

2016 ANNUAL REPORT

BANK OF SOUTH PACIFIC LIMITED



BSP

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Our **Vision**

To be the leading financial services provider in our chosen markets helping customers, staff, shareholders and communities prosper.

Our **Mission**

To create value for our stakeholders by delivering innovative and cost effective financial services.

Key Features of **BSP Strategy**

- A Focus on Sales & Service
- High Performing Teams
- Operational Excellence
- Profitable Growth

INTEGRITY

We are honest, committed, trustworthy and reliable in our dealings with our customers and each other.

PROFESSIONALISM

We commit ourselves to continual self-development to achieve standards of excellence in our performance.

LEADERSHIP

We inspire, we change, and we live our values, and lead by example.

QUALITY

We are committed to excellence whilst striving for continuous improvement in products and services.

PEOPLE

We respect and value our people and our customers.

TEAMWORK

We work with, and for, each other; we progress together.

COMMUNITY

We respect, value and support the communities in which we operate.





78 Branches



56 Sub-Branches



351 Agents



499 ATMs



11,343 EFTPoS



4,194 Staff

APRA Disclaimer:

BSP is not authorised under the Banking Act 1959 (Commonwealth of Australia) and is not supervised by the Australian Prudential Regulation Authority (APRA). BSP's products are not covered by the depositor protection provisions in section 13A of the Banking Act 1959 and will not be covered by the financial claims scheme under Division 2AA of the Banking Act 1959.



CHAIRMAN'S REPORT

BSP Group has completed another successful year of operational and financial performance in 2016. The majority of businesses have performed well during another challenging year. Strategically also, activities related to the business acquisitions from Westpac were completed when Vanuatu was settled in July 2016, and the Solomon Islands system integration was implemented in November 2016.

BSP Group audited profit for 2016 was PGK643.5 million, an increase of 21% from 2015. Total assets have grown 14% to PGK20.8 billion.

Economic conditions were benign overall in the countries in which BSP operates, reflecting the slow recovery in the global economy that has continued over the period. Low growth has again featured in emerging markets in Asia, led by China. Some commodity prices, such as oil have shown some recent improvement and the demand for minerals like iron ore, coal and copper have strengthened in recent months, following some resurgence in economic activity in the Asian markets. PNG's commodity based economy influenced by natural gas, minerals and agriculture has tracked a low growth path in 2016, with continued low export revenues. In the non-PNG economies, there has also been low to moderate growth, exacerbated especially in Fiji by Cyclone Winston early in 2016. Notwithstanding this, tourism activity has been resilient, and agriculture has also remained stable.

The latest Standard and Poors' assessment of BSP continues to be at the maximum rating possible for a Papua New Guinea based entity (B, negative outlook for the short term).

BSP successfully completed the purchase of the Vanuatu branch of Westpac in mid- 2016. In November, a system integration exercise was successfully undertaken and completed in the Solomon Islands, to fully merge the co-existing business operations. In both instances, the activities were carried out predominantly by BSP teams, with limited assistance from external parties.

BSP's 2016 results reflect the growing prominence of the non-PNG businesses. 20% of profit and 26% of balance sheet assets are now sourced from outside of PNG. The recently acquired businesses have shown very good progress, and I am pleased to repeat my earlier statement that BSP is truly a South Pacific Bank in every sense, committed to partnering with people, businesses and governments in supporting economic opportunity and development across the region's communities.

Diversification of financial service lines has continued. The Life insurance business in Fiji has once again produced good results in 2016, with continued profitability improvements and balance sheet management. The Asset Finance operations which commenced in Fiji late in 2014, and in PNG at the start of 2015 have yielded results above target during 2016, supported by good market share growth.

The sustained growth of BSP in PNG as well as across the South Pacific region, and the ongoing development of the portfolio of non-banking financial services assets continues to demand more and more in the way of improvements in BSP Group's systems, procedures and staff capability. An initiative to identify a new core banking system for the Group across the region commenced in 2016 and activities will intensify over the coming years. BSP's leadership development program has expanded with the addition of the 2016 cohort group including participants from regional and non-banking businesses.

Changes in legislation in the banking industry and related regulatory requirements have continued in 2016. Regulators in PNG and across the region have introduced new prudential standards covering areas such as corporate governance, anti-money laundering and anti-terrorism funding. Compliance reporting requirements have been enhanced in certain areas. BSP has responded appropriately to ensure it meets the specified requirements. One of the requirements is that the Board Audit Risk Compliance Committee (BARCC) has been split into 2 committees, one for Risk and Compliance, and the other for Audit.

In 2016, two long serving highly respected directors retired from the BSP Group Board. Thomas Fox departed from the Group Board after 23 years of uninterrupted contribution, 22 of them as deputy chairman. Sir Nagora Bogan stepped down in October after giving 13 consecutive years of service on the Board. Both also served on Board committees throughout their tenure. Their professional contributions and support for BSP over many years deserve special mention and we wish both of them every success for the future. The Board has welcomed new members in their place. Prominent Samoan economic policy advisor, Dr Faamausili Lua'iufi and Mr. Arthur Sam CPA PNG, an experienced Papua New Guinean professional accountant, are two very worthy replacements.

BSP Group has managed to produce yet another year of record results in 2016 at a time when economic conditions generally across its markets have remained challenging. The BSP Group has once again outperformed its major competitors. Our key metrics of ROE, ROA and cost to income have again showed positive movements. Staff and management are commended for their efforts in producing these results and maintaining BSP Group's leading position in the South Pacific region.

The coming year will continue to present challenges, with the weakness in global economic performance likely to persist. Notwithstanding more difficult economic conditions, I remain confident that BSP will perform resolutely. The support of its stakeholders, its competitive operations, and the continual review of its strategy, will enable BSP Group to produce another successful year in 2017.

Sir Kostas Constantinou, OBE
Chairman



Sir Kostas Constantinou, OBE
Chairman

A BRIEF HISTORY OF BSP

BSP is the leading bank in PNG and has a long and proud track record of serving the needs of customers in PNG and other countries across the South Pacific. BSP's operations date back to 1957, when it was founded in Port Moresby as a branch of National Bank of Australasia Limited. In 1993, a consortium of PNG businesses acquired the bank and created the first and only PNG private sector owned bank at that time.

BSP merged with the state-owned Papua New Guinea Banking Corporation in 2002, creating the largest bank in PNG. Other acquisitions followed, including Habib Bank in Fiji in 2006, National Bank of Solomon Islands in 2007 and Colonial Bank and Colonial Fiji Life Insurance Limited in 2009. In 2015 and 2016, BSP completed the acquisition of Westpac's operations in Cook Islands, Samoa, Solomon Islands, Tonga and Vanuatu, significantly expanding and strengthening BSP's geographic reach. Today, BSP continues to be a leading force in the PNG and South Pacific markets with the largest branch network, and is a pioneer in bringing financial innovation and technology to the region.

KEY MILESTONES IN BSP'S DEVELOPMENT

1957

Commenced operations in Port Moresby on 1 May, 1957 as a branch of National Bank of Australasia Limited.

1974

BSP incorporated as Bank of South Pacific Limited, a wholly owned subsidiary of the Australian parent.

1993

National Investment Holdings Limited, a nationally owned company, acquired BSP from National Australia Bank.

2002

Merged with the state owned Papua New Guinea Banking Corporation.

2003

BSP is listed on the Port Moresby Stock Exchange.

2005

Standard & Poors issued an inaugural credit rating for BSP of B+.

2006

Established a presence in Fiji through the acquisition of Habib Bank Ltd's Fiji operations, which were rebranded to BSP.

2007

Acquired the National Bank of Solomon Islands Ltd and rebranded to BSP.

2009

Acquired Colonial Bank and Colonial Fiji Life Insurance Limited from Commonwealth Bank of Australia and rebranded to BSP and BSP Life, respectively.

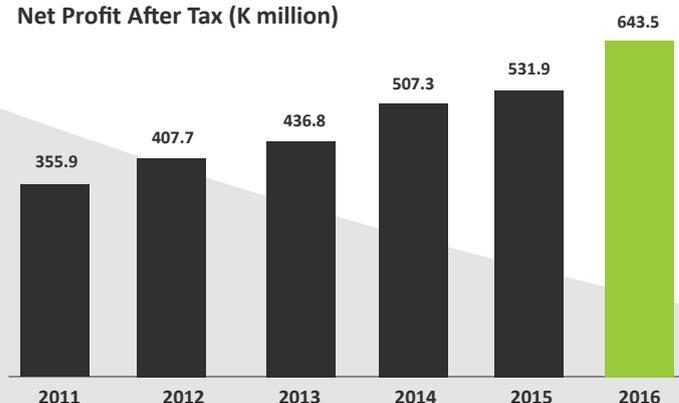
2010

IFC acquired a 10% shareholding in BSP.

2015 - 2016

Acquired Westpac's operations in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu for A\$125 million.

Net Profit After Tax (K million)





BSP Vanuatu Staff
Philan Kalmanu - Credit Analyst
and Tanya Longwah - Relationship Manager

BOARD OF DIRECTORS



SIR KOSTAS CONSTANTINOU, OBE | Chairman. Director since April 2009. Appointed Chairman February 2011.

Sir Kostas Constantinou, OBE, is a prominent business figure in Papua New Guinea, holding a number of high level public sector and private sector appointments. Sir Kostas is Chairman of various companies, including Airways Hotel and Apartments Limited, Lamana Hotel Limited, Lamana Development Limited, Alotau International Hotel and Anglicare Foundation in Papua New Guinea. He is a Director of Oil Search Limited, Heritage Park Hotel in the Solomon Islands, Grand Pacific Hotel in Fiji, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand, Gazelle International Hotel and Loloata Island Resort Limited in Papua New Guinea. Sir Kostas is also Vice President of the Employers Federation of Papua New Guinea, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea.



ROBIN FLEMING, CSM, MBA, MGMT | Chief Executive Officer. Director since April 2013.

Robin Fleming was appointed CEO of Bank of South Pacific Limited in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Before the merger of Bank of South Pacific Limited and Papua New Guinea Banking Corporation Limited, Robin held senior management roles with Papua New Guinea Banking Corporation. He has worked in PNG for over 30 years and holds a MBA and a Master of Management from Charles Sturt University.



DR. MATAGIALOFI LUA'IUFI, PhD, MSc | Non-Executive Director. Director since December 2016.

Dr Faamausili Matagalofi Lua'iufi is currently a Governance/Human Resource consultant based in Samoa and has worked in Tonga, Cook Islands, Niue, Fiji, PNG, Vanuatu, Solomon Islands, and Niue in the last 10 years sharing her expertise. Formerly she was in the Public service for 25 years and 12 years as the Chief Executive Officer for the Samoa Public Service Commission. She has extensive governance experience in Public Sector Boards and policy committees in Samoa. She holds a Doctorate in Philosophy in Management, a Master of Science (Management Sciences), Bachelor of Arts, in Sociology and Political Science and graduate Diplomas in Training and Management.



GEREA AOPI, CBE, MBA | Non - Executive Director. Director since April 2002.

Gerea Aopi has obtained several tertiary degrees in Papua New Guinea, and a Masters of Business Administration from the University of Queensland. Mr Aopi has substantial public service and business experience in PNG, including Secretary of Finance and Planning and Managing Director of Telikom PNG Limited. He presently holds the position of Executive General Manager, Stakeholder Engagement at Oil Search Limited. He was previously the Chairman of Telikom PNG Limited and Independent Public Business Corporation (IPBC). Mr Aopi is a Director of Oil Search Limited, Steamships Trading Company Limited and is involved in a number of other private sector and charitable organisations in Papua New Guinea.



DR. ILA TEMU, PhD, MEd, BEcon | Non - Executive Director. Director since June 2003.

Dr Ila Temu achieved a distinguished academic career with the University of Papua New Guinea, The National Research Institute of PNG, the Australian National University and the University of California, Davis, where he was awarded a PhD in Agricultural Economics. Dr Temu entered the private sector in 1996 when he was appointed Managing Director of Mineral Resources Development Company. From 2000 to 2006, he held senior positions in Placer Dome, including Country Manager, Tanzania. With the successful take-over of Placer Dome by Barrick in 2006, Dr Temu has held various senior management roles in PNG and Australia for Barrick. He is currently their Country Executive Director.



ARTHUR SAM, BComm, CPA, MAICD | Non- Executive Director. Director since 2016.

Arthur Sam is a qualified and experienced accountant and a member of CPA PNG, and a member of the Australian Institute of Company Directors. He is the Audit and Managing Partner of JAJ & Associates and holds a Bachelor of Commerce from the University of Papua New Guinea. Mr Sam previously worked with three global accounting firms - Pricewaterhouse Coopers, Deloitte and Ernst & Young, and has extensive skills and experience in internal audit and risk management. Mr Sam is also a member of the Board Audit Committee and the Board Risk and Compliance Committee.



AUGUSTINE MANO, BEcon, MSc | Non - Executive Director. Director since August 2014.

Augustine Mano is an economist and has been the Managing Director of the Mineral Resource Development Corporation (MRDC) for the last 7 years. MRDC is the entity responsible for managing landowner investments and Mr Mano has led the organisation in undertaking some major investments such as the PNG LNG project and property development and hospitality within PNG, Fiji and Samoa. He has extensive skills and experience in the mining and petroleum sector. He is also involved with construction, transportation and the Insurance industry. He holds a Master of Science Petroleum Economics from the Dundee University, Scotland and Bachelor degrees in Economics and Environmental Science from the University of PNG. Mr Mano currently holds Chairman and Directorship in a number of entities, including MRDC and its subsidiaries companies, Hevilift Group, Insurance Pacific, Pearl Resort, PNG Air, GFS and Handy Group.



FREDA TALAO, LL.M, MPHIL, MAICD | Non - Executive Director. Director since April 2012.

Freda Talao is a lawyer and development specialist and is currently a consultant to Australian Law Firm Holding Redlich in Brisbane. Until recently, Ms. Talao was a member of the External Stakeholders Advisory Panel (ESAP) to the Hidden Valley Joint Venture (HVJV) Mine owned by Newcrest Limited and Harmony Gold in Wau, Papua New Guinea. She has also served on numerous boards in PNG including the former Civil Aviation Authority (CAA), Mama Graun Conservation Trust Fund, the National Airports Corporation (NAC), the Airport City Development Limited (ACDL) Board and the Individual and Community Rights Advocacy Forum (ICRAF). Her executive roles have included Deputy Registrar National Court, Executive Director, PEACE Foundation Melanesia and Senior Development Specialist with the Australian Aid Program (AUSAID). Ms Talao was one of 6 PNG women nominated for the Nobel Peace Prize in 2005 as part of the 1000 Peace Women for the Nobel Prize Project and was given an Independence Award for her work with women, children, youth and communities. Ms. Talao holds a Law Degree from University of Papua New Guinea, a Masters in Law from Bond University, Qld (LLM), a Master of Philosophy in Law from University of Queensland (MPHIL) and a Diploma in Business from the Southern Cross University. She is also a member of the Australian Institute of Company Directors (AICD).



GEOFFREY J. ROBB, BA, MBA, OAM | Non - Executive Director. Director since April 2012.

Geoffrey Robb is a highly qualified and experienced banker having occupied several senior Executive positions including Head of Resource Finance at Bank of America, and Global Head of Acquisition Finance and Head of Complex and Strategic Transactions with ANZ Banking Group. As Head of Bank of America in Melbourne, he led resource financings with BHP, CRA, Elders Resources, Bougainville Copper, Ok Tedi and Porgera. He holds MBAs from the International Management Institute Geneva and Macquarie University. Mr Robb has travelled extensively in emerging markets and has received the Medal of the Order of Australia for his services to mountaineering and charity. He is also on the Board of BSP Capital Limited and Bank of South Pacific Tonga Limited.



ERNEST BRIAN GANGLOFF, CPA, MAICD | Non - Executive Director. Director since November 2013.

Ernest Gangloff is an Accountant and registered with CPA PNG and the Accountants' Registration Board. Mr Gangloff has extensive experience in the areas of risk management, internal audit and corporate governance. He has over 30 years professional experience with over 15 years in Senior Management positions. Mr Gangloff retired as Partner with Deloitte in May 2013 and established Gangloff Consulting in June 2013. He is also a director of Gangloff Consulting Limited, and New Britain Palm Oil Limited. Mr Gangloff is a Council Member of the Institute of National Affairs and the Vice President of the Business Council of PNG and member of Australian Institute of Company Directors. He is also Adjunct Professor of the School of Business, UPNG.

GROUP CEO'S REPORT

I am pleased to report 2016 was another successful year for BSP. As indicated by our Chairman, Sir Kostas Constantinou OBE in his report to shareholders, BSP recorded a profit of K643.5m for 2016 which was an increase of 21% on our result for 2015.

BSP now has operations in 7 countries across 4 different business lines, and every country contributed to the 2016 profit outcome.

In Papua New Guinea despite economic conditions being somewhat less buoyant than in recent years BSP recorded a profit increase of 21% with each of our strategic business units working collaboratively to achieve our collective financial targets. Our corporate team maintained its momentum in the key corporate business market segment as reflected by lending market share growth, strong growth in deposit market share, increased penetration in the foreign currency market and positive customer engagement survey outcomes.

An important component of this success has been our capacity to improve whole of bank collaboration leveraging our Retail network, operational capability with strong customer relationship management, supported by a credit team based in Port Moresby that has good in country knowledge and understanding of credit risk at a macro level and at a relationship level.

Paramount banking maintained its deposit market share, assisted with growth in foreign exchange turnover and received outstanding responses to the customer engagement survey.

Retail performed well during the year. Sales targets proved more challenging to achieve than in recent years with fewer people in full time employment but there was renewed focus on Retail's account acquisition strategy that has seen approximately 140,000 additional accounts opened in 2016. Our fee free savings accounts have been popular with our customers and we now have over 100,000 fee free Plus Saver accounts, more than 120,000 fee free Sumatin (Youth) accounts and approximately 45,000 fee free Kids accounts. This is an important component of BSP's financial inclusion activities and in the longer term will assist develop a savings culture in these key market segments. In addition to growing the Retail business, the Retail team supplemented Corporates' and Paramounts' activities with its service delivery across our extensive network of branches and sub branches.

Investment in our systems and electronic delivery capability continued. The new data centre in Port Moresby was commissioned in the first half of 2016 and BSP's information technology and communications processing was migrated to the new data centre around that time. We also rolled out over 4,000 new merchant terminals across the country with our full fleet of merchant devices in PNG to be replaced before the end of 2017. New merchant terminals were introduced in Cook Islands, Samoa, Solomon Islands, Tonga and Vanuatu, with Fiji having also embarked on a replacement program for its merchant terminals with a target for introduction in quarter 2 of 2017.

Each of our offshore branches improved their profitability during 2016. Fiji which is our largest business outside of Papua New Guinea reported a profit of K59.8million, Solomon Islands performed well with a profit of K27.1million, Cook Islands our smallest business had a profit of K2.9million, Samoa achieved a creditable outcome at K7.3million, Tonga grew its business significantly with a profit of K10.7million and Vanuatu in its first 6 months of operations laid the groundwork for future profit growth with a profit of K1.5million.

With the settlement for the purchase of the Vanuatu business from Westpac in July 2016 BSP has successfully completed the acquisition of its current phase of expansion across the South Pacific. Integration of Cook Islands, Samoa, Tonga and Vanuatu into BSP systems, processes and culture has substantially been completed and the merger of the two businesses in Solomon Islands has also been successful. In the final quarter of 2016 the conversion and migration of our Solomon Islands business to one banking system was concluded successfully.

Our Operations and Information Technology teams in Papua New Guinea are to be congratulated for their efforts over an extended period in effectively completing a program of integration activities that involved work in 6 different countries whilst also participating in the delivery of other important projects in PNG.

BSP Finance in PNG and Fiji performed most creditably exceeding plan in both countries. The expansion of BSP Finance into Cambodia has also progressed well during 2016 with commencement of operations expected in the first quarter of 2017.

Investment in our future leaders continues and we now have over 50 staff in our leadership management development program with participants from every country. The program of activities includes study overseas, secondments internally and externally, attendance at Executive Committee meetings and board meetings on a rotational basis, and participation in projects associated with our various strategic initiatives.

Vendor selection for a new core banking system was finalised and an agreement signed with Oracle Corporation Australia Pty Limited in February 2017. This is a significant multi-year program that has the objective of having a common platform in every country in which BSP operates, a consistent and modern product and channel offering in all countries, a far more integrated approach to our Information Technology partners and a lower operating cost over time. This will position BSP to meet the future needs and demands of our customers.

Our Board led by our Chairman Sir Kostas Constantinou, OBE, continues to provide management with support to achieve the Board's strategic objectives for BSP which are directed to continuous improvement of customer service outcomes, achieving organic growth targets and maximising non organic growth opportunities aligned to our vision.

All of our staff, in all of our businesses and each of the countries in which we operate, are to be congratulated for their efforts and support in delivering these record results for our shareholders, and I look forward to their ongoing commitment in 2017.



Robin Fleming, CSM
Group Chief Executive Officer



Robin Fleming, CSM
Group Chief Executive Officer

Strategic Business Unit Reports



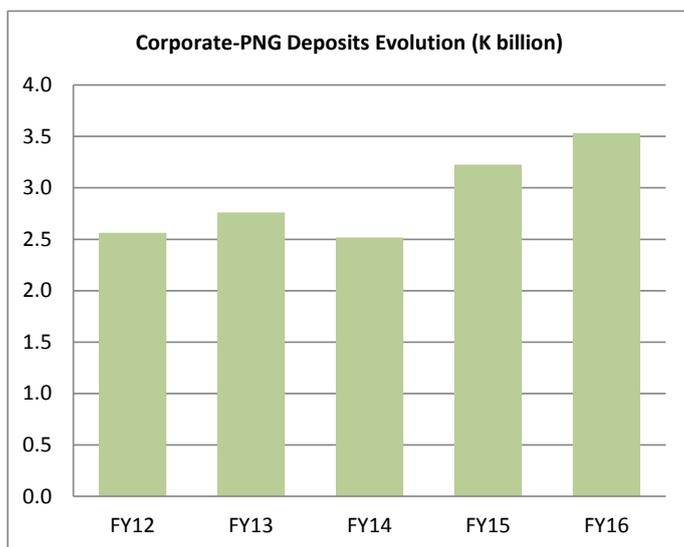
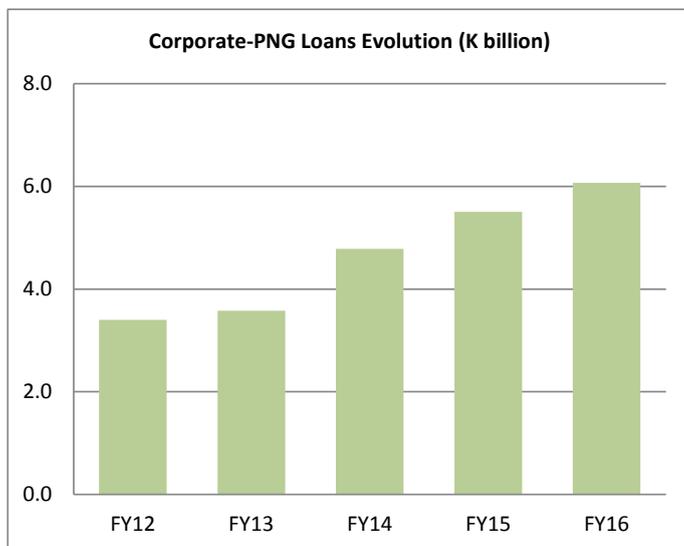
The daily execution of BSP’s business operations is the responsibility of the Strategic Business Units (SBUs). The SBUs are Retail Banking, Corporate, Treasury, Paramount Banking, Group Risk Management, Human Resources, Operations and Information Technology, and Finance & Planning. Here are reports and highlights of each SBU performance in 2016.

CORPORATE

In 2016 the Corporate Strategic Business Unit (SBU) contributed strongly resulting in an uplift in loans and deposits, foreign exchange volumes, customer satisfaction and profitability.

Corporate SBU maintains a strong commitment to its people. The team across Papua New Guinea and the Pacific provides a sound basis for BSP’s competitive advantage, delivered through our “whole of bank” solutions.

The Corporate SBU contributed to some major drivers of the Bank’s 2016 performance, which were stable Kina lending, with overall market share in PNG now at 55%. Overall focus on total business performance was maintained, with the SBU’s direct cost increases held below our target for the year. Deposits grew 10%, exceeding K3.5 billion during the year and well above prior periods.



Customer satisfaction is a key objective of Corporate SBU’s efforts and we have delivered improved customer satisfaction scores over the past 4 years. This is evidence of the developing customer service culture behind Corporate SBU’s success. During the year the Bank’s fourth independent market research customer satisfaction survey was carried out, involving feedback from over 430 of our customers. The survey results highlighted a solid increase in customer satisfaction across the key drivers of Service, Relationship Management, Product, Fees, Charges and Rates and Treasury and Foreign Exchange. Each relationship team has developed action plans to address their individual customers service issues as well as in collaboration with other Bank and Group businesses.

There is a strong credit culture within Corporate focused on prudent credit risks and maintaining a strong partnership with the Group Risk Management team. Wherever possible, joint visits to customers are undertaken, to proactively monitor and control the quality of the loan portfolio and promptly respond to any sector or customer demonstrating stress.

BSP’s “whole of bank” solution incorporating dedicated relationship management, extensive product suite, electronic solutions and access to the largest retail branch networks means BSP is the leading business partner in PNG and across the South Pacific. The Strategic Customer Support team continues to work with our key customers and international targets in the oil & gas and mining sectors delivering a strong and unique engagement opportunity across business units within countries and across the South Pacific region.

Corporate SBU is well positioned with a strong pipeline of transactions, competitive foreign exchange position, and dedicated professional people who remain ready to meet the challenges of the 2017 financial year with the right solutions, the right Pacific footprint and a “whole of bank” engagement that supports our customers and communities in our chosen markets.



Joint visits arranged by Corporate, Treasury and Retail team to Coffee, Cocoa, Oil palm and balsa exporters.

FINANCE & PLANNING

The focus of Finance & Planning activities in 2016 was a continuous improvement of the key deliverables of Reporting for the Group.

The Finance and Planning team upgraded the general ledger system which incorporates the latest technology features, including updated Microsoft compatibility, to provide a strong financial accounting and reporting platform to support the growing business activities of BSP.

A key benefit of this upgrade was leveraging the latest functionalities and add-on solutions to provide enhanced reporting capabilities to BSP. The upgrade was completed on time and within budget. Upgrades of the general ledger systems in all countries will be completed during 2017.

A direct benefit of the upgrade in 2016 is streamlined and efficient processes regarding consolidated management reporting. Training has also been undertaken by PNG Finance and Planning so that all group consolidation tasks are now completed with minimum assistance from the external service provider.

BSP Vanuatu is now part of the group reporting database following its acquisition in June 2016. The Database has proven to be a very beneficial and effective reporting tool that can meet the Group’s growing financial reporting needs. The team continues to work towards enhancing and improving information delivery to management and various stakeholders, with a focus on accuracy and timeliness. A number of key processes were selected and assigned to cohort groups within the business to review,

STRATEGIC BUSINESS UNIT REPORTS

identify weaknesses and suggest ways to streamline these processes. The exercise resulted in marked improvements in turnaround times and improved quality of reporting. This initiative will be carried forward in 2017 with a new set of processes targeted for improvement.

The Strategy and Planning team has continued to undertake more responsibilities in terms of the annual budgeting and strategic planning and reporting cycles across the Group. Processes for planning, implementing and reporting of strategic initiatives continue to undergo improvement. Analytics capabilities continue to be improved in areas dealing with the monitoring of the integrity of the Bank's financial data, and the extraction and analysis of operational and financial data for Retail and Corporate segments.

Regular training on financial systems and applications used in the Finance & Planning SBU was delivered during the year. With an experienced team on board, the Finance & Planning SBU will continue to invest in staff skill and knowledge through training and mentorship, to enhance professional expertise and reduce reliance on external consulting resources as much as possible. Quality courses were run during the year including "advanced financial modelling" with participation from team members from across all BSP entities in PNG and offshore. Marked improvements were noted in the quality of output from staff members who attended this course. More courses such as this will be sourced and run for Finance and Planning members in 2017. Finance and Planning looks forward to the challenges of the coming year, to deliver a higher quality service, keep up professional development and set goals that extend its people and benefit the business.

GROUP RISK MANAGEMENT

Effective risk management is essential for the achievement of BSP's vision. BSP has a Board approved Group Risk Appetite Statement that reflects the level of aggregated risk that BSP is willing to assume and manage in the pursuit of its business objectives. The Group Risk Appetite Statement reflects BSP's business and risk strategies which are measured by internal risk-return benchmarks.

The CEO and the Executive Team are responsible for implementing BSP's risk management strategy and frameworks, and for developing policies, controls, procedures and processes for identifying and managing risk in all activities. Various Business Units within Group Risk Management oversee risk measurement, monitoring and management against the Group's risk appetite benchmarks.

Credit

Credit Business Unit undertakes key activities to manage credit risk. It is responsible for the overall credit quality of the Bank's loan portfolio, implementing and reviewing credit policies and industry underwriting standards, monitoring sector concentration limits and portfolio management responsibilities.

Credit Business Unit, in collaboration with Corporate and Retail Banking, manages credit risk by developing and undertaking an ongoing review of the credit risk strategy that identifies the Bank's target market providing a platform to grow the business within defined parameters to build a quality loan portfolio across a diversified range of sectors and countries in which BSP operates. Senior Management has the responsibility to implement credit risk strategy including developing policies and procedures for identifying, measuring, mitigating, monitoring, controlling and on a regular basis reviewing the effectiveness of the credit risk strategy and inherent credit culture.

Sound lending growth across all sectors of the PNG economy was achieved in 2016. Diversification of the loan portfolio across key economic sectors continues to be monitored, providing a mitigant to the overall loan portfolio exposures, to ensure that no significant concentration risk develops that may impact the stability of the asset portfolio performance.

The Bank's market share in PNG has increased to 55%. Loan growth was achieved in all other countries as well. The total loan portfolio for the Group was recorded at K10.5billion as at 31st December 2016.

LendFast, BSP's automated retail loan origination system for unsecured personal loans has been expanded to include housing loans and SME lending providing a more consistent origination process and improved turnaround times for approval and funding. The Bank with the assistance of Standard & Poor's (S&P) Capital IQ has recalibrated and revalidated the internal Risk Grade system aligning the resulting Probability of Defaults to S&P Global rating with reference to loss experience in PNG.



Training has been a key focus in 2016 and will continue into 2017. Moody's online credit training was completed for 90% of Credit and Corporate staff during the year. Standard & Poor's delivered formal classroom training sessions in PNG to complement the online training modules. Weekly in house training sessions consisting of 30 specific Credit related learnings, were delivered by management during 2016 for Credit and Corporate staff.

Operational Risk

The Operational Risk & Compliance Business Unit has broad operational risk management responsibilities across the Group. Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Group's business activities. The Bank has independent Operational Risk & Compliance functions in PNG and in the Bank and Life Insurance operations in Fiji. It also has operational risk teams in Solomon Islands, Tonga, Samoa, Cook Islands and Vanuatu.

The Bank placed significant focus on the Compliance and AML functions during the year to comply with the new legislations on Anti-Money Laundering and Counter Terrorist Financing (AML & CTF) in PNG and the Prudential Standards released by the Bank of Papua New Guinea (BPNG) plus other regulators in the countries in which BSP operates.

A comprehensive review of the AML/CTF Policy was undertaken that now captures the requirements of BPNG Prudential Standards on Customer Due Diligence (CDD) and the five (5) new legislations introduced in PNG in 2016 to combat financial crimes.

During 2016 an independent Compliance Unit, was created and embedded within Operational Risk Business Unit. Risk management activities were focused on regular risk and control assessments and related risk mitigation plans for key BSP processes. Risk and control assessments and mitigation planning at business unit level, involving risk register reviews, as well as at enterprise level, were conducted. Risk awareness workshops across the Bank targeted general operational risks, anti-money laundering and fraud detection. This was combined with the implementation of the latest release of the Bank's online operational incident management database. The Operational Risk Business Unit continued to provide support for the management Operational Risk Committee, facilitating analysis and regular reporting of operational risk issues.

Asset Management

Asset Management manages the non-performing asset portfolio. Non-accrual loans volume saw a decrease in 2016 from circa 1.4% to 1.1% of the Bank's overall lending volumes in PNG. We have also seen a decrease in defaulting unsecured consumer loans in PNG for 2016. This is a result of tightening the approval process and more experience gained with the new

automated collection system. An improvement in Retail debt recoveries in the latter part of 2016 was as a result of new additional staff completing their induction and training after being appointed in late 2015.

Credit Inspection

Credit Inspection provides an independent assessment of the Bank's compliance with credit policy and also of portfolio quality. The primary role of the Credit Inspection Business Unit is to provide a professional, independent risk management function of the best practice standard and portfolio quality assurance which assists senior management and the Board via the Board Risk & Compliance Committee (BRCC) in the effective discharge of their responsibilities. The Unit performs independent analysis and objectively concludes on the quality of credit risk assessment, credit approval, credit risk management, compliance, risk control and credit portfolio reporting. It also makes recommendations to address weaknesses and improve compliance. Its independent assessment activities are executed through "on-site" inspections, and where applicable, "off-site" inspections of the credit risk portfolio within the Bank in all countries.

In 2016, Credit Inspection completed 12 monthly reports for Retail Banking (Personal Lending) in PNG and 12 reports for Corporate and Commercial Banking Relationship Portfolios including Tonga and Samoa. For Corporate Banking including Commercial, approximately 74% of the Corporate Relationship Loan Portfolios were reviewed by Credit Inspection. In addition both Tonga and Samoa loan portfolios were reviewed covering approximately 74% and 82% of their respective loan portfolios.

Audit

Audit undertakes regular risk based internal audits of processes and procedures to maintain compliance with regulations and BSP standards and retains an independent and direct reporting line to the Board Audit Committee (BAC). It provides the third element of defence in the business unit structure of Group Risk Management, and acts as the last line of defence in BSP Group's risk management framework.

BSP has independent internal audit functions for the Group reporting, through the Head of Group Internal Audit, functionally to BAC and Group CEO and administratively to the Group Chief Risk Officer.

Key audits during 2016 included General Ledger Reconciliations, Anti-Money Laundering, Business Continuity Management, Treasury and all Retail branches. The Internal Audit team also conducted audits in Samoa, Tonga and Cook Islands for the first time since acquisition.

Legal

Legal Services provides the legal services and advice required for the operation of the business.

The Legal Unit provides or sources the legal services and advice required by the Bank in conducting its business, principally in the area of banking, commercial and securities law, litigation (both for and against the Bank) and regulatory compliance. To the extent possible, these services are provided by the five in house lawyers with external lawyers being engaged where deemed necessary or prudent.



Michael Heno, Geoffrey Emang, Josephine Talpa and Asher Waffi in Court Room 1, Supreme Court Building, Waigani.

HUMAN RESOURCES

Human Resources SBU continued its support role for the Bank's operations through its core Human Resource Management functions in 2016. BSP received its third consecutive award for "Best Private Sector Employer" from the Papua New Guinea Human Resources Institute Inc., recognising BSP as a model organisation with best human resource practices in PNG.

Talent Management

In the Talent Management area, Human Resource was involved in the design and implementation of Human Resources Best Practices which were identified in our core Human Resources functions such as talent administration and job profile completion amongst others. Staff turnover rates reduce year on year and is now at 6%. Our Talent Management team also initiated a structured coaching & mentoring program involving the Leadership Management and Development Program (LMDP) participants as mentees and the Executive Management team as mentors. This proved to be an effective & professional coaching tool in nurturing and mentoring our future leaders.

Human Resource Operations – Strategy & Change

Strategy and Change supported the Group's icare program, BSP's in-house customer service culture program. We successfully rolled out the icare Champions refresher training program to 97 icare Champions in BSP. This program will continue over the coming year as it is a very important part of developing BSP's sales and service culture and is aimed at exceeding our customers' expectations and maintaining their loyalty. The Strategy and Change team also administered BSP's Staff Engagement Survey in PNG. Over the last three years, we have conducted employee engagement surveys in PNG to assess the engagement levels of our employees and the results help to inform strategies on improving engagement moving forward.

Training and Development

Training and Development introduced five new supervisory course programs as part of our ongoing staff development from foundation level to supervisory level. This proved to be a great success, with strong participation across all PNG businesses.

A similar rate of participation was also achieved for the Advance Leadership course introduced for management level staff. Additionally, some of our staff had the opportunity to participate in a certification course on Emotional Intelligence. This training incorporates some recent innovative approaches to leadership skills and development covering concepts of self-awareness, resilience and adaptive behaviours. All programs have been initially implemented in PNG and will be extended to BSP's operations outside of PNG from 2017.

In 2016, BSP's elite Leadership and Management Development Programme (LMDP) added 19 staff from PNG and Non-PNG countries to the three year accelerated development program bringing the total to 34 employees in the LMDP across the Group. The goal of the LMDP is to prepare the next pool of senior managers for BSP and so far the LMDP is proving to



BSP icare Champions attending training at Port Moresby.

be a success with implementation of training programmes for the 2015 and 2016 cohorts and the excellent performance of the LMDP participants within their Business Units and designated projects. As part of the program in 2016 six senior category employees completed the General Management and Strategic Banking programmes at Insead Business School at the France and Singapore campuses and the other categories attended management programs in Melbourne Business School. In 2016 six of the LMDP cohort participated in the three month secondment program with the Bank of Philippines Islands in Manila.

Employee Relations

A new Grievance Policy was instituted in BSP during the year. This policy has been developed as a guideline to assist in the process of managing employee grievances fairly, effectively and amicably.

Some key Human Resources Awareness Programs were initiated and implemented across the PNG Retail Branch Network. Officers attended at branches to explain the key policies in detail, ensuring that vital information cascaded to all levels of BSP.



47 BSP Staff Graduated from various course from the PNG Institute of Banking Business Management.

Remuneration and Benefits

Human Resources has continued to reliably provide this key employee service in 2016. Participation in the National Staff Home Ownership Scheme improved throughout the year. BSP increased its suspensory loan assistance to staff in relation to equity contribution and construction of houses by approved local contractors gathered momentum. This has boosted staff morale and motivation. BSP also revised the National Staff Medical Insurance policy to cover full premium payment for all employees in the Group.

Human Resources Projects and BSP Overseas Operations

The Human Resources team identified a more efficient and user friendly comprehensive Human Resources System tool to support the core functions of its financial Human Resources management system operations. As a result, the Human Resources SBU set up a dedicated support team for Human Resources needs and services from offshore branches to assist them to integrate with the new system which will improve efficiency and effectiveness in the financial element of our core mandated Human Resources functions and responsibilities.

OPERATIONS AND INFORMATION TECHNOLOGY

The Operations & Information Technology SBU has continued to provide the tactical solutions and strategic roadmaps required to move the delivery capacities of the business forward.

In order to maximize BSP's return on capital and focus on core business activities, the Property Strategy continued to be implemented in 2016. The sale of the Bank's Head Office in Port Moresby as well as its Boroko Banking Centre were completed, combined with the long term leaseback of branch space in those locations. Additionally, several smaller commercial and residential properties throughout PNG and the Solomon Islands were also sold.

Significant investment was undertaken to improve our branch network with a new SME Lending Centre at Brian Bell Complex Lae as well as Lending Service Centres in Waigani Drive, Lae Market, Bulolo and Wewak branches. Following its completion at the end of 2015, BSP's new modern Data Centre was commissioned during the first quarter of 2016. This required 24/7 work from our Technology team over seven consecutive weekends to ensure all computing assets were securely moved from the previous data centre and tested with no outage or inconvenience to our customers across the Pacific. This involved numerous role swaps from the Production Data Centre to the Backup facility.

The multi-year building project for the Waigani Head Office, which also includes a new back up data centre, continued to the end of 2016. Final testing of services and building occupancy certification are currently in process with advanced planning in place for the relocation to the new premises, of 900 staff from various buildings within Port Moresby in the first half of 2017. During the year the integration of businesses acquired from Westpac was completed and the Transitional Services Agreement for the Solomon Islands purchase was cancelled. The acquisition of the Westpac Vanuatu operation was finalized in July 2016. Using the experience from the previous transactions we were able to migrate all technology to BSP the same weekend as the effective sale date, with the sole exception being scheme cards processing which required post sale actions on the part of the Schemes themselves. During October and November 2016 we successfully integrated the core banking and mobile banking systems of BSP Solomon Islands with the Solomon Islands operations acquired from Westpac, an effort that involved almost 12 months of activity.

The focus of the Project Management Office in 2016 has been to work on projects which improve BSP's e-Banking capabilities. Some of the projects delivered in 2016 included Air Niugini Ticketing Payments using mobile banking, EFTPoS system replacement in all locations outside Fiji (Fiji's exercise is being undertaken in country), replacement USSD and Branchless Banking in Solomon Islands with rollout to Tonga, Samoa, Vanuatu and Cook Islands scheduled for 2017. There was also an upgrade of Corporate Internet Banking allowing batch uploads to ultimately replace the current Kundupeu used for salary and creditor file uploads and the upgrade of the General Ledger system in PNG with rollouts planned in 2017 to the other locations. Over the next 12 months BSP will invest significant time and effort in EMV (Chip) Scheme cards with contactless functionality, increased functionality in EFTPoS, a new HR Administration System, an improved Internet Payment Gateway as well as an intranet to be used as the main medium for all communications and procedural documentation within the Group. BSP is also committed to PCI DSS compliance across all locations.

A major activity in 2016 was the initiation of the process leading to the selection of a new core banking system provider. As the year commenced the team in collaboration with the business developed an inventory of more than 4000 functional requirements which was included in invitations to the major core system providers globally. An evaluation process was undertaken with each of the top four providers being invited to Port Moresby for a four day demonstration to showcase their offerings to our business representatives. Their scoring and our subsequent reference site visits resulted in the further refinement of the listing to two contenders, one of whom was identified for exclusive negotiations. A contract has been signed with Oracle Corporation Australia Pty Limited in February, 2017. Implementation of the new system will take two years in PNG with an additional 12 to 18 months to accomplish same in all other locations. Once completed, all BSP locations will have the same IT infrastructure and core banking system with a reduced total cost of ownership and more uniform product offerings across the Pacific.

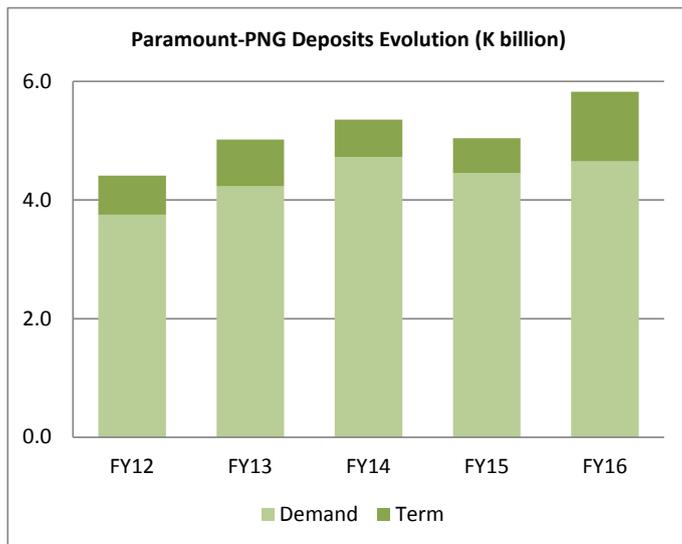
PARAMOUNT BANKING

Paramount Banking performed well in 2016, achieving its planned targets. By the end of the year, Paramount Banking was able to maintain its deposit portfolio at K5.8 billion, which represents 48% of BSP's deposit portfolio and 27% of the PNG financial system liquidity.

A major factor contributing to these achievements has been the continued strategic alliance supporting government service delivery through the provision of premium professional banking services to entities and staff at national, provincial and district levels of Government.

The performance of Paramount continues to be based on maintaining a strong service culture in dealing with our entire segment base with emphasis on regular and quality contact with our clients, supported by appropriate internal and external training for our staff. We have two staff on the Bank's Leadership Development Program.

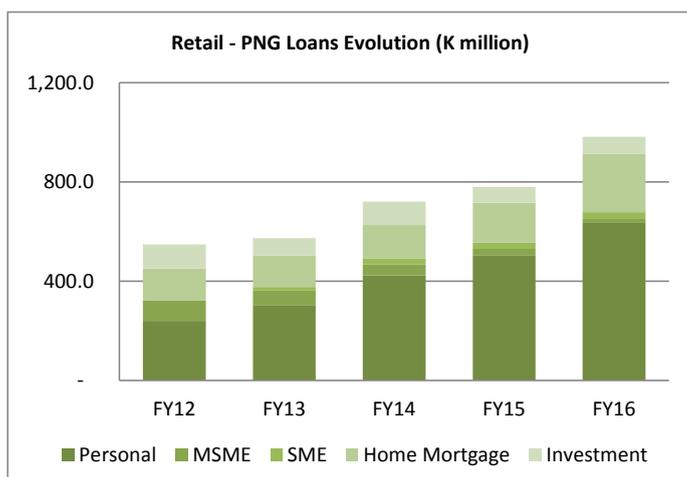
As part of BSP's whole of bank approach to business during the year, Paramount Banking partnered with the Corporate, Treasury and Retail Strategic Business Units, playing a vital role in securing foreign currency inflows from its customer base to support BSP's efforts in meeting customer needs for foreign currency. The Paramount Banking Community Affairs Officer continued to maintain contact with various Resource Developers during the course of the year particularly in the Highlands and Islands Region, and arranging training on banking and financial services with Landowner groups. Maintaining contact with Landowner groups is an important part of our strategy for this segment due to their growing significance in the economic and social systems of rural and regional populations in resource-rich areas.



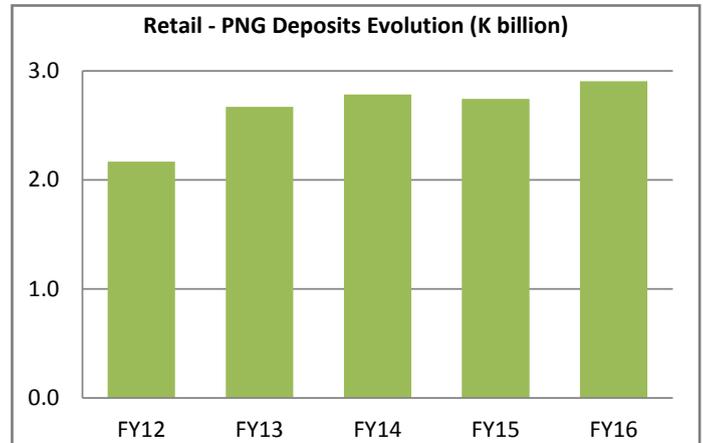
Paramount Banking continues to be the Banker of Choice for all of its clients and this will continue in 2017. We expect to be fully engaged in providing our superior customer service to our government and landowner clients, as well as our other important institutional customers including overseas missions, aid agencies, churches, regulatory bodies, and major non-bank financial institutions.

RETAIL BANKING

We commenced 2016 with much of the country still suffering the impact of an El Nino event which had resulted in drought and frosts during the prior year. As these conditions eased, agricultural production in rural areas improved, along with income flows back into the hands of farmers. Employment in the formal sector was flat and indeed in some industries, formal employment declined.



Against this backdrop, Retail achieved an increase of approximately 175,000 new customers in 2016 and this helped Retail register modest growth in our electronic banking channel income, particularly mobile banking and ATMs. The acceptance of electronic banking by our customers continued to strengthen and during 2016, 90% or approximately 100 million customer transactions were processed through electronic channels. The remaining 10% were transacted over-the-counter at our branches, sub branches and agencies.



We continued to innovate and develop new functions such as the payment of airline tickets using BSP's Mobile Banking product were introduced in 2016. The process of replacing our EFTPoS terminals continued throughout the year.

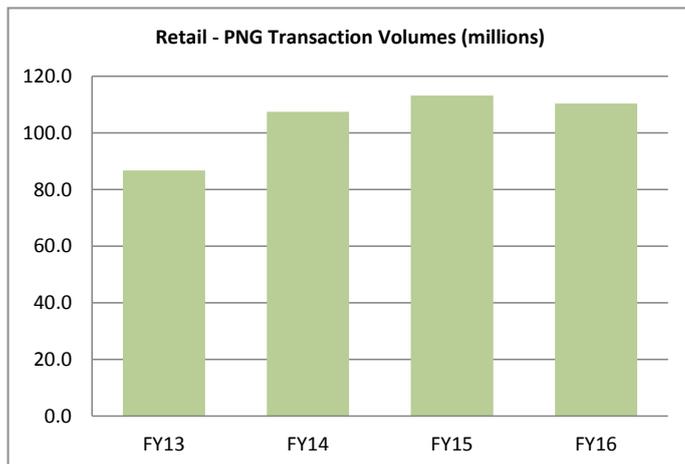
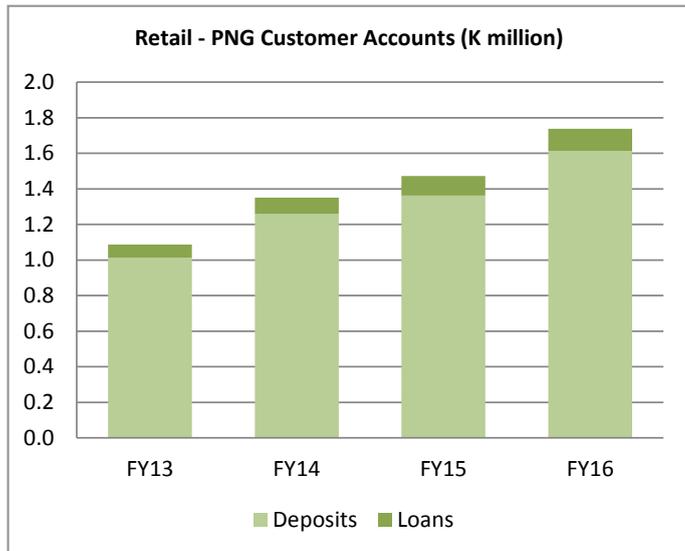
Retail achieved strong growth in lending activities during 2016 with consumer finance increasing by K130million to K634million and housing finance increasing K73million to K303million. Lending and Payment services to the Small to Medium Enterprises (SME) sector continued to be a focus and a second SME branch dedicated solely to the promotion of this sector was opened at Lae. Our Retail depositors' balances also increased K161million to K2.9billion during the year. Retail continued its efforts to promote financial literacy and this contributed to the growth in customer numbers and depositors' balances. Retail also recommenced the delivery of school banking in a number of centres enabling students to make regular deposits into their accounts to develop a habit of saving.

Staff capabilities continue to be enhanced, with a number of our management team now participating in the BSP Leadership and Management Development Programme. Training in other areas has also been maintained. Retail has also collaborated with SBUs across the Group, providing network and branch support for Corporate and Paramount, and teaming with Treasury to ensure ongoing support for Retail foreign exchange business. Implementing with BSP Group Risk, changing operational risk requirements in areas such as fraud, anti-money laundering, counter terrorism funding is also an ongoing activity. Additional responsibilities have also been assumed for management and coordination of South Pacific banking operations outside Fiji.



Palmaal Ecosystem Training.

In 2017, Retail will continue to improve network reach through sub-branches, agencies, and EFTPOS. Work to enhance the Bank’s mobile banking offering will also be undertaken in PNG and across the Pacific. Market growth areas in consumer savings and lending will continue to receive focus.



TREASURY

The role of BSP Treasury remains to support client relationships, act as BSP Group’s banker, and be a key part of the risk management process in terms of market, liquidity and capital risk.

In its client relationship role, Treasury fosters and enhances relationships with clients, providing Financial Markets services, solutions and ensuring clients remain aware of the regulatory environment and its implications. As “banker to the bank”, Treasury is involved in managing foreign exchange flows, managing local and foreign currency liquidity flows, investing surplus funds prudently in the interbank, Treasury Bill and Inscribed Stock markets, funding foreign currency balance sheet operations across 7 countries, and complying with all regulatory and internal guidelines and limits. Each country has their own discrete foreign exchange regulations and operates in financial markets where foreign exchange liquidity is derived from a narrow base of export industries and sources, and the dependence on imports are relatively high.

The risk management role is discharged through management of market risk, liquidity risk, capital and capital planning, in line with prudential requirements, ALCO directives and delegated Board authorities.

PNG Treasury foreign exchange earnings were above prior year levels notwithstanding market imbalances where import demand far exceeded export supply of foreign currency. These dynamics improved as the year progressed, with OK Tedi Mine re-opening in April, and proceeds from resumption of exports assisting with the supply of foreign currency to the market.

Movements in the official Bank of Papua New Guinea (BPNG) rate of exchange reflected this, falling 5.2% in the first half of 2016 (to USD 0.3160), but only 0.3% in the second half of 2016 to close the year at USD 0.3150.

BSP’s foreign exchange market share in PNG increased from 33.3% in 2015 to 42.0% in 2016. The Bank’s foreign exchange turnover rose by 40%, while PNG’s foreign exchange market turnover rose by 11%. Market share gained came predominantly from the Mining and Agricultural sectors.

Government debt yield curves steepened over the course of the year, reflecting evolving fiscal conditions. 28 day Central Bank Bills fell from 1.32% to 1.18%, 91 day Treasury Bills rose from 2.44% to 2.61%, 182 day Treasury Bills rose from 4.65% to 4.72%, whilst 1 year Treasury rose 0.17% to 7.77%. Yields on longer dated Government issued Inscribed Stock were stable.

Operationally, PNG Treasury is actively focused on providing technical training, empowering staff to continue their development journey. Treasury dealing staff all sat the Australian Financial Markets Association Foreign Exchange Markets Accreditation examinations during the year, and will continue further technical training in Foreign Exchange and Money Markets in 2017.



Account Opening for Students of Kadawa Primary, Daru.



Mt. Hagen Branch Staff welcoming Group CEO, Robin Fleming and Chairman, Kostas Constantinou during one of the Board Meetings.



BSP Mt. Hagen Branch Staff opening accounts in rural Simbai.



Livikonimo Koki, Branch Manager, Goroka giving a speech at the We are BSP Brand Launch.



Near a Building or under a Tree, BSP will be there Opening Accounts for you.



Opening of the SME Business Centre in the new Brian Bell Plaza, Lae, Morobe Province.



Smiles of Success. Launching of the Mobile Banking Air Niugini Ticket Payment.



Account Opening for Students of Karakara Primary School.



We are you. We are Solomon Islands.

Corporate Governance



BSP has adopted an approach to corporate governance that is underpinned by our Core Values of Integrity, Leadership, People, Professionalism, Quality, Teamwork and Community.

This approach is supported by a comprehensive framework of corporate governance principles and policies. The BSP Board has demonstrated its commitment to developing and maintaining a standard of corporate governance that seeks to match global practice. The Board ensures that it complies with the requirements of the Port Moresby Stock Exchange (POMSoX) and the Australian Securities Exchange (ASX).

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea and the various countries that BSP operates in. The Board has adopted a statement of Corporate Governance Principles which outlines the approach BSP has adopted to corporate governance principles. These Corporate Governance Principles are intended to provide a framework that will help to ensure that BSP deals fairly and openly with all its stakeholders – Shareholders, customers and staff alike.

BSP's Corporate Governance Principles are available in the Investor Relations section of BSP's website at www.bsp.com.pg.

BSP also complies with the Prudential Standards/ Statements dealing with corporate governance issued by the regulators/ central banks in the various countries that it operates in. These Prudential Standards/ Statements currently include: -

- The Bank of Papua New Guinea (BPNG) introduced its new Banking Prudential Standard BPS300: Corporate Governance (issued under Section 27 of the Banks and Financial Institutions Act 2000) in August 2016. The Effective Date of this Prudential Standard is 1 January 2017, with full compliance by 31 December 2018.
- The Reserve Bank of Fiji Banking Supervision Policy Statement No. 11: Governance (Oct 2007)
- The National Reserve Bank of Tonga Prudential Statement No. 9 (revised 2014): Governance

The sections below explain how BSP complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. These sections were adopted by the Board as BSP's Corporate Governance Statement on 3 March 2017.

THE BOARD OF DIRECTORS

Role and Responsibility of the Board

The roles and responsibilities of the Board are defined in the Board Charter. This document also details the matters reserved for the Board and matters that have been delegated to management with oversight by the Board.

The Board, with the support of its Committees, is responsible to the Shareholders for the overall performance of BSP including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising BSP performance and increasing shareholder value. The key functions of the Board are: -

- setting overall strategy of BSP, including operating, financing, dividends, and risk management;
- appointing the Chief Executive Officer and setting an appropriate remuneration package;
- appointing General Managers and setting appropriate remuneration packages;
- appointing the Company Secretary and setting an appropriate remuneration package;
- endorsing appropriate policy settings for management;
- reviewing Board composition and performance;
- reviewing the performance of management;
- approving an annual strategic plan and an annual budget for BSP and monitoring results on a regular basis;
- ensuring that appropriate risk management systems are in place, and are operating to protect BSP's financial position and assets;
- ensuring that the company complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour;

- approving acquisitions and disposals material to the business;
- establishing authority levels;
- setting Directors' remuneration via the Remuneration and Nomination Committee;
- selecting, with the assistance of the Board Audit, Risk and Compliance Committee, and recommending to Shareholders, the appointment of external auditors; and
- approving financial statements.

A number of these responsibilities have been delegated by the Board to various Committees. The Committees and their responsibilities are detailed in Section 2, Board Committees.

The Board has delegated to management responsibility for:

- developing the annual operating and capital expenditure budgets for Board approval, and monitoring performance against these budgets;
- developing and implementing strategies within the framework approved by the Board, and providing the Board with recommendations on key strategic issues;
- appointing management below the level of General Manager and preparing and maintaining succession plans for these senior roles;
- developing and maintaining effective risk management policies and procedures; and
- keeping the Board and the market fully informed of material developments.

Membership, Expertise, Size and Composition of the Board

The Corporate Governance Principles affirm that the majority of the Board should be independent.

Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interest in advance, and absenting themselves from any consideration of matters where a conflict might arise. The BSP's Corporate Governance Principles require Directors to disclose any new directorships and equity interests at each Board Meeting.

The maximum number of Directors, as prescribed by the Constitution approved by Shareholders, is ten. At the date of this report there are ten Directors, with nine non - executives all of whom (including the Chairman) are considered by the Board to be independent; and the Chief Executive Officer who is not considered to be independent by reason of being an executive of BSP. BSP in the ordinary course of business conducts transactions with Directors, their spouses, parents and children and/ or parties which any of them control. These transactions include loans, deposits, and foreign currency transactions. Such transactions are carried out on commercial terms at market rates and do not require shareholder approval under Papua New Guinea company law. Where they involve loans, procedures follow BSP's standard credit approval and review processes which do not have any involvement of Directors, and BSP holds security in accordance with its standard procedures. As a result, BSP considers that Directors are able to maintain their independence even where a Director is a party to a transaction of this kind because they will not have been involved in the approval process for that transaction.

Under the Constitution, at each Annual General Meeting one-third of the BSP's Directors, in addition to any Director appointed during the year, excluding the Chief Executive Officer, must offer themselves for re-election by the Shareholders.

A Director is normally appointed for an initial term of three years. At the end of the term of three years, the Director will become eligible for reappointment by the Shareholders for a further term of three years and, if not reappointed, retires automatically. A Director is not permitted to hold office for a period exceeding three terms of three years or nine years, whichever is the lesser.

Details regarding the length of service of each Director are set out in the “Board of Directors” section.

The Board has undertaken a renewal and succession planning process in recent years with the aim of maintaining a proactive and effective Board in line with the directions of the BSP Group. The Board already has implemented an independent Board evaluation process to underpin the assessment of its performance.

Consistent with Recommendation 2.2, BSP has a Board skills matrix process. These skills include Risk Management, Regulatory/Government Policy, business and financial acumen, experience as a Non-Executive Director, remuneration and corporate governance.

The Board therefore has a broad range of skills, experience and expertise that enables it to meet its objectives. Details of the Directors’ business backgrounds and experience are provided on pages 8 - 9. The Board accepts that it has a responsibility to Shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership.

Consequently the Board gives careful consideration to setting criteria for new appointments it may recommend to Shareholders in accordance with the Constitution. It has delegated the initial screening process involved to its Remuneration and Nomination Committee which, in accordance with its Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

Consistent with Recommendation 1.2, BSP undertakes appropriate checks before appointing a person as a Director or offering them to Shareholders as a candidate for election, and has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in notices of meeting provided to Shareholders.

Nominees of the Board and/or Shareholders must meet the ‘fit and proper person’ criteria outlined in BPNG Banking Prudential Standard BPS310: Fit and Proper Requirements before they can take their place on the Board.

Consistent with Recommendation 2.6, BSP has a program for inducting new Directors and providing appropriate professional development opportunities for Directors.

On joining the Board, new Directors are provided with an Appointment Letter setting out the terms of the appointment, a Board induction pack and undertake a comprehensive induction program. In particular, the Appointment Letter specifies the term of appointment, BSP’s expectations in relation to time commitment and Committee work, the Director’s remuneration arrangements, the Director’s disclosure and confidentiality obligations, the Director’s insurance and indemnity entitlements, and BSP’s key corporate governance policies.

BSP’s senior management also enter into employment contracts which set out their terms of employment, including their position, duties, reporting lines, remuneration and termination arrangements.

Role and Selection of the Chairman

The Chairman is elected by the Directors and holds the position for a maximum of 6 consecutive years unless in a certain exceptional instance. The role includes:

- ensuring all new Board members are fully aware of their duties and responsibilities;
- providing effective leadership on the BSP’s strategy;
- presenting the views of the Board to the public;
- ensuring the Board meets regularly throughout the year, and that minutes are taken and recorded accurately;
- setting the agenda of meetings and maintaining proper conduct during meetings; and
- reviewing the performance of Non-Executive Directors.

Director Independence and Conflict of Interest

Directors are determined to be independent if they are judged to be free from any material or other business relationship with BSP that would compromise their independence.

Prior to appointment Directors are required to provide information to the Board for it to assess their independence.

In assessing the independence of Directors, the Board will consider a number of criteria including:

- the Director is not an executive of the Group;
- the Director is not a substantial shareholder of BSP or otherwise associated directly with a substantial shareholder of BSP;
- the Director has not within the last three years been a material consultant or a principal of a material professional adviser to BSP, or an employee materially associated with a service provider;
- the Director is not a material supplier to BSP, or a material consultant to BSP, or an employee materially associated with a material supplier or customer;
- the Director has no material contractual relationship with BSP other than as a Director of BSP;
- the Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director’s ability to act in the best interests of BSP.

This information is assessed by the Board to determine whether on balance the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director’s responsibilities. Materiality is assessed on a case-by-case basis.

As noted earlier, the Board is cognisant of the need to avoid conflicts of interest and it has in place policies and procedures for the reporting of any matter, which may give rise to a conflict between the interests of a Director and those of BSP. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

BSP fully complies with the requirements of the BPNG Prudential Standard 4/2003 – Limits on Loans to Related Parties.

Related Party Transactions are summarised in Financial Note 30. The Directors’ information on page 70 provides details of the Director’s Interests.

Meetings of the Board and Attendance

Scheduled meetings of the Board are held at least six times a year, and the Board meets on other occasions as necessary to deal with matters requiring attention. Meetings of Board Committees are scheduled regularly during the year. The Board has a policy of rotating its meetings between locations where the Group has a significant presence. On these occasions the Board also visits company operations and meets with local management and key customers.

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess BSP’s management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board members one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Financial Note 27, Directors’ and Executive remuneration, provides attendance details of Directors at Board meetings during 2016.

Review of Board Performance

Consistent with Recommendation 1.6, BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The key findings of the 2016 Performance Review are available in Investor Relations section of BSP’s website at www.bsp.com.pg.

The Remuneration and Nomination Committee reviews at least annually the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment of the Board as a whole to include an assessment of the contribution of each individual Director. The Board is cognisant of the need to continually identify areas for improvement; to ensure that it meets the highest standards of corporate governance; and for the Board and each Director to make an appropriate contribution to the Group's objective of providing value to all its stakeholders. The performance review is facilitated annually by an external consultant.

The Board with the assistance of the Remuneration and Nomination Committee sets the targets for the Chief Executive Officer and senior management members under BSP's employee incentive arrangements described below. These incentive arrangements are administered by the Remuneration and Nomination Committee. Performance against the relevant targets is assessed periodically throughout the year and a formal evaluation is undertaken annually.

Board Access to Information and Advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties.

The General Managers of each PNG Strategic Business Unit, Country Managers and General Managers of subsidiaries make regular presentations to the Board on their areas of responsibility.

The Chairman and the other Non-executive Directors have the opportunity to meet with the Chief Executive Officer, General Managers, Heads of Subsidiaries and Country Managers for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

The Board recognises that in certain circumstances individual Directors may need to seek independent professional advice, at the expense of BSP, on matters arising in the course of their duties. Any advice so received is made available to other Directors. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice.

Company Secretary

The Company Secretary is through the Chairman, directly accountable to the Board for proper functioning of the Board. Each Director may seek the advice of the Company Secretary. Under the Constitution, the Company Secretary may only be appointed or removed by the Board.

BOARD COMMITTEES

Board Committees and Membership

During 2016, two Committees of the Board were in operation whose functions and powers were governed by their respective charters. These Committees were the Board Audit Risk and Compliance Committee (BARCC), and the Remuneration and Nomination Committee (RNC). Membership of the Committees and a record of attendance at Committee meetings during the year are detailed in table below.

Remuneration details are provided in Financial Note 27.

Membership of Board Committees as at 31/12/2016:

Board Audit Risk & Compliance Committee

Geoff Robb	6/6
Ernest Gangloff	5/6
Arthur Sam ¹	6/6
Sir Nagora Bogan ²	4/6

Remuneration and Nomination Committee

Gerea Aopi	2/2
Freda Talao	2/2
Ila Temu	2/2
Tom Fox ³	1/2

1 - 2/6 as Committee Member, 4/6 as Director

2 - Sir Nagora Bogan retired as a Director on 13/11/2016

3 - Tom Fox retired as a Director on 10/6/2016

Sir Kostas Constantinou OBE, and Augustine Mano are not members of any Board committees.

Arthur Sam and Dr Faamausili Lua'iufi were appointed as Directors by the Board to fill casual vacancies in 2016 and are eligible for election at the Annual General Meeting in May 2017.

The names and relevant qualifications and experience of Committee members, and the number of times the Committees met and the number of meetings each member attended, are set out in the "Board of Directors" section.

Board and Committee Charters

BSP's Board and Committee Charters are available in the Investor Relations section of BSP's website at www.bsp.com.pg.

Committee Structure

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. At the next Board meeting following each Committee meeting, the Board is given a report by the Chairman of the respective Committee and minutes of the meeting are tabled.

The BARCC is comprised of a minimum of three non - executive Directors, a majority of whom should be independent, and who are duly appointed by the Board. The Chairman of the BARCC must be one of the independent Directors, other than the Chairman of the Board. Each member should be capable of making a valuable contribution to the Committee and membership is reviewed annually by the Board.

The Remuneration and Nomination Committee comprises a minimum of three Non-executive Directors, all of whom must be Non-executive Directors, and wherever possible also independent Directors, who are duly appointed by the Board.

The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board.

Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the Board.

A review of the performance of Committee members will form part of the Board's performance review.

The names and relevant qualifications and experience of Committee members and the number of times the Committees met and the number of meetings each member attended are set out above.

Board Audit Risk & Compliance Committee

In compliance with the BPNG new Banking Prudential Standard BPS300: Corporate Governance – Part III Principles and Prudential Requirements; Section 7 Responsibility of the Board; Paragraph (d); the Board approved, at its meeting on 14 October 2016, the 'split' of the Board Audit Risk & Compliance Committee (BARCC) into two separate Committees, effective from 1 January 2017 – (1) Board Audit Committee and (2) Board Risk & Compliance Committee.

The roles and responsibilities of the two new Committees are outlined in their Charters located on the BSP website, and these will come into effect from 2017.

Notwithstanding in 2016, the BARCC was delegated by the Board with responsibility for reviewing and monitoring the:

- integrity of the financial statements and the financial reporting and audit process;
- external auditor's qualifications, performance and independence;
- performance of the internal audit function of BSP;
- performance of the operational risk function of BSP;
- systems of internal control and management of all risks;
- systems for ensuring operational efficiency and cost control;
- systems for approval and monitoring of expenditure including capital expenditure;
- processes for monitoring compliance with laws and regulations (both in Papua New Guinea and overseas);
- implementation of Board decisions by management and making recommendations to the Board for the appointment of the external auditor; and
- annual internal audit plan and its ongoing review. In the course of fulfilling its mandate, the Committee meets with both the internal and external auditors without management present.

Annual Financial Statements

The BARCC reviews the annual financial statements to determine whether they are complete and consistent with the information known to Committee members and to assess whether the financial statements reflect appropriate accounting principles. In particular it:

- pays attention to complex and/or unusual transactions;
- focuses on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies;
- meets with management and the external auditors to review the financial statements and the results of the audit; and
- satisfies itself as to the accuracy of the financial accounts, and signs off on the financial accounts of BSP before they are submitted to the Board.

External Audit

The BARCC is responsible for making recommendations to the Board on appointment and terms of engagement of BSP's external auditors. The selection is made from appropriately qualified auditors in accordance with Board policy.

The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. In line with the Prudential Standard of the BPNG, the signing partner in the external audit firm must be rotated every five years.

The Committee reviews annually the performance of the external auditors and, where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the BPNG's Prudential Standard No. 7/2005 - External Auditors, while ensuring their independence is in line with Board policy.

There is a review of the external auditor's proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditors to discuss any matters that the Committee or the external auditors believe should be discussed privately. The external auditor attends meetings of the BARCC at which the external audit and half yearly review are agenda items.

The Committee ensures that significant findings and recommendations made by the external auditors are received and discussed promptly, and that management responds to recommendations by the external auditors in a timely manner.

The duly appointed external audit firm may not be engaged by BSP to provide specialist advisory or consultancy services to a bank while that same auditor/audit firm is engaged for services to conduct BSP's annual audit and related services. Services related to the preparation of a bank's corporate tax return are not prohibited. The external auditor is invited to the Annual General Meeting of Shareholders and is available to answer relevant questions from Shareholders.

The BPNG Prudential Standards provide for a tri-partite meeting between BPNG, the external auditors, and BSP, if required.

BSP's external audit firm is currently PricewaterhouseCoopers (PwC). Representatives of PwC will attend the next Annual General Meeting in May 2017 and be available to answer shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. The BARCC approves, on the recommendation of management, the appointment of the Head of Internal Audit. The Committee meets regularly with the Head of Internal Audit.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the Internal Audit Business Unit. The BARCC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

The BARCC meets separately with the internal auditors to discuss any matters that the Committee, or the internal auditors, believe should be discussed privately. The internal auditor has direct access to the BARCC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Compliance

The BARCC reviews the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations and the Constitution. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts, or non-compliance.

The Committee obtains regular updates from management and BSP's legal officers regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the BARCC has the right to approach a regulator directly in the event of a prudential issue arising.

Risk Management

The Committee's role in BSP's risk management processes are detailed in the next section on Risk Management.

Board Remuneration and Nomination Committee

The Remuneration and Nomination Committee has been established to assist the Board in fulfilling its oversight responsibilities in respect of Board and Senior Executive Management selection, appointment, review and remuneration.

The responsibilities of the Remuneration and Nomination Committee are:

- oversee the selection and appointment of the Chief Executive Officer and recommend an appropriate remuneration and benefits package to the full Board;
- determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the Shareholders;
- identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly;
- ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to Shareholders while maintaining a world class Corporate Governance regime;
- receive and endorse positions/titles recommended by the Chief Executive Officer from time to time as applying to designated Senior Executive Management positions;

- review the procedures in place to ensure that all new senior executive appointees are adequately qualified and experienced, and that proper recruitment procedures are followed;
- review and make recommendations to the Board on the appointment and terms and conditions of employment to all Senior Executive Management positions;
- review and approve all termination arrangements for such senior executives;
- review and make recommendations to the Board on employee remuneration and benefits policies and practices generally;
- engage external consultants as and when deemed appropriate to benchmark remuneration packages for executives and senior management; and
- review Board performance, tenure, and succession planning.

RISK MANAGEMENT

Approach to Risk Management

The Group's Risk Management activities are aligned to the achievement of the Group's Objectives, Goals and Strategy. The Board, in consultation with the Executive Committee, determines the Group's risk appetite and risk tolerance and this is expressed in the Group Risk Appetite Statement. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

Consistent with Recommendation 7.2, the Board or a Committee reviews the risk management framework at least annually.

BSP recognises the following major risks:

Credit Risk: The potential for financial loss where a customer or counter party fails to meet their financial obligation to the Group.

Market Risk: The potential financial loss arising from the Group's activities in financial, including foreign exchange, markets.

Liquidity Risk: The risk of failure to adequately meet cash demand in the short term.

Interest Risk: Risk to earnings from movement in interest rates.

Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal and compliance risk.

The Credit Committee monitors credit risk. The Group Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and operational risk is monitored by the Operational Risk Committee, including the maintenance of a risk register system that has been implemented across the Group. The Executive Committee and the Board overview the highest tier of risks within these risk registers.

The Group's Risk Management Policy ensures that the Group has in place acceptable limits for the risks identified by employees. The risk management approach encompasses the following:

- defining the types of risks that will be addressed by each functional or policy area (i.e. credit risk, interest rate risk, liquidity risk, operational risk, etc.);
- ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organisation-wide risk management;
- developing information systems to provide early warning, or immediate alert, of events or situations that may occur, or already exist, that could create one or more types of risk for the Group;
- creating and maintaining risk management tools, including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, management and training, and planning;
- instituting and reviewing risk measurement techniques that Directors and management may use to establish the Group's risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes;

- developing processes for those areas that represent potential risks; and
- establishing appropriate management reporting systems regarding these risks so individual managers are provided with a sufficient level of detail to adequately manage and control the Group's risk exposures.

Risk Management Roles and Responsibilities

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the Group's activities. Therefore responsibility for overall risk management in BSP is vested with the Board. However every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.

There is a formal system of financial and operational delegations from the Board to the Chief Executive Officer, and from the Chief Executive Officer to the General Managers. These delegations reflect the Group's risk appetite, and are cascaded down to managers who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval/control authorities/limits) and reporting/monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the SBU Risk Registers, is used to determine the approval/control authorities/limits. The Board undertakes an annual review of the Group's "Top 20" enterprise risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Group is able and willing to assume. These guidelines are detailed in the Group's Risk Appetite Statement and Risk Policy and Procedures Manual which have been approved by the Board. The Board has also delegated to the BARCC responsibility for overview of loss control and for overseeing the risk management function.

The BARCC is responsible for receiving reports and providing regular updates and recommendations to the Board on the risk management activities of the Group, especially relating to risk issues that are outside of the authority of the Group's Executive Committee and other delegated Committees to approve.

Management Assurance

The Board is provided with regular reports about BSP's financial condition and its operating performance. Annually, the Chief Executive Officer and the Chief Financial Officer certify to the Board that:

- in their opinion, the financial records of the Group have been properly maintained;
- in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSP; and
- their opinions above have been formed on the basis of a sound system of risk management and internal control applying to BSP, which is operating effectively;

Additionally all General Managers and Country Managers provide bi-annual statements attesting that;

- they have assessed and documented the risks and internal control procedures in their Strategic Business Unit;
- they have identified any changes in business, operations and computer systems and the risks that may arise from those changes;
- the risk management and internal compliance and control systems are appropriate and operating efficiently and effectively; and
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

ETHICAL BEHAVIOUR

BSP acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking BSP business. To this end, the Board has adopted:

- a Code of Conduct for both Directors and members of the Executive Management Team of the Group and stipulated that each Director, and relevant employees comply with the Code; and
- a Corporate Mission, Objectives, and Core Values Statement which establishes principles to guide all employees in the day to day performance of their individual functions within the Group.

While BSP's Corporate Governance Principles provides that the Board must ensure it maintains an appropriate mix of skills and experience without gender bias, BSP has not adopted a standalone Board diversity policy, which complies with Recommendation 1.5. BSP will do so as soon as possible in 2017.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board encourages senior management to periodically issue staff Toksaves to reinforce both the Code and Core Values Statements. All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues.

BSP is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct. The Group has adopted a whistle-blowing policy that is designed to support and encourage staff to report in good faith matters such as:

- unacceptable practices;
- irregularities or conduct which is an offence or a breach of laws of the countries in which BSP operates in (actions and decisions against the laws of relevant countries including non-compliance);
- corruption;
- fraud;
- misrepresentation of facts;
- decisions made and actions taken outside established BSP policies & procedures;
- sexual harassment;
- abuse of Delegated Authorities;
- misuse of Group assets;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other employees;
- damage to the environment;
- other unethical conduct;
- failure to comply with appropriate professional standards;
- abuse of power, or use of the Group's powers and authority for any unauthorised purpose or personal gain; and
- breach of statutory codes of practice.

BSP's Code of Conduct for Employees and BSP's Code of Conduct for Directors are available at www.bsp.com.pg in the Investor Relations section.

Directors and management of the Group are subject to Securities Act 1997 restrictions for buying, selling or subscribing for securities in the Group if they are in possession of inside information, i.e. information which is not generally available and, if it were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Group.

Further, Directors and management may only trade in the securities of the Group, subject to the foregoing insider trading restrictions, during each of the eight weeks following the announcements of half yearly profit and yearly profit or the date of issue of a prospectus. Management should discuss proposed share trades with the Chief Executive Officer in advance, who in turn will keep the Chairman of the Board apprised of management activities. Directors should discuss proposed share trades with the Chairman in advance.

In addition Directors and management must not trade in any other entity if inside information on such entity comes to the attention of the Director or management by virtue of holding office as an Officer of the Group.

BSP's Code of Conduct for Employees also requires its employees to act with high standards of honesty, integrity, fairness and equity in all aspects of their employment with BSP.

MARKET DISCLOSURE

The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities. The most important aspect of the Group's shareholder communication policy is to comply with the continuous disclosure regime and to implement best practice disclosure policy. BSP has adopted a Continuous Disclosure Policy. This is available at www.bsp.com.pg in the Investor Relations section.

Market announcements are posted to BSP's website immediately after release to the market. All market announcements made by BSP since 2012 are currently available on the website. Where BSP provides financial results' briefings to analysts or media, these briefings are published on the website as soon as possible after the event. In any event, no material information which has not been previously released to the market is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

The Group's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that Shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its continuous disclosure policies and the dealing rules applying to its employees and Directors. BSP has adopted a Securities Dealing Policy. This is available at www.bsp.com.pg in the Investor Relations section.

SHAREHOLDER COMMUNICATIONS

BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

Our Shareholder Communication Policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. Our framework for communicating with Shareholders is to concisely and accurately communicate:

- the BSP strategy;
- how we implement that strategy; and
- the financial results consequent upon our strategy and its implementation.

The Group uses shareholder forums such as the Annual General Meeting, and quarterly investor briefings, within disclosure policies, to communicate financial performance and strategies.

BSP's Shareholder Communication Policy is available at www.bsp.com.pg in the Investor Relations section.

Consistent with Recommendation 6.4, BSP gives Shareholders the option to send and receive communications from BSP and its share registry electronically. From 2017, BSP and its share registry will also use technology to facilitate the participation of Shareholders in meetings consistent with Recommendation 6.3.

To facilitate effective communication between BSP and its Shareholders, potential investors, analysts and other financial markets participants, BSP conducts periodic market briefings, including half and full year results announcements and attendance at conferences. Shareholders, potential investors, analysts and other financial markets participants are given access to BSP directors and senior management at these events, and the presentation material provided at these events announcement to the market prior to commencement and subsequently uploaded to BSP's website.

REMUNERATION

Executive Remuneration

BSP remuneration policy for senior management (including the Chief Executive Officer and the Chief Financial Officer) is comprised of a fixed

component and an at risk component that is a combination of short term rewards and long term incentives.

Remuneration packages are approved by the Remuneration and Nomination Committee, and details are provided by the Committee to the Board.

Fixed remuneration is reviewed at the time of contract renewal taking into account the nature of the role, comparable market pay levels, and individual and business performance.

Members of senior management who serve as directors of subsidiaries of BSP receive no fees for their service as a director.

Non-executive Director remuneration

Non-executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool approved periodically by Shareholders.

Under the Constitution, the Board determines the total amount paid to each non-executive Director as remuneration, subject to the aggregate amount not exceeding the amount fixed by the Shareholders in general meeting. Shareholders are required to approve any change to this annual aggregate amount. In 2015, the Shareholders approved an increase in the pool to PGK 2.5 million.

Directors may also be reimbursed their reasonable travel and other expenses incurred in attending to BSP business. Directors may also receive additional remuneration if they, perform any additional services at the request of the Board.

Non-executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share or share option programmes or the employee incentive schemes described below.

A table of fees paid to Directors during 2016 is produced on page 66.

Employee incentive schemes

BSP has established the following incentive arrangements to assist in the recruitment, retention and motivation of senior management and employees, and to directly link performance and behaviour to long term financial results and shareholder value.

BSP does not currently have any equity-based remuneration schemes. Under BSP's employee incentive arrangements below, participants are not currently entitled to receive grants of shares or share options.

Employee share option plan

In 2014, the Board approved an employee share option plan. The options are paid out as cash and are fully taxed. Participants are not entitled to receive grants of shares or share options. This plan is available for use but is not currently in use.

Long term incentive plan

BSP also has a long term incentive plan (LTIP) for certain senior employees. The LTIP is currently in use.

While performance rights are calculated by reference to earnings per share (EPS), participants are not entitled to receive grants of shares or share options. Rather, participants are entitled to receive an amount up to 10%, 15% or 30% percentage of their fixed annual remuneration depending on their level of seniority.

The LTIP runs on a two year performance cycle, commencing on 1 January in the first year and ending on 31 December the following year.

The LTIP is administered by the Remuneration and Nomination Committee, who reviews and endorses the proposed EPS performance target, employee participation, employee awards and any plan changes to the Board for approval.

If the EPS target for a cycle is achieved, the matrix set out below is used to determine the award at the end of that cycle.

Exercising the 50% performance rights is subject to the condition that BSP's net profit after tax (NPAT) for the vesting year is above BSP's NPAT in the issuing year.

Participants are personally responsible for any income tax liability in respect of payments made under the LTIP.

	EPS target	EPS target achieved	Performance Rights
1	As recommended by the	90–100%	100%
2	Remuneration and Nomination	80–89%	50%
3	Committee and approved by the Board each LTIP cycle]	79% and below	0%

If a participant resigns their employment for health reasons or retires prior to vesting, awards may be made in full or pro rata at the time of exit, at the discretion of the Board. If a participant resigns or their employment is terminated on disciplinary grounds prior to the vesting, awards are not granted.

WEBSITE

Shareholders can access BSP's financial reports, market announcements, corporate governance policies and various other shareholder resources from the "Investor Relations" tab of its website at www.bsp.com.pg.

Shareholders can also access details of BSP's history, business and structure from the "About Us" tab of the website.

SUSTAINABILITY RISKS

BSP identifies and manages its material exposures to economic, environmental and social sustainability risks within the risk management framework described above. In particular, BSP has a separate Social and Environmental Management Systems Policy which identifies and manages these risks. This policy applies to all Directors and employees of BSP.

Under the Social and Environmental Management Systems Policy, BSP has adopted performance standards, completes due diligence and risk assessments, and undertakes incident and grievance reporting. BSP will not support or assist any project that causes or is likely to breach social or environmental regulation in the countries in which it operates.

BSP does not presently disclose whether it has any material exposure to economic, environmental and social sustainability risks but intends to do so as soon as possible in 2017.

HISTORICAL SUMMARY

<i>Profit and Loss (K'000)</i>	2011	2012	2013	2014	2015	2016
Net interest income	597,479	681,554	740,857	884,761	1,006,251	1,107,686
Non interest income	502,880	614,951	793,487	613,970	540,888	684,371
Bad and doubtful debt (expense)/recovery	(25,234)	(70,952)	(78,573)	(76,796)	(89,905)	(98,622)
Other operating expenses	(600,138)	(680,257)	(833,849)	(703,085)	(691,084)	(769,641)
Operating Profit	474,986	545,296	621,922	718,850	766,150	923,794
Impairment of non-current asset	-	-	(14,967)	-	-	-
Profit before tax	474,986	545,296	606,955	718,850	766,150	923,794
Income tax (expense)	(119,039)	(137,552)	(170,127)	(211,511)	(234,271)	(280,343)
Profit/(loss) after tax	355,947	407,744	436,828	507,339	531,879	643,451
Dividends (toea)						
Dividends paid per share[1]	47.3	55.0	58.0	66.0	79.0	88.0
Balance Sheet (K'000)						
Net loans and advances	4,300,913	4,804,626	5,306,362	6,756,997	8,621,514	10,102,909
Total assets	11,681,293	13,333,102	15,761,420	15,816,507	18,196,303	20,831,803
Deposits	9,366,281	10,860,522	12,200,999	12,708,383	14,595,374	16,912,349
Capital	1,344,188	1,465,893	1,619,060	1,800,193	2,029,176	2,314,337
Performance Ratios						
Return on Assets	3.3%	3.3%	3.0%	3.2%	3.1%	3.3%
Return on Equity	28.7%	29.0%	28.3%	29.7%	27.8%	29.6%
Expense/Income	54.5%	52.5%	54.3%	46.9%	44.7%	42.9%
Key Prudential Ratios						
Capital adequacy	24.2%	22.3%	18.0%	24.0%	23.1%	23.1%
Liquid Asset Ratio	43.6%	38.9%	41.8%	34.3%	31.5%	35.8%
Leverage ratio	10.0%	9.0%	7.6%	9.0%	8.9%	9.3%
Exchange rates (One (1) PNG Kina buys):						
US Dollar	0.4665	0.4755	0.3905	0.3855	0.3325	0.3150
AUS Dollar	0.4591	0.458	0.4369	0.4708	0.4552	0.4354

BSP has adopted the practice of paying an interim dividend based on half year results, in October of each year, and paying a final dividend based on audited full year results, after the end of the financial year, and no later than the end of the second quarter of the succeeding year.

CONTRIBUTIONS BY BSP TO PNG

<i>All Amounts are expressed in K'000</i>	2011	2012	2013	2014	2015	2016
Company income taxes paid to PNG Government	119,590	212,081	155,391	188,627	249,210	292,443
GST paid and not able to be recouped	10,703	12,836	14,082	11,024	16,793	21,268
Other taxes paid to PNG Government (IWT,FCWT,BWT)	10,091	6,204	4,989	2,568	3,701	10,226
Donations and Sponsorships	3,879	4,192	9,267	9,358	8,219	4,345
Total	144,263	235,313	183,729	211,577	277,923	328,282



We are you. We are Cook Islands.

Overseas Branches & Subsidiaries



COOK ISLANDS

There was an overall contraction in economic growth of 0.3% in 2016 mainly due to delays in capital projects combined with reduced consumption domestically but this was offset by increased tourism activity. Cook Islands, as a tourism based economy, has a large reliance on tourist activity and arrivals have been on a positive trend in the past 12 months.

2016 represents the first complete financial year Cook Islands has been under BSP ownership with a strong financial result delivered. NPAT result of NZD1.37 million has been achieved. The performance has been achieved through a solid loan balance sheet position of NZD83.2 million driven by strong activity in the retail sector. Total deposits have grown 22% to NZD122.5 million. There has also been an ongoing focus on non-performing loans with the efforts being rewarded with a reduction in total non-performing loans to total loans ratio in 2016.



BSP Cook Islands "In your Shoe" program.

Overall 2016 has been a pleasing year and staff should be congratulated for their efforts. Other successes include the strong partnership that has been forged with the Ministry of Education culminating in the delivery of financial literacy programs, Money Basics and Financial First Steps, to all Rarotongan school students in years 7 – 9. These programs are set to extend to the outer islands in 2017. BSP brand positioning and community engagement is strong and resonating well with the general public. BSP points of representation have increased during the year with 6 new agents opened throughout Rarotonga and our first outer island agent opened in Aitutaki.

We are confident the platform has been set for continual improvement and a very rewarding 2017 where our strategic focus includes extending the scope of our banking services and financial literacy throughout the outer islands and continue to strengthen our market leading position through the launch of exciting new products.

FIJI

The estimated GDP growth rate for the Fiji economy in 2016 was 2%. Whilst lower than 3.6% achieved for 2015 the outcome is still credible given the impact of Cyclone Winston in February 2016. The statistics now indicate 8 consecutive years of positive economic growth.

Inflation has been above 5% since the cyclone and together with recent flooding is expected to continue at 4 to 5%. Foreign reserves remain comfortable at FJD1.9bn and 5.3 months import cover.

Monetary conditions have tightened with system liquidity hovering around FJD400m. Private sector credit growth was just under 11%, led by an increase in consumption lending.

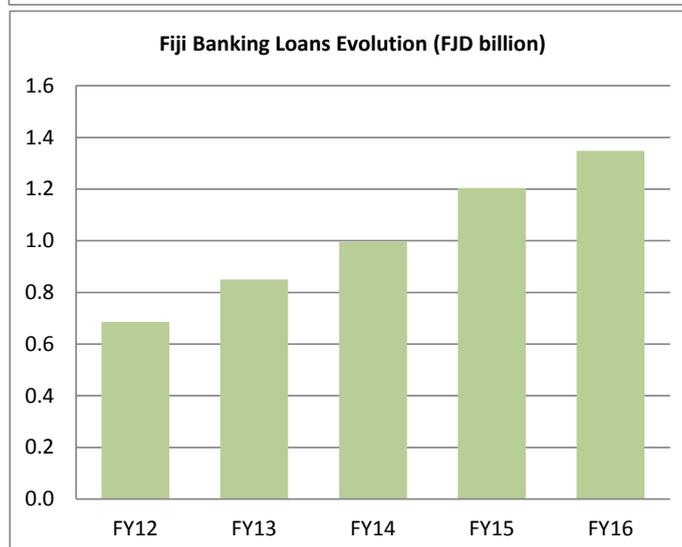
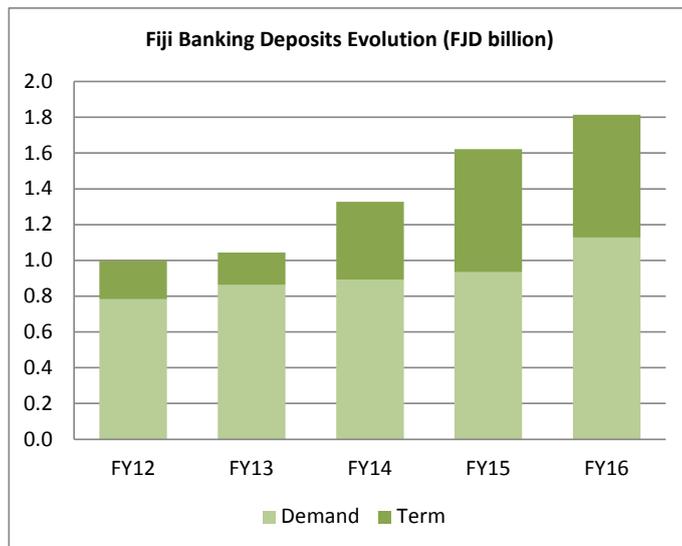
Financial results for 2016 reported a net profit after tax of FJD40.2m compared to the 2015 result of FJD31.0m an improvement of 30% which is a commendable effort.

Our Corporate Business performed strongly driving overall portfolio growth of 12% in a highly competitive marketplace. This result was due to strong relationship management by a team of experienced and long term personnel with highly developed relationships gained over decades of experience in the Fiji market. This stability is valued by our clients.

Foreign exchange income grew by 9% continuing from the large increase achieved in 2015. This result once again came from an experienced team in the foreign exchange dealing area using established and new relationships, and providing value added advice to our clients.

The Retail bank showed substantial growth in car loans and housing loans in an increasingly competitive market. Our team of Personal Bankers continue to provide quality service and meet competitive timeframes to provide the best service to our clients. The unsecured personal loan product has been an area of fierce competition between the banks with some portfolio stress emerging.

Revenues from our electronic channels – ATMs, EFTPoS, SMS Banking and Internet Banking - continue to grow and provide our clients with convenience and world class options for their banking. This area was boosted in the earlier months of the year when the Fiji National Provident Fund paid out approximately FJD275m in Cyclone Winston relief funds to their members which resulted in higher volumes of electronic transactions. During the year the Smart Business product range was launched for the Micro SME and SME sectors. This new product range offers competitive transaction and savings products together with a pathway to finance for business expansion.





BSP Fiji's Howard Politini, Malakai Naiyaga, RBF's Lorraine Seeto and Sharyne Fong at the 2016 AFI Global Policy Forum in Suva.

In 2017, Fiji expects to deliver a number of new product and service delivery improvements. These initiatives will enhance customer experience and access.

SAMOA

BSP Samoa reported a solid financial performance in 2016. This performance has been achieved in a stable local economic environment that experienced a 6.4% increase in economic activities for 12 months reported up to June 2016. In the final quarter of 2016, this position remained with headline inflation rising to 0.9%, the balance of payment improving by 5.5% and tourism receipts showing significant increase of 9.1% albeit remittances slowing down.

Pleasingly the Bank has achieved above system growth and also continued to strengthen its balance sheet through a growth strategy while at the same time managing stressed assets. We executed our strategy along the lines of four key themes: financial performance, operational excellence, customer service and people. Our efforts in each of these areas have been guided by the basic principle of putting the customer at the center of our activities.

BSP Samoa reported a profit of WST6.1million being an increase of 43% over 2015. This was largely driven by a disciplined approach that increased operating income by 9% and significantly reduced total expenditure by 12% year-on-year.



BSP Samoa Leadership Team Visits the Big Island of Savaii.

Despite a highly competitive marketplace with low interest rates, the total loan book increased by 24% to WST243million, with business loans performing strongly to achieve growth of 23% year-on-year, whilst the Bank maintained its focus on credit quality and customer retention.



BSP Samoa Staff Charity Asora and Aysha Rimoni receiving the 2016 Environmental Award from MNRE.

During the year, there has been a 14% growth in customer numbers and 42% growth in consumer lending. Our commitment in making banking easier was reflected in quicker credit decisions, efficient drawdown processes and an expansion of access points that resulted in more ATMs, agencies and over 330 EFTPoS terminals across the country.

We supported our vision by participating in over 50 different community events throughout the year, placing priority on health, youth development, sports, education and the environment. Our Go Green cleanup campaign and the installation of water tanks in villages with no access to clean water as well as Mapuifagalele, the home for the elderly, led to the Ministry of Natural Resources & Environment presenting BSP with an award in recognition and appreciation of service and contribution to the Environment.

The commitment of our staff and the strength of our culture have been reflected in the way we foster excellent customer relationships. Our values of integrity, professionalism, leadership, quality, people, teamwork and community are integral to our culture and this year we have been committed to embedding a values-driven approach to work by demonstrating how we live these values every day.

Staff are to be acknowledged for their ongoing dedication and commitment to our customers and business, making possible a good result in 2016.

We remain positive that the Samoan economy will maintain its moderate growth momentum. We will continue to build a high performing culture by on-going investment in our people and embedding the BSP values in all our actions. We will also continue to concentrate on productivity, efficiency and credit quality.

SOLOMON ISLANDS

Economic Growth in the Solomon Islands has remained consistent over recent years with 2016 bringing growth of 3.2%. BSP Solomon Islands has exceeded this level with growth of 12% for 2016.

After the purchase of the operations of Westpac Solomon Islands in October of the prior year, 2016 has seen the first full year of trading for the new BSP Solomon Islands business. The Solomon Islands team accepted the challenge of integration of the two businesses and displayed the BSP Value of Teamwork to ensure all customers expectations were met. All customers now enjoy access to a much larger network of Branches, Agencies, ATM and EFTPoS merchants and a greater variety of products.

As the largest Bank in the Solomon Islands this presents a number of opportunities for staff to work at different branches and different Provincial locations. During 2016 a number of staff took the opportunity to broaden their experience and work in provincial Branches.

OVERSEAS BRANCHES & SUBSIDIARIES



BSP Solomon Islands opens two Branchless Banking Agent in Dundee and Noro, Western Province.

Financial Results for 2016 has seen a profit of SBD67m which is above 2015. This is an extremely satisfying result as expenses included costs associated with the integration of operating systems and procedures.

The Balance Sheet has continued to grow with Lending increasing by 11% and Deposits also up by 10%. Pleasing growth in both Consumer and Commercial loans has been achieved.

Throughout the year there have been several notable achievements for the business. The customer base increased to 110,000, and 75 financial literacy training programs were delivered to more than 21,000 participants, including our eight branches delivering the training to two schools each. A new Priority Banking Centre was opened at Ranadi Branch.

Staff staged another successful Go Green campaign with over 4,000 children participating all around the country and a number of staff attended overseas training courses.

During 2016 the business upgraded a majority of our ATM and EFTPoS Machines and it is expected that we will see increased usage of all our Electronic Banking Channels in 2017.

Much has been achieved in 2016. This successful performance would not have been possible without the exceptional dedication and commitment shown by BSP's people in the Solomon Islands and they are to be congratulated on their great effort in 2016.

2017 will be another exciting year for BSP Solomon Islands. There are some new exciting products to be launched this year and that along with the focus to see increased usage of all Electronic Banking channels, will see an improved customer experience for all in 2017.

TONGA

BSP Tonga operated in an economy where growth of 3.1% exceeded the forecast driven by recovery in agriculture, the implementation of major projects such as the renovation of the International Dateline Hotel and the construction of the government office complex at St. George's Palace. Remittance receipts were up by 24.8%, private sector lending increased by 14.5% and tourism was strong as international arrivals increased by almost 15.0%. The growth projection for 2017 is revised down slightly to account for a base effect from good growth in 2016, but the economy is expected to experience continued growth supported by construction and tourism, as well as increased commerce related to preparations for the 2019 Pacific Games.

BSP Tonga performed exceptionally in 2016. We are the leading bank both from a market share and customer number point of view. Lending share has grown from 35% as at January 2016 to 38.7% in December 2016. Deposit market share has increased slightly from 36.8% to 37.0%. It is also pleasing to note that despite strong loan book growth focus on loan quality has been maintained, with delinquencies managed and controlled well at low levels. Customer numbers increased from 21,000 to 29,000 over the year. BSP launched the Smart Business Product (for SMEs) in April 2016. Since then we have opened 114 accounts under this product, 51 accounts of these have value added product and 11 accounts with lending facilities.

In 2016 there has been significant expansion of our network, with 5 new agencies and 2 sub-branches commencing operations. The opening of new sub-branches particularly on the outer islands of Ha'apai and 'Eua is considered a major development in the provision of banking services for the people of Tonga. 4 new ATMs were added to bring the total to 12 and the number of EFTPoS also increased from 204 to 303. Major renovations involving a new Business Centre for Nuku'alofa Branch and a major facelift for Vava'u Branch were also completed during the year.



Launch of BSP Tonga Business Centre.

BSP has been very active in the community during the year. Some major highlights included our Financial Literacy workshops with 11,000 participants. In partnership with Tonga Waste Authority, we provided a total of 32 branded rubbish bins for the community along Vuna Road. Additionally, BSP built a full size netball court in our parking area with floodlights to allow for night games. This community project was undertaken in conjunction with Tonga Netball, Department of Foreign Affairs and Trade of Australia and Tonga Power, and is the first of its kind in Tonga. At its opening, the Australian Minister for International Development and the Pacific, Senator Concetta Fierravanti-Wells personally commented on this great initiative and vision BSP Tonga had to make such a project possible and it represents a blueprint for future public/private development across the Pacific.

Overall the above initiatives and key highlights have underpinned our overall financial performance for the year. In brief, profit TOP7.6million was ahead of prior year, supported by strong net interest income sourced from a 28% increase in the loan book and investments in government securities.

Going into 2017, BSP Tonga plans to drive the Small and Medium Enterprises (SME) sector further by penetrating into the Agriculture and Fisheries market.



BSP Tonga helping our small businesses.

Another focus will be for a more efficient, cost effective way for remittances to support high remittance activity into Tonga. These projects along with more community based projects promise to make 2017 another successful year.

BSP Tonga is proud to be taking part in BSP Group's Pacific journey, proud of what the business has achieved and the positive impact on the Tongan people and its economy in the first full year under BSP's ownership.

BSP Tonga has achieved its vision “To be the leading financial services provider in our chosen market helping customers, staff, shareholders and communities prosper”.

All the staff are to be commended for their hard work over the past 12 months and their loyalty and commitment as we look forward to create value for our stakeholders by delivering innovative and cost effective financial services in the coming year.

VANUATU

Although economic conditions in 2016 remained relatively soft, a number of flagship infrastructure projects were commenced, and some positive trends emerged in the tourism sector. GDP is forecasted to be positive for 2017 and although the country will continue to face challenges it is well positioned to deal with them.

BSP Vanuatu officially commenced operations on the 4th July 2016, following the acquisition from Westpac. A significant amount of work was undertaken prior to handover by both in-country and BSP Group personnel to ensure a seamless transition, and minimal service disruptions. Market and stakeholders feedback has been overwhelmingly positive.



Vanuatu Minister for Lands, Geology and Mines, Energy and Water Resources and Reserve Bank of Vanuatu Governor cutting the ribbon to officially launch BSP Branch as the Chairman looks on.

Following the change to BSP there has been an increase in customer numbers with the business experiencing genuine demand for the products and services offered.

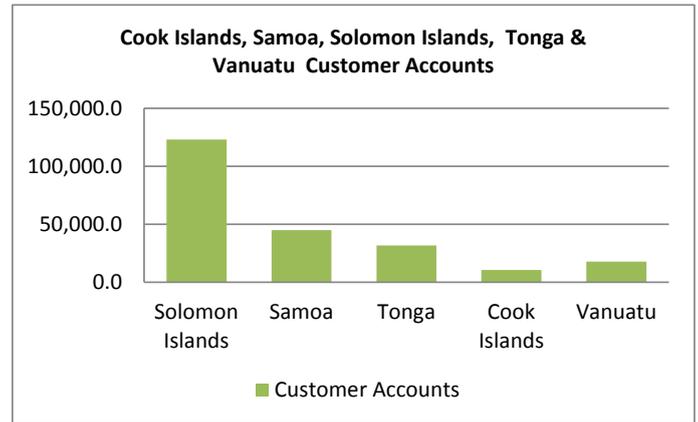
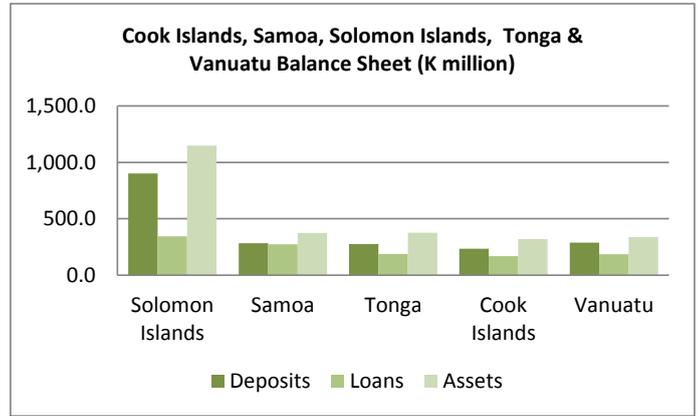
Staff engagement under BSP has been exceptional and all staff are to be commended for the professionalism displayed during the acquisition.

Community involvement and a renewed focus on brand awareness has increased resulting in a solid performance for BSP Vanuatu. Profit was VTU51.4 million for the 6 months under BSP led predominantly by non-interest income.

The Balance Sheet grew 12% on an annualized basis which has been a commendable effort and is significantly above system especially when considered in the context of an economy still recovering from the March 2015 effects of Cyclone Pam.

There have of course also been some challenges; expense management has and will remain a focus for the leadership team. In addition, the Bank on transition was also required to convert from a branch to a wholly owned subsidiary entity of BSP, with new capital adequacy requirements. BSP Vanuatu has been able to meet the additional capital requirements accompanying this change in status. As at 31 December 2016 Capital adequacy sits at 18% against a regulatory requirement of 15%.

The continued commitment to BSP’s mission and vision statements will be a key feature in the business drive for growth in the coming years. 2017 will be an exciting and challenging year. One of the key priorities is expanding BSP’s footprint via the opening of 2 new branches (Tanna and Port Vila). The business has moved quickly to ensure alignment with BSP Group processes, procedures and cultural identity, and is well positioned to execute on these challenges to deliver successful outcomes including positive financial results.



BSP CAPITAL LIMITED

Business conditions have been challenging in 2016, with PNG economic growth more benign than in previous years.

The results for 2016 were consistent with 2015, with total revenue and total expenses steady compared to the prior year.

However within various lines of business there were significant trends when comparing 2016 to 2015. Overall revenues from Stockbroking were down by 48% from the prior year whilst Corporate Advisory revenue was up by 167.4% year on year and Funds Management revenue improved by 26.3% from 2015.

Stockbroking

Volumes traded across the whole market are down compared to 2015. This is due to a combination of weaker economic conditions, poor liquidity and no new listings or corporate actions.

BSP Capital remains the largest broker by value with 59.9% market share for 2016. We were successful in 2016 by sourcing a greater share of corporate business generating higher brokerage. We remain the only broker that provides research on locally listed companies with a distribution list of 3,500 across PNG and overseas.

Corporate Advisory

2016 was a much improved year across a number of assignments. BSP Capital assisted clients with valuation work, strategic advice on capital raising, asset disposal and potential listings during 2016.

2017 is expected to be strong, with some assignments continuing through to next year.

Funds Management

Funds under management grew by 15.8% to K1.458 billion. Revenue grew more rapidly (+26.3%) with strong performance in our Retail and High Net Worth client segment. We expect steady growth in our Funds Management business with several new opportunities expected in 2017.

Additionally we were successful in winning a mandate from Oil Search for their local Registry Services. This was done together with Computershare who partnered with us to cover the non-PNG component. It is expected further opportunities will emerge in 2017 in the provision of Registry Services.

BSP LIFE FIJI

Achievements by BSP Life in both financial and strategic initiatives overall were pleasing in an environment that experienced challenges in 2016. The strong financial performance recorded in 2015 in our Life business and its investments continued into 2016 with results exceeding expectation. The Health business performance yielded a reasonable profit compared to the significant loss experienced in 2015 through review of profitability drivers including quality business growth, annual review of premiums and review of cost structure.

In 2016, the accommodation project in Suva, which consists of a 10 unit townhouse and 5 executive homes in a gated community, is now complete and 100% occupied. We also established a new private hospital joint venture and a new management agreement with Madras Institute of Orthopaedics and Trauma International (MIOT) effective from 1st January 2017. Significant progress on investment plans were also made with other subsidiaries and joint ventures to further improve their results.

The Life functionalities implementation of our core system change project continues with the system currently in development phase. Good progress is being made on data migration and business readiness for planned implementation in July 2017.

The Insurance Group profit for 2016 was FJD14.3 million, 21% above profit for 2015. After adjustment for non-operating items profit is FJD17 million, ahead of expectations. Both the Life and Health businesses improved their profits significantly compared to last year results. Life policyholder profits achievement was also pleasing at FJD20.2 million.

Both Life and Health new business, however, were lower by 6% and 17% respectively compared to 2015 mainly due to a stronger focus on improving business quality in our Agency distribution channel as well as adverse impact from Cyclone Winston at the start of the year and flooding in December 2016. Equally, the focus on business conservation saw the Life In Force portfolio increasing by FJD4.7 million to FJD67.9 million, 7.5% growth. The 13-month persistency rate on annual policy premium of 78.8% is 1.1% higher than last year.

The Life insurance market continues to be dominated by endowment products. BSP Life has significant market share on inforce annual premium basis (excluding single premiums). The latest publicly available official industry data indicates that BSP Life had 57% market share at the end of 2015. The same sources state that BSP Health Term Life market share on premium income was 57% while the Medical market share was 34% in 2015.

In 2017, BSP Life will build on the strong results achieved in recent years. The key strategic focus will be to successfully complete our core system change with the implementation of our Life system. Our venture into new markets will include exploring Life and Health insurance business potential in Papua New Guinea with intent to commence business before the end of 2017.

BSP Finance LIMITED

2016 was a challenging year for both BSP Finance Fiji and PNG. In Fiji Cyclone Winston brought most economic activities to a temporary standstill while in PNG economic growth was more constrained due to lower global commodity prices.

In PNG the fall in global oil prices meant that government revenue was significantly lower than forecast. Certain business sectors, including BSP Finance's target market were affected more than others as government spending became more targeted to specific priority areas. BSP Finance PNG realigned its loan portfolio in response which had the effect of improving asset quality. This and other measures saw BSP Finance PNG moving to profitability in the last quarter of 2016. In an increasingly difficult business environment BSP Finance PNG has managed to grow its loan portfolio from K54 million as at 31 December 2015 to K93 million as at 31 December 2016. As at 30 November 2016 the company had a market share of 15.3% compared to 4% as at 31 December 2015.

In December 2016 BSP Finance PNG successfully completed its community project which was the renovation of a classroom at St Marys Primary school in Lae, Morobe province. The team is looking forward to the 2017 project theme which is "Empowering Women and Children."

BSP Finance PNG through an independent consulting firm conducted a customer satisfaction survey and obtained a final score of 123 where a score of 75 means that customer expectations are fully met. BSP Finance Fiji in the same survey obtained a final score of 116. This indicates that BSP Finance Limited has significantly exceeded the expectations of its customers.

BSP Finance Fiji achieved month on month profitability in July 2016 and recorded a profit of FJD431.1 thousand for 2016. This solid financial performance has been on the back of consistent growth in loan volumes which were driven by reconstruction activity after Cyclone Winston and growth in the tourism sector. As a result BSP Finance Fiji's market share has grown from 6.25% as at 31 December 2015 to 12.11% as at 30 November 2016. BSP Finance Fiji launched a new Hire Purchase product on the 29th of October 2016. BSP Finance Limited continues to pursue potential opportunities in South East Asia and other countries of the South Pacific where BSP already operates.



The "Friends of BSP Finance" incentive program.



BSP Cook Islands Brand Ambassador and Country Manager.



BSP Fiji Nausori branch staff proudly display their trophy and certificates at meeting their annual sales target.



BSP Samoa Celebrated its first anniversary with the Sisters of Mapuifagalele.



BSP Samoa launch of the cobranded Manu Samoa Visa Debit Card.



BSP Solomon Islands staff secondment to BSP PNG.



BSP Cook Islands staff JP Wilson and Setephano Noovao at their new agent Tex Mart in Matavera.



School Kids in Tonga all dressed up for the BSP GO Green initiative.



BSP Solomon Islands Banking Services.



We are you. We are Samoa.

Financial Statements



DIRECTORS' REPORT

for the Year Ended 31 December 2016

The Directors take pleasure in presenting the Financial Statements of the Bank of South Pacific Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2016. In order to comply with the provision of the Companies Act 1997, the Directors report as follows:

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 Pacific region. BSP is a Bank listed on the Port Moresby Stock Exchange (POMSoX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Bank and the Group are also licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa, Tonga & Vanuatu. The registered office is at Douglas Street, Port Moresby.

Review of operations

For the year ended 31 December 2016, Group profit after tax was K643.451 million (2015: K531.879 million). The Bank's profit after tax was K606.674 million (2015: K505.749 million which included a dividend income of K19.221 million received from BSP Life (Fiji) Limited).

The Directors are of the view that there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Bank and the Group.

The results of the Bank and the Group'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 Bank and the Group misleading or inappropriate.

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 Bank and the Group in its ability to meet obligations as and when they fall due.

Dividends

Dividend payment totaling K413.973 million was paid in 2016 (2015: K369.810 million). A detailed breakup of this is provided in Note 23.

Directors and officers

The following were directors of the Bank of South Pacific Limited at 31 December 2016:

Sir K Constantinou, OBE	Mr. R Fleming, CSM	Mr. A Sam	Mr. G Aopi, CBE	Dr. I Temu
Dr. F Lua'iufi	Mr. E B Gangloff	Ms. F Talao	Mr. G Robb, OAM	Mr. A Mano

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 27 of the Notes to the Financial Statements. The Group CEO Robin Fleming is the only executive director.

The company secretary is Mary Johns.

Independent Auditor's Report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 81. Details of amounts paid to the auditors for audit and other services are shown in Note 42 of the Notes to the Financial Statements.

Donations and Sponsorships

Donations and sponsorship by the Group during the year amounted to K5,789,140 (2015: K9,091,256).

Change in accounting policies

No changes in accounting policies significantly impacted the Group during the year.

For, and on behalf of, the Directors.

Dated and Signed in accordance with a resolution of the Directors in Port Moresby this 1st day of March 2017.



Sir Kostas Constantinou OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Director

STATEMENTS OF COMPREHENSIVE INCOME

for the Year Ended 31 December 2016

<i>All amounts are expressed in K'000</i>	Note	Consolidated		Bank	
		2016	2015	2016	2015
Interest income	2	1,267,911	1,100,866	1,214,671	1,083,281
Interest expense	2	(160,225)	(94,615)	(153,783)	(93,098)
Net interest income		1,107,686	1,006,251	1,060,888	990,183
Fee and commission income	3	362,337	310,468	340,764	301,232
Other income	4	298,078	209,175	277,045	200,425
Net banking operating income		1,768,101	1,525,894	1,678,697	1,491,840
Net insurance premium income		118,418	94,322	-	-
Investment revenue		85,616	93,405	-	-
Increase in policy liabilities	39(b)	(45,036)	(34,984)	-	-
Policy maintenance and investment expenses		(80,395)	(67,488)	-	-
Claims, surrender and maturities		(71,390)	(65,608)	-	-
Share of profits from associates and jointly controlled entities		16,743	1,598	-	-
Net insurance operating income	39(a)	23,956	21,245	-	-
Net operating income before impairment and operating expenses		1,792,057	1,547,139	1,678,697	1,491,840
Impairment on loans and advances	13	(98,622)	(89,905)	(90,460)	(86,657)
Impairment on subsidiary	8	-	-	-	(11,068)
Operating expenses	5	(769,641)	(691,084)	(709,139)	(665,979)
Profit before income tax		923,794	766,150	879,098	728,136
Income tax expense	6	(280,343)	(234,271)	(272,424)	(222,387)
Net profit for the year		643,451	531,879	606,674	505,749
Other comprehensive income					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Translation of financial information of foreign operations to presentation currency	24	42,054	48,839	24,602	31,912
<i>Items that will not be reclassified to profit or loss:</i>					
Recognition of deferred tax on asset revaluation reserve	24	11,816	1,301	11,816	4,592
Net movement in asset revaluation	24	(1,265)	21,450	(1,832)	14,304
Other comprehensive income, net of tax		52,605	71,590	34,586	50,808
Total comprehensive income for the year		696,056	603,469	641,260	556,557
Earnings per share - basic and diluted (toea)	23	137.7	113.7	129.8	108.1

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

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2016	2015	2016	2015
ASSETS					
Cash and balances with Central Bank	10	1,656,260	1,202,466	1,410,008	1,010,856
Treasury and Central Bank bills	11	2,933,621	2,503,109	2,918,484	2,501,256
Amounts due from other banks	12	804,233	710,157	691,152	587,277
Statutory deposits with Central Banks	25	1,474,656	1,359,606	1,440,530	1,341,650
Other financial assets	16	2,331,472	2,308,926	2,044,905	2,074,124
Loans, advances and other receivables from customers	13	10,102,909	8,621,514	9,255,080	8,181,227
Assets held for sale	14	-	35,135	-	35,135
Property, plant and equipment	14	683,498	686,325	569,168	597,373
Assets subject to operating lease	14	44,668	52,857	44,668	52,857
Investment in associates and joint ventures	9	125,620	102,439	16,513	14,570
Investment in subsidiaries	8	-	-	318,261	259,869
Intangible assets	7	91,626	110,226	84,727	99,601
Investment properties	15	117,590	101,019	-	-
Tax receivable	6	576	-	3,670	-
Deferred tax assets	6	170,089	147,389	182,625	159,290
Other assets	17	294,985	255,135	247,535	206,558
Total assets		20,831,803	18,196,303	19,227,326	17,121,643
LIABILITIES					
Amounts due to other banks	18	301,291	344,346	327,823	344,877
Customer deposits	19	16,912,349	14,595,374	16,143,696	14,248,296
Subordinated debt securities	20	75,525	75,525	75,525	75,525
Other liabilities	21	1,058,494	969,179	364,434	353,252
Provision for income tax	6	-	39,005	-	36,168
Other provisions	22	169,807	143,698	156,398	132,535
Total liabilities		18,517,466	16,167,127	17,067,876	15,190,653
SHAREHOLDERS EQUITY					
Ordinary shares	23	373,101	374,621	373,101	374,621
Retained earnings	24	1,670,595	1,399,490	1,576,974	1,340,000
Other reserves	24	266,090	255,065	209,375	216,369
Equity attributable to the members of the company		2,309,786	2,029,176	2,159,450	1,930,990
Minority interests		4,551	-	-	-
Total shareholders' equity		2,314,337	2,029,176	2,159,450	1,930,990
Total equity and liabilities		20,831,803	18,196,303	19,227,326	17,121,643



Sir Kostas Constantinou OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Director

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the Year Ended 31 December 2016

Bank		Share capital	Reserves	Ret. earnings	Min. Interests	Total
<i>All amounts are expressed in K'000</i>						
	Note					
Balance as at 1 January 2015		379,297	183,546	1,183,505	-	1,746,348
Net profit		-	-	505,749	-	505,749
Other comprehensive income			50,808			50,808
Total comprehensive income		-	50,808	505,749	-	556,557
2014 final dividend paid	23	-	-	(262,021)	-	(262,021)
2015 interim dividend paid	23	-	-	(105,218)	-	(105,218)
Share buyback	23	(4,676)	-	-	-	(4,676)
Total transactions with owners		(4,676)	-	(367,239)	-	(371,915)
Transfer from Asset Revaluation Reserve	24	-	(22,103)	22,103	-	-
BSP Life policy reserve	24	-	4,118	(4,118)	-	-
Balance at 31 December 2015		374,621	216,369	1,340,000	-	1,930,990
Net profit		-	-	606,674	-	606,674
Other comprehensive income		-	34,586	-	-	34,586
Total comprehensive income		-	34,586	606,674	-	641,260
2015 final dividend paid	23	-	-	(294,448)	-	(294,448)
2016 interim dividend paid	23	-	-	(116,832)	-	(116,832)
Share buyback	23	(1,520)	-	-	-	(1,520)
Total transactions with owners		(1,520)	-	(411,280)	-	(412,800)
Transfer from Asset Revaluation Reserve	24	-	(42,537)	42,537	-	-
BSP Life policy reserve	24	-	957	(957)	-	-
Balance at 31 December 2016		373,101	209,375	1,576,974	-	2,159,450
Group						
Balance as at 1 January 2015		379,297	201,460	1,219,436	-	1,800,193
Net profit		-	-	531,879	-	531,879
Other comprehensive income		-	71,590	-	-	71,590
Total comprehensive income		-	71,590	531,879	-	603,469
2014 final dividend paid	23	-	-	(263,872)	-	(263,872)
2015 interim dividend paid	23	-	-	(105,938)	-	(105,938)
Share buyback	23	(4,676)	-	-	-	(4,676)
Total transactions with owners		(4,676)	-	(369,810)	-	(374,486)
Transfer from Asset Revaluation Reserve	24	-	(22,103)	22,103	-	-
BSP Life policy reserve	24	-	4,118	(4,118)	-	-
Balance at 31 December 2015		374,621	255,065	1,399,490	-	2,029,176
Net profit		-	-	643,451	-	643,451
Other comprehensive income		-	52,605	-	-	52,605
Total comprehensive income		-	52,605	643,451	-	696,056
2015 final dividend paid	23	-	-	(297,141)	-	(297,141)
2016 interim dividend paid	23	-	-	(116,832)	-	(116,832)
Minority interest capital		-	-	-	4,551	4,551
Share buyback	23	(1,520)	-	-	-	(1,520)
Loss attributable to minority interests	24	-	-	47	-	47
Total transactions with owners		(1,520)	-	(413,926)	4,551	(410,895)
Transfer from asset revaluation reserve	24	-	(42,537)	42,537	-	-
BSP Life policy reserve	24	-	957	(957)	-	-
Balance at 31 December 2016		373,101	266,090	1,670,595	4,551	2,314,337

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

	Note	Consolidated		Bank	
		2016	2015	2016	2015
<i>All amounts are expressed in K'000</i>					
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,269,316	1,095,363	1,185,621	1,077,459
Fees and other income		669,187	559,043	581,669	420,288
Interest paid		(161,093)	(73,977)	(155,774)	(76,268)
Amounts paid to suppliers and employees		(629,235)	(536,708)	(569,818)	(433,083)
Operating cash flow before changes in operating assets and liabilities	28	1,148,175	1,043,721	1,041,698	988,396
Increase in loans, advances and other receivables from customers		(1,392,582)	(1,410,690)	(1,130,592)	(1,327,316)
Increase in statutory deposits with the Central Banks		(115,050)	(108,024)	(98,880)	(90,068)
(Increase)/Decrease in bills receivable and other assets		(78,874)	170,312	(48,610)	73,234
Increase in customer deposits		1,960,281	1,081,735	1,895,400	1,010,488
Increase in bills payable and other liabilities		92,305	206,419	20,999	80,903
Net cash flow from operations before income tax		1,614,255	983,473	1,680,015	735,637
Income taxes paid		(338,647)	(282,784)	(330,331)	(282,837)
Net cash flow from operating activities		1,275,608	700,689	1,349,684	452,800
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in government securities		(453,058)	(384,565)	(388,010)	(357,087)
Expenditure on property, plant and equipment		(91,758)	(135,160)	(61,468)	(105,684)
Proceeds from disposal of property, plant and equipment		70,250	63,420	69,982	63,420
Purchase of controlled entities, net of cash acquired	40	162,870	176,524	(38,020)	160,292
Additional funding of subsidiaries		-	-	(20,372)	(16,251)
Net cash flow from investing activities		(311,696)	(279,781)	(437,888)	(255,310)
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	23	(1,520)	(4,676)	(1,520)	(4,676)
Non-controlling interests shares		4,551	-	-	-
Dividends paid	23	(413,973)	(369,810)	(411,280)	(367,239)
Net cash flow from financing activities		(410,942)	(374,486)	(412,800)	(371,915)
Net Increase/(decrease) in cash and cash equivalents		552,970	46,422	498,996	(174,425)
Effect of exchange rate movements on cash and cash equivalents		37,955	45,625	21,085	44,601
Cash and cash equivalents at the beginning of the year		1,568,277	1,476,230	1,253,256	1,383,080
Cash and Cash Equivalents at the end of the year		2,159,202	1,568,277	1,773,337	1,253,256

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

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The assets and liabilities are presented in order of liquidity on the Statements of Financial Position.

A. Basis of Presentation and General Accounting Policies

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

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.

Standards, amendment and interpretations effective for the year ended 31 December 2016

The following new standards and amendments were applicable for the first time during the accounting period beginning 1 January 2016:

- Amendments to IAS 27 'Separate financial statements' on the equity method. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Annual improvements 2014 makes minor changes to IFRS 5, IFRS 7, IAS 19 and IAS 34.
- Amendments to IAS 1 'Presentation of Financial Statements' form a part of the IASB's Disclosure Initiative and clarify guidance in IAS 1 on a number of issues including:
 - Materiality – disclosures specified in IFRS only need to be included in financial statements if they are material to the entity
 - Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. However, entities should not aggregate or disaggregate information in a manner that obscures useful information. There is also new guidance on the use of subtotals.
 - Notes – confirmation that the notes do not need to be presented in a particular order
 - Other comprehensive income (OCI) arising from investments accounted for under the equity method: the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of OCI.
- Amendments to IFRS 10 and IAS 28 on investment entities applying the consolidation exemption. The amendments to IFRS 10 clarify that the exception from preparing Financial Statements is available to intermediate parent entities which are subsidiaries of investment

entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The amendments to IAS 28 allow an entity which is not an investment entity, but has an interest in an associate or joint venture which is an investment entity, a policy choice when applying the equity method of accounting.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2016 or adopted early

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2017 or later periods, but the entity has not early adopted them:

- Amendments to IAS 7 'Statement of Cash Flows' on disclosure initiative (effective 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.
 - Amendments to IAS 12 'Income Taxes' on recognition of deferred tax assets for unrealised losses (effective 1 January 2017). These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
 - Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
 - IFRS 9, 'Financial Instruments' (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is less complex and principles based. The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within OCI; this change can be adopted early without adopting IFRS 9. IFRS 9's new impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment losses is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed.
 - IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018) is a converged standard from the IASB and FASB on revenue recognition and replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.
- The entity will have to adopt a new 5-step process for the recognition of revenue:
- identify contracts with customers
 - identify the separate performance obligations
 - determine the transaction price of the contract
 - allocate the transaction price to each of the separate performance obligations, and
 - recognise the revenue as each performance obligation is satisfied.
- Amendments to IFRS 15 (effective 1 January 2018). These amendments comprise clarifications of the guidance on identifying performance

obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).

- IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- Amendments to IFRS 4, 'Insurance contracts' (effective 1 January 2018) regarding implementation of IFRS 9. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021, in which case they will continue to apply IAS 39.
- Amendments to IAS 40, 'Investment property' (effective 1 January 2018) relating to transfers of investment property. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- Annual improvements 2014 – 2016 makes minor changes to IFRS 1, IFRS 12 and IAS 28.
- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018) addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made.

The Group and the Bank have conducted investigations and do not consider that there is any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported financial position or financial performance of the Group and the Bank for the year ended 31 December 2016.

IFRS 9 and IFRS 16 may have significant impact on the financial statements of the Group and the Bank when these standards become effective. IFRS 9 will affect the classification, measurement and impairment of financial instruments. IFRS 16 will require the recognition of all leases on the Group and the Bank's statement of financial position.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2016, and their results for the year then ended.

Controlled entities are those over which the Group has the power to govern financial and operating policies, generally accompanied by a shareholding that commands the majority of voting rights, and are commonly referred to as subsidiaries.

Subsidiaries are accounted for at acquisition under the acquisition cost method of accounting, where:

- acquisition cost is measured at fair value of assets transferred, equity

issued, liabilities assumed and any directly attributable costs of the transaction;

- identifiable net assets are recorded initially at acquisition, at their fair values;
- any excess of the acquisition cost over the relevant share of identifiable net assets acquired is treated as goodwill, and any deficiency is recognised directly in the statement of comprehensive income;

All intercompany transactions and balances are eliminated.

C. Investment in Associates and Joint Arrangements

Investments in Associates

Associates are entities over which the Group has significant, but not controlling influence, generally accompanied by a shareholding conferring between 20% - 50% of voting rights.

In the Financial Statements, these investments are accounted for under the equity method.

Interests In Joint Arrangements

The Group applies IFRS 11 to all joint ventures. Under IFRS 11 investments in joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method in the Financial Statements. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the entity (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Interests in joint ventures classified as held for sale are accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

D. Revenue

Interest income and expense

Interest income and expense are recognised in the Statements of Comprehensive Income on an accrual basis using the effective interest 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, accrued discount and premium on Treasury and Central Bank bills.

Short term insurance contracts

These contracts are the Term Life, Medical and Travel policies sold and underwritten by BSP Health Care (Fiji) Limited.

These contracts protect the Group's customers from the consequences of events such as death, medical emergency or loss on travel. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the Statement of Financial Position date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or beneficiaries. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Statement of Financial Position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long term insurance contracts

These contracts insure human life events (for example death, survival, disability or critical illness) over a long duration. Guaranteed benefits paid on occurrence of the specified insurance event are fixed or linked to the level of bonus declared on the policy. Most of the policies have maturity and surrender benefits.

For all these contracts, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Approximately 90% of the above contracts in the Group's portfolio contain a Discretionary Participation Feature (DPF). This feature entitles the holder to receive, as a supplement to generated benefits, additional benefits in the form of reversionary bonuses.

The liability for long term insurance contracts (principally Life Insurance) has been determined in accordance with LPS 1.04 Valuation of Policy Liabilities, issued by the Australian Prudential Regulation Authority.

The policy liability is calculated in a way that allows for the systematic release of planned profit margins as services are provided to policy owners and the revenues relating to those services are received (Margin on Services methodology). Services used to determine profit recognition include the cost of expected insurance claims and the allocation of future bonuses. The liability is generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums and take into consideration projected future bonuses. The liabilities are recalculated at each balance date using best estimate assumptions. These assumptions are revisited regularly and adjusted for actual experiences on claims, expense, mortality and investment returns. The policy liability also includes policy owner retained earnings.

Insurance policy liabilities are further detailed in Note 39.

Foreign exchange income/(losses)

Realised and unrealised gains or losses from foreign currency trading, or from changes in the fair value of the trading assets and liabilities are recognised as income in the Statement of Comprehensive Income in the period in which they arise.

E. Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. All other risk related fees that constitute cost recovery are taken to income when levied. Loan origination fees are deferred over the expected term of the financial instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future payments and receipts through the expected life of the instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

F. Borrowing expenses

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

G. Provision for loan impairment

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

All loans, advances and other receivables from customers are subject to continuous management review. A specific provision for loan impairment is established if there is objective evidence that the Group 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 Statements of Comprehensive Income.

General provisions for impairment are maintained to cover incurred losses unidentified at balance date in the overall portfolio of loans, advances and other receivables from customers. 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 Statement of Comprehensive Income.

H. 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 Statement of Financial Position as an intangible asset.

In determining goodwill, management considers various factors including net selling price of the acquired business, 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.

I. Computer systems development costs

Costs incurred to develop and enhance the Group'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.

J. Property, plant and equipment

Land and buildings are carried at revalued amounts, being its fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Fair value is determined on the basis of regular independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the Financial Statements of the consolidated entity, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in the statement

of comprehensive income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. Buildings under constructions are referred to as work in progress and are accounted for at cost and subsequently reclassified to buildings (premises) upon completion.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful life, residual value and depreciation method is reviewed at the end of each annual reporting period.

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
Equipment under operating lease	Straight line basis	6 - 20% pa

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.

K. Leases

Bank is lessee

All leases entered into by the Group are operating leases. Total payments made are charged to the Statement of Comprehensive Income using the straight line method.

Bank is lessor

Finance leases are included in Loans, Advances and Other Receivables from Customers and are accounted for under the finance method whereby income is recognised using the effective interest method. Assets subject to operating leases are separately disclosed in the Statement of Financial Position, according to the nature of the asset. These assets are stated at cost or revalued amount less accumulated depreciation. The assets are depreciated on a straight line basis over the life of the operating lease. Lease income is recognised on a straight line basis over the term of the lease.

L. 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 with original maturities of less than three months.

M. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are

also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The Group's financial assets at fair value through profit or loss comprise certain equity securities included under other financial assets in the Statement of Financial Position.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position

c) Held to maturity investments

Held to maturity investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost. The Group's held to maturity investments comprise securities issued by Governments and Central Banks of respective countries (Treasury and Central Bank Bills) and certain debt securities included under other financial assets in the Statement of Financial Position.

Recognition and Measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'Other banking income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income as part of other income when the Group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

N. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash to settle

the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

O. Employee benefits

A liability is required for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Post-employment benefits - defined contribution plans

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

The Group 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 staff members other than non-citizen contract staff for whom there is no legal obligation to do so. The contributions are at the current rate of employees' gross salary. Once the contributions have been paid, the Group has no further payment obligations for post-employment benefits from the date an employee ceases employment with the Group.

P. Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Financial Position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting

date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Q. Foreign currency

The Financial Statements of the Group are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of these Financial Statements, the results and financial position of the Bank are expressed in Papua New Guinea kina, which is the Bank's functional and presentation currency.

In preparing the Financial Statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation

R. Share capital

Share issue costs

External costs directly attributable to the issue of new shares 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. Asset impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects

current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

T. Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured, with certain exceptions, at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Group's control and the Group remains committed to a sale.

U. Fiji class shares

Fiji Class Shares issued by BSP Convertible Notes (Fiji) Limited, a subsidiary of the Bank incorporated in Fiji, are classified as equity of the subsidiary.

V. Derivative financial instruments and acceptances

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

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group 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 Group does not actively enter into or trade in complex forms of derivative financial instruments such as currency and interest rate swaps and options.

W. Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

X. Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Y. Comparatives

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

Z. Critical accounting estimates and judgments

The application of the Group's accounting policies requires the use of estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

The areas involving significant estimates of judgments are:

- Estimated impairment of financial and non-financial assets – note 1(g) and 1(s)
- Estimation of current tax payable and current tax expense – note 6
- Estimated goodwill impairment – note 7(a)
- Estimated useful life of computer systems development costs - note 7(b)
- Estimated insurance liability – note 21
- Estimation of fair value of financial assets and liabilities – note 38
- Estimation of fair value of non-financial assets - note 38
- Estimated fair values of assets acquired and liabilities assumed in a business combination – note 40

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2016

2. NET INTEREST INCOME

Net interest income <i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Interest income				
Cash and balances with Central Bank	4,498	9,069	5,935	9,954
Treasury bills	146,692	88,366	146,684	88,366
Central Bank Bills	187	8,269	187	8,269
Other financial assets - Inscribed Stock	191,333	210,270	191,333	210,270
Loans, advances and other receivables from customers	922,046	782,619	867,010	763,984
Other	3,155	2,273	3,522	2,438
	1,267,911	1,100,866	1,214,671	1,083,281
Less:				
Interest expense				
Customer deposits	140,229	73,660	133,757	72,650
Other banks	11,665	12,647	11,695	12,140
Subordinated debt securities	8,331	8,308	8,331	8,308
	160,225	94,615	153,783	93,098
	1,107,686	1,006,251	1,060,888	990,183

3. FEE AND COMMISSION INCOME

Fee and commission income				
Product related	205,788	186,258	198,864	184,445
Trade and international related	19,447	14,377	18,867	14,373
Electronic banking related	105,758	87,813	100,219	86,213
Other	32,288	25,483	23,720	19,506
	363,281	313,931	341,670	304,537
Less:				
Fee and commission expenses				
Agencies	384	532	346	374
International Finance Corporation fees	560	2,931	560	2,931
	944	3,463	906	3,305
	362,337	310,468	340,764	301,232

4. OTHER INCOME

Foreign exchange related	253,758	178,943	231,436	170,839
Operating lease rentals	10,104	10,104	10,104	10,104
Other	34,216	20,128	35,505	19,482
	298,078	209,175	277,045	200,425

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

5. OPERATING EXPENSES

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Administration	137,768	126,095	127,119	108,591
Computing	75,205	48,307	63,277	47,307
Depreciation	62,125	70,007	58,299	67,607
Amortisation of computer development	32,508	44,713	30,522	44,224
Non-executive Directors costs	2,798	2,249	1,935	1,713
Non-lending losses	25,661	17,496	24,845	28,328
Fixed asset impairment expenses	12,003	44,666	12,003	44,666
Premises and equipment	84,238	62,857	77,987	60,656
	432,306	416,390	395,987	403,092
Staff costs				
Defined contribution plans	13,229	11,463	12,375	11,079
Statutory benefit contributions	10,318	(676)	9,826	(784)
Wages and salaries	255,902	209,189	236,020	199,766
Other staff benefits	57,886	54,718	54,931	52,826
	337,335	274,694	313,152	262,887
	769,641	691,084	709,139	665,979

6. INCOME TAX

Income tax expense				
Current tax	290,500	260,995	281,352	257,544
Deferred tax	(22,700)	(35,712)	(23,335)	(43,738)
Current year	267,800	225,283	258,017	213,806
Adjustments to prior year estimates	12,543	8,988	14,407	8,581
	280,343	234,271	272,424	222,387
Tax calculated at 30% of profit before tax (2015:30%)	263,729	218,441	263,729	218,441
Tax calculated at respective subsidiary tax rates	11,231	6,510	-	-
Expenses not deductible for tax	6,175	5,175	2,563	2,825
Tax loss not recognised	2,668	2,617	-	-
Deductible expenses not recognised for accounting purposes	(16,003)	(7,460)	(8,275)	(7,460)
Adjustments to prior year estimates	12,543	8,988	14,407	8,581
	280,343	234,271	272,424	222,387
Provision for Income Tax				
At 1 January	(39,005)	(63,022)	(36,168)	(62,738)
Income tax provision	(290,500)	(260,995)	(281,352)	(257,544)
Adjustments to prior year estimates	(8,566)	2,228	(9,141)	1,277
Tax payments made	338,647	282,784	330,331	282,837
At 31 December	576	(39,005)	3,670	(36,168)

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2016

6. INCOME TAX (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Deferred taxes				
Specific allowance for losses on loans, advances and other receivables from customers	34,251	32,603	32,666	32,118
General allowance for losses on loans, advances and other receivables from customers	117,976	95,541	113,807	92,262
Employee related provisions	20,459	17,955	19,213	16,378
Prepaid expenses	(1,126)	(1,396)	(1,204)	(1,396)
Other provisions	16,162	14,028	29,041	25,502
Property, plant and equipment	(39,842)	(32,676)	(30,500)	(31,240)
Unrealised foreign exchange gains	(4,250)	(3,626)	(4,320)	(3,626)
Accruals	26,459	24,960	23,922	29,292
At 31 December	170,089	147,389	182,625	159,290
Deferred tax asset	229,867	199,444	218,649	195,553
Deferred tax liability	(59,778)	(52,055)	(36,024)	(36,263)
At 31 December	170,089	147,389	182,625	159,290
Deferred taxes movement				
At 1 January	147,389	111,677	159,290	115,552
Current year movement	22,700	35,712	23,335	43,738
Revaluation recognised in equity	-	4,441	-	4,441
Adjustments to prior year estimates	-	(2,999)	-	(2,999)
Other movements	-	(1,442)	-	(1,442)
At 31 December	170,089	147,389	182,625	159,290

7. INTANGIBLE ASSETS

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
7(a) Goodwill				
At 1 January	42,374	21,271	35,672	18,267
Net movement	2,933	21,103	5,379	17,405
Gross carrying amount	45,307	42,374	41,051	35,672
Goodwill was tested for impairment as at 31 December 2016 and no impairment has been recognised in the Statement of Comprehensive Income.				
7(b) Computer development costs				
At 1 January	67,852	89,103	63,929	85,943
Additions	22,580	34,511	21,871	33,257
Disposals	(11,605)	(11,049)	(11,602)	(11,047)
Amortisation expense	(32,508)	(44,713)	(30,522)	(44,224)
At 31 December	46,319	67,852	43,676	63,929
Total intangible assets	91,626	110,226	84,727	99,601

8. INVESTMENTS IN SUBSIDIARIES

<i>All amounts are expressed in K'000</i>	Principal activity	Place of Incorporation and Operation	Ownership %	Balance of Investment	
				2016	2015
Name of Subsidiary					
BSP Capital Limited	Share brokerage/Fund Management/Capital Raising	PNG	100%	5,500	2,000
BSP Life Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	44,449	27,958
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,610	71,610
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,712	70,331
Bank South Pacific Vanuatu Ltd	Bank	Vanuatu	100%	38,020	-
At 31 December				318,261	259,869

During the year the Bank acquired one subsidiary as part of its acquisition of interests in regional banks (refer to note 40). Investment in subsidiaries are stated at cost, less impairment.

Provision for impairment of the Investment in BSP Capital Limited

In the prior year the directors determined that the investment in BSP Capital Limited had been materially impaired as the carrying amount of the investment was greater than its recoverable value. As of the reporting date that year, the investment amount is written down to its net book value.

Represented by:

<i>All amounts are expressed in K'000</i>	2016	2015
Opening Balance	2,000	8,959
Additional capital	3,500	4,109
Provision for Impairment	-	(11,068)
At 31 December	5,500	2,000

9. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Entity	Joint Venture/ Associate	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
				2016	2015
Suva Central Ltd	Joint Venture	Property rental	Fiji	50%*	50%*
Richmond Ltd	Joint Venture	Hotel operation	Fiji	61.3%** ,50%***	61.3%** ,50%***
Williams and Gosling Ltd	Associate	Freight forwarding	Fiji	27.7%*	27.7%*

The investments above are accounted for using the equity method in the Financial Statements.

*Both ownership and voting power held, **ownership, ***voting power held.

All amounts are expressed in K'000	Consolidated		Bank	
	2016	2015	2016	2015
Associates				
Investment in associate - equity	8,820	8,085	-	-
Translation movement	442	660	-	-
Share of profit for the year	3,597	75	-	-
Net investment at 31 December	12,859	8,820	-	-
Summarised financial information of associate:				
Total assets	46,131	43,176	-	-
Total liabilities	(9,168)	(8,882)	-	-
Net assets	36,963	34,294	-	-
Share of profits	1,719	1,710	-	-
Group adjustment	1,878	(1,635)	-	-
Share of profit in Group	3,597	75	-	-
Joint ventures				
Investment in joint ventures	93,620	84,985	14,570	13,353
Movement	4,804	6,984	752	1,090
Share of profit for the year	14,338	1,650	1,191	127
Net investment at 31 December	112,762	93,619	16,513	14,570
Summarised financial information of joint ventures:				
Total assets	180,793	159,854	62,959	56,017
Total liabilities	(57,663)	(59,375)	(29,933)	(26,878)
Net assets	123,130	100,479	33,026	29,139
Share of profits	6,574	4,859	1,191	127
Group adjustment	7,764	(3,209)	-	-
Share of profit in Group	14,338	1,650	1,191	127
Associates and Joint Ventures				
Share of associate's net assets - equity	12,859	8,820	-	-
Shares held in jointly owned entity - at cost less impairment	112,761	93,619	16,513	14,570
Total investments in associates and joint ventures	125,620	102,439	16,513	14,570

10. CASH AND BALANCES WITH CENTRAL BANK

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Notes, coins and cash at bank	483,966	468,712	445,503	403,269
Balances with Central Bank other than statutory deposit	1,172,294	733,754	964,505	607,587
Total cash and balances with Central Bank	1,656,260	1,202,466	1,410,008	1,010,856

11. TREASURY AND CENTRAL BANK BILLS

Treasury and Central Bank bills – face value	3,000,888	2,541,571	2,985,751	2,539,719
Discount for interest receivable	(67,267)	(38,462)	(67,267)	(38,463)
At 31 December	2,933,621	2,503,109	2,918,484	2,501,256

Treasury and Central Bank bills are debt securities issued by Central Banks. These bills are classified as assets held for trading and carried at fair value by the Insurance business and as assets held to maturity and carried at amortised cost by the Banking businesses.

12. AMOUNTS DUE FROM OTHER BANKS

Items in the course of collection	29,779	18,259	29,779	18,260
Placements with other banks	774,453	691,898	661,373	569,017
At 31 December	804,233	710,157	691,152	587,277

The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships.

13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS

Overdrafts	731,500	583,436	692,256	557,746
Lease financing	198,457	245,153	175,445	230,487
Term loans	7,976,794	7,059,098	7,458,125	6,710,903
Mortgages	1,672,965	1,137,938	1,417,495	1,110,619
Policy loans	46,854	42,761	-	-
Gross loans, advance and other receivables due from customers net of reserved interest	10,626,570	9,068,386	9,743,321	8,609,755
Less allowance for losses on loans, advances and other receivables from customers	(523,661)	(446,872)	(488,241)	(428,528)
At 31 December	10,102,909	8,621,514	9,255,080	8,181,227

The spread of the loans are detailed in the maturity analysis table on Note 34. The loans are well-diversified across various sectors and are further analysed on Note 33.

Lease financing

The Group and the bank provide lease financing to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles and plant and equipment. Finance lease receivables are included within loans, advances and other receivables from customers and are analysed as follows:

13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Gross investment in finance lease receivable				
Not later than 1 year	38,130	56,733	35,604	49,816
Later than 1 year and not later than 5 years	181,996	215,911	156,783	201,049
	220,126	272,644	192,387	250,865
Unearned future finance income				
Not later than 1 year	(1,646)	(4,963)	(1,441)	(1,803)
Later than 1 year and not later than 5 years	(20,023)	(22,528)	(15,501)	(18,575)
	(21,669)	(27,491)	(16,942)	(20,378)
Present value of minimum lease payment receivable	198,457	245,153	175,445	230,487

Present value of minimum lease payment receivable is analysed as follows:

Not later than 1 year	36,484	51,770	34,163	48,013
Later than 1 year and not later than 5 years	161,973	193,383	141,282	182,474
At 31 December	198,457	245,153	175,445	230,487

Provision for impairment

Movement in allowance for losses on loans, advances and other receivables from customers:

Balance at 1 January	446,872	328,037	428,528	327,087
Net new and increased provisioning	75,406	74,410	70,096	71,201
Loans written off against provisions / (Write back of provisions no longer required)	1,383	44,425	(10,383)	30,240
At 31 December	523,661	446,872	488,241	428,528

Provision for impairment is represented by:

Collective provision	398,988	329,641	379,355	321,468
Individually assessed or specific provision	124,673	117,231	108,886	107,060
At 31 December	523,661	446,872	488,241	428,528

Loan impairment expense

Net collective provision funding	60,786	51,406	58,491	48,656
Net new and increased individually assessed provisioning	14,620	23,004	11,605	22,545
Total new and increased provisioning	75,406	74,410	70,096	71,201
Recoveries during the year	(49,721)	(60,155)	(49,104)	(59,713)
Net write back/(write off)	72,937	75,650	69,468	75,169
At 31 December	98,622	89,905	90,460	86,657

14. PROPERTY, PLANT AND EQUIPMENT

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Carrying value				
Capital Work in Progress	157,713	158,621	144,975	151,589
Premises	522,393	578,832	475,696	527,023
Accumulated depreciation	(119,927)	(109,247)	(112,856)	(104,351)
	402,466	469,585	362,840	422,672
Equipment	335,088	281,633	227,004	209,931
Accumulated depreciation	(211,769)	(188,379)	(165,651)	(151,684)
	123,319	93,254	61,353	58,247
At 31 December	683,498	721,460	569,168	632,508
Assets held for sale (premises)	-	(35,135)	-	(35,135)
Net assets at 31 December	683,498	686,325	569,168	597,373

Reconciliation is as follows:

Capital work in progress

At 1 January	158,621	180,694	151,589	176,719
Additions	51,932	127,472	45,847	112,205
Transfers	(52,840)	(149,545)	(52,461)	(137,335)
At 31 December	157,713	158,621	144,975	151,589

Premises

At 1 January	469,585	453,677	422,672	436,957
Additions	20,723	77,426	15,800	66,934
Disposals	(78,279)	(41,383)	(57,144)	(41,383)
Revaluation gains/ (losses)	14,915	7,400	4,249	(13,506)
Depreciation expense	(24,478)	(27,535)	(22,737)	(26,330)
At 31 December	402,466	469,585	362,840	422,672

Equipment

At 1 January	93,254	92,994	58,247	81,058
Additions	66,312	50,174	32,014	21,672
Disposals	(1,752)	(10,928)	(1,535)	(10,928)
Depreciation expense	(34,495)	(38,986)	(27,373)	(33,555)
At 31 December	123,319	93,254	61,353	58,247

14. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Assets subject to operating lease				
Carrying value				
Aircraft	130,122	130,122	130,122	130,122
Accumulated depreciation	(85,454)	(77,265)	(85,454)	(77,265)
At 31 December	44,668	52,857	44,668	52,857

Reconciliation of carrying value of aircraft is set out below:

Aircraft

At 1 January	52,857	53,783	52,857	53,783
Depreciation	(8,189)	(7,722)	(8,189)	(7,722)
Revaluation net increase	-	6,796	-	6,796
At 31 December	44,668	52,857	44,668	52,857

Future minimum lease receipts

Not later than 1 year	5,219	10,104	5,219	10,104
Later than 1 year and not later than 5 years	-	5,219	-	5,219
At 31 December	5,219	15,323	5,219	15,323

The carrying amount of land and buildings and aircraft had they been recognised under the cost model are as follows:

Freehold land	18,911	25,987	18,433	25,987
Buildings	122,706	132,727	118,655	128,935
Aircraft	18,070	21,834	18,070	21,834
At 31 December	159,687	180,548	155,158	176,756

Freehold land and buildings carried at fair value

Independent valuations of the Bank's land and buildings were performed by Countrywide Realty Limited and The Professional Valuers of PNG Limited to determine the fair value of the land and buildings. The valuations, which conform to International Valuation Standards, were determined by reference to capitalisation of the notional income stream approach on the Market Value basis. The recent valuation was dated 31 December 2014.

Assets subject to operating lease – aircraft

An independent valuation of the Bank's aircrafts was performed by Ascend Advisory to determine the current realistic fair value for each of the aircraft. The valuation, which conforms to International Valuation Standards, takes into consideration the current global market variations for the specific types of aircrafts. The effective date of the valuation was 31 March 2014 and was extrapolated to 31 December 2015 based on expected fair values per the aircraft lease contracts.

15. INVESTMENT PROPERTIES

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Opening net book value	101,019	70,684	-	-
Additions	4,127	10,325	-	-
Translation movement	5,250	5,736	-	-
Gain on revaluation	7,194	14,274	-	-
At 31 December	117,590	101,019	-	-

16. OTHER FINANCIAL ASSETS**Securities – held to-maturity:**

Inscribed stock – issued by Central Bank	2,218,037	2,227,847	2,044,905	2,074,124
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Financial assets carried at fair value through profit and loss:

Equity securities	113,435	81,079	-	-
At 31 December	2,331,472	2,308,926	2,044,905	2,074,124

17. OTHER ASSETS

Funds in transit and other assets	150,018	115,258	145,353	107,147
Accrued interest income	82,409	83,814	74,093	78,763
Intercompany account	-	-	12,344	4,614
Outstanding premiums	35,902	30,831	-	-
Inventory	7,698	6,896	-	-
Prepayments	16,269	15,311	14,999	14,706
Accounts receivable	2,689	3,025	746	1,328
At 31 December	294,985	255,135	247,535	206,558

18. AMOUNTS DUE TO OTHER BANKS

Vostro account balances	24,773	39,185	50,038	38,789
Other borrowings	276,518	305,161	277,785	306,088
At 31 December	301,291	344,346	327,823	344,877

19. CUSTOMER DEPOSITS

On demand and short term deposits	12,832,771	11,589,377	12,272,022	11,390,548
Term deposits	4,079,578	3,005,997	3,871,674	2,857,748
At 31 December	16,912,349	14,595,374	16,143,696	14,248,296

The majority of the amounts are due to be settled within twelve months of the balance sheet date as shown in the maturity analysis table on note 34. The deposits are diversified across industries and region.

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for the Year Ended 31 December 2016

20. SUBORDINATED DEBT SECURITIES

At 31 December, there is K75.525 million of debt securities outstanding, expected to be settled more than 12 months after the balance sheet date. The notes were issued during 2009, with a maturity date in 2019, and interest is payable semi-annually at 11% per annum. They are valued at amortised cost. There have been no defaults of interest or other breaches with respect to these debt securities since issue.

21. OTHER LIABILITIES

<i>All amounts are expressed in K'000</i>	Note	Consolidated		Bank	
		2016	2015	2016	2015
Creditors and accruals		104,679	115,785	82,987	95,900
Items in transit and all other liabilities		293,870	269,958	281,447	257,352
Policy liabilities	39(b)	640,043	563,441	-	-
Premiums received in advance		5,295	5,969	-	-
Outstanding claims		13,211	12,462	-	-
Claims incurred but not reported (IBNR)		1,396	1,564	-	-
At 31 December		1,058,494	969,179	364,434	353,252

22. OTHER PROVISIONS

Staff related	76,684	62,205	65,206	55,274
Provision for non-lending loss	52,163	47,762	51,944	47,743
Provisions – other	40,960	33,731	39,248	29,518
	169,807	143,698	156,398	132,535
Staff related provisions:				
At 1 January	62,205	67,665	55,274	62,547
Provisions charge	39,986	34,969	31,165	30,535
Payouts	(25,507)	(40,429)	(21,233)	(37,808)
At 31 December	76,684	62,205	65,206	55,274

23. ORDINARY SHARES

<i>Number of shares in '000s, Book value in K'000</i>	Number of shares	Book value
At 31 December 2014/1 January 2015	468,137	379,297
Share buyback	(612)	(4,676)
At 31 December 2015 / 1 January 2016	467,525	374,621
Share buyback	(196)	(1,520)
At 31 December 2016	467,329	373,101

In May 2014, the Directors agreed to introduce a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, anytime before that.

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Earnings per ordinary share				
Net Profit attributable to shareholders (K'000)	643,451	531,879	606,674	505,749
Weighted average number of ordinary shares in use ('000)	467,427	467,831	467,427	467,831
Basic and diluted earnings per share (expressed in toea)	137.7	113.7	129.8	108.1

Basic earnings per ordinary 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 ordinary share equals diluted earnings per share.

Dividend paid on ordinary shares

Interim ordinary dividend (2016:25 toea; 2015:22.5 toea)	116,832	105,938	116,832	105,218
Final ordinary dividend (2015: 63 toea; 2014: 56 toea)	297,141	263,872	294,448	262,021
	413,973	369,810	411,280	367,239

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24. RETAINED EARNINGS AND OTHER RESERVES

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Retained earnings				
At 1 January	1,399,490	1,219,436	1,340,000	1,183,505
Net profit for the year	643,451	531,879	606,674	505,749
Dividends paid	(413,973)	(369,810)	(411,280)	(367,239)
Disposal of assets – Asset revaluation	42,537	22,103	42,537	22,103
BSP Life policy reserve	(957)	(4,118)	(957)	(4,118)
Gain in minority interest	47	-	-	-
At 31 December	1,670,595	1,399,490	1,576,974	1,340,000
Other reserves comprise				
Revaluation reserve	134,892	166,878	130,470	163,023
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	32,005	31,048	32,005	31,048
Exchange reserve	76,980	34,926	46,265	21,663
	266,090	255,065	209,375	216,369

Movement in reserves for the year:

Revaluation reserve

At 1 January	166,878	166,230	163,023	166,230
Asset revaluation increment	(1,265)	21,450	(1,832)	14,304
Transfer assets revaluation reserve to retained earnings	(42,537)	(22,103)	(42,537)	(22,103)
Deferred tax on disposal of properties	11,816	6,631	11,816	6,631
Deferred tax on asset revaluation – prior year	-	(5,330)	-	(2,039)
At 31 December	134,892	166,878	130,470	163,023

Capital reserve

At 1 January	635	635	635	635
At 31 December	635	635	635	635

General reserve

At 1 January	31,048	26,930	31,048	26,930
BSP Life policy reserve	957	4,118	957	4,118
At 31 December	32,005	31,048	32,005	31,048

24. RETAINED EARNINGS AND OTHER RESERVES (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2016
Exchange reserve				
At 1 January	34,926	(13,913)	21,663	(10,249)
Movement during the year	42,054	48,839	24,602	31,912
At 31 December	76,980	34,926	46,265	21,663

Equity component of convertible notes

On 20 April 2010, the Group issued 3,064,967 Fiji Dollars (FJD) denominated mandatory convertible notes through its wholly owned subsidiary BSP Convertible Notes Limited (BSP CN) at an issue price of FJD5.25 (K7.30) per note.

The notes mandatorily converted to Fiji Class Shares on 20 April 2013 based on a conversion ratio of 1:1. Key rights of Fiji Class Shareholders are as follows:

- (i) The right to receive dividend equal to the amount of dividend to be paid on BSP Ordinary Share.
- (ii) The same voting rights as a BSP Ordinary Share and effected through a special voting share held by the Chairman of BSP.
- (iii) The Fiji Class Share may be exchanged on a one for one basis into BSP Ordinary Shares at a subsequent date and at the option of BSP on the occurrence of certain prescribed events.

25. CONTINGENT LIABILITIES AND COMMITMENTS

Off-balance sheet financial instruments

Standby letters of credit	29,230	31,164	29,230	31,164
Guarantees and indemnities issued	346,729	304,086	334,873	299,857
Trade letters of credit	92,540	46,139	85,897	45,255
Commitments to extend credit	1,195,621	1,224,744	1,163,392	1,223,746
At 31 December	1,664,120	1,606,133	1,613,392	1,600,022

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2016. Based on information available at 31 December 2016, the Group estimates a contingent liability of K17.9 million (2015: K8.9 million) in respect of these proceedings.

Statutory deposits with Central Banks

Cash reserve requirement: requisite reserve requirements of respective countries	1,474,656	1,359,606	1,440,530	1,341,650
Commitments for capital expenditure				
Amounts with firm commitments, and not reflected in the accounts	28,753	29,505	19,899	20,631
Operating lease commitments - predominantly premises				
Not later than 1 year	52,259	22,466	49,776	22,466
Later than 1 year and not later than 5 years	60,287	36,421	56,480	36,421
Later than 5 years	26,082	16,797	25,418	16,797
At 31 December	138,628	75,684	131,674	75,684

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26. FIDUCIARY ACTIVITIES

The Group especially through BSP Capital Limited conducts investment fund management, stock broking and other fiduciary activities as responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation. These funds are not consolidated as the Group does not have direct or indirect control. Where the funds incurs liabilities in respect of these activities, and the primary obligation is incurred in an agency capacity, for the fund or clients rather than its own account, a right of indemnity exists against the assets of the applicable fund or trust. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Group will be required to settle the liabilities, the investments in the assets and liabilities of these activities are not included in the Financial Statements.

27. DIRECTORS AND EXECUTIVE REMUNERATION

Directors remuneration

Directors of the company received remuneration including benefits during 2016 as detailed below;

<i>All amounts in Kina</i>			Total remuneration	
Name of Director	Meetings attended /total held	Appointed/ (Resigned)	2016	2015
Sir K. Constantinou, OBE	8/8	-	347,393	293,105
T. E. Fox, OBE, BEc	3/4	(21/06/16)	182,818	251,351
Dr. I. Temu, PhD, MEc	7/8	-	130,511	133,966
Sir N. Bogan, KBE, LLB	5/7	(11/11/16)	135,546	139,000
R. Fleming, CSM, MBA, MGMT	8/8	-	-	-
G. Aopi, CBE, MBA	7/8	-	140,434	147,872
G. Robb, OAM, BA, MBA	8/8	-	373,776	376,039
F. Talao, LLM, MPHIL	8/8	-	190,511	137,950
E. B Gangloff, CPA, GAICO	8/8	-	135,546	142,119
A. Mano, BEc, MSc	7/8	-	117,141	122,855
A. Sam	5/5	13/07/16	60,268	-
Dr. F Lua'iuifi	-	21/12/16	-	-
			1,813,944	1,744,257

Non-executive Board Members of the Board - Constantinou, Fox and Robb received an allowance of K60,000 as Directors of BSP Capital Limited which forms part of the Group.

* Managing Director / Chief Executive Officer receives no fees for his services as Director during the year. Other members of BSP executive management who serve as directors of subsidiaries of BSP Group receive no fees for their services as Director.

27. 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	2016 No.	2015 No.	Remuneration K'000	2016 No.	2015 No.	Remuneration K'000	2016 No.	2015 No.
100 – 110	30	36	420 - 430	3	2	780 - 790	1	-
110 – 120	27	29	430 – 440	1	-	790 - 800	3	-
120 - 130	28	21	440 – 450	1	2	800 - 810	-	2
130 - 140	24	17	450 – 460	-	1	820 – 830	2	2
140 - 150	16	17	460 – 470	3	4	830 – 840	1	-
150 - 160	16	12	480 – 490	1	-	850 – 860	-	1
160 – 170	15	7	490 – 500	2	-	860 – 870	1	-
170 – 180	9	13	500 – 510	2	-	880 – 890	1	1
180 – 190	11	9	510 – 520	1	1	890 – 900	1	-
190 – 200	9	3	520 – 530	2	2	910 – 920	1	1
200 – 210	7	3	530 – 540	1	-	970 - 980	2	-
210 – 220	4	3	540 – 550	1	2	980 - 990	-	1
220 – 230	5	4	560 – 570	1	5	1000 - 1010	2	-
230 – 240	2	2	570 - 580	-	1	1010 - 1020	1	-
240 – 250	3	2	580 - 590	1	-	1040 - 1050	1	-
250 – 260	5	5	590 - 600	2	3	1050 - 1060	1	-
260 – 270	1	4	600 – 610	1	1	1090 - 1100	-	1
270 – 280	5	8	610 - 620	-	3	1100 – 1100	-	1
280 – 290	4	8	630 – 640	-	2	1170 - 1180	-	1
290 – 300	3	3	640 – 650	1	1	1180 - 1190	1	-
300 - 310	11	3	650 – 660	3	2	1220 - 1230	2	-
310 – 320	5	3	660 – 670	2	2	1280 - 1290	3	-
320 – 330	2	4	680 - 690	-	3	1370 - 1380	1	-
330 – 340	3	3	690 - 700	3	3	1530 - 1540	1	-
340 – 350	3	3	700 - 710	1	2	1630 - 1640	-	2
350 – 360	3	1	710 - 720	-	2	1660 - 1670	-	1
360 – 370	4	5	720 - 730	2	2	1700 - 1710	1	-
370 – 380	2	-	730 - 740	1	1	1730 - 1740	-	1
380 - 390	5	3	740 – 750	-	-	1840 - 1850	-	-
390 - 400	3	0	750 – 760	1	-	1880 - 1890	1	-
410 - 410	2	1	760 – 770	5	-	3560 - 3570	-	1
410 - 420	4	-	770 - 780	3	1	4510 - 4520	1	-
Total							345	296

The specified executives during the year were:

Robin Fleming, CSM	Robert Loggia	Paul Thornton	Hari Rabura	Richard Borysiewicz
Johnson Kalo	Peter Beswick	Rohan George	Giau Duruba	Aho Baliki, OBE
Haroon Ali	Edward Ruha	Christophe Michaud		

Specified executives' remuneration in aggregate (K'000)

Year	Salary	Primary bonus	Non - monetary	Super	Post-employment prescribed benefits	Other	Equity options	Other benefits	Total
2016	14,595	3,274	272	249	204	-	960	413	19,967
2015	11,478	2,443	397	222	-	-	-	375	14,915

28. RECONCILIATION OF OPERATING CASH FLOW

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	643,451	531,879	606,674	505,749
Add: Tax Expense	280,343	234,271	272,424	222,387
Operating profit before income tax	923,794	766,150	879,098	728,136
Major non-cash amounts				
Depreciation	66,401	74,243	58,299	67,607
Amortisation of deferred acquisition and computer development costs	32,508	44,713	30,522	44,224
Net profit on sale of fixed assets	(15,184)	(2,621)	(15,145)	(2,621)
Movement in forex income accrual	42,037	45,625	24,602	44,601
Impairment on loans and advances	98,622	89,905	90,460	86,657
Movement in payroll provisions	39,986	34,969	31,165	30,535
Impairment of subsidiary	-	-	-	11,068
Impairment of fixed assets	12,003	44,666	12,003	44,666
Net effect of other accruals	(51,992)	(53,929)	(69,306)	(66,477)
Operating cash flow before changes in operating assets	1,148,175	1,043,721	1,041,698	988,396
Cash and cash equivalents				
For the purposes of the cash flow statements, cash and cash equivalents comprise the following balances with less than 90 days maturity.				
Cash and balances with Central Banks (note 10)	1,656,260	1,202,466	1,410,008	1,010,856
Amounts due from other banks (note 12)	804,233	710,157	691,152	587,277
Amounts due to other banks (note 18)	(301,291)	(344,346)	(327,823)	(344,877)
	2,159,202	1,568,277	1,773,337	1,253,256

29. SEGMENT INFORMATION

The Bank and the Group comprise various segments, these being the provision of banking services and products, stock broking and insurance services and asset financing. For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Bank and Group's management reporting system. The main business lines for management purposes are core banking services in PNG, Banking Services in other jurisdictions outside PNG, insurance operations, stock broking, fund management and asset financing activities. The Bank and Group's business segments operate in Papua New Guinea, Fiji, Solomon Islands, Cook Islands, Tonga, Samoa and Vanuatu. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations included funds transfer pricing.

Consolidated <i>All amounts are in K'000</i>	PNG Bank	Non PNG Bank	Non Bank Entities	Adjust Inter Segments	Total
Analysis by segments					
Year ended 31 December 2016					
Net interest income	913,532	179,807	14,347	-	1,107,686
Other income	470,708	185,400	11,753	(7,446)	660,415
Net insurance income	-	-	23,956	-	23,956
Total operating income	1,384,240	365,207	50,056	(7,446)	1,792,057
Operating expenses	(556,709)	(193,365)	(22,757)	3,190	(769,641)
Impairment expenses	(68,947)	(24,642)	(5,033)	-	(98,622)
Profit before income tax	758,584	147,200	22,266	(4,256)	923,794
Income tax	(241,352)	(37,830)	(1,161)	-	(280,343)
Net profit after income tax	517,232	109,370	21,105	(4,256)	643,451
Year ended 31 December 2015					
Net interest income	887,970	112,624	5,657	-	1,006,251
Other income	395,067	119,780	7,468	(2,672)	519,643
Net insurance income	-	-	21,245	-	21,245
Total operating income	1,283,037	232,404	34,370	(2,672)	1,547,139
Operating expenses	(560,381)	(128,324)	(15,102)	12,723	(691,084)
Impairment expenses	(73,110)	(14,194)	(2,601)	-	(89,905)
Profit before income tax	649,546	89,886	16,667	10,051	766,150
Income tax	(202,005)	(23,063)	(9,203)	-	(234,271)
Net profit after income tax	447,541	66,823	7,464	10,051	531,879

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30. RELATED PARTY TRANSACTIONS

Related parties are considered to be enterprises or individuals with whom the Group is especially related because either they or the Bank are in a position to significantly influence the outcome of transactions entered into with the 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 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 market rates. For the year ended 31 December 2016, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

<i>All amounts are expressed in K'000</i>	Consolidated	
	2016	2015
Customer deposits		
Opening balances	102,940	142,812
Net movement	(37,437)	(39,872)
Closing balance	65,503	102,940
Interest paid	54	1,967
Loans, advances and other receivables from customers		
Opening balances	618,985	599,994
Loans issued	241,746	73,272
Interest	24,387	43,000
Charges	4,228	6,656
Loan repayments	(215,672)	(103,937)
Closing balance	673,674	618,985

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 2016, staff account balances were as follows:

<i>All amounts are expressed in K'000</i>	2016	2015
Housing loans	116,936	87,090
Other loans	42,794	34,929
	159,730	122,019
Cheque accounts	7,997	8,920
Foreign currency accounts	-	1
Savings accounts	10,082	11,399
At 31 December	18,079	20,320

31. 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 Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These risks (risk of an advance 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 Group 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 Group also seeks to optimise 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 Group also enters into guarantees and other commitments such as letters of credit, performance bonds, and other bonds.

The Group also enters into transactions denominated in foreign currencies. This activity generally requires the Group 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 Group 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 Group 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 Group 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, the Operational Risk Committee and the Executive Committee, the specific management committees charged with the responsibility for ensuring the Group 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, Risk and Compliance Committee of the Board, and ultimately to the Board of Directors.

32. CAPITAL ADEQUACY

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 and Vanuatu are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF), Central Bank of Solomon Islands (CBSI), The Financial Supervisory Commission (FSC), Central Bank of Samoa (CBS), National Reserve Bank of Tonga (NRBT) and Reserve Bank of Vanuatu respectively. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable 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 capitalised, and also applies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2016, 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 set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 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). 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 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.

The Group's capital adequacy level is as follows:

	Balance sheet/Notional amount		Risk weighted amount	
	2016	2015	2016	2015
<i>All amounts are expressed in K'000</i>				
Balance sheet assets (net of provisions)				
Currency	3,130,916	2,562,072	-	-
Loans, advances and other receivables from customers	10,102,909	8,621,514	7,851,477	6,693,220
Investments and short term securities	5,265,093	4,812,035	113,440	-
All other assets	2,332,885	2,200,682	1,437,945	1,415,736
Off-balance sheet items	1,665,374	1,606,133	279,385	271,380
Total	22,497,177	19,802,436	9,682,247	8,380,336

32. CAPITAL ADEQUACY (continued)

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2016	2015	2016	2015
<i>All amounts are expressed in K'000</i>				
a) Tier 1 capital	1,916,502	1,603,825	19.8%	19.0%
Tier 1 + Tier 2 capital	2,233,493	1,952,807	23.1%	23.1%
b) Leverage Capital Ratio	-	-	9.3%	8.9%

33. CREDIT RISK AND ASSET QUALITY

The Bank incurs risk with regard to loans, advances and other receivables due from 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 Group 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 Chief Executive Officer) 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 G – Loans and provision for loan impairment, the Group 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 Group 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 2016, the 25 largest exposures totaled K5.4 billion, accounting for over 55% of the Bank and 51% of the Group's total loan portfolio (2015: K4.6 billion, accounting for over 53% and 50% respectively). The Bank of Papua New Guinea has maintained a revised prudential standard for asset quality since October 2003. 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.

An analysis by Credit quality of loans outstanding at 31 December 2016 as follows:

Consolidated 2016	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
<i>All amounts are expressed in K'000</i>						
<i>Neither past due nor impaired</i>	677,535	7,243,317	1,510,930	98,290	46,854	9,576,926
<i>Past due but not impaired</i>						
- Less than 30 days	37,403	227,706	76,080	58,020	-	399,209
- 30 to 90 days	5,574	443,095	37,116	8,146	-	493,931
- 91 to 360 days	1,332	7,773	2,988	3,868	-	15,961
- More than 360 days	368	-	40	-	-	408
	44,677	678,574	116,224	70,034	-	909,509
<i>Individually impaired loans</i>						
- Less than 30 days	1,838	480	1,112	16,270	-	19,700
- 30 to 90 days	-	6,920	1,450	2,567	-	10,937
- 91 to 360 days	30	5,090	10,239	2,772	-	18,131
- More than 360 days	7,420	42,413	33,010	8,524	-	91,367
	9,288	54,903	45,811	30,133	-	140,135
Total gross loans, advances and other receivables from customers	731,500	7,976,794	1,672,965	198,457	46,854	10,626,570
Less impairment provisions	-	-	-	-	-	(523,661)
Net loans and advances	731,500	7,976,794	1,672,965	198,457	46,854	10,102,909

33. CREDIT RISK AND ASSET QUALITY (continued)

Credit Related Commitments

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group 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 Group on behalf of a customer, authorising a third party to draw drafts on the Group 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 Group monitors the term to maturity of these commitments because longer term commitments generally carry a greater degree of credit risk than shorter term commitments.

Economic sector risk concentrations

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

Consolidated				
<i>All amounts are expressed in K'000</i>				
<i>As at 31 December</i>	2016	%	2015	%
Commerce, finance and other business	5,725,076	57	5,136,578	60
Private households	2,001,460	20	1,669,618	19
Government and public authorities	331,130	3	126,141	1
Agriculture	240,974	2	405,766	5
Transport and communication	925,674	9	582,835	7
Manufacturing	202,423	2	244,371	3
Construction	676,172	7	456,205	5
Net loan portfolio balance	10,102,909	100	8,621,514	100

Ownership risk concentrations

Ownership risk concentrations within the customer loan portfolio are as follows:

Corporate / Commercial	5,305,676	53	4,625,570	54
Government	2,252,365	22	2,110,014	24
Retail	2,544,868	25	1,885,930	22
Net loan portfolio balance	10,102,909	100	8,621,514	100

34. 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 Group 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 2016

The maturity profile of material Assets and Liabilities as at 31 December 2016 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 achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Group, and does not impair the ability of the Group to meet its financial obligations as they fall due. The Directors are also of the view that the Group is able to meet its financial obligations as they fall due for the following additional reasons:

- The Bank and the Group complies with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that the Bank operates in. The CRR specifies that a bank must hold an amount equal to a percentage of its total customer deposits in the form of cash in an account maintained by the respective Central Bank. The Bank complies with this daily requirement on an ongoing basis. The balance of the CRR account is shown in Note 10, Cash and Balances with Central Bank, and Note 28, Cash and Cash Equivalents.

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34. LIQUIDITY RISK (continued)

Maturity of assets and liabilities

Consolidated						
<i>All amounts are expressed in K'000</i>						
As at 31 December 2016	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	3,130,916	-	-	-	-	3,130,916
Treasury and Central Bank bills	281,398	853,071	1,868,998	9,400	-	3,012,867
Amounts due from other banks	802,837	-	-	1,396	-	804,233
Loans, advances and other receivables from customers	1,254,576	510,790	1,838,148	4,637,096	4,685,542	12,926,152
Other financial assets	184,447	321,154	214,945	1,763,330	720,983	3,204,859
Total assets	5,654,174	1,685,015	3,922,091	6,411,222	5,406,525	23,079,027
Liabilities						
Amounts due to other banks	281,675	19,616	-	-	-	301,291
Customer Deposits	12,383,938	1,521,797	1,329,468	263,878	1,573,965	17,073,046
Other liabilities	1,045,556	1,095	4,527	7,316	75,525	1,134,019
Other provisions	169,807	-	-	-	-	169,807
Total liabilities	13,880,976	1,542,508	1,333,995	271,194	1,649,490	18,678,163
Net liquidity gap	(8,266,802)	142,507	2,588,096	6,140,028	3,757,035	4,400,864
As at 31 December 2015						
Total assets	4,986,519	1,351,025	3,047,207	6,248,526	4,812,054	20,445,331
Total liabilities	12,614,639	565,759	1,594,016	186,711	1,358,855	16,319,980
Net liquidity gap	(7,628,120)	785,266	1,453,191	6,061,815	3,453,199	4,125,351

35. OPERATIONAL RISK

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Group conducts its business. Examples of operational risks include employee errors, systems failures, fire, floods, or similar losses to physical assets, fraud, or criminal activity. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring.

An operational risk management function is responsible for the maintenance of these policies, procedures practices and monitoring the organization's compliance with them. The Operational Risk Committee coordinates the management process across the organization.

An independent internal audit function also conducts regular reviews to monitor compliance with approved BPNG standards and examines the general standard of control.

The Operational Risk Committee and the internal audit function mandatorily report to the Board Audit, Risk and Compliance Committee.

36. 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 Group is to minimise the impact on earnings of any such movement.

The Group accepts foreign currency denominated transactions and therefore has exposure to movements in foreign currency. The Group has a policy to offset these transactions to minimise daily exposure. As foreign exchange contracts generally consist of offsetting commitments, they involve only limited foreign exchange risk to the Group and material loss is not envisaged.

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

Consolidated						
<i>All amounts are expressed in K'000</i>						
As at 31 December 2016	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Bank	1,906,100	469,600	461,809	9,237	284,170	3,130,916
Treasury & Central Bank bills	2,705,620	7,571	205,294	-	15,136	2,933,621
Amounts due from other banks	94,931	96,335	24,068	180,380	408,519	804,233
Loans, advances and other receivables from customers	6,291,284	2,167,912	344,052	486,375	813,286	10,102,909
Other financial assets	2,044,905	286,567	-	-	-	2,331,472
Other assets	909,389	489,411	60,509	5,487	63,856	1,528,652
Total assets	13,952,229	3,517,396	1,095,732	681,479	1,584,967	20,831,803
Liabilities						
Amounts due to other banks	(3,106)	(7,152)	(1,889)	(266,816)	(22,328)	(301,291)
Customer Deposits	(11,801,027)	(2,425,255)	(841,747)	(439,296)	(1,405,024)	(16,912,349)
Other liabilities	(450,773)	(761,224)	(49,973)	(10,184)	(31,672)	(1,303,826)
Total liabilities	(12,254,906)	(3,193,631)	(893,609)	(716,296)	(1,459,024)	(18,517,466)
Net on - balance sheet position	1,697,323	323,765	202,123	(34,817)	125,943	2,314,337
Off - balance sheet net notional position	(18,957)	-	-	(122,730)	127,138	(14,549)
Credit commitments	1,308,204	307,432	6,588	-	41,896	1,664,120
31 December 2015						
Total Assets	13,098,056	2,633,175	659,841	302,168	1,503,063	18,196,303
Total Liabilities	(11,756,719)	(2,208,852)	(774,386)	(475,610)	(951,560)	(16,167,127)
Net on - balance sheet position	1,341,337	424,323	(114,545)	(173,442)	551,503	2,029,176
Off - balance sheet net notional position	(45)	-	-	(1,562)	6,159	4,552
Credit commitments	1,259,124	338,854	4,352	-	3,802	1,606,132

The following table presents sensitivities of profit or loss and equity to possible changes in exchange rates applied at the end of the reporting period, relative to the functional currency of the respective Group entities, with all other variables held constant:

<i>All amounts are expressed in K'000</i>	At 31 December 2016		At 31 December 2015	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 1% (2015 – 1%)	1,408	1,408	1,372	1,372
USD dollar weakening by 1% (2015 – 1%)	(1,380)	(1,380)	(1,345)	(1,345)
AUD strengthening by 1% (2015 – 1%)	-	-	7	7
AUD dollar weakening by 1% (2015 – 1%)	-	-	(7)	(7)

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for the Year Ended 31 December 2016

37. INTEREST RATE RISK

Interest rate risk in the balance sheet arises from the potential for a change in interest rate 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 Group 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 Group. 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 2016 and prevailing rates of interest, a 1% increase in markets rates will result in a K38.6 million increase in net interest income, whilst a 1% decrease in rates will result in a K48.9 million decrease in net interest income.

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

Consolidated						
<i>All amounts are expressed in K'000</i>						
At 31 December 2016	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	-	-	-	-	-	1,656,260
Treasury and Central Bank bills	267,696	826,806	1,829,719	9,400	-	-
Amounts due from other banks	313,687	1,196	-	9,281	-	480,069
Statutory deposits - Central Bank	-	-	-	-	-	1,474,656
Loans, advances and other receivables from customers	8,775,060	155,994	651,630	385,975	134,250	-
Investments	294,354	291,914	128,461	1,238,363	504,000	-
Other assets	44,545	-	-	-	-	1,358,487
Total assets	9,695,342	1,275,910	2,609,810	1,643,019	638,250	4,969,472
Liabilities						
Amounts due to other banks	234,119	19,616	-	-	-	47,556
Customer deposits	7,542,495	1,512,379	1,285,789	194,552	39	6,377,095
Other liabilities	-	-	-	-	75,525	1,058,494
Other provisions	-	-	-	-	-	169,807
Total liabilities	7,776,614	1,531,995	1,285,789	194,552	75,564	7,652,952
Interest sensitivity gap	1,918,728	(256,085)	1,324,021	1,448,467	562,686	(2,683,480)
As at 31 December 2015						
Assets						
Cash and Central Bank assets	-	-	-	-	-	1,202,466
Treasury and Central Bank Bills	441,264	157,000	175,395	1,087,400	642,050	-
Amounts due from other banks	630,079	27,731	52,347	-	-	-
Statutory deposits - Central Bank	-	-	-	-	-	1,359,606
Loans, advances and other receivables from customers	7,512,150	150,807	535,575	294,081	128,901	-
Investments	1,657	157,000	160,518	1,251,744	840,446	-
Other assets	219,023	-	-	-	-	1,169,063
Total assets	8,804,173	492,538	923,835	2,633,225	1,611,397	3,731,135
Liabilities						
Amounts due to other banks	270,943	32,749	36,559	-	-	4,095
Customer deposits	6,847,265	536,520	1,501,362	167,803	154,177	5,388,247
Other liabilities	103,068	-	-	-	75,525	866,111
Other Provisions	-	-	-	-	-	182,703
Total liabilities	7,221,276	569,269	1,537,921	167,803	229,702	6,441,156
Interest sensitivity gap	1,582,897	(76,731)	(614,086)	2,465,422	1,381,695	(2,710,021)

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

There is no material difference between the fair values and carrying values of the financial assets and liabilities of the Group.

The table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy.

The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consolidated				
<i>All amounts are expressed in K'000</i>				
At 31 December 2016	Level 1	Level 2	Level 3	Total
Financials assets				
Equity securities	-	111,612	1,823	113,435
Non-financial assets				
Property, plant and equipment	-	-	683,498	683,498
Total	-	111,612	685,321	796,933

Financials liabilities

Policy liabilities	-	-	640,043	640,043
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At 31 December 2015

Financial assets				
Equity securities	-	79,544	1,535	81,079
Non - financial assets				
Assets held for sale	-	-	35,135	35,135
Property, plant and equipment	-	-	686,325	686,325
Total	-	79,544	722,995	802,539

Financial liabilities

Policy liabilities	-	-	563,441	563,441
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There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2016. Property, plant and equipment and assets held for sale represents commercial land and buildings owned by the Group based on valuations provided by independent valuers. The valuation is based on the capitalisation method with an assessment of the property based on its potential earning capacity. Disposal cost for properties classified as held for sale is not expected to be material.

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

Exposures in foreign currencies arise where the 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.

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for the Year Ended 31 December 2016

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Forward exchange contracts outstanding at 31 December 2015 stated at the face value of the respective contracts are:

<i>All amounts are expressed in respective FCY'000 AND K'000</i>								
At 31 December 2016		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(55,034)	(1,410)	-	(1,700)	(360,607)	(1,094)	-
	Kina	(38,981)	-	-	(4,796)	-	-	(43,777)
Buying	FCY	16,374	60,315	-	1,197	37,100	1,914	-
	Kina	16,420	-	-	-	8,400	-	24,820

At 31 December 2015		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(9,979)	-	(200)	(4,050)	(11,000)	(2,681)	-
	Kina	(45)	-	-	-	-	-	(45)
Buying	FCY	9,459	12,780	-	-	3,000	820	-
	Kina	-	-	-	-	-	-	-

39. INSURANCE

(a) Net insurance operating income

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2016	2015	2016	2015
Net insurance income	23,956	21,245	-	-

Presentation of insurance business results in the statement of comprehensive income has been regrouped to more accurately reflect the insurance business contribution to shareholder profits. Comparative figures have been adjusted to conform to changes in presentation in the current year.

(b) Policy liabilities

Key assumptions used in determining this liability are as follows:

Discount rates

For contracts in Statutory Fund 1 which have a Discretionary Participating Feature (DPF), the discount rate used is linked to the assets which back those contracts. For 31st December 2016 this was 6.24% per annum (31st December 2015: 5.04% per annum), based on current 10 year government bond yields and expected earnings from the investment portfolio. For contracts without DPF and Accident Business, a rate of 5.16% per annum was used at 31st December 2016 (31st December 2015: 4.16% per annum). These rates were based on the 10 year government bond rate as published by the Reserve Bank of Fiji.

Investment and maintenance expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.5% per annum (31st December 2015: 3.5% per annum) for determining future expenses.

Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation (20%) are assumed to continue into the future.

Mortality and morbidity

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male. These are then adjusted for the Group's own experience. The mortality rates used was 70% of the FJ90-94 Male table for participating business in Statutory Fund 1.

Rates of discontinuance

Best estimate assumptions for the incidence of withdrawal and discontinuance vary by product and duration and are based on the Group's experience which is reviewed regularly. Rates used for the long term insurance contracts are as follows:

39. INSURANCE (continued)

	2016	2015
Whole of Life and Endowment Insurance	15%	15%
Term Insurance	18%	18%
Accident Insurance	14%	14%

Basis of calculation of surrender values

Surrender values are based on the provisions specified in the policy contracts. There have been no changes to surrender bases during the period (or the prior periods) which have materially affected the valuation result.

Discretionary Participating Business

For most participating business, bonus rates are set such that, over long periods, the returns to contract holders are commensurate with the investment returns achieved on the pool of assets which provide security for the contract, together with other sources of profit arising from this business. Profits from these policies are split between contract holders and shareholders in accordance with the policy conditions which allow for shareholders to share in allocations at a maximum rate of 20%. For business written between 1995 and 1998 the shareholder receives 11% of profits.

In applying the contract holders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of contracts in force. Assumed future bonus rates included in the liability for the long term insurance contracts were set such that the present value of the liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

Reinsurance

Contracts entered into by the Group with Reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group, are classified as reinsurance contracts.

As the reinsurance agreements provide for indemnification by the Reinsurers against loss or liability, reinsurance income and expenses are recognised separately in profit or loss when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries are recognised as claim recoveries under profit or loss. This is netted off against the claim expenses. Reinsurance premiums are recognised as Reinsurance Expenses.

<i>All amounts are expressed in K'000</i>	2016	2015
Policy Liabilities		
Opening balance	563,441	473,753
Translation movement	24,541	40,319
Increase in policy liabilities	45,036	34,984
Increase in policy liabilities on revaluation of land	7,025	14,385
Total policy liabilities	640,043	563,441

40. BUSINESS COMBINATIONS

(a) Summary of Acquisition

During the year the Bank acquired the operations of the following entities:

Acquisition date	Entity	% Acquired
1 July 2016	Westpac Banking Corporation Vanuatu Branch	100

40. BUSINESS COMBINATIONS (continued)

Acquisition account	K'000
Cash	96,205
Due from other financial institution and regulatory deposits	104,685
Loans and advances	187,435
Other assets and intergroup balances	708
Property, plant and equipment	5,995
Deposits	(356,694)
Due to other financial institutions	355
Provisions and other liabilities	(11,142)
Net identifiable assets acquired	27,547
Add: goodwill	(2,827)
Net assets acquired for cash consideration	24,720

- (1) **Acquired loans and advances**
The fair value of acquired loans and advances is K187.435m. The gross contractual amount for loans and advances due is K199.640m of which K12.205m is expected to be uncollectible.
- (2) **Profit Contribution of acquired businesses**
The acquired businesses contributed revenue of K7.49m and net profit of K1.49m to the Group for the period from 1 July 2016 to 31 December 2016. If the acquisitions had occurred on 1 January 2016, consolidated pro-forma revenue and profit for the year ended 31 December 2016 would have been K14.9m and K2.9m respectively.
The acquisition was effected by Bank of South Pacific Vanuatu Limited, a company incorporated in 2016, acquiring the assets and business.
- (3) **Purchase consideration - cash outflow**

Outflow of cash to acquire subsidiary, net of cash acquired	K'000s
Cash consideration	24,720
Additional capital injection	13,300
Less: cash balances acquired	(200,890)
Net inflow of cash – investing activities	(162,870)

(b) Other acquisition related transactions during the year

During the year, the following transactions were recorded relating to entities acquired in 2016, increasing recorded goodwill for the respective entities:

	K'000s
Acquisition of minority shareholding in Bank South Pacific Samoa Limited	380
Adjustment to acquired net assets from Westpac Banking Corporation Solomon Island Branch resulting in a write-off of tax receivable balance	2,128
Adjustment to acquired net assets from Westpac Banking Corporation Cook Islands Branch resulting in a write-off of tax receivable balance	3,252
Total increase in goodwill from prior year transactions	5,760

41. EVENTS OCCURRING AFTER BALANCE SHEET DATE

On February 27, 2017, the Bank signed an Agreement with Oracle Corporation Australia Pty Limited (“Oracle”) to procure licences for a new banking software. The new software will initially be implemented in the Bank’s Papua New Guinea business and expected to be completed by 2018, following which it will be rolled out to the banking businesses in all other jurisdictions by 2020.

42. REMUNERATION OF AUDITOR

All amounts are expressed in K'000	Consolidated		Bank	
	2016	2015	2016	2015
Financial statement audits	2,762	2,372	2,081	1,934
Other services	999	997	947	900
	3,761	3,369	3,028	2,834

The external auditor PricewaterhouseCoopers is also engaged in providing other services to the Bank and Group as required and as permitted by prudential standards. The provision of other services included taxation and general training.



Independent auditor's report

To the shareholders of Bank of South Pacific Limited

Report on the audit of the financial statements of the Bank and the Group

Our opinion

We have audited the financial statements of Bank of South Pacific Limited (the Bank), which comprise the statements of financial position as at 31 December 2016, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2016 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Bank and the Group as at 31 December 2016, and their financial performance and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out services for the Group in the area of audit-related, non-audit related and tax advice. The provision of these other services has not impaired our independence as auditor of the Bank and the Group.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Bank and the Group, their accounting processes and controls and the industries in which they operate.



Materiality	Audit Scope	Key Audit Matters
<ul style="list-style-type: none"> For the purpose of our audit of the Group we used overall group materiality of K43.81 million which represents approximately 5% of the Group's profit before taxes. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole. We chose Group profit before taxes as, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds. 	<ul style="list-style-type: none"> We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea, which are the most significant to the Group, and directed the scope of the audit of other subsidiaries included in the Group financial statements sufficient to express an opinion on the financial statements as a whole. For the Group's activities in Cook Islands, Fiji, Samoa, Tonga, Solomon Islands and Vanuatu the audit work was performed by other PwC network firms or other firms operating under our instructions. In addition we visit significant overseas operations and this year we met with management and the local audit team in Fiji. Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee: <ul style="list-style-type: none"> Loan loss provisioning IT systems and controls These matters are further described in the <i>Key audit matters</i> section of our report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report. Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	How our audit addressed the key matter
<p>Loan loss provisioning amounting to K523.66 million - Refer to Note 13</p> <p>Our audit focused on this area, owing to the significance of loans and advances to the financial statements, the prevailing economic environments in the markets in which the group operates, particularly PNG, and the subjectivity and management judgements involved in determining whether loans within the portfolio are impaired, and the amount of impairment loss that should be recognised in the current period.</p> <p>In making an assessment of loans that are impaired and determining the impairment provision required, the Group generally takes a portfolio approach, except in the case where a specific provision is required based on an assessment of individual exposures. In either case, the application of the Group's policy is inherently judgmental.</p> <p>For the individual assessment or specific provision, loans (excluding retail personal loans) are reviewed for impairment indicators, using various event thresholds, such as repayment performance. Where an impairment indicator exists, the amount of the expected future cash flows related to the loan is estimated, together with the expected realisable value of collateral held.</p> <p>All other loans are collectively assessed on a portfolio basis. For this assessment impairment models are used which aim to build in the impact of credit conditions and default risk for determining the provision. The inputs to these models also include judgmental overlays which aim to take into account emerging trends or particular situations which are not captured by the models, such as sectoral weaknesses in particular markets. This assessment involves various judgements, for example how loans are categorised for credit risk purposes and the probability of default associated with each risk grade.</p>	<p>The procedures we performed to support our audit conclusions, included:</p> <p>Assessing the design and testing the operating effectiveness of the controls over loan impairment provisioning processes. The key controls over this process includes the role of the Credit Committee in ensuring governance and monitoring of the credit function, appropriate identification of emerging credit risks, including stress testing, and its impact on key inputs to the loan provisioning process, identification and management of material exposures and the establishment of impairment models to capture losses. This assessment and testing gave us sufficient evidence to be able to rely on these processes and controls for our audit.</p> <p>For individually assessed provisions, applying sampling procedures for testing the operating effectiveness of controls over the Credit Inspection Unit's customer loan file reviews, testing the completeness of the credit watch list and delinquencies, assessing the Group's estimates of specific provisions, and re-performing the calculations for accuracy. The outcomes of this testing were satisfactory.</p> <p>For collectively assessed provisions, critically examining the model methodology for consistency and appropriateness, evaluating the probability of default factors used for appropriateness, testing the accuracy of data, such as risk grades used in the models and re-performance of model calculations. This combination of evaluation and testing gave us sufficient evidence to rely on the model's design for our audit.</p> <p>For judgmental overlays to model calculations, we considered the potential for impairment to be affected by events not captured in the models. This included making our own independent assessment of the credit environment and evaluated the impact of the Group's stress testing of loans on the credit watch list. The judgements made by the Group and the matters considered were consistent with our understanding.</p>

Key audit matter	How our audit addressed the key matter
<p>IT systems and controls</p> <p>We focused on this area because the Group is heavily dependent on complex IT systems for the processing of significant volumes of transactions and for financial accounting and reporting purposes. For example, these systems are also critical to capturing various data that are used to produce reports which management use to make decisions, monitor and control the business and for financial reporting purposes.</p> <p>Our audit approach relies on reports that are generated from these critical IT systems, and therefore the operating effectiveness of automated controls as well as IT dependent manual controls is important to enable that reliance.</p> <p>In particular, our audit focused on access rights, because they aim to ensure that changes to applications are authorised and made appropriately. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud and error as a result of a change to an application or underlying data.</p>	<p>The procedures we performed to support our audit conclusions, included:</p> <p>We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting and upon which we relied for the purpose of our audit.</p> <p>We examined the framework of governance over the Group's IT organisation, the controls over program changes and development, access to programs and data and IT operations, including compensating controls where required. We also carried out procedures over certain aspects of security of the Group's IT systems including access management and segregation of duties.</p> <p>The combination of the tests of controls and direct tests we performed gave us sufficient evidence to enable us to rely on the continued and proper operation of the Group's IT systems for the purposes of our audit.</p>

Information other than the financial statements and auditor's report

The directors are responsible for the annual report which includes other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Bank for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or any of its subsidiaries, or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2016:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Bank as far as appears from an examination of those records.

Who we report to

This report is made solely to the Bank's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Jonathan Seeto
Partner

Registered under the Accountants Act 1996
Port Moresby
1 March 2017

Shareholder Information



SHAREHOLDER INFORMATION

The following is a summary of pertinent issues relating to shareholding in the Group. 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:

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.

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.

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.

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.

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.

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.

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.

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 be equally divided. 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 six years are disclosed in the schedule of Historical Financial Performance elsewhere in this Annual Report.

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.

Directors

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

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.

Powers of the Board

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

Share buy backs

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

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 2016, the twenty largest registered fully paid shareholders of the Company were:

	Share Held	%
1 Kumul Consolidated Holdings	84,811,597	18.15%
2 Nambawan Super Limited	57,592,261	12.32%
3 Petroleum Resources Kutubu Ltd	46,153,840	9.88%
4 National Superannuation Fund Limited	45,318,417	9.70%
5 Credit Corporation (PNG) Limited	35,262,051	7.55%
6 Motor Vehicles Insurance Limited	31,243,736	6.69%
7 PNG Sustainable Development Program limited	29,202,767	6.25%
8 IFC Capitalization (Equity) Fund IP	22,796,644	4.88%
9 International Finance Corporation	22,796,644	4.88%
10 Teachers Savings & Loan Society Ltd	15,317,366	3.28%
11 Comrade Trustee Services Limited	14,456,052	3.09%
12 Lamin Trust Fund	3,518,132	0.75%
13 Capital Nominees Limited	3,060,737	0.65%
14 Credit Corporation (PNG) Limited	3,000,000	0.64%
15 Mineral Resources Ok Tedi No 2 Limited	2,890,000	0.62%
16 Solomon Islands National Provident Fund Board	2,500,001	0.53%
17 Nominees Niugini Limited	2,369,495	0.51%
18 Catholic Diocese Of Kundiawa	2,165,688	0.46%
19 Southern Highlands Holdings Limited	2,000,000	0.43%
20 Mineral Resources Star Mountain Ltd	1,975,799	0.42%
Other shareholders	38,892,428	8.28%
	467,323,655	100%

Distribution of Shareholding

At the 31 December 2016, the Company had 5,917 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1 to 1,000	4,942	1,269,599
1,001 to 5,000	616	1,230,658
5,001 to 10,000	100	723,803
10,001 to 100,000	175	6,634,771
100,001 and above	84	457,464,824
	5,917	467,323,655

Unmarketable Parcels:

As at 31 December 2016, the BSP Share Price was K9.00. There were 1,077 shareholders (2% of total shareholders) who held less than a marketable parcel of BSP shares, being holdings of K1,000 or less in market value.

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
T. E. Fox	44,744	0.00
Gerea Aopi	10,000	0.00
R Fleming	93,000	0.00

Registered Office

Bank of South Pacific Limited
PO Box 78,
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 322 9700

Australian Registered Office

Level 26
181 William Street, Melbourne
VIC 3000

Home Exchange for BSP Shares

Port Moresby Stock Exchange Ltd (POMSOX)
PO Box 1531
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 320 1980

Home Exchange for BSP Convertible Notes

South Pacific Stock Exchange
GPO Box 11689
SUVA, FIJI
Telephone: +679 330 4130

Share Registry

PNG Registries Limited
PO Box 1265,
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 321 6377

Website

www.bsp.com.pg

Australian Share Registry

Link Market Services Limited
Level 12, 680 George Street, Sydney
NSW 2000

APRA Disclaimer:

BSP is not authorised under the Banking Act 1959 (Commonwealth of Australia) and is not supervised by the Australian Prudential Regulation Authority (APRA). BSP's products are not covered by the depositor protection provisions in section 13A of the Banking Act 1959 and will not be covered by the financial claims scheme under Division 2AA of the Banking Act 1959

DIRECTORS' INFORMATION

Name	Nature of Interest	
Sir K. Constantinou, OBE	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Kimbe Bay Hotel Ltd, Grand Pacific Hotel Ltd, Taumeasina Island Resort (Samoa), Loloata Island Resort Ltd, City Centre Development Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, Southern Seas Investments Ltd, Texas Chicken South Pacific Ltd. BSP Finance Ltd, Bank of South Pacific Tonga Ltd, Bank South Pacific (Samoa) Ltd.
	Shareholder	Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Texas Chicken South Pacific Ltd.
	Member	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation (PNG).
T. E. Fox, OBE, BEc	Director	Bank of South Pacific Ltd ² , BSP Capital Ltd, Teyo No.1 Ltd ⁵ , Akura Ltd, BSP Life (Fiji) Ltd, BSP Health Care (Fiji) Ltd, BSP Finance (Fiji) Ltd, Future Farms Ltd, Feel Good Investments Ltd.
	Shareholder	Bank of South Pacific Ltd, Teyo No.1 Ltd, FeelGood Investment Ltd and Akura Ltd.
	Trustee/Member	Institute of National Affairs ⁸ , PNG Institute of Directors.
R. Fleming, CSM, MBA, MMTGT	Director	Bank of South Pacific Ltd ⁹ , BSP Capital Ltd, BSP Convertible Notes Ltd, BSP PNG Holding Ltd, BSP Life (Fiji) Ltd, BSP Capital Ltd, BSP Saleco Ltd, Capital Nominees Ltd, BSP Nominees Ltd, BSP Finance Ltd, BSP Finance (PNG) Ltd, BSP Finance (Fiji) Ltd, BSP Services (Fiji) Ltd, BSP Health Care (Fiji) Ltd, Credit & Data Bureau Ltd, Bank of South Pacific Tonga Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, 3 Kundu Pte Ltd.
	Shareholder	Bank of South Pacific Ltd.
	Trustee/Member	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation.
G. Aopi, CBE, MBA	Director	Bank of South Pacific Ltd, Oil Search Ltd ⁷ , Steamships Trading Co Ltd, POMSoX Ltd, Marsh Ltd, Hiram Ltd, Wahinemo Ltd, FM Morobe Ltd, CDI Foundation, BSP Finance Ltd.
	Shareholder	Bank of South Pacific Ltd, Oil Search Ltd ⁷ , Hiram Ltd, Wahinemo Ltd, Newcrest Ltd, Highlands Pacific Ltd, Melanesian Trustees (ICPNG), Kumul Asset Management.
	Member/Trustee	Institute of National Affairs, Business Council of PNG, PNG Chamber of Mines & Petroleum, Oil Search Health Foundation, PNG Cancer Foundation ¹ .
Dr. I. Temu, PhD, MEd, BEcon	Director	Bank of South Pacific Ltd, Telemu Ltd, Kina Petroleum Ltd, Kumul Petroleum Holdings Ltd, Savitec Ltd. Barrick Niugini Ltd
	Shareholder	Telstra Ltd, Nautilus Minerals Ltd, Kina Petroleum Ltd.
	Employee	Barrick Niugini Ltd
	Member	Divine Word University Council.

Name	Nature of Interest	
Sir N. Bogan, KBE, LLB	Director	Bank of South Pacific Ltd, In Touch Media Ltd ¹ , Coprez Communications Ltd ¹ , Coprez Holdings Ltd, Mapai Transport Ltd, Ahi Holdings Ltd.
	Shareholder	In Touch Media Ltd, Coprez Holdings Ltd.
	Member	Chancellor University of Technology, PNG Tax Review Committee ¹ .
G. Robb, BA, MBA, OAM	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Bank of South Pacific Tonga Ltd.
	Graduate	Australian Institute of Company Directors.
F. Talao, LL.M, MPHIL	Director	Bank of South Pacific Ltd, BSP Finance Ltd, Chayil Investment Ltd, Partnership Pacifica Ltd, Human Rights PNG Inc., Hopshop PNG Limited.
	Member	Papua New Guinea Law Society, Australian Institute of Company Directors.
E. B. Gangloff, CPA	Director	Bank of South Pacific Ltd, Gangloff Consulting Ltd, New Britain Palm Oil Ltd, Dubara Holdings Ltd, Sir Theophilus Constantinou Foundation. BSP Finance (Fiji) Ltd.
	Member	PNG Institute of Directors, Certified Practising Accountants of Papua New Guinea, Business Council of PNG, Institute of National Affairs, Australian Institute of Company Directors, MSME Business Council.
A. Mano, BEcon, MSc.	Director	Bank of South Pacific Ltd, Mineral Resources Development Company Limited ³ , Pearl Resort (Fiji) Ltd ¹ , Speedy Hero Limited ¹ , Insurance Pacific Limited ¹ , Civpac Ltd ¹ , Handy Group Ltd ¹ , SMA Investments Ltd ¹ Hevi Lift Group Limited, PNG Air Ltd, Leisure Holidays Ltd, Gobe Freight Ltd, Mineral Resource Ok Tedi Ltd, Mineral Resources Star Mountain Ltd, Petroleum Resources Kutubu Ltd, Petroleum Resources Moran Ltd, Petroleum Resources Gobe Ltd, Mineral Petroleum Resources Madang Ltd, Mineral Resources Ramu Ltd, Gas Resources Hides Ltd, Gas Resources Hides 4 Ltd, Gas Resource Angore Ltd, Gas Resource Juha Ltd, Bank South Pacific (Samoa) Ltd, Star Mountain Plaza, Taumeasima Island Resort.
	Shareholder	SMA Investments Limited. INSPAC Limited.
	Employee	Mineral Resources Development Company Limited.
A. Sam, BComm, CPA (Appointed 13 July 2016)	Director	Bank of South Pacific Ltd, JAJ & Associates, Silver Dawn Holdings Ltd
	Shareholder	JAJ & Associates, Silver Dawn Holdings Ltd
	Member	CPA PNG, Australian Institute of Company Directors
F. Dr Matagi alofi Lua' iufi (Appointed 14th December 2016)	Director	Paradise Consulting Ltd, Bank of South Pacific Ltd.
	Councillor /Member of Executive Committee	National University of Samoa.
	Alumni /Member	Kennedy School of Government, Harvard University, Boston, Massachusetts, USA; British Institute of Consulting.
	Trainer	UNDP Transformation Leadership Development Programme

¹Chairman, ²Deputy Chairman, ³Managing Director, ⁴Executive Director, ⁵General Manager, ⁶Councillor, ⁷Company is shareholder of Bank of South Pacific Limited, or shareholder of company that is shareholder, ⁸Company has commercial banking facilities with Bank of South Pacific Limited, ⁹Chief Executive Officer



We are you. We are Fiji.

Management Teams & Directories



SENIOR MANAGEMENT



Robin Fleming
Group Chief Executive Officer

Robin Fleming was appointed CEO of Bank of South Pacific Limited in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of Bank of South Pacific Limited and PNGBC Limited Robin held senior management roles with PNGBC. He has worked in PNG for over 30 years and holds a MBA and a Master of Management from Charles Sturt University.



Johnson Kalo
Group Chief Financial Officer/Deputy Group CEO

Johnson Kalo was appointed Deputy CEO and Chief Financial Officer in February 2010. Immediately prior to this appointment as Chief Financial Officer in Sept 2005, he was senior manager of Planning and Control for BSP. Prior to joining BSP, Mr Kalo's previous professional experience includes roles as assistant audit manager with KPMG Port Moresby, and Senior Accounting Manager at Papua New Guinea Banking Corporation. Mr Kalo is a Commerce graduate from the University of Papua New Guinea, and has also completed a Graduate Diploma in Applied Finance and Investment with the Financial Services Institute of Australasia. Mr Kalo is an associate member of CPA PNG.



Roberto Loggia
Group Chief Operating Officer

Roberto Loggia joined BSP in April 2011 after having been CEO of State Bank, Mongolia in its initial stages of development wherein the sound assets of two failed institutions were consolidated into a new viable state sponsored bank with the support of EBRD, London. After having obtained his Bachelor of Commerce degree in Finance from McGill University, Montreal and initiation into banking at Toronto Dominion Bank, he has spent more than thirty years in the banking sector working mostly throughout Asia but also in emerging markets in Central Europe, South America and Africa. He has also participated as a key manager in greenfield banks in Japan, Indonesia, Laos and Angola, and has held senior positions within Retail Banking in Nigeria as well as consulting assignments within Retail Banking in China and Risk Management in Thailand.



Haroon Ali
Group Chief Risk Officer

Haroon Ali was appointed Chief Risk Officer in July 2013. Previously, he was the Bank's Chief Risk Officer for Fiji. Mr Ali has more than 36 years of banking experience of which 30 years was with ANZ Bank that included a 2.5 year secondment with ANZ's Corporate Banking Division where he held the position of Regional Risk Executive before returning to Fiji to take up the role of Head of Commercial and SME Banking. Before joining BSP in September 2010, he was the Head of Retail Banking for ANZ Fiji. Mr Ali holds a Masters of Management Degree in Strategic Management from the Southern Cross University in Sydney. He is a Fellow of the Financial Institute of Australasia and holds an Honorary Fellowship from the Fiji Institute of Bankers.



Paul Thornton
Group General Manager Retail Banking

Paul Thornton was appointed Group General Manager Retail Banking in August 2013 and brings to the position 40 years of retail banking experience, 32 years of which have been in PNG. Mr Thornton was previously the Executive Manager Strategic Planning with the PNG Banking Corporation and was the founding Managing Director of PNG Microfinance Limited. Since returning to BSP in 2010, Mr Thornton has held the positions of Head of BSP Rural, Deputy General Manager Retail and General.



Peter Beswick
Group General Manager Corporate Banking

Peter Beswick was appointed Group General Manager Corporate Banking in June 2011. He has over 20 years of banking and finance experience, covering Australia and South East Asia with Commonwealth Bank of Australia, National Australia Bank and Bank of New Zealand; holding senior executive positions in risk management and business development. Prior to joining BSP, his most recent appointment was Chief Executive Officer of a national wholesale, import and retail business in Australia. Mr Beswick has extensive experience in the finance, government, retail, wholesale, telecommunications, and property sectors, with extensive knowledge in foreign exchange, risk management and governance. Mr Beswick qualified as a Chartered Accountant with PricewaterhouseCoopers and most recently completed an MBA with Macquarie University in Australia.



Eddie Ruha
Group Chief Financial Officer

Eddie Ruha was appointed Group Chief Financial Officer in February 2017, having previously served as Chief Financial Officer, PNG, since November 2012. Prior to joining BSP, he worked for Steamships Trading Company in PNG for 22 years, working in the Steamships Merchandising Division for eight years, before transferring to Head Office as Group Systems Accountant and then Group Accountant, General Manager Finance and then from 2008 to 2012 as Finance Director and Company Secretary. In New Zealand, he initially worked for KPMG Auckland office as an Auditor. Mr Ruha is a commerce graduate from Auckland University in New Zealand and has a Master of Business Administration from Charles Sturt University and is an associate member of CPA Papua New Guinea as well as an associate member of the New Zealand Institute of Accountants.



Aho Baliki
General Manager Paramount Banking

Aho Baliki has been in the banking industry for over 40 years, having joined the Commonwealth Banking Corporation in February 1974. After joining the bank, he progressed through the banking hierarchy to the position of Chief Executive Officer of the PNG Banking Corporation in 1999. He was further appointed as General Manager Human Resources in 2000 when PNG Banking Corporation merged with BSP. He currently holds the position of General Manager Paramount Banking since his appointment in 2002.



Rohan George
General Manager Treasury

Rohan George was appointed General Manager Treasury in February 2015. He has extensive knowledge in developed and emerging financial markets. His experience spans 30 years, covering fixed income, foreign exchange, commodities and structured derivatives markets. Prior to joining BSP, he worked at ANZ as Head of Global Markets, Cambodia & Laos (5 years), at Westpac as Treasurer PNG & Pacific Islands (8 years), and at BNP Paribas Investment Management in Sydney, as Head of Fixed Income. Mr George holds a Master of Applied Finance degree from Macquarie University and is accredited by both the Australian Financial Markets Association and the Sydney Futures Exchange.



Hari Rabura
General Manager Human Resources

Hari Rabura was appointed General Manager Human Resource in April 2016, having joined BSP as a graduate trainee in 2001. She is experienced in implementing and delivering human resources strategies, policies, and services that create, support and sustain a high performance culture in BSP. She is also a member of the BSP Leadership & Management Development Program and has attended training in INSEAD Business School, Melbourne Business School and most recently on secondment with the Oil Search Head Office in Sydney, Australia.

COOK ISLANDS



Standing (L - R):

Massey Mateariki - Manager Risk & Compliance
 Tokoia Harmon - Branch Manager
 Janet Samuel - Business Manager
 Chris Doran - Head of Business Banking

Seated (L - R):

Miranda Doran - Finance Manager
 David Street - Country Manager
 Henry Napa - Operations Manager

FIJI



Standing (L-R):

Ravindra Singh - GM Retail Bank
 Howard Politini - GM Human Resource
 William Wakeham - Chief Operating Officer
 Omid Saberi - Chief Information Officer
 Rajeshwar Singh - Chief Financial Officer

Seated (L - R):

Ashleigh Matheson - Chief Risk Officer
 Alvina Ali - GM Legal
 Kevin McCarthy - Country Manager
 Cecil Browne - GM Corporate & International

SAMOA



Standing (L - R):

Michelle Lemisio - Business Manager
 Shirley Greed - Head of Retail
 Maryann Lameko-Vaai - Country Manager
 Peti Leiataua - Operational Risk & Compliance Manager

Seated (L - R):

Rod Greed - Project Manager
 Nick Rous - Regional Finance Manager
 Edward Yee - Head of Business Banking

Absent: Bharat Chovan - Head of Financial Markets,
 Epeli Racule - Operations Manager

SOLOMON ISLANDS



Standing (L-R)

Dennis Suia - Manager Operational Risk & Compliance
 Janet Marau - Manager Retail Operations
 Sharneet Shalvin Singh - Financial Controller
 Giddings Qiqa - Manager Operations & Int. Business
 Alphonse Taoti - Manager Retail Banking Services
 Jeffery Pitamama - Manager Customer Service
 Joyce Nukumuna - Manager Electronic & Branchless Banking
 Winterford Maehau - Manager Information Systems

Sitting(L-R)

Lynette Taoti - Manager Credit Administration
 David Anderson - Country Manager
 Christopher Robertson - Head of Relationship Banking
 Freda Fa'a'itoa - Manager Human Resources

TONGA



Standing (L - R):

Salesi Fineanganofu - Business Manager
 Mele'ana Fifita - Manager Global Transactional Solution
 Josiah Kalfabun - Manager Operational Risk

Seated (L - R):

Linita Tu'ihalangie - Manager Operations
 Daniel Henson - Country Manager
 Emele Hia - Branch Manager
 Viliami Vailea - Manager Finance

VANUATU



Standing (L - R):

Edmond Williamson – Manager Operational Risk and Compliance
 Teresa Jordan – Manager Operations
 Nik Regenvanu - Head of Business Banking
 Peter Dinsmore – Manager Finance
 Carol Veremaito – Business Manager

Seated (L - R):

Liz David - Manager LMU
 Stuart Beren - Country Manager
 Moana Korikalo - Head of Retail & Marketing

BSP CAPITAL LTD



Standing (L - R):

Willie Konga – Manager, Funds Management
Gheno Minia – Head of Equities & Dealing

Seated (L - R):

Salaniet Mathew – Manager Settlements & Nominees
Richard Borysiewicz- General Manager, BSP Capital
Theresa Kalivakoyo- Business Controller

BSP FINANCE - PAPUA NEW GUINEA



Standing (L - R):

Dulcie Pilake - Collections Manager
Sharon Andoiye - Manager OPERational Risk and Compliance.
Barbara Tolaget - Manager Lending Support
Pochon Lili - Financial Controller
Freda Willyman - Manager Administration
Imelda Samba - Senior Lending Officer
Debra Lessi - Finance Manager

Seated (L - R):

Anna Puri - Credit Manager
Jodi Herbert - Country Manager
Christophe Michaud - General Manager
Shauna Paike - Head of Lending Sales

BSP FINANCE - FIJI



Standing (L - R):

Anal Sen - Collections Supervisor
Sudeshwar Ram - Senior Lending Officer
Krishna Raju - General Manager
Animul Sheryn Khan - Settlement/Conveyancing Officer
Sanjeet Narsey - Finance Manager
Shainesh Vikash Lal - Area Manager West

BSP LIFE - FIJI



Standing (L - R):

Michael Nacola - General Manager Distribution & Marketing
 Vandhna Narayan - General Manager Legal & Compliance
 Munendra Naidu - Chief Financial Officer
 Pramesh Sharma - General Manager Investments

Seated:

Malakai Naiyaga - Managing Director



OVERSEAS DIRECTORY

Cook Islands

Country Manager	David Street	682 22014
Head of Business Banking	Chris Doran	682 22014
Rarotonga Branch	Tokoia Harmon	682 22014
Aitutaki	Rosa Henry	682 22014

Fiji

Country Manager	Kevin McCarthy	3214454
Damodar City Branch	Manjila Goundar	3342333
Thomson St Branch	Mohammed Arif	3314400
Nausori Branch	Shailendra Roy	3478499
Pacific Harbour Branch(OIC)	Jennifer Morris	3452030
Pacific House Sales & Bus.Centre	Shalit Kumar	3314400
Samabula Sales & Bus. Centre(OIC)	Pio Vatanitawake	3387999
Suva Central Branch	Mereani Peters	3314400
Ba Branch	Anupa Kumar	6674599
Westfield Branch	Madhur Kumar	6662466
Nadi Branch	Devendran Pillay	6705111
Namaka Branch	Ann Pesamino	6728950
Rakiraki Branch (OIC)	Ronica Prakash	6694200
Sigatoka Branch	Reginald Kumar	6500900
Tavua Branch (OIC)	Sanjeev Sumer	6681507
Labasa Branch	Eka Seduadua	8811888
Savusavu Branch (OIC)	Vineeta Prasad	8850199
Taveuni Branch	Marica Mara	8880433

Samoa

Country Manager	Maryanne Lameko - Vaai	685 66115
Retail Head	Shirley Greed	685 66170
Savaai Branch	Taialofo Toala	685 51208
Vaitele Branch	Amelia Iakopo	685 23005

Solomon Islands

Country Manager	David Anderson	677 21874
Auki Branch	Gordon Ifuimae	677 40484
Gizo Branch	Clotilda Londeka	677 60539
Heritage Park Branch	Joy Vave	677 21814
Honiara Central	Glennise Kuper	677 21222
Munda Branch	Tanya Saiqoro	677 62177
Noro Branch	Tewia Laore	677 61222
Point Cruz Branch	Fred Osifelo	677 21874
Ranadi Branch	Tricia Tura	677 39403

Tonga

Country Manager	Daniel Henson	676 23540
Nuku'alofa Branch	Emilio Tapueluelu	676 20827
Vava'u Branch	Sosefina Tangitau	676 71268

Vanuatu

Country Manager	Stuart Beren	678 5580001
Santo	Janso Ngwera	678 36625
Port Vila	Joycelyn Tovovur	678 28614

PAPUA NEW GUINEA BRANCH MANAGERS



Alex Wafimbi
Aitape



Karen George
Arawa



Betty Posangat
Alotau



Maureen Wanu
Boroko



Mary Koi
Bialla



Nelson Kerua
BSP First HC



Julie Warren
Buka



Bevilon Homuo
Bulolo



Antonia Dru
Gordons



Ivy David
Daru



Livikonimo Koki
Goroka



Peter Komon
Harbour City



Marco Hamen
Kainantu



Madeleine Leka
Kavieng



Ruby Patu
Kimbe



Thomas Tembil
Kiunga



Joe Makinta
Kokopo



Rita Singut
Kundiawa



Agnes Mark
Lae Top Town



Robinson Panako
Lae Commercial



Josephine Komuru
Lae Market



Kalat Tiriman
Lihir



Quillan Nongi
Lorengau



Barry Namongo
Madang



Billy Veveloga
Mendi



Meck Kaum
Moro



Rawalo Rawalo
Moro



Mary Kundi
Mt Hagen



Tau Kwarujambi
Motukea



Diana Guria
Port Moresby



Eileen Goviro
Popondetta



Suya Yopahafo
Porgera



Peter Tikot
Rabaul



Jeanette Tami
Tabubil



Samuel Okti
Tari



Jacqueline Mileng
Vanimo



Sibona Kema
Vision City



Rova Olemau
BSP First Gordons



Theresa Pilamp
Wabag



Alex Kuna
Waigani B/Centre



Mathias Manawo
Waigani Drive



Gabriel Ak
Wewak



Tony Waningu
SME - Port Moresby



Richard La'a
SME - Lae



Reuben Elizah
Highlands Area
Manager



Dennis Lamus
Momase Area
Manager



Stanerd Wai
NCD Area Manager



Jeffrey Singer
NGI Area Manager



Nuni Kulu
Southern Area
Manager

Aitape	Alex Wafimbi	457 2042
Alotau	Betty Posangat	641 1284
Arawa	Karen George	276 9244
Bialla	Mary Koi	983 1095
Boroko Branch Premium	Maureen Wanu Sheila John	303 4333 303 4354
Buka Branch Premium	Julie Warren Poni Tukily	973 9042 7202 9203 973 9087 7202 9202
Bulolo Daru Goroka	Bevilon Homuo Ivy David Livikonimo Koki	474 5366 645 9062 532 1633
Gordons BSP First Premium	Rova Olemau Antonia Dru	302 5245 302 5271
Harbour City Branch Premium BSP First	Peter Komon Bau Kiso Nelson Kerua	305 7731 305 6189 305 6560
Kainantu Kavieng Kimbe Kiunga	Marco Hamen Madeleine Leka Ruby Patu Thomas Tembil	537 1065 984 2066 983 5166 649 1073
Kokopo Branch Premium	Joe Makinta Jennifer Tiolam	982 9088 982 9068
Kundiawa	Rita Singut	535 1025
Lae Top Town Main Market Commercial BSP First	Agnes Mark Josephine Komoru Robinson Panako Elizabeth Gavul	473 9820 473 9606 473 9877 478 4949 478 4930
Premium Lihir Lorengau	Wendy Poka Kalat Tiriman Quillan Nongi	478 4923 986 4052 970 9050

Madang Branch Premium	Barry Namongo Ruth Makel	422 2477 422 2621
Mendi Moro Motukea	Billy Veveloga Meck Kaum Tau Kwarujambi	549 1070 276 1566 321 7699
Mt Hagen Branch Premium	Mary Kundi Beverly Elizah	542 1877 542 1877
Popondetta Porgera	Eileen Goviro Suya Yopahafo	629 7171 547 6900
Port Moresby Branch Premium BSP First	Diana Guria Lina Popal Nelson Kerua	305 7790 305 7943 305 7731
Rabaul Tabubil Tari Vanimo	Peter Tikot Tony Waningu Samuel Okti Jacqueline Mileng	982 1744 649 9179 276 1650 457 1209
SME Port Moresby Lae	Tony Waningu Richard La'a	305 6400 479 5676
Vision City Branch Premium BSP First	Sibona Kema Damaris Toran Dianne Sawala	300 9100 300 9103 300 9109
Wabag	Theresa Pilamp	547 1176
Waigani Banking Centre Branch Premium	Alex Kuna Lorraine Siaoa	300 9600 300 9645
Waigani Drive Wewak	Mathias Manowo Gabriel Ak	302 5300 456 2344
Highlands Region Momase Region NGI Region NCD Region Southern Region	Reuben Elijah Dennis Lamus Jeffrey Singer Stanerd Wai Nuni Kulu	542 2002 478 4998 982 9285 305 7703 305 7628

SUB BRANCH DIRECTORY

AIYURA	Gomah Benson	7230 8313
BANZ	Kessy Elly	7100 9078
BUIN	Melchior Tania	7100 7855
CHUAVE	Koiya Kupa	7197 6001
DAULO	Merolyn Sirifave	7100 6763
GEMBOGL	William Koima	7313 4177
GUSAP	Michael Yakep	7091 1396
HENGANOFI	Emos James	7100 7859
HIGATURU	Stephanie Orovo	72751365
HOSKINS	Ruddy Samson	7031 2627
KABWUM	Rachael Watu	7346 1426
KAMTAI	Robert Kom	7243 4695
KEREMA	Aisi Aua	7091 2298
KEREVAT	Kilala Kindau	7190 8231
KEROWAGI	Leah Taia	7100 9077
KINIM	Malapun Bannick	7100 7861
KIKORI	Leah Kimave	716 30597
KOMO	Lobe Arawi	7362 0760
KONOS	Maureen Nick	7197 6006
KUPIANO	Andrew Baine Jnr	7288 4140

LABA	Auda Morea	7197 6008
LAKURUMAU	Lorraine Koma	7197 6005
LOUSIA	Lorna Solomon	7031 2617
MAPRIK	Christian Tatu	7168 7815
MINJ	Kui Tai	7100 9076
MUTZING	Gordon Robert	7100 2488
NAMATANAI	Mathew Tabakas	7197 6007
NAVO	Sinith Salum	7090 4272
NINGERUM	Mathew Tware	7031 8497
OKAPA	Arafat Tovari	7374 5623
PADIPADI	Alfred Robert	7090 4463
PALMALMAL	Freda Nablup	7323 9181
PANGIA	Karen James	7197 6003
TAMBUL	Joseph Paul	7100 7863
TELEFOMIN	Jobartan Bickie	7255 8421
WAKUNAI	Melvin Kusa	7100 7856
WALIUM	Brenda Igusam	7106 8357
WAPENAMANDA	Feta Isin	7100 7862
YANGORU	Brendon Iromo	7127 0000
YONKI	Usik Asino	71855768



We are you. We are Tonga.

Corporate Social Responsibility



COMMUNITY PROJECTS IN PAPUA NEW GUINEA



Mendi Branch constructed a new basketball court for the Taguru community

We recognise that as a growing Bank in the Pacific, we have a special responsibility to our people, our customer and our community. BSP Community Projects are executed through all our Branches in PNG, Fiji, Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu. Our staffs volunteer their time to contribute to helping to complete each project. Our Community Project are also undertaken by Strategic Business Units (SBUs).

Quick Facts about BSP Community Projects

09

2009 – The year that BSP introduced Community Projects where every Branch in PNG delivered a project in their local community in partnership with community leaders.

100

We are 100% committed to the people of PNG and the Pacific, Fiji, Solomon Islands, Tonga, Samoa, Cook Islands and Vanuatu.

287

287 Worthy Community Projects delivered since 2009

6.7

Amount in Kina (Million) BSP has invested in community project throughout PNG since 2009. BSP fully funds these projects focusing on Education, Health, Sports and Environment.



BAIUNE AID POST - Bulolo



ST. MICHAELS PRIMARY - Port Moresby



WATER TANK LAUNCH - Tari



Stenard Wai, cutting the ribbon to officially hand over the water tanks to Mt. Diamond Secondary School.



“These two tanks will now solve our water problem and also give us great confidence and positive perception towards BSP.” - Mr. Martin Sepe, Mt Diamond Secondary School Principal.

Our Community Projects typically include:

- Renovating, rebuilding hospitals & health facilities or providing medical equipment.
- Building new and renovating libraries, classrooms & school bus stops.
- Renovating sporting facilities & giving sport equipment.
- Renovating ablution blocks or providing water tanks at schools.
- Renovating or building parks & playgrounds for children.
- Supporting community events & initiatives or simply lending a helping hand.

In 2016 we focused on “Provision of clean water & Renewable Energy”

- **24 Water Tanks donated as part of the BSP Community Project in PNG.**
 - Most Water tanks were donated to Schools and Health Centres



VILELO PRIMARY SCHOOL - Biella



CHRISTIAN ACADEMY - Port Moresby



LEMAKOT - Kavieng



Lumi Health Centre, Aitape received new solar panels and lights for the clinic. Here, contractors setting up the panels to test.

“The Health Centre operated with poor lighting in the wards, Staff had to do birth deliveries using the torches and Mobile phone lights. This will help the staff especially during our night shifts.” Jack Seimoni, Provincial Director of Public Health.

Each year we deliver many worthy projects that make a meaningful difference to recipient communities

Renewable Energy focused Project by our Aitape, Lae, Vanimo and Kavieng Branches.

- Installation of Solar Lights to Lumi Health Centre.
- Installation of 1x water tank & solar light package at Gelam Musom Christian School.
- Installation of 2x water tank & solar light package at Waromo Catholic Church.
- Installation of Solar Light at Lemakot Primary School.

Renovation of the PNG Blind Service Centre

- BSP First assisted the Centre 2012.
- Services of Rehabilitation, Education and Primary Eye Care.
- BSP Presented two more speakers and a computer set to the centre to help them with their ICT programs.



PNG BLIND SERVICE CENTRE - Port Moresby



BUIMO - Lae



MARIANVILLE SEC. SCHOOL - Port Moresby



BSP's Board of Directors and Senior Management at the community project handover, Madang.

Our staff continue to deliver projects that are aimed to enrich communities and build unity. This is supported by the Board and Management. In Madang, Board Members took the opportunity to visit the Madang Holy Spirit Primary School to hand over new tanks that were installed by BSP Madang staff.

Some of the BSP Community Project in PNG.

- Renovation of Ablution block at Buimo Health Centre
- Refurbishment of the Daru CIS Aid Post
- Installation of Solar Lights to Lumi Health Centre
- Installation of 2x water tank to Darava Elem. School
- Refurbishment of Baiune Aid Post
- Water tank and sports pack to Tokarara Primary School
- Installation of Water tank to Samo School
- Maintenance of classroom at St Pauls Primary School
- Renovation of Admin Office at Raluana Primary School
- Renovation of the PNG Blind Service Centre
- Installation of 4 x Tuffa Tanks Mt Hagen Primary School
- Installation of 3x water tanks to Holy Spirit Primary
- Installation of water tank at Goroka Technical College
- Renovation of the Widows Association Office
- Installation of Solar Light at Lemakot Primary School
- Installation of Water tank & Construction of playground at Popondetta General Hospital
- Renovation of school hall and Installation of water tank to Arawa Primary School
- Installation of Water tank at Gagan Health Centre
- Renovation of the Basketball & Volleyball court for the Correctional Services Unit
- Renovation of Library at Gordons Secondary School
- Renovation of CIS Meeting Building



TOKARARA PRIMARY - Port Moresby



CIS AID POST - Daru



GOROKA TECHNICAL COLLEGE

COMMUNITY CONTRIBUTIONS: OFFSHORE BRANCHES



Our friend Piggy and the Tonga Under 19 Girls team at the official opening ceremony of the netball court. BSP Tonga's first Community Project

Our teams in Fiji, Solomon Islands, Cook Islands, Samoa and Tonga also delivered Community Projects in 2016.

16

A total of 16 community projects were handed over in 2016.
 Fiji - 5 | Solomon Islands - 8 | Tonga - 1 | Cook Islands - 1 | Samoa - 1

Fiji Branch Projects

- Westfield & Namaka: Installation of water tank at Lololo Primary school and renovation of kindergarten
- Savusavu: Repairs to classrooms at Tacilevu Primary School and installation of water tank
- Rakiraki: Repairs to the Namarai Health Centre

Solomon Islands Branch Projects

- Heritage Park Branch: Presentation of three Wheel Chairs towards The National Referral Hospital Medical Ward
- Gizo: Installation of water tanks to St Luke's Anglican Kindy and Gizo United Church Kindy.
- Noro: Refurbishment of St Eusebius Catholic Kindy

Cook Islands Branch Projects

- Installation of the Sports Score Boards at Tupapa, Titikaveka & Ngatangia

Samoa Branch Projects

- Installation of Water tanks to under-developed communities

Tonga Branch Projects

- Construction of netball court at the BSP Car Park



UNVEILING THE PLAQUE - Fiji



READY, SET, PAINT - Tonga



STAFF WORKS - Samoa



Staff and Village representatives from Gataivai, Samoa.

Some of the activities & organisations we supported in 2016 include:

FIJI

- Tropical Cyclone Winston
- Chinese Media Soccer Tournament
- Melanesian Games 2016
- 11th Oceania Swimming Championship
- Oceania Weightlifting Championship
- Pacific Microfinance Alliance sponsorship
- 2016 Top Executives Conference
- BSP Blood Drive - Fiji National Blood Service
- South Pacific Tourism Exchange Event
- 2016 Rotary Charity Golf Day
- Suva Marathon Challenge
- Nadi Airports Ladies Golf Tournament

SOLOMON ISLANDS

- SIWIBA
- G'Day Solomon Islands Fun Run
- BSP Golf Sponsorship.
- Financial Inclusion Committee
- Pinktober
- Rotary Club of Honiara
- Australia/Solomon Is. Business Forum
- Various School Awards

COOK ISLANDS

- Cook Islands Youth National Council
- Cook Islands Canoeing Association
- Ministry of Education
- Cook Islands Triathlon International
- Cook Islands Breast Cancer Foundation
- Climate Change Cook Islands
- Cook Islands Badminton
- Cook Islands Squash
- Cook Islands Police
- Ministry of Cultural development
- The Rotary Club of Rarotonga

SAMOA

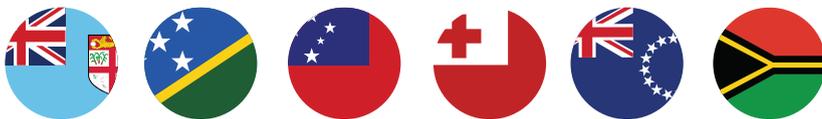
- Table Tennis Federation
- Samoa Chamber of Commerce
- Samoa Victim Support Group
- Samoa Beach Volleyball Association Inc
- Samoa Golden Oldies Rugby Club
- Goshen Trust Mental Health Services
- Iva White Lions Sports Club
- Samoa Arts Council
- Samoa Stationery and Books
- Samoa Events Inc
- Samoa Institute of Accountants

TONGA

- ON THE SPOT- NGO
- Miss Heilala Beauty Pagent- NGO
- Vava'u Billfish Fishing Tournament- Sports
- Tonga Rotary Club- NGO
- Christmas in the Park- Charitable group
- Nuku'alofa Outrigger Canoe Club- Sports
- Tonga Primary School Rugby Tournament- Sports
- Tonga Breast Cancer Committee - NGO

VANUATU

- Vila Pro Med Yrly S/Ship
- Santo Golf Day
- Vanuatu Senior Golf Open
- USP Open Day
- Pro Med Survivor Games
- Rural Women's Day
- Rotary Golf Day
- Netball
- Malapoa College Grad Day
- Port Vila Golf Club Corporate Membership
- Business Council



Quick fact: BSP acquired Westpac Operations in Vanuatu in July 2016.



TUFF TUMAS BSP - Vanuatu



SWIM CLUB SUPPORTED - Tonga



ROAD TO RIO - Fiji

SPONSORSHIPS & DONATIONS



Sarenah Pini receiving the cheque from BSPs Nancy Knight

“I acknowledge with sincere appreciation the continued support received from BSP for the ongoing education and development of our sport volunteers and athletes and growing the sport in Papua New Guinea,” - Elizabeth Wells, PNG Swimming Inc (PNGSI) President

BSP Sponsorship and Donations focuses on many aspects of the community such as:

- Sports initiatives promoting healthy, active lifestyle
- Educational initiatives promoting literacy
- Nation building and encouraging investment
- Art & Cultural activities
- Health & Environmental initiatives
- Humanitarian and charitable initiatives

6 Categories BSP has assisted in. Cultural Events, Sports, Fundraising Events, and Corporate Events, Conferences and Expo

265 Thousand Kina sponsored and donated **In-Kind** - 2016.

2.3 Million Kina sponsored and donated **In-Cash** - 2016.



SEIPIK RIVER CROCODILE FESTIVAL



ST. THERESA U/15 BOYS



SUSTAINABLE COASTLINE PNG



Surfing Association receiving the support from BSP Vanuatu.

At BSP our commitment is to help communities prosper in all areas we operate in. Some of the activities and organisations we supported in 2016 include:

- PNG Mining & Petroleum Conference
- PNG International Business Summit
- Certified Practising Accountants (CPA)
- Institute of Internal Auditors - POM
- PNG Australia Business Forum
- PNG Human Resource Institute
- UPNG MBA Pinnacle
- PNG Womens Forum
- PNG Industrial & Mining Resource Exhibit
- Medical Symposium
- Niugini Coffee Expo
- Madang Investment Summit
- BPNG Financial Inclusion Expo
- Goroka Show
- Morobe Agricultural Show
- Sepik Crocodile Festival
- National Kenu & Kundu Festival
- Warwagira & Mask Festival
- Bulolo Cultural Show
- Frangipani Festival
- PNG Cricket
- PNG Swimming Inc
- PNG Paralympic Committee
- BSP Pennants Team
- Game Fishing Club
- PNG Golf Open
- Ramu Agri - Golf Event - BSP Ramu Open
- PNG Snooker & Billiards - BSP National Title
- Kanu Kundu Klab
- Morobe Golf Open
- Prime Minsters Golf events
- National Sports Conference
- Leader's Summit 2016
- SME Policy & Masterplan Launch
- Pacific MMI T20 Legendary Bash Cricket
- Bulolo Golf Ambrose event
- AROB Rugby Football Association
- PIH Corporate Indoor Cricket Competition
- Rotary Club of POM Golf Event
- NCD Governors Corporate Golf
- Charity Soccer Cup
- New Britain Palm Oil Open - Golf Event
- Madang Golf Open
- PNG Institute of Directors Golf event
- Rotary Jumbo Tennis
- Private Company Netball Event
- Lae Bowling Team
- Lae Golf Members Key Draw
- Jonah Lomu Legacy Cup Rugby 7s Tournament
- Business & Professional Women's Club
- Pink Ribbon Day brunch
- Buk Bilong Pikinini
- Burnet Institute
- Operation Open Heart Program
- Australia Doctors International
- Anglicare Inc PNG
- Salvation Army - Red Shield Appeal
- TIPNG Walk Against Corruption
- Aviat Club Key draw - POM
- PriceWaterhouseCoopers Corporate Walk
- RSPCA Paws Walk
- Pom Touch Competition





Students at St. Theresa Primary School taking part in the BSP Go Green Program.

We are demonstrating socially responsible actions which positively impact the community. Our major **Go Green** activity is the **Annual School Clean Up Day**.

18

November 2016, Annual BSP Clean Up Day.

20

Thousand students participated in PNG, 6,000 across the Pacific.

40

Number of schools that took part in Cook Islands, Fiji, Samoa, Solomon Islands, Tonga and Vanuatu for the event.

180

Number of Schools that registered and participated in the Event in PNG.

Some events on Environmental Responsibility:



GO GREEN - Tonga



EARTH DAY - Cook Islands



FINANCIAL LITERACY & BANKING EDUCATION



Conducting Training in a remote village in East Sepik Province

Whether it's teaching people how to manage money, using the right product and service or opening new accounts for children, students and adults...we go to where our customers are - even if it means enduring rugged terrain. Here are some highlights:

- BSP has delivered financial literacy training to thousands of Papua New Guineans since 2014.
- Training involves learning basic money management tools to help every Papua New Guineans learn the importance of spending wisely and saving for the future.
- We are focused on delivering financial literacy programs to the general public as we are committed to promoting a savings culture.
- Financial Literacy training includes providing the right products and services to the people in rural areas. Helping individuals and communities make more informed banking decisions.
- BSP promotes a banking ecosystem; Banking Education provides a platform for individuals to select the right products to suit their banking needs.

30,178

In 2016, BSP reached 30,178 people across Papua New Guinea. 46% of participants are women.

120

We have 120 qualified Financial Literacy Trainers based throughout all our branches in PNG.

409

BSP reached 60 Villages, 113 Communities, 55 Businesses, 142 Schools and 39 Church Groups across PNG in 2016.

178

BSP has 178 Agents in communities PNG wide, providing basic banking closer to home.



PARTICIPANTS IN DISCUSSION - PNG



PARTICIPANTS TAKING NOTES - PNG



PARTICIPANTS PRESENTATION - PNG

FINANCIAL LITERACY & BANKING EDUCATION



Financial Literacy in Cook Islands.

We reached schools, communities, and families with basic Financial Literacy and Banking Education Programs. We believe that education and information will help our customers to make informed decisions on banking and savings products. Banking Education and Financial Literacy programs are free and delivered through our branches across the Pacific.



KIDS SAVINGS - Solomon Islands



STUDENTS FL TRAINING - Tonga



ACCOUNT OPENING - Fiji



FL PRESENTATION - Tonga



EMPOWERING WOMEN - Fiji



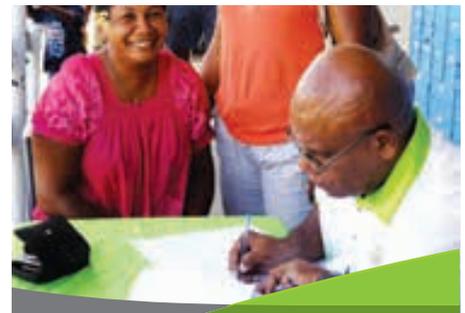
KINGS DEFENCE FL TRAINING - Tonga



STUDENT ACCOUNT - Solomon Islands



FL PARTICIPANTS - Solomon Islands



ACCOUNT OPENING - Fiji



WE ARE **BSP**