

# Bank of South Pacific Limited and Subsidiaries

## Condensed financial statements

For the half-year ended

**30 June 2019**



# Contents of the Condensed Financial Statements

Page

---

<b>Directors' Report</b>	<b>1</b>
<b>Independent Auditor's Review Report</b>	<b>2</b>
<b>Condensed Statements of Comprehensive Income</b>	<b>3</b>
<b>Condensed Statements of Financial Position</b>	<b>4</b>
<b>Condensed Statements of Changes in Shareholders' Equity</b>	<b>5</b>
<b>Condensed Statements of Cash Flows</b>	<b>6</b>
<b>Notes to the Condensed Financial Statements</b>	<b>7</b>
1 Statement of significant accounting policies	7
2 Operating profit before income tax	11
2(a) Net interest income	11
2(b) Fee and commission income	11
2(c) Other income	11
2(d) Impairment on financial assets	11
2(e) Operating expenses	12
3 Dividends	12
4 Loans, advances and other receivables from customers	12
5 Maximum exposure to credit risk, collateral and other credit enhancements	13
6 Capital adequacy and liquid assets ratio	14
7 Contingent liabilities and commitments	15
8 Derivative financial instruments	17
9 Related parties	18
10 Notes to condensed statements of cash flows	19
11 Segment information	19
12 Subsequent events	19

# DIRECTORS' REPORT

---

The Directors of Bank of South Pacific Limited (“the Bank” or “BSP”) present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as “the Group”) for the half-year ended 30 June 2019.

## Directors and officers

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

Sir K G Constantinou, OBE	Mr R Fleming, CSM
Mr S Davis	Ms F Talao
Mr G Robb, OAM	Mr E B Gangloff
Mr R Bradshaw	Mr A Mano
Mr A Sam	Dr F Lua’iufi

## Principal activities

The principal activity of the Bank of South Pacific Limited (BSP) is the provision of commercial banking and finance services. The Group’s activities also include stock broking, fund management and life business services throughout Papua New Guinea and the Asia Pacific region. BSP is a company listed on the PNGX Markets Limited (PNGX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Group is also licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa, Tonga, Vanuatu and Cambodia. The registered office is at Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Port Moresby.

## Review of operations

The net profit of the Group for the half year ended 30 June 2019, after tax was K434.909 million (half year ended 30 June 2018: K418.289 million).

In the directors’ opinion, the attached condensed financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Bank and the Group.

Dated and signed at Port Moresby this 21<sup>st</sup> day of August 2019.



---

Sir Kostas Constantinou, OBE

Chairman



---

Robin Fleming, CSM

Chief Executive Officer/ Director



## Report on review of interim financial information to the Directors of Bank of South Pacific Limited

### Introduction

We have reviewed the accompanying condensed interim statements of financial position of Bank of South Pacific Limited (the Bank) and its subsidiaries (the Group) as at 30 June 2019 and the related condensed interim statements of comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

### Restriction on distribution or use

This report is made solely to the Directors of the Bank, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Bank, as a body, for our review work, for this report or for the conclusion we have formed.

A handwritten signature in blue ink, appearing to read 'Peter Buchholz', is written over the printed name.

Peter Buchholz  
PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Peter Buchholz', is written over the printed name.

Peter Buchholz  
Engagement Leader

A handwritten signature in blue ink, appearing to read 'Christopher Hansor', is written over the printed name.

Christopher Hansor  
Partner

Registered under the Accountants Act 1996

Port Moresby  
22 August 2019

---

### **PricewaterhouseCoopers**

*PwC Haus, Level 6, Harbour City, Konedobu, PO Box 484, Port Moresby, PAPUA NEW GUINEA  
T: +675 321 1500 / (675) 305 3100, F: +675 321 1428*

# CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE HALF YEAR ENDED 30 JUNE 2019

	Note	Group		Bank	
		Half Year Ended 30 June	Half Year Ended 30 June	Half Year Ended 30 June	Half Year Ended 30 June
		2019	2018	2019	2018
<i>All amounts expressed are in K'000</i>					
Interest income	2(a)	792,945	766,935	739,178	717,982
Interest expense	2(a)	(98,849)	(83,035)	(90,659)	(75,092)
Net interest income		<b>694,096</b>	<b>683,900</b>	<b>648,519</b>	<b>642,890</b>
Fee and commission income	2(b)	187,287	181,659	169,335	166,693
Other income	2(c)	174,236	186,790	205,958	195,288
Net banking operating income		<b>1,052,619</b>	<b>1,052,349</b>	<b>1,023,812</b>	<b>1,004,871</b>
Net insurance premium income		76,529	69,190	-	-
Investment revenue		90,672	73,879	-	-
Increase in policy liabilities		(27,850)	(27,148)	-	-
Policy maintenance and investment expense		(70,625)	(54,992)	-	-
Claims, surrender and maturities		(55,541)	(52,671)	-	-
Share of profits from associates and jointly controlled entities		1,785	6,265	-	-
Net insurance operating income		14,970	14,523	-	-
<b>Net operating income before impairment and operating expenses</b>		<b>1,070,589</b>	<b>1,066,872</b>	<b>1,023,812</b>	<b>1,004,871</b>
Impairment on financial assets	2(d)	(50,431)	(37,319)	(43,639)	(32,108)
Operating expenses	2(e)	(411,732)	(434,258)	(372,218)	(394,656)
<b>Profit before income tax</b>		<b>608,426</b>	<b>595,295</b>	<b>607,955</b>	<b>578,107</b>
Income tax expense		(173,517)	(177,006)	(164,615)	(168,238)
<b>Net profit for the period</b>		<b>434,909</b>	<b>418,289</b>	<b>443,340</b>	<b>409,869</b>
<b>Other comprehensive income</b>					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Translation of financial information of foreign operations to presentation currency		6,202	(9,068)	3,248	(3,186)
<i>Items that will not be reclassified to profit or loss</i>					
Net movement in asset revaluation		(3,397)	(1,006)	(2,910)	-
Other comprehensive income, net of tax		2,805	(10,074)	338	(3,186)
<b>Total comprehensive income for the period</b>		<b>437,714</b>	<b>408,215</b>	<b>443,678</b>	<b>406,683</b>
<b>Earnings per share – Basic and diluted (toea)</b>		<b>93.1</b>	<b>89.5</b>	<b>94.9</b>	<b>87.7</b>

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

# CONDENSED STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	Group		Bank	
		As at 30 June 2019	As at 31 December 2018	As at 30 June 2019	As at 31 December 2018
<i>All amounts expressed are in K'000</i>					
<b>ASSETS</b>					
Cash and balances with Central Bank		1,180,815	1,326,710	934,970	1,039,968
Treasury and Central Bank bills		2,081,213	2,494,700	2,056,472	2,480,356
Amounts due from other banks		763,091	780,758	694,054	722,919
Statutory deposits with Central Banks		1,668,897	1,685,544	1,600,375	1,622,035
Other financial assets		2,610,889	2,555,443	2,073,460	2,073,873
Loans, advances and other receivables from customers	4	13,061,743	12,530,649	11,708,320	11,232,725
Property, plant and equipment*		874,989	693,277	695,130	538,181
Assets subject to operating lease		50,283	52,433	50,283	52,433
Investment in associates and joint ventures		179,466	175,579	20,152	20,038
Investment in subsidiaries		-	-	353,805	347,597
Intangible assets		180,394	174,623	161,018	152,551
Investment properties		154,677	153,665	-	-
Deferred tax assets		214,681	208,444	239,539	234,391
Tax receivable		-	12,753	-	17,020
Other assets		368,866	219,007	290,123	162,293
<b>Total assets</b>		<b>23,390,004</b>	<b>23,063,585</b>	<b>20,877,701</b>	<b>20,696,380</b>
<b>LIABILITIES</b>					
Amounts due to other banks		404,360	51,539	444,879	116,019
Customer deposits		18,163,078	18,232,766	16,876,930	16,959,170
Subordinated debt securities		-	75,525	-	75,525
Other liabilities*		1,758,850	1,637,517	775,380	766,981
Provision for income tax		17,962	-	14,592	-
Other provisions		211,220	194,103	193,413	177,799
<b>Total liabilities</b>		<b>20,555,470</b>	<b>20,191,450</b>	<b>18,305,194</b>	<b>18,095,494</b>
<b>SHAREHOLDERS' EQUITY</b>					
Ordinary shares		372,327	372,364	372,327	372,364
Retained earnings		2,119,817	2,156,873	1,950,768	1,976,138
Other reserves		338,815	339,320	249,412	252,384
<b>Equity attributable to the members of the Bank</b>		<b>2,830,959</b>	<b>2,868,557</b>	<b>2,572,507</b>	<b>2,600,886</b>
Minority interest		3,575	3,578	-	-
<b>Total shareholders' equity</b>		<b>2,834,534</b>	<b>2,872,135</b>	<b>2,572,507</b>	<b>2,600,886</b>
<b>Total equity and liabilities</b>		<b>23,390,004</b>	<b>23,063,585</b>	<b>20,877,701</b>	<b>20,696,380</b>

\*Property, plant and equipment includes the Right of Use Asset of K188,217 recognised under IFRS 16. An offsetting lease liability of K189,430 is included under Other Liabilities.

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

# CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

<i>All amounts expressed are in K'000</i>	Share Capital	Reserves	Retained earnings	Minority interest	Total
<b>GROUP</b>					
<b>Balance at 1 January 2019</b>	<b>372,364</b>	<b>339,320</b>	<b>2,156,873</b>	<b>3,578</b>	<b>2,872,135</b>
Net profit	-	-	434,909	-	434,909
Other comprehensive income	-	2,805	-	-	2,805
Total comprehensive income	-	2,805	434,909	-	437,714
2018 final dividend paid	-	-	(475,173)	-	(475,173)
Share buyback	(37)	-	-	-	(37)
Profit attributed to minority interest	-	-	3	(3)	-
Total transaction with owners	(37)	-	(475,170)	(3)	(475,210)
Mark to market adjustment	-	(105)	-	-	(105)
Disposal Of Property	-	(3,205)	3,205	-	-
<b>Balance at 30 June 2019</b>	<b>372,327</b>	<b>338,815</b>	<b>2,119,817</b>	<b>3,575</b>	<b>2,834,534</b>
<b>Balance at 1 January 2018</b>					
<b>Balance at 1 January 2018</b>	<b>373,001</b>	<b>346,388</b>	<b>1,904,462</b>	<b>4,484</b>	<b>2,628,335</b>
Changes on initial application of IFRS 9	-	-	(17,098)	-	(17,098)
Net profit	-	-	418,289	-	418,289
Other comprehensive income	-	(10,074)	-	-	(10,074)
Total comprehensive income	-	(10,074)	401,191	-	391,117
2017 final dividend paid	-	-	(428,023)	-	(428,023)
Share buyback	(538)	-	-	-	(538)
Profit attributed to minority interest	-	-	254	(254)	-
Total transaction with owners	(538)	-	(427,769)	(254)	(428,561)
Movement in asset revaluation reserve	-	(12,677)	18,116	-	5,439
<b>Balance at 30 June 2018</b>	<b>372,463</b>	<b>323,637</b>	<b>1,896,000</b>	<b>4,230</b>	<b>2,596,330</b>
<b>BANK</b>					
<b>Balance at 1 January 2019</b>	<b>372,364</b>	<b>252,384</b>	<b>1,976,138</b>	<b>-</b>	<b>2,600,886</b>
Net profit	-	-	443,340	-	443,340
Other comprehensive income	-	338	-	-	338
Total comprehensive income	-	338	443,340	-	443,678
2018 final dividend paid	-	-	(471,915)	-	(471,915)
Share buyback	(37)	-	-	-	(37)
Total transaction with owners	(37)	-	(471,915)	-	(471,952)
General reserve movement	-	(105)	-	-	(105)
Movement in asset revaluation reserve	-	(3,205)	3,205	-	-
<b>Balance at 30 June 2019</b>	<b>372,327</b>	<b>249,412</b>	<b>1,950,768</b>	<b>-</b>	<b>2,572,507</b>
<b>Balance at 1 January 2018</b>					
<b>Balance at 1 January 2018</b>	<b>373,001</b>	<b>260,374</b>	<b>1,777,627</b>	<b>-</b>	<b>2,411,002</b>
Changes on initial application of IFRS 9	-	-	(16,307)	-	(16,307)
Net profit	-	-	409,869	-	409,869
Other comprehensive income	-	(3,186)	-	-	(3,186)
Total comprehensive income	-	(3,186)	393,562	-	390,376
2017 final dividend paid	-	-	(425,204)	-	(425,204)
Share buyback	(538)	-	-	-	(538)
Total transaction with owners	(538)	-	(425,204)	-	(425,742)
Movement in asset revaluation reserve	-	(12,677)	18,116	-	5,439
<b>Balance at 30 June 2018</b>	<b>372,463</b>	<b>244,511</b>	<b>1,764,101</b>	<b>-</b>	<b>2,381,075</b>

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

# CONDENSED STATEMENTS OF CASH FLOWS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

	Note	Group		Bank	
		Half Year Ended 30 June		Half Year Ended 30 June	
		2019	2018	2019	2018
<i>All amounts expressed are in K'000</i>					
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Interest received		791,518	730,204	721,198	669,486
Fees and other income		376,493	379,336	325,842	370,503
Interest paid		(91,290)	(80,900)	(83,256)	(73,338)
Amounts paid to suppliers and employees		(348,612)	(366,235)	(308,988)	(332,015)
<b>Operating cash flow before changes in operating assets and liabilities</b>		<b>728,109</b>	<b>662,405</b>	<b>654,796</b>	<b>634,636</b>
Increase in loans, advances and other receivables from customers		(547,354)	(879,050)	(488,995)	(791,804)
(Decrease)/increase in customer deposits		(145,213)	543,172	(157,765)	405,791
(Increase)/Decrease in statutory deposits with the Central Banks		16,647	(109,403)	21,660	(104,932)
Increase in other assets		(175,799)	(8,650)	(117,846)	(14,559)
Increase/(decrease) in other liabilities		(58,514)	53,370	(118,648)	21,136
<b>Net cash flow from / (used in) operating activities</b>		<b>(182,124)</b>	<b>261,844</b>	<b>(206,798)</b>	<b>150,268</b>
Income taxes paid		(151,276)	(124,782)	(138,153)	(114,094)
<b>Net cash flow from / (used in) operating activities</b>		<b>(333,400)</b>	<b>137,062</b>	<b>(344,951)</b>	<b>36,174</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
(Increase) / decrease in government securities		357,936	231,807	424,192	291,229
Expenditure on property, plant and equipment		(65,644)	(61,538)	(60,785)	(58,198)
Proceeds for disposal of property, plant and equipment		7,061	705	7,061	560
Additional funding of subsidiaries		-	-	(6,208)	(10,000)
<b>Net cash flow from investing activities</b>		<b>299,353</b>	<b>170,974</b>	<b>364,260</b>	<b>223,591</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Share buyback		(37)	(538)	(37)	(538)
Dividends paid		(475,173)	(428,023)	(471,915)	(425,204)
Principle and interest repayments of borrowings		(13,328)	(44,218)	(13,328)	(44,218)
<b>Net cash flow used in financing activities</b>		<b>(488,538)</b>	<b>(472,779)</b>	<b>(485,280)</b>	<b>(469,960)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(522,585)</b>	<b>(164,743)</b>	<b>(465,971)</b>	<b>(210,195)</b>
Effect of exchange rate movements on cash and cash equivalents		6,202	(9,068)	3,248	(3,184)
Cash and cash equivalent at the beginning of the year		2,055,929	1,994,010	1,646,868	1,634,868
<b>Cash and cash equivalents at the end of the period</b>	<b>10</b>	<b>1,539,546</b>	<b>1,820,199</b>	<b>1,184,145</b>	<b>1,421,489</b>

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



# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

---

### **1. Statement of significant accounting policies**

#### **1.1 Statement of compliance**

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

#### **1.2 Basis of preparation**

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

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2018 financial report for the financial year ended 31 December 2018 other than as disclosed in 1.3.

#### **1.3 Changes in accounting policies**

The Group has adopted IFRS 16 Leases as issued by the IASB in January 2016 with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt IFRS 16 in previous periods.

As permitted by the transitional provisions of IFRS 16, the Group elected not to restate comparative figures. On the initial application of IFRS 16, no adjustments had to be made to the opening retained earnings as at 1 January 2019 as the right of use assets were recognised at the amount equal to the corresponding lease liabilities. Consequently, for note disclosures, the consequential amendments have only been applied to the current period. The comparative period note disclosures repeat those disclosures made in the prior year.

##### **1.3 (a) Adjustments recognised on adoption of IFRS 16**

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE HALF-YEAR ENDED 30 JUNE 2019

value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.25%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019 PGK'000
Operating lease commitments disclosed as at 31 December 2018	<u>117,370</u>
Discounted using the lessee's incremental borrowing rate of at the date of initial application	108,247
(Less): short-term leases recognised on a straight-line basis as expense	9,123
Add/(less): adjustments as a result of a different treatment of extension and termination options	<u>86,178</u>
<b>Lease liability recognised as at 1 January 2019</b>	<b><u>203,548</u></b>
Of which are:	
Current lease liabilities	27,118
Non-current lease liabilities	<u>176,430</u>
	<b><u>203,548</u></b>

The associated right-of-use assets for property leases were measured on a modified retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 PGK'000	1 January 2019 PGK'000
Properties	<u>188,217</u>	203,548
<b>Total right-of-use assets</b>	<b><u>188,217</u></b>	<b><u>203,548</u></b>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase to K203,548
- lease liabilities – increase to K203,548.

The net impact on retained earnings on 1 January 2019 was nil.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

---

### (I) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### 1.3(b) Accounting for leasing activities

The Group leases various offices and branches for its retail and ATM operations. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

---

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### **(i) Variable lease payments**

*Estimation uncertainty arising from variable lease payments*

The Group does not have any property leases that contain variable payment terms that are linked to sales generated from a branch.

### **(ii) Extension and termination options**

Extension and termination options are included in a number of property leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

*Critical judgements in determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in recognised lease liabilities and right-of-use assets of K86.178m.

### **(iii) Residual value guarantees**

The Group does not provide residual value guarantees in relation to its leases.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

### 2. Operating profit before income tax

Operating profit before income tax is determined after including:

#### (a) Net interest income

All amounts expressed are in K'000	Half Year Ended 30 June		Half Year Ended 30 June	
	2019	2018	2019	2018
<b>Interest Income</b>				
Loans, advances and other receivables from customers	608,199	562,031	552,121	512,531
Treasury bills	76,511	102,430	75,749	101,705
Other financial assets - Inscribed stock	105,149	100,367	105,010	100,214
Other	3,086	2,107	6,298	3,532
	<b>792,945</b>	<b>766,935</b>	<b>739,178</b>	<b>717,982</b>
<i>Less:</i>				
<b>Interest Expense</b>				
Customer deposits	85,363	71,599	76,664	63,213
Other banks	10,095	7,293	10,604	7,736
Subordinated debt securities	3,391	4,143	3,391	4,143
	<b>98,849</b>	<b>83,035</b>	<b>90,659</b>	<b>75,092</b>
	<b>694,096</b>	<b>683,900</b>	<b>648,519</b>	<b>642,890</b>

#### (b) Fee and commission income

Product related	90,811	96,130	84,333	90,181
Trade and international related	10,580	8,141	10,137	7,719
Electronic banking related	67,990	59,864	63,030	54,980
Other	17,906	17,524	11,835	13,813
	<b>187,287</b>	<b>181,659</b>	<b>169,335</b>	<b>166,693</b>

#### (c) Other income

Foreign exchange related	160,775	151,802	143,748	137,201
Operating lease rentals	3,751	4,547	3,751	4,547
Insurance claim – aircraft *	-	19,243	-	19,243
Other**	9,710	11,198	58,459	34,297
	<b>174,236</b>	<b>186,790</b>	<b>205,958</b>	<b>195,288</b>

\*Insurance claim relates to an operating lease aircraft which was burnt during a political riot.

\*\*Other income for Bank includes K49.4 million (2018:K26.4 million) dividends received from subsidiaries, which is eliminated upon consolidation.

#### (d) Impairment on financial assets

New write offs	47,559	38,962	46,752	38,372
Net increase in provisions	32,793	28,066	25,978	24,156
Recoveries during the period	(29,921)	(29,709)	(29,091)	(30,420)
	<b>50,431</b>	<b>37,319</b>	<b>43,639</b>	<b>32,108</b>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

### (e) Operating expenses

	Group		Bank	
	Half year ended 30 June		Half year ended 30 June	
	2019	2018	2019	2018
<i>All amounts expressed are in K'000</i>				
Staff costs	195,763	193,471	180,106	179,074
Depreciation	58,061	42,281	53,663	38,866
Computing	62,597	57,223	55,578	48,872
Premises and equipment	32,312	45,686	28,863	41,398
Administration and other costs	62,999	95,597	54,008	86,446
	<b>411,732</b>	<b>434,258</b>	<b>372,218</b>	<b>394,656</b>

### 3. Dividends

On 25 May 2019, the directors declared a final dividend of 1.01 toea per share for the year ended 31 December 2018 which was paid on 21 June 2019. The declared final gross dividend amount was K475.173 million (June 2018: K428.023 million). Net dividend paid after dividend withholding tax was K464.163 million (June 2018: K420.976 million).

### 4. Loans, advances and other receivables from customers

	Group		Bank	
	As at 30 June 2019	As at 31 December 2018	As at 30 June 2019	As at 31 December 2018
	<i>All amounts expressed are in K'000</i>			
Gross loans, advances and other receivables from customers net of reserved interest	13,711,570	13,164,216	12,310,957	11,821,963
Less allowances for losses on loans, advances and other receivables from customers	(649,827)	(633,567)	(602,637)	(589,238)
Net loans, advances and other receivables from customers	<b>13,061,743</b>	<b>12,530,649</b>	<b>11,708,320</b>	<b>11,232,725</b>
<b><i>Economic sector risk concentrations</i></b>				
Commerce, finance and other business	6,731,351	6,615,930	5,688,603	5,610,597
Private households	3,524,650	3,322,662	3,372,857	3,183,753
Government and public authorities*	345,487	369,648	330,808	358,833
Agriculture	352,619	287,315	330,850	265,582
Transport and communication	1,419,259	1,412,786	1,332,526	1,326,725
Manufacturing	407,519	239,980	376,840	210,730
Construction	930,685	915,895	878,473	865,743
	<b>13,711,570</b>	<b>13,164,216</b>	<b>12,310,957</b>	<b>11,821,963</b>

\*Total by Government ownership at 30 June 2019 was K2,599 million (31 December 2018: K2,661 million).

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2019

### 5. Maximum exposure to credit risk, collateral and other credit enhancements

The following table contains an analysis of the credit risk exposure of financial instruments for which an Expected Credit Loss allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets, including off balance sheet items.

ECL staging	June 2019				December 2018
	Stage 1	Stage 2	Stage 3	Total	Total
(PGK'000)	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
<b>Credit grade</b>					
Standard monitoring	14,923,482	204,705	-	15,128,187	14,457,564
Special monitoring	-	475,664	-	475,664	588,756
Default	-	-	385,027	385,027	350,285
<b>Gross carrying amount</b>	<b>14,923,482</b>	<b>680,369</b>	<b>385,027</b>	<b>15,988,878</b>	<b>15,396,605</b>
Loss allowance	(324,443)	(139,882)	(185,502)	(649,827)	(633,567)
<b>Carrying amount</b>	<b>14,599,039</b>	<b>540,487</b>	<b>199,525</b>	<b>15,339,051</b>	<b>14,763,038</b>

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired Stage 3, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	PGK'000	PGK'000	PGK'000	PGK'000
Loans to individuals:				
• Overdrafts	25,012	10,810	14,202	25,091
• Term loans	19,095	7,364	11,731	32,373
• Mortgages	106,407	41,975	64,432	167,074
Loans to corporate entities:				
• Large corporate customers	178,776	112,168	66,608	100,686
• Small and medium-sized enterprises (SMEs)	55,737	13,185	42,552	78,721
<b>Total credit-impaired assets</b>	<b>385,027</b>	<b>185,502</b>	<b>199,525</b>	<b>403,945</b>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

### 6. Capital adequacy and liquid assets ratio

The Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cooks Islands, Samoa, Tonga, Vanuatu and Cambodia are required to adhere to prudential standards issued by the Reserve Bank of Fiji, Central Bank Solomon Islands, The Financial Supervisory Commission, Central Bank of Samoa, National Reserve Bank of Tonga, Reserve Bank of Vanuatu and National Bank of Cambodia respectively. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well-capitalized, and also specifies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2019, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

<i>Risk weighted capital ratios</i>	As at 30 June 2019		As at 31 Dec 2018	
	K'000	%	K'000	%
Tier 1 Capital	1,861,800	14.7%	2,338,587	19.8%
Tier 1 + Tier 2 Capital	2,646,338	20.9%	2,694,901	22.9%
Leverage capital ratio		8.1%		10.3%



# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

### 7. Contingent liabilities and commitments

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

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

#### *Off-balance sheet financial instruments*

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

	Group		Bank	
	As at 30 June 2019	As at 31 December 2018	As at 30 June 2019	As at 31 December 2018
<i>All amounts expressed are in K'000</i>				
Letters of credit	157,042	135,219	150,591	133,560
Guarantees and indemnities issued	396,753	473,748	379,612	433,978
Commitments to extend credit	1,887,417	1,626,879	1,781,089	1,497,722
	<b>2,441,212</b>	<b>2,235,846</b>	<b>2,311,292</b>	<b>2,065,260</b>

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

### **Commitments for capital expenditure**

Amounts with firm commitments, and not included in the accounts as at 30 June 2019 amounted to K16 million (31 December 2018: K21.1 million).

### **Contingent liability**

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Group were outstanding as at 30 June 2019. Based on information available at 30 June 2019, the Group estimates a contingent liability of K21.6 million in respect of these proceedings (31 December 2018: K21.1 million).

### **Operating lease commitments – predominantly residential premises**

	Group		Bank	
	As at 30 June 2019	As at 31 December 2018	As at 30 June 2019	As at 31 December 2018
<i>All amounts expressed are in K'000</i>				
Not later than 1 year	10,777	38,848	10,766	36,341
Later than 1 year and not later than 5 years	5,911	56,210	5,864	52,491
Later than 5 years	42	22,312	18	20,226
	<b>16,730</b>	<b>117,370</b>	<b>16,648</b>	<b>109,058</b>

Rental payments for residential premises leased for the benefit of the Group's employees are recognised directly to Profit & Loss. Such leased properties do not convey the right of the employer to control and use the identified asset. To ascertain whether a contract conveys the right to control the use of an identified asset, an entity shall assess whether it has both:

- 1) The right to obtain substantially all the economic benefits from use of the asset, and
- 2) The right to direct the use of the identified asset.

The Group has elected to account for these agreements under IAS 19, Employee Benefits.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2019

### 8. Derivative financial instruments

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

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

*All amounts expressed are in '000*

As at 30 June 2019		USD	AUD	EURO	GBP	JPY	Others	Total
Selling	FCY	(98,543)	(19,143)	(630)	(231)	(613,029)	(7,126)	
	Kina	(334,610)	(45,582)	(2,431)	(994)	(19,324)	(9,014)	(411,955)
Buying	FCY	41,562	104,093	-	50	203,400	13,896	
	Kina	141,127	247,862	-	215	6,412	3,028	398,644

  

As at 31 December 2018		USD	AUD	EURO	GBP	JPY	Others	Total
Selling	FCY	(57,202)	(958)	-	-	(149,380)	(3,283)	
	Kina	(192,599)	(2,276)	-	-	(4,555)	(3,733)	(203,163)
Buying	FCY	11,220	55,700	-	-	5,000	26,400	
	Kina	37,778	132,358	-	-	152	44,232	214,520

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

---

### 9. Related parties

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

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

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

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

	Group	
	As at 30 June 2019	As at 31 December 2018
<i>All amounts expressed are in K'000</i>		
<b>Loans to :</b>		
Parties where the related party interest is primarily in a director capacity	843,228	855,364
Parties where the related party interest is primarily in an executive capacity	37,661	37,147
General staff	8,276	6,940
	889,165	899,451

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 30 JUNE 2019

### 10. Notes to condensed statements of cash flows

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

	Group As at 30 June		Bank As at 30 June	
	2019	2018	2019	2018
<i>All amounts expressed are in K'000</i>				
Cash and balances with Central Banks	1,180,815	1,264,932	934,970	1,031,661
Amounts due from other banks	763,091	690,086	694,054	609,401
Amounts due to other banks	(404,360)	(134,819)	(444,879)	(219,573)
	<b>1,539,546</b>	<b>1,820,199</b>	<b>1,184,145</b>	<b>1,421,489</b>

### 11. Segment information

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

*All amounts expressed are in K'000*

	PNG Bank	Non PNG Banks	Non Bank Entities	Adjust Inter Segments	Total
<b>Half Year Ended 30 June 2019</b>					
Net interest income	560,022	118,586	15,244	244	694,096
Other income	237,765	118,390	8,925	(3,557)	361,523
Net insurance income	-	-	14,616	354	14,970
<b>Total operating income</b>	<b>797,787</b>	<b>236,976</b>	<b>38,785</b>	<b>(2,959)</b>	<b>1,070,589</b>
Operating expenses	(290,918)	(113,049)	(10,488)	2,723	(411,732)
Impairment expenses	(31,527)	(16,820)	(2,084)	-	(50,431)
<b>Profit before income tax</b>	<b>475,342</b>	<b>107,107</b>	<b>26,213</b>	<b>(236)</b>	<b>608,426</b>
Income tax	(142,492)	(27,421)	(3,604)	-	(173,517)
<b>Net profit after income tax</b>	<b>332,850</b>	<b>79,686</b>	<b>22,609</b>	<b>(236)</b>	<b>434,909</b>
<b>Half year Ended 30 June 2018</b>					
Net interest income	557,345	112,169	13,383	1,003	683,900
Other income	253,764	108,766	6,089	(170)	368,449
Net insurance income	-	-	15,223	(700)	14,523
<b>Total operating income</b>	<b>811,109</b>	<b>220,935</b>	<b>34,695</b>	<b>133</b>	<b>1,066,872</b>
Operating expenses	(311,450)	(113,746)	(8,929)	(133)	(434,258)
Impairment expenses	(23,193)	(12,503)	(1,623)	-	(37,319)
<b>Profit before income tax</b>	<b>476,466</b>	<b>94,686</b>	<b>24,143</b>	<b>-</b>	<b>595,295</b>
Income tax	(148,330)	(23,978)	(4,698)	-	(177,006)
<b>Net profit after income tax</b>	<b>328,136</b>	<b>70,708</b>	<b>19,445</b>	<b>-</b>	<b>418,289</b>

### 12. Subsequent events

There are no adjusting or disclosing events after the end of the reporting period.