	58	2,606,793
100,000 and above	44	428,155,754
	1,003	431,964,994
Less than a marketable parcel of K500	11	954

Dividend reinvestment scheme

The Company has a dividend reinvestment scheme in operation.

Employee share scheme

The Company resolved on 27 May 2004 that a maximum of 1% of the total number of shares held in the Company may be allocated to employees each year at the discretion of the Board.

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
T. E. Fox	520,000	0.00
Garth Mcllwain	67,433	0.00

N. Beangke holds an indirect shareholding in the Company through a family trust, General Holdings Limited. This indirect shareholding through General Holdings Limited represents 0.00% of the Company.

Registered Office

Bank of South Pacific Limited

PO Box 78,

PORT MORESBY

National Capital District

PAPUA NEW GUINEA

Telephone: +675 322 9700

Share Registry

PNG Registries Limited

PO Box 1265,

PORT MORESBY

National Capital District

PAPUA NEW GUINEA

Telephone: +675 321 6377

BRANCH NETWORK



SENIOR MANAGEMENT

Managing Director

Garth Mclwain

General Manager Retail Bank

Tony Westaway

General Manager Credit and Risk

Brian Storm

General Manager Corporate and International

Robin Fleming

General Manager Paramount Banking

Aho Baliki

General Manager Human Resources

Giau Duruba

Chief Financial Officer

Tony Taylor

Chief Legal Officer

Paul Toua

