

Bank of South Pacific Limited and Subsidiaries

Condensed consolidated financial statements

For the half-year ended

30 June 2016



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Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2016.

Directors and officers

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

Sir K Constantinou, OBE	Mr R Fleming, CSM
Mr G Aopi, CBE	Ms F Talao
Mr G Robb, OAM	Mr E B Gangloff
Dr I Temu	Mr A Mano
Sir N Bogan, KBE	Mr T E Fox (Resigned 30 June 2016)
Mr A Sam (Appointed 13 July 2016)	

Principal activities

The principal activity of the Bank is the provision of commercial banking and finance services. The Group's activities include the provision of commercial banking and finance services, stock broking and fund management and insurance business throughout Papua New Guinea and the Pacific region. BSP is a company listed on the Port Moresby Stock Exchange (POMSoX), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Bank and the Group are licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa and Tonga. The registered office is at Douglas Street, Port Moresby.

Review of operations

The net profit of the Group for the half year ended 30 June 2016, after tax was K301.376 million (half year ended 30 June 2015: K266.952 million).

Dated and signed at Port Moresby this 22nd day of August 2016.



Sir Kostas Constantinou, OBE

Chairman



Robin Fleming, CSM

Chief Executive Officer/ Director



Independent Auditor's Review Report

to the Directors of Bank of South Pacific Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Bank of South Pacific Limited (the Company), which comprises the condensed consolidated statement of financial position as at 30 June 2016, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, and condensed consolidated statement of cash flows for the half-year ended on that date and other selected explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 30 June 2016 or from time to time during the half-year.

The condensed interim financial statements do not contain all the disclosures required of the full financial statements under generally accepted accounting practise in Papua New Guinea. Reading these condensed financial statements, therefore, is not a substitute for reading the annual financial statements of the company.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report such that they present fairly the matters to which they relate in accordance with generally accepted accounting practice in Papua New Guinea and for such internal controls as the Directors determine are necessary to enable the preparation of half-year financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the half-year financial statements do not present fairly the matters to which they relate. As the auditor of Bank of South Pacific Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements

A review of half-year financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion


Based on our review, nothing has come to our attention that causes us to believe that the half-year financial statements of the Company, which have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting, do not present fairly the financial position of the Group as at 30 June 2016 and the Group's financial performance for the half-year ended on that date.



Independent Auditor's Review Report
to the Directors of Bank of South Pacific Limited

Restriction on distribution or use

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


PricewaterhouseCoopers



By: Jonathan Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
22 August 2016

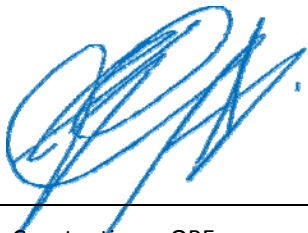
STATEMENT BY THE DIRECTORS

FOR THE HALF YEAR ENDED 30 JUNE 2016

The directors declare that:

- (a) in the directors' opinion, 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
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Dated and signed in accordance with a resolution of the directors at Port Moresby this 22nd day of August 2016.



Sir Kostas Constantinou, OBE
Chairman



Robin Fleming, CSM
Chief Executive Officer/ Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2016

	Note	Group		Bank	
		Half Year Ended 30 June	Half Year Ended 30 June	Half Year Ended 30 June	Half Year Ended 30 June
		2016	2015	2016	2015
<i>All amounts expressed are in K'000</i>					
Interest income	2(a)	605,213	526,890	584,896	525,545
Interest expense	2(a)	(75,069)	(35,968)	(72,783)	(36,702)
Net interest income		530,144	490,922	512,113	488,843
Fee and commission income	2(b)	173,268	149,967	165,008	147,376
Other income	2(c)	122,987	100,305	112,958	100,422
Net banking operating income		826,399	741,194	790,079	736,641
Net insurance premium income		55,011	44,827	-	-
Investment revenue		32,682	28,274	-	-
Increase in policy liabilities		(15,930)	(6,476)	-	-
Policy maintenance & investment expense		(36,985)	(31,458)	-	-
Share of profits from associates and jointly controlled entities		2,218	-	-	-
Claims, surrender and maturities		(31,851)	(29,450)	-	-
Net insurance operating income		5,145	5,717		
Total net operating income		831,544	746,911	790,079	736,641
Loan impairment expense	2(d)	(39,560)	(36,109)	(35,845)	(34,238)
Other operating expenses	2(e)	(368,879)	(334,829)	(345,755)	(327,837)
Operating profit before income tax		423,105	375,973	408,479	374,566
Income tax expense		(121,729)	(109,021)	(120,907)	(110,359)
Profit for the period		301,376	266,952	287,572	264,207
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		60,761	2,423	34,999	2,194
<i>Items that will not be reclassified to profit or loss</i>					
Net movement on asset revaluation		(474)	8,330	34	8,330
Other comprehensive income, net of tax		60,287	10,753	35,033	10,524
Total comprehensive income for the period		361,663	277,705	322,605	274,731
Earnings per share (toea per share)					
Earnings per share – Basic and diluted (toea per share)		64.5	57.0		

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	Group		Bank	
		As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
<i>All amounts expressed are in K'000</i>					
ASSETS					
Cash and balances with Central Bank		1,342,290	1,202,466	1,117,968	1,010,856
Treasury & Central Bank bills		2,677,067	2,503,109	2,668,781	2,501,256
Amounts due from other banks		1,170,187	709,849	1,045,501	586,969
Statutory deposits with Central Bank		1,404,970	1,359,606	1,383,345	1,341,650
Other financial assets		2,290,833	2,308,926	2,002,963	2,074,124
Loans, advances and other receivables from customers	4	9,321,138	8,621,514	8,768,838	8,181,227
Asset held for sale		34,602	35,135	34,602	35,135
Property, plant and equipment		681,743	686,325	586,882	597,373
Asset subject to operating lease		48,763	52,857	48,763	52,857
Investment in associates & joint ventures		112,401	102,747	15,653	14,878
Investment in subsidiaries		-	-	279,477	259,869
Intangible assets		111,416	110,226	101,439	99,601
Investment properties		110,459	101,019	-	-
Deferred tax assets		151,605	147,389	161,321	159,290
Other assets		190,246	255,135	147,866	206,558
Total assets		19,647,720	18,196,303	18,363,399	17,121,643
LIABILITIES					
Amounts due to other banks		416,271	344,346	430,686	344,877
Customer deposits		15,655,511	14,595,374	15,186,684	14,248,296
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		1,158,790	969,179	479,249	353,252
Provision for income tax		82,634	39,005	80,302	36,168
Other provisions		166,351	143,698	153,493	132,535
Total liabilities		17,555,082	16,167,127	16,405,939	15,190,653
SHAREHOLDERS EQUITY					
Ordinary shares		373,274	374,621	373,274	374,621
Retained earnings		1,404,698	1,399,490	1,333,470	1,340,000
Other reserves		314,666	255,065	250,716	216,369
Total shareholders' equity		2,092,638	2,029,176	1,957,460	1,930,990
Total equity and liabilities		19,647,720	18,196,303	18,363,399	17,121,643

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2016

<i>All amounts expressed are in K'000</i>	Ordinary Shares	Other Reserves	Retained earnings	Total
GROUP				
Balance at 1 January 2016	374,621	255,065	1,399,490	2,029,176
Profit for the period	-	-	301,376	301,376
Dividend paid	-	-	(296,854)	(296,854)
Share buyback	(1,347)	-	-	(1,347)
Transfer from Asset Revaluation Reserve	-	(686)	686	-
Other comprehensive income	-	60,287	-	60,287
Balance at 30 June 2016	373,274	314,666	1,404,698	2,092,638
Balance at 1 January 2015				
Balance at 1 January 2015	379,297	201,460	1,219,436	1,800,193
Profit for the period	-	-	266,952	266,952
Dividend paid	-	-	(263,873)	(263,873)
Share buyback	(2,625)	-	-	(2,625)
Transfer from Asset Revaluation Reserve	-	(3,037)	3,037	-
Other comprehensive income	-	10,753	-	10,753
Balance at 30 June 2015	376,672	209,176	1,225,552	1,811,400
BANK				
Balance at 1 January 2016	374,621	216,369	1,340,000	1,930,990
Profit for the period	-	-	287,572	287,572
Dividend paid	-	-	(294,788)	(294,788)
Share buyback	(1,347)	-	-	(1,347)
Transfer from Asset Revaluation Reserve	-	(686)	686	-
Other comprehensive income	-	35,033	-	35,033
Balance at 30 June 2016	373,274	250,716	1,333,470	1,957,460
Balance at 1 January 2015				
Balance at 1 January 2015	379,297	183,546	1,183,505	1,746,348
Profit for the period	-	-	264,207	264,207
Dividend paid	-	-	(262,021)	(262,021)
Share buyback	(2,625)	-	-	(2,625)
Transfer from Asset Revaluation Reserve	-	(3,037)	3,037	-
Other comprehensive income	-	10,524	-	10,524
Balance at 30 June 2015	376,672	191,033	1,188,728	1,756,433

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE HALF-YEAR ENDED 30 JUNE 2016

	Note	Group		Bank	
		Half Year Ended 30 June		Half Year Ended 30 June	
		2016	2015	2016	2015
<i>All amounts expressed are in K'000</i>					
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		611,060	499,999	640,868	498,664
Fees and other income		302,833	284,951	161,151	219,090
Interest paid		(58,918)	(32,159)	(56,892)	(36,702)
Amounts paid to suppliers and employees		(295,794)	(275,898)	(161,599)	(213,585)
Operating cash flow before changes in operating assets		559,181	476,893	583,528	467,467
Increase in loans		(739,071)	(244,535)	(623,456)	(208,836)
Increase in other assets		52,009	(110,415)	14,007	(112,739)
Increase in customer deposits		984,612	580,339	938,388	581,425
Increase in statutory deposits		(45,364)	(29,324)	(41,695)	(29,324)
Increase in other liabilities		256,693	76,011	117,928	47,829
Net cash flow from operations before income tax		1,068,060	748,969	988,700	745,822
Income taxes paid		(82,316)	(73,106)	(78,804)	(70,713)
Net cash flow from operating activities		985,744	675,863	909,896	675,109
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease in Government securities		(155,865)	161,028	(115,972)	235,971
Payments for property, plant & equipment		(37,339)	(38,060)	(33,096)	(32,987)
Proceeds for disposal of property, plant & equipment		677	9,073	677	9,073
Net cash flow (used in)/ from investing activities		(192,527)	132,041	(148,391)	212,057
CASH FLOW FROM FINANCING ACTIVITIES					
Share buy back		(1,347)	(2,625)	(1,347)	(2,625)
Dividends paid		(296,854)	(263,873)	(294,788)	(262,021)
Net cash flow used in financing activities		(298,201)	(266,498)	(296,135)	(264,646)
Net Increase in cash and cash equivalents		495,016	541,406	465,370	622,520
Effect of exchange rate movements on cash and cash equivalents		47,790	2,423	29,034	2,194
Cash and cash equivalent at the beginning of the period		1,553,400	1,476,230	1,238,379	1,383,080
Cash and Cash Equivalents at the end of the period	9	2,096,206	2,020,059	1,732,783	2,007,794

See accompanying Notes to the condensed consolidated financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

1. Statement of significant accounting policies

Statement of compliance

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

Basis of preparation

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

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

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2015 financial report for the financial year ended 31 December 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

	Group		Bank	
	Half Year Ended 30 June		Half Year Ended 30 June	
<i>All amounts expressed are in K'000</i>	2016	2015	2016	2015
Interest Income				
Domestic loans and advances	443,023	375,208	421,755	373,863
Public securities: Treasury bills/inscribed stock	160,672	145,816	160,672	145,816
Other loans and advances	737	4,688	727	4,688
Other	781	1,178	1,742	1,178
	<u>605,213</u>	<u>526,890</u>	<u>584,896</u>	<u>525,545</u>
Interest Expense				
Current and term deposits	(68,511)	(27,217)	(66,190)	(27,217)
Other borrowings	(4,144)	(4,120)	(4,144)	(4,120)
Deposits from other banks	(2,414)	(4,631)	(2,449)	(5,365)
	<u>(75,069)</u>	<u>(35,968)</u>	<u>(72,783)</u>	<u>(36,702)</u>
	<u>530,144</u>	<u>490,922</u>	<u>512,113</u>	<u>488,843</u>
(b) Fee and commission income				
Product related	99,554	91,741	96,911	91,709
Trade and international related	9,182	6,982	9,049	6,982
Electronic banking related	51,125	40,902	49,165	40,901
Other	13,407	10,342	9,883	7,784
	<u>173,268</u>	<u>149,967</u>	<u>165,008</u>	<u>147,376</u>
(c) Other income				
Foreign exchange earnings	109,014	86,100	99,951	86,100
Operating lease rentals	5,052	5,052	5,052	5,052
Other	8,921	9,153	7,955	9,270
	<u>122,987</u>	<u>100,305</u>	<u>112,958</u>	<u>100,422</u>
(d) Loan impairment expense				
New write off	37,920	28,815	37,306	28,815
Net new and increased individually assessed and collective provisioning	28,490	34,779	26,231	32,907
Recoveries during the period	(26,850)	(27,485)	(27,692)	(27,484)
	<u>39,560</u>	<u>36,109</u>	<u>35,845</u>	<u>34,238</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

(e) Other operating expenses

	Group		Bank	
	Half year ended 30 June		Half year ended 30 June	
	2016	2015	2016	2015
<i>All amounts expressed are in K'000</i>				
Staff	164,962	139,610	155,561	135,350
Depreciation	47,580	55,529	45,271	55,062
Computing	33,530	24,625	28,527	24,122
Premises and equipment expenses	39,619	43,746	37,285	43,424
Administration and other expenses	83,188	71,319	79,111	69,879
	368,879	334,829	345,755	327,837

3. Dividends

On 23 May 2016, the directors declared a final dividend of 63 toea per share for the year ended 31 December 2015. The declared final gross dividend amount was K296.854 million (December 2014: K263.873 million). Net dividend paid after dividend withholding tax was K281.449 million (December 2014: K250.559 million).

4. Loans, advances and other receivables from customers

	Group		Bank	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
	<i>All amounts expressed are in K'000</i>			
Gross loans, advances and other receivables from customers net of reserved interest	9,792,307	9,068,386	9,220,659	8,609,755
Allowances for losses on loans, advances and other receivables from customers	(471,169)	(446,872)	(451,821)	(428,528)
Net loans, advances and other receivables from customers	9,321,138	8,621,514	8,768,838	8,181,227
<i>Industry concentration of loan, advances and other receivables from customers</i>				
Commerce, finance and other business	5,656,728	5,136,578	5,355,216	5,006,789
Private households	1,890,424	1,669,618	1,712,610	1,588,369
Government and public authorities*	194,949	126,141	185,461	124,320
Agriculture	296,095	405,766	283,435	408,799
Transport and communication	441,479	582,835	391,378	355,405
Manufacturing	263,378	244,371	241,337	236,206
Construction	578,085	456,205	599,401	461,339
	9,321,138	8,621,514	8,768,838	8,181,227

*Total by Government ownership at 30 June 2016 was K2.3b (31 December 2015: K2.1b).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

5. Capital adequacy and liquid assets ratio

The Bank and Group are required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2016, the Bank and Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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.

	As at 30 June 2016		As at 31 Dec 2015	
	K'000	%	K'000	%
<i>Risk weighted capital ratios</i>				
Tier 1 Capital	1,359,557	14.8%	1,603,825	19.0
Tier 1 + Tier 2 Capital	2,010,032	21.9%	1,952,807	23.1
<i>Leverage capital ratio</i>		7.0%		8.9%

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

6. Contingent liabilities and commitments

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

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

Off-balance-sheet financial instruments

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

	Group		Bank	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
<i>All amounts expressed are in K'000</i>				
Standby letters of credit	30,096	31,164	30,096	31,164
Guarantees and indemnities issued	395,612	304,086	388,006	299,857
Trade letters of credit	70,532	46,139	64,860	45,255
Commitments to extend credit	1,160,860	1,224,744	1,148,531	1,223,746
	1,657,100	1,606,133	1,631,493	1,600,022

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

Commitments for capital expenditure

Commitments for capital expenditure not included in the accounts as at 30 June 2016 amounted to K15.9 million (31 December 2015: K29.5 million).

Contingent liability

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 2016. No provision has been made as existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 30 June 2016, the Bank and Group estimates a contingent liability of K6.6 million in respect of these proceedings (31 December 2015: K8.9 million).

Statutory deposit

	Group		Bank	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
<i>All amounts expressed are in K'000</i>				
Cash reserve requirement - from 10% of all amounts due to customers in PNG	1,404,970	1,359,606	1,383,345	1,341,650

Operating lease commitments

	Group		Bank	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
<i>All amounts expressed are in K'000</i>				
Not later than 1 year	34,014	22,466	33,169	22,466
Later than 1 year and not later than 5 years	42,438	36,421	40,697	36,421
Later than 5 years	18,133	16,797	17,512	16,797
	94,585	75,684	91,378	75,684

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

7. Derivative financial instruments

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

Exposures in foreign currencies arise where the Bank and Group transact in foreign currencies. This price risk is minimised by entering into counterbalancing positions for material exposures as they arise. Forward and spot foreign exchange contracts are used.

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

Forward exchange contracts	Group		Bank	
	As at 30 June 2016	As at 31 December 2015	As at 30 June 2016	As at 31 December 2015
<i>All amounts expressed are in K'000</i>				
Buying	139,008	58,121	139,008	58,121
Selling	(226,748)	(53,778)	(225,244)	(53,778)
	(87,740)	4,343	(86,236)	4,343

There is no material difference between the fair value and face value of the contracts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

8. Related parties

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

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

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

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

	Group	
	As at 30 June 2016	As at 31 December 2015
<i>All amounts expressed are in K'000</i>		
Loans to :		
Parties where the related party interest is primarily in a director capacity	520,486	564,033
Parties where the related party interest is primarily in an executive capacity	52,537	50,274
General staff	5,705	4,678
	578,728	618,985

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

9. Notes to condensed consolidated statements of cash flows

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

	Group As at 30 June		Bank As at 30 June	
	2016	2015	2016	2015
<i>All amounts expressed are in K'000</i>				
Cash and balances with Central Bank	1,342,290	1,387,580	1,117,968	1,350,091
Due from other banks	1,170,187	920,564	1,045,501	945,788
Due to other banks	(416,271)	(288,085)	(430,686)	(288,085)
	2,096,206	2,020,059	1,732,783	2,007,794

10. Segment information

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

All amounts expressed are in K'000

	PNG Retail Bank	PNG Corporate Bank	PNG Paramount Bank	Non PNG Banks	Non Bank Entities	Adjust Inter Segments	Total
Half Year Ended 30 June 2016							
Net interest income	141,829	242,685	56,233	82,435	5,650	1,312	530,144
Other income	122,391	51,121	36,506	82,667	4,023	(453)	296,255
Net insurance income	-	-	-	-	5,145	-	5,145
Total operating income	264,220	293,806	92,739	165,102	14,818	859	831,544
Operating expenses	(173,303)	(77,070)	(23,497)	(80,470)	(11,719)	(2,820)	(368,879)
Impairment expenses	(19,162)	(9,043)	158	(9,337)	(2,176)	-	(39,560)
Profit before income tax	71,755	207,693	69,400	75,295	923	(1,961)	423,105
Income tax expense	(21,635)	(62,627)	(20,926)	(18,837)	2,296	-	(121,729)
Net profit after income tax	50,120	145,066	48,474	56,458	3,219	(1,961)	301,376
Half year Ended 30 June 2015							
Net interest income	142,411	238,024	62,521	46,479	1,374	104	490,913
Other income	123,470	45,743	32,464	45,988	2,616	-	250,281
Net insurance income	-	-	-	-	5,717	-	5,717
Total operating income	265,881	283,767	94,985	92,467	9,707	104	746,911
Operating expenses	(169,132)	(76,569)	(30,381)	(50,084)	(7,546)	(1,117)	(334,829)
Impairment expenses	(18,266)	(8,741)	(79)	(7,164)	(1,859)	-	(36,109)
Profit before income tax	78,483	198,457	64,525	35,219	302	(1,013)	375,973
Income tax expense	(23,507)	(59,274)	(19,272)	(8,311)	1,343	-	(109,021)
Net profit after income tax	54,976	139,183	45,253	26,908	1,645	(1,013)	266,952

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2016

11. Subsequent events

On 1 July 2016, the Group acquired the Westpac Bank Australia Limited subsidiary in Vanuatu for a consideration of K24.7 million and a subsequent capital injection of K13.3 million totalling K38 million. At the date of this report the accounting for the acquisition, in particular the fair values of the assets and liabilities acquired have not yet been finalised.