

2013

BSP | Annual Report

Bank of South Pacific Limited



THE VISION

To be the Leading Bank
in the South Pacific

KEY FEATURES OF BSP'S STRATEGY

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

BSP'S CORE VALUES

- Integrity
- Leadership
- People
- Professionalism
- Quality
- Team Work

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BSP LOCATIONS

KEY

- Branches ●
- Sub Branches ●
- Agents ●



BSP FIJI



BSP SOLOMON ISLANDS

PAPUA NEW GUINEA

- 42 Branches
- 12 Premium Service Centres
- 39 Sub Branches
- 226 Agents
- 297 ATMs
- 11,702 EFTPoS

FIJI

- 18 Branches
- 6 Priority Centres
- 3 FX Bureau's
- 106 ATMs
- 1,759 EFTPoS

SOLOMON ISLANDS

- 7 Branches
- 7 Agencies
- 8 Branchless Banking Agents
- 18 ATMs
- 120 EFTPoS

Helping PNG and the South Pacific
grow↑



CHAIRMAN'S REPORT

KOSTAS CONSTANTINOU, OBE
CHAIRMAN



The Bank South Pacific Group has again achieved sound results in 2013, despite a slowdown in the Papua New Guinea economy.

Profitable operations translated to solid balance sheet growth once again. In 2013 BSP moved from transformation to implementation, balanced by a sharper focus on strategically critical areas and cost control measures. These measures have supported short term results in 2013 and are also expected to have positive impacts in succeeding periods.

The Group achieved a consolidated operating profit before tax of K607.0 million for the 2013 financial year, an 11.3% increase on the consolidated 2012 operating profit of K545.3 million. The Group result after tax is K436.8 million. Total assets of the Group increased, by approximately K2.476 billion to K15.809 billion. The bank's achievements are similarly strong with pre-tax profits growing 10.7% to K592.9 million, from K535.4 million in 2012. Total assets of the bank at the end of 2013 are just over K15.324 billion.

The customer loan and receivables portfolio has seen net growth of K502 million to K5.3 billion. Customer deposits continue to grow strongly, especially in the corporate segment in Fiji, and in the retail and government segments in PNG, achieving a PNG market share of 56%.

The bank and group capital base remains sound. Total capital adequacy at the end of 2013 is 18% notwithstanding the impact of continued growth in balance sheet assets as well as total dividend payments of K271.686 million and just over K3.3 million of shares bought back in the year. The capital adequacy ratio exceeds the minimum Bank of Papua New Guinea prudential requirement of 12.00%.

Group revenues have increased by 18% during the year, largely on the strength of foreign exchange spot and forward business transacted for the most part, in the corporate segment of the market. With generally low interest rates and competitive pricing in the corporate lending markets in PNG and Fiji during 2013, most of the revenue growth has come from non-interest income streams, in particular foreign exchange earnings in PNG. Some growth has also been achieved with customer transaction volumes, although this has slowed relative to the last few years due to the slowdown of the PNG economy.

Continued growth of electronic banking facilities mainly through the network of EFTPoS agents and devices and increased mobile phone banking transactions, are compelling features of BSP's customer engagement activities in 2013.

In terms of expenses, increases have been experienced mainly in the areas of depreciation and amortisation related to transformation capital expenditure over recent years and in premises and equipment expenses. Management reviewed asset start dates and estimated useful lives of capitalized projects which resulted in additional depreciation, amortization and impairment losses being taken in 2013. These increased charges have been the main contributors to a cost to income ratio for the Group of 55%, up from 53% in 2012.

In PNG, BSP Group has been a leading performer. Most of the Group Profit growth of 7.1% and asset growth in 2013 is attributable to the bank in PNG. The bank dominates market share in PNG, with its share of loans at 46%, and deposits at 56%. These results have been achieved despite a slow-down in PNG's economic growth from 9.2% in 2012 to around 5% in 2013. The decrease in economic growth has been attributed to the winding down of the construction phase of the LNG Project and also lower commodity prices at the global level which impacted on exports.

A significant decline in the value of the kina against major currencies and higher inflation rates were also factors that affected the business environment in PNG. The Government's 2013 National Budget decided on some key priorities which included investment in infrastructure, social services, law and order and funding for agriculture, which also provided some growth impetus during the year. The political environment remained stable during the year, promoting positive GDP trends.

In Fiji the Bank has improved its performance in 2013, in an extremely highly competitive market. BSP Life in Fiji has also performed strongly, and remains the largest life insurance business in that market. In terms of business conditions, economic growth has improved and there are encouraging signs of increased investment, and it has been pleasing to note that tourism and sugar, the stalwarts of the Fijian economy, are the areas where recovery has continued in 2013.

The Bank has again yielded good results in the Solomon Islands, where a strong market position is being developed in electronic banking channels. Foreign aid continues to give impetus to economic performance, with planned growth in activity around public capital projects. Forestry and fisheries exports have performed well during 2013. The RAMSI presence is winding down, with new arrangements helping to preserve investment confidence.

Whilst BSP's performance continues to trace the positive trends in the economies of PNG and its Pacific neighbours, it is also a strong proponent of the financial inclusion program in the Pacific. Investments continue to be made in technology, risk management and other resources, to extend banking services at minimal cost to customers in parts of the market that have poor access to banking services.

A concerted effort is being made to introduce low cost, simple accessible savings products for children and students. The Bank has been collaborating actively with the central banks in PNG, Solomon Islands, and Fiji, to support and participate in financial literacy exercises, and publicity campaigns.

BSP has continued to engage with, and be a part of, the communities where it operates. In 2013 Community support projects have continued in PNG, Solomon Islands and Fiji, worth over half a million Kina.

BSP Group also supports local sports and charity organisations as part of this community engagement, and as a responsible corporate citizen of the Pacific, BSP continues to work in partnership with community and government organizations to deliver programs that sustain and improve the lives of people in PNG and the Pacific.

Being the Official Sponsor of the 2015 Pacific Games is one such initiative and we are proud to work closely with the PNG Government and our Pacific neighbours, to ensure that it is successfully hosted in Port Moresby.

In 2014, an improving but fragile global economy will continue to pose challenges. Growth rates are expected to slow slightly in the emerging market economies of Asia, Africa, Eurasia and South-Latin America. In the traditional developed economies of Europe and North America the outlook is improving, but fundamentals are not robust, and they are forecast to remain subdued.

PNG's growth prospects remain positive and Fiji and the Solomon Islands have shown promising signs of recovery and return to normalcy. As large projects in PNG change PNG's economic capacity, and anticipated public infrastructure investments progress, the country moves closer to realising its development potential.

Pacific regional economic relationships and interactions are also anticipated to grow, and BSP plans to be part of that growth, delivering valued, effective financial products and services to its markets, in an efficient and responsible manner.

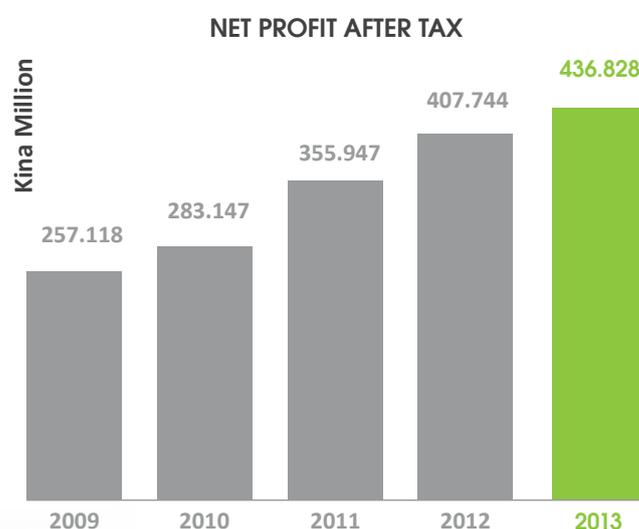
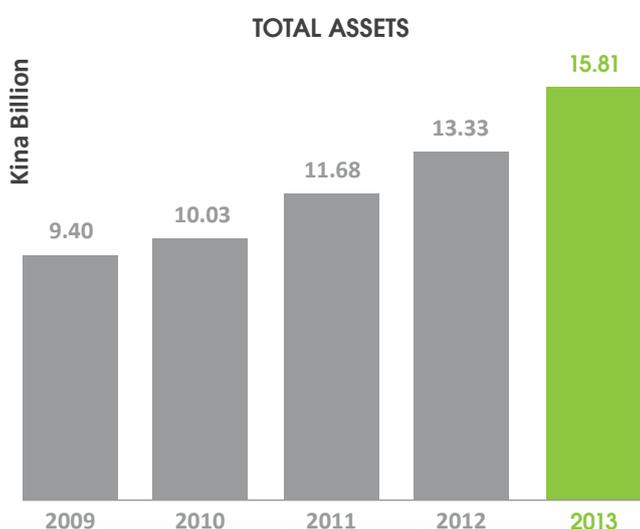
BSP Group is also reaching a stage in its life cycle in PNG where it can realistically consider further diversification of its Pacific business, and at the same time develop a focus on growth opportunities in growth regions adjacent to the Pacific.

The 2013 results demonstrate again, how a committed, motivated, enterprising group of people, working as a team, can deliver outstanding results across diverse markets and cultural settings.

BSP will continue to meet its challenges, return more profitable results for shareholders and ultimately serve our customers better in 2014.

The coming years will present their own challenges and BSP Group with its local strength and presence in the region, is in a great position to anticipate market conditions, adapt to changes and continue to remain competitive.

**KOSTAS CONSTANTINOU, OBE
CHAIRMAN**



A BRIEF HISTORY OF BANK SOUTH PACIFIC

Bank South Pacific Limited opened its doors in 1957 in Port Moresby as a branch of the National Bank of Australasia Limited. In 1995 a consortium of Papua New Guinea businesses acquired the bank creating the first and only PNG private sector owned bank.

Bank South Pacific purchased the State Owned - Papua New Guinea Banking Corporation (PNGBC - formerly CBA PNG) in 2002 creating the largest Bank in PNG. Other acquisitions followed: National Bank of Solomon Islands 2005, Habib Bank in Fiji in 2006, Colonial Group of Companies (Banking & Life Businesses) in Fiji in 2010.

Bank South Pacific rebranded to become “BSP” in 2008. Our shareholders include major PNG Institutions – IPBC, Nasfund, Nambawan Super, Petroleum Resources Kutubu, Credit Corporation, MVIL, PNG Teachers Savings & Loan, Comrade Trustees, and the International Finance Corporate (IFC).

In 2012, BSP’s account opening process employing a tablet computer and instant card issuance, won the award for the world’s Best Bank Led Mobile Money Program at the 2012 Connected World Global Awards.

Bank South Pacific continues to be a dominant force in the market leading the way with innovation and technology.

Today BSP has the largest fleet of EFTPoS and ATMs in the country, including an increasing customer base in electronic and mobile banking channels. Over 80 million transactions were processed through all electronic and mobile phone channels in 2013.

GOING WHERE THE OTHER BANKS DON'T
A BSP Rural team travelling up the Purari River,
Gulf Province to set up an Agent in Baimuru.





BANKING ON THE GO

In 2013, new features were introduced to BSP's Mobile Banking channel including a domestic remittance product, known as Wantok Moni.

Wantok Moni facilitates the remittance of money from BSP customers to non-banked relatives and friends and the receiver of the remittance is able to transact using these funds at any BSP EFTPoS terminal or withdraw from a BSP ATM without the need for a debit card.



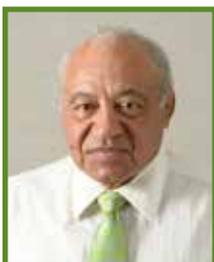
KOSTAS CONSTANTINOU, OBE | Chairman | Director since April 2009. Appointed Chairman February 2011.

Kostas Constantinou is a prominent business figure in Papua New Guinea, holding a number of high level public and private sector appointments. He is a Chairman of various companies, including Airways Hotel Limited & Airways Residences Limited, Lamana Hotel Limited, Lamana Development Limited, Hebou Constructions, Alotau International Hotel and Gazelle International Hotel. He is a Director of Heritage Park Hotel, Honiara, and Grand Pacific Hotel, Fiji. Kostas is a Director of two other listed companies: Oil Search Limited and Airlines PNG Limited. He is Chairman of 2015 Pacific Games Authority since 2011, Deputy President of Employers Federation of Papua New Guinea, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea.



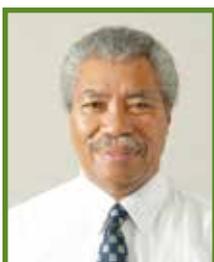
ROBIN FLEMING | Group CEO | Director since June 2013.

Robin Fleming was appointed Group CEO of Bank of South Pacific Limited in June 2013. Before his appointment as Group 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.



TOM FOX, OBE, BEc | Deputy Chairman, Non - Executive Director | Director since June 1993.

Thomas Fox holds a Bachelor of Economics degree from the University of Papua New Guinea. He commenced his career with the Reserve Bank of Australia, and gained experience in senior management roles within semi-government institutions, and private sector companies, including serving as the Managing Director of the Investment Corporation of Papua New Guinea for eight years. His other current directorships include, BSP Capital Limited, Teyo No. 1 Limited and Akura Limited. Mr Fox is also a trustee for the Institute of National Affairs, and a foundation member and Fellow of the PNG Institute of Directors.



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

Gerea Aopi has achieved 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 Papua New Guinea, including Secretary of Finance & Planning and Managing Director of Telikom PNG Limited. He presently holds the position of Executive General Manager, External & Government Affairs and Sustainability 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, MEc | Non - Executive Director | Director since 2003.

Dr Ila Temu was appointed to his current role as Country Manager Barrick PNG in June 2011. Prior to this, he held senior executive roles in Placer Dome Niugini both overseas and in PNG. He has also held senior positions in a number of other public organisations including Senior Lecturer in Economics at UPNG, Director of the National Research Institute and Managing Director of Mineral Resources Development Company (MRDC). Dr Temu held director and membership roles in Dome Resources, Kina Finance Ltd, PNG Chamber of Mines and Petroleum, IPBC, PNG Employers Federation and was Chairman of PNG Ports Corporation Ltd for 5 years. He is currently a Director of National Petroleum Company of PNG Ltd, Kina Petroleum Ltd and a member of the Governing body of the Divine Word University. Dr Temu holds a Bachelor of Economics (Hons) from the University of Papua New Guinea, a Masters in Agricultural Development Economics from the Australian National University, Canberra, Australia and a Ph.D in Agricultural Economics from the University of California, Davis, USA.



Sir NAGORA BOGAN, KBE, LLB | Non - Executive Director | Director since 2003.

Sir Nagora Bogan graduated with a Bachelor of Law from the University of Papua New Guinea in 1978. In 1992, Sir Nagora was appointed Commissioner General of the PNG Internal Revenue Commission. In 1996, he was appointed as PNG's Ambassador to the United States with accreditation as Ambassador to Mexico and High Commissioner to Canada. In 2002, Sir Nagora became a private business entrepreneur. He is Chairman and CEO of In Touch Media Limited, a multimedia/record label company, Chairman of Nambawan Super Limited and Director on several private company boards. Sir Nagora received his knighthood during 1997 in recognition of his distinguished public service.



LYLE PROCTER, MEd, FFin | Non - Executive Director | Director since July 2004.

Lyle Procter has been a career central banker, having spent 36 years with the Reserve Bank of Australia. He also spent several years with the Australian Department of Foreign Affairs. Since retiring from the Reserve Bank, Mr Procter has worked as a consultant to the International Monetary Fund, Washington and the Asian Development Bank, Manila. He has also worked privately as a consultant to the Australian banking industry, and in several South-East Asian countries. Other current directorships include Sun Hung Kai and Co. Ltd, Allied Overseas Ltd, Tanami Gold NL and Eurogold Ltd.



FREDA TALAO | Non - Executive Director | Director since April 2012.

Freda Talao being a lawyer by profession holds a Law Degree from University of Papua New Guinea, a Masters Degree from Bond University, Queensland and is currently undertaking Doctoral Studies at TC Beirne School of Law, University of Queensland. Freda has extensive work experience in the government, private, NGO and development sectors in PNG. Ms Talao has previously been on several Boards, including the Mama Graun Conservation Trust Fund, Liklik Dinau Trust Fund, Individual and Community Advocacy Forum (ICRAF), Civil Aviation Authority (CAA), National Airports Corporation Board (NAC) and Airport City Development Limited (ACDL). She is also currently a member of the External Stakeholders Advisory Panel (ESAP) to the Morobe Mining Joint Venture (MMJV) which owns the Hidden Valley Gold Mine in Morobe Province and Australian Institute of Company Directors.



GEOFFREY J. ROBB, MBA | 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 Chairman of the Board Audit, Risk and Compliance Committee and is also on the Board of BSP Capital Ltd.



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

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

GROUP CEO'S REPORT



ROBIN FLEMING
GROUP CHIEF EXECUTIVE OFFICER

I take great pleasure and pride in reporting to shareholders another record financial result for BSP in 2013. The net profit after tax of K436.828 million represented an increase of 7.1% on our 2012 results.

Our Chairman, Kostas Constantinou, provided details of our strong financial performance and the underlying economic fundamentals which the BSP team optimised to the benefit of our shareholders.

Papua New Guinea continues to be the predominant driver of BSP's performance. Economic growth was maintained in our home market for the 14th consecutive year. GDP growth for 2013 was estimated at 5.1% with strong contributions from sectors benefitting from PNG LNG construction related activity.

The US\$20 billion PNG LNG project has proved to be a watershed for the PNG economy. Its completion in 2014 with first gas in the second half of 2014 represents a significant achievement for the project sponsors and the PNG Government. The multiplier effect of the project across numerous business sectors has been substantial and in many ways transformational.

Whilst the construction phase of the PNG LNG project may be nearing completion the revenues associated with export of the LNG will provide support for Government infrastructure developments and spending in areas such as health and education.

Business confidence remains buoyant on the back of a PGK15 billion budget for 2014 and announcements in late 2013 by InterOil and Total which could result in another LNG construction project for PNG in the next 2 to 3 years.

BSP's 2013 results reflect strong income growth in our international services product lines which our Corporate and Treasury sales teams actively promoted. There was also continued growth in our net interest income where increased loan assets have partially offset some margin compression in response to a more competitive lending market.

Equally pleasing was the income contribution emerging from BSP's Mobile Banking suite of products. Enhancements to telephone banking functionality permitted more Retail clients to access banking facilities by way of our electronic channels efficiently in a lower cost and more convenient manner.

Strategically BSP has over the past 5 years positioned itself to optimise its capacity to meet the growing demands of a broad client base across a diverse geography. This transformation has involved significant capital expenditure in our properties, information technology systems and infrastructure, as well as our products and channels.

The majority of the large projects involving our properties are completed or drawing to a close. BSP's new Harbour City Port Moresby branch was opened in the 2nd half of 2013. This branch is located in BSP Haus at Harbour City Port Moresby, a joint venture with major clients, and replaces the former Douglas St Port Moresby branch which was closed in the 1st half of 2013.

A new branch was opened in Tari and the new BSP Rural at Maprik is expected to open in the 1st quarter of 2014. The new Pacific Operations Centre and Gordons Operations and Data Processing Centre, both in Port Moresby, and the new Commercial Centre in Lae, will all be complete and operational in the 2nd half of 2014.

Branches such as Mt Hagen and Buka had upgrades completed with Waigani Banking Centre nearing completion in early 2014. During 2014 there are upgrades planned for Tabubil and Lihir branches.

Improvements in, and refinements to, the physical branch infrastructure have been complemented by the introduction of queuing systems in branches in Port Moresby. This has resulted in reduced waiting times for our customers and is a tangible illustration that BSP is acting to improve the service experience for our customers. These learning's are shared with branches outside of Port Moresby and waiting and service times have improved in those branches as well. What has been recognised during this process is the largely untapped sales potential of the BSP branch network and this will be a key component of BSP's strategy in 2014.

The substantive investments in critical information technology infrastructure is all but complete with the major project in 2014 being the relocation of core systems from the current location at Waigani in Port Moresby to Gordons in Port Moresby once the Gordons Operations and Data Processing Centre is complete. This project will be accorded the importance and resource allocation deserving of one which involves core systems.

New systems brought in to production in 2013 included phase 1 of the trade finance platform under licence with Wells Fargo, an automated loan origination system for unsecured personal loans and the first phases of the automated cheque processing project which involves Real Time Gross Settlement, the Central Bank's new Kina Automated Transfer System, and by mid-2014 cheque imaging and truncation.

There were further refinements to our internet banking online offerings and our mobile banking suite. Human Resource's new Human Capital Management system was implemented with the payroll function to be put into production in the 1st payroll of 2014 after an exhausting dual payroll processing programme that was undertaken over an extended period.

Our overseas operations have also commenced major IT upgrade projects with BSP Fiji and BSP Life Fiji initiating core system replacements for their respective operations. These system upgrades will not only provide our banking and Life businesses with up to date operating systems, but also improved productivity and increased customer sales and service capabilities.

In the Solomon Islands a "lift and shift" project was successfully implemented whereby BSP PNG's suite of mobile banking products and channels were migrated and rolled out in Solomon Islands.

As indicated earlier the costs of investments of this magnitude are not insubstantial and the multi-year nature of the transformation has been such that the full depreciation costs associated with the capital expenditure programme are now being captured in our expense base. Understanding that much of the transformational costs have been related to more aggressively amortised IT infrastructure, IT software and systems, product development and enhancement, the higher depreciation expense is expected to normalise by the end of 2016.

Having invested heavily in physical assets, information technology infrastructure, systems, products, in addition to new and improved channels, strategically the focus for BSP is realigned from project work to benefit realisation. These investments are seen as enablers that provide our staff with the tools to improve productivity and increase our sales capability.

A key component of the strategic related effort in 2014 therefore will be an organisation wide sales and service

program integrated with our vision, our values, our culture. The linkage of our vision and values of integrity, professionalism, leadership, quality, people, teamwork is intrinsic to embedding a true service and sales culture within BSP.

BSP's optimum sales and service culture is to place customer satisfaction at the forefront of our planning process and our operational activities. Customer satisfaction should then translate to improved returns for our shareholders.

Equally important will be renewed emphasis on training and career development of our staff. This will involve product knowledge to provide staff with the confidence to sell our products to our customers, specialist skills training, leadership development, and tailored multi year programmes for our future leaders.

During 2013 three of our middle management staff participated in a 3 month secondment to Barclays Africa Bank Limited in South Africa. This was an outstanding success thanks to Management at Barclays Africa Bank Limited and our team in Port Moresby. The intent is to continue the secondment programme in 2014 and build up a cadre of staff who will have had real work exposure in international banks.

Financial inclusion remains a key objective of our Retail banks' strategy. Our BSP Rural sub branch network and our agency network which complements our main branch network, provide BSP with the capability to add new customers using our world class tablet technology. The emerging SME market is also an area where Retail has developed Smart Business Products to meet the needs of this customer group and which will be rolled out more aggressively in 2014.

I thank all staff for their contributions and efforts in 2013 and look forward to their ongoing support in 2014. I am confident that with the support of the board, the management team and the committed and dedicated staff throughout the bank, BSP will achieve the goals that have been set.



ROBIN FLEMING
GROUP CHIEF EXECUTIVE OFFICER

FLAGSHIP BRANCH

BSP's flagship Harbour City Branch at BSP Haus. BSP's new Harbour City Port Moresby branch was opened in the 2nd half of 2013. This branch is a joint venture with major clients, and replaces the former Douglas St branch which was closed in the 1st half of 2013.



2013 STRATEGIC BUSINESS UNIT REVIEW

The daily execution of the bank's business operations is the responsibility of the strategic business units (SBUs), Retail Banking, Corporate, Treasury, Paramount Banking, Group Risk Management, Human Resources, Operations and Finance & Planning.

Highlights of each SBU performance in 2013 include:

RETAIL BANKING

2013 marked another year where BSP extended the outreach of banking services across Papua New Guinea. The Branch network saw the opening of a new branch at Tari in Hela Province and the relocation of the former Douglas Street branch to new premises at BSP Haus, Harbour City. Our sub-branch (BSP Rural) network was increased to 39 locations. A concerted push was also made to increase the number of bank agencies operating across PNG and by the end of 2013, over 226 agents were in place. This included 7 agents operating under the SVS retail chain's Supa Village Stoas. The expansion of branches, sub-branches and agencies into rural areas of PNG was supplemented by the continued roll-out of EFTPoS merchant facilities and this greatly increased people's access to banking.

Work continued to provide customers with a choice of products to meet their needs and life cycle; this included the new Kids Saving Account which was designed to help parents teach their children to develop a savings habit for the future. A new Kundu transaction account was also introduced with a packaged service charge structure to provide customers with further choice to meet their specific banking needs and habits. A new lending product, the Savings Secured Loan, was introduced to provide customers with an alternative to the standard personal loan product offered by financial institutions in PNG.

BSP continued in its efforts to support and develop the nascent SME (Small & Medium Business) sector. Emphasis was placed on providing SME customers with a pathway for growth through the adoption of electronic payment systems such as EFTPoS to help them develop a financial footprint to support requests for credit finance. These activities were supported by BSP's Banking Education Unit which offered tailored training to different market segments serviced by BSP.

The introduction of a loan origination and processing system helped BSP reduce the average personal loan approval and funding timeframe from 48 hours to less than 2 hours on

average and customer wait-times in branches were dramatically reduced as learning gleaned from an automated ticketing/queuing system were applied in branches across the network.

BSP continued to pilot new technology during 2013 including deposit taking ATMs. At present 4 ATMs are used to accept cash deposits and the functionality to accept cheque deposits is scheduled to be rolled out in 2014.

New features were also introduced to BSP's Mobile Banking channel in 2013 including a domestic remittance product. The service known as Wantok Moni facilitates the remittance of money from BSP customers to non-banked relatives and friends and the receiver of the remittance is able to transact using these funds at any BSP EFTPoS terminal or withdraw from a BSP ATM without the need for a debit card. This is an attractive product in Papua New Guinea which has a large unbanked population but significant numbers have a mobile phone.

Overall growth in Mobile Banking transactions was exceptionally strong in 2013 and the use of this channel is reducing the pressure on branches in the provision of over-the-counter transactions.

On the Sales and Service front, perhaps the most significant change in the Retail space has been the merger of the Retail and Network Strategic Business Units. This has introduced much efficiency in the provision and sale of retail financial services and this is set to continue during 2014 through the restructuring of Sales and Service structures in branches to take advantage of the many technological and process changes that have been introduced in BSP over the past few years.

CORPORATE

Corporate Banking contributed significantly to BSP's improved performance in 2013. The major driver was improved cross sell of non-lending solutions. The result was further strengthened by disciplined expense management with direct costs reducing by 7%.

Net interest Income increased by 10% compared to the prior year, driven by slower growth due to a slowing economy and intense competition for loans.

Other income increased by 60%. Strong growth in the sale of foreign exchange products and hedging solutions contributed to this result.



Owners of Supa V Stoa's are also BSP Agents.

In 2013, the Corporate lending book increased by 5.3% and deposits increased by 7.8%. This includes BSP's diversification into USD lending for our local and international customers. Other factors impacting loan growth included prudent credit risk management and exit from identified "watch list" facilities.

Service and sales programs continue to be the key focus and continued focus to uplift non-lending fees and cross-sell of our "whole of Bank" solutions.

The Corporate vision remains unchanged "to be the leading financial services team excelling in customer service; through customer first, best people, innovation & communication".

The corporate team remains focused on our Customer First program, which involves putting customers at the top of our priorities – establishing a "customer first – I care" culture.

To better understand customer expectations, during 2013 we appointed an independent market research firm to conduct our Benchmark Corporate Customers satisfaction survey across 400 of our customers.

The survey highlighted a number of key strengths, including BSP relationship managers, extensive product range; and the convenience and safety of our branch network. However there are areas for improvement; including adding value, responsiveness, branch waiting times, clear and timely communication; and lifting our capacity in Asset and Trade Finance.

At Corporate we intend to act on this feedback. The next Corporate Customers Satisfaction survey will be undertaken mid-2014.

The key product initiative completed in 2013 was our new trade finance solution, developed in conjunction with Wells Fargo, one of the world's largest financial institutions. Through this collaboration we will be able to provide world class solutions covering letters of credit, document collections, etc.

We continue to focus on credit and operational risk based on our proven strategic and responsible approach. In partnership with the Risk Management team we vigilantly monitor and control the quality of the loan book especially during the current period of slower economic activity.

The focus for Corporate after the Transformation initiatives is "benefits realisation" for all BSP stakeholders. During 2013 we focused on continued enhancements of our products, such as online business banking, business MasterCard Corporate Debit Card, Asset Finance and Trade. We continue to leverage the capabilities of BSP Capital Limited for our customers with an extensive joint calling program.

As outlined throughout this annual report, what truly makes Corporate an outstanding business partner is our dedicated relationship management team, extensive product suite and most importantly BSP's "whole of bank" solution incorporating electronic channels and access to the largest retail branch network in the country.

We continue to strive for excellence in customer service and across all aspects of our business including reputation, asset quality, profitability, customer satisfaction, innovation, governance and community engagement.

TREASURY

The BSP Group operates across PNG, Fiji and Solomon Islands. These three different jurisdictions each have particular characteristics but share being small in the international context with each having their own discrete foreign exchange regulations, few market participants and incomplete, illiquid financial markets.

The role of BSP Treasury remains to:

- foster relationships with clients to provide Financial Markets services; and
- act as “Banker” to the bank managing market risks, funding, liquidity, capital and capital planning. This includes managing the Bank’s exposures and liquidity levels in line with prudential requirements, ALCO directives and delegated authorities.

In PNG foreign currency capital inflows relating to the PNG Liquefied Natural Gas project construction phase reduced during 2013, relative to ongoing imports. This, combined with lower commodity prices, produced a lagged move in PNG’s Balance of Payments from surplus into deficit with the demand for scarcer foreign currency also inducing a lagged Kina depreciation. As part of its mandated policy function of maintaining price stability the Bank of Papua New Guinea sought to stabilise the Kina’s decline by selling about PGK2.5 billion worth of USD into the market (compared to sales of about PGK1.8 billion worth of USD in 2012). Over 2013 the BPNG rate to sell USD for Kina fell by about 13% from 0.4755 to 0.4130.

PNG system foreign exchange turnover fell by about 1.5% in 2013. With a greater sales and service focus compared to 2012, volume intermediated by BSP Treasury rose about PGK1.4 billion equating to a market share of about 30% (compared to 26% in 2012). Excluding the BPNG sales of USD, customer turnover fell by about 2.5% vs 2012 even after factoring in the Kina’s depreciation. Across the Group we managed to achieve higher volumes and spreads. This also related partly to the need to manage larger and more frequent mismatches of currency inflows due to higher relative foreign currency demand.

BSP’s credit rating is constrained by PNG’s country credit rating. Notwithstanding this S&P raised BSP’s long term issuer credit rating to B+. We continued to grow and diversify our funding base over 2013 with depositors and fund providers recognising our strong business position, entrenched importance to the financial systems of the countries in which we operate as well as our fundamental financial strength and security. This helped fulfil part of our strategy to increase USD funding to customers who use our whole-of-bank solutions, compared with those solely transactional relationships.

Once again high levels of domestic financial system liquidity contributed to a low domestic nominal and negative real interest rate regime. Low monetary policy rates risk implicitly

taxing savers, disrupting the signalling function of interest rates for efficient capital allocation and increases the value of any unfunded pension liabilities. In PNG the yield curve flattened and fell by more than planned, from 1.98% for 28 days and 2.32% for 182 days towards the end of 2012 to 1.65% and 2.00% respectively over the first half of 2013. Treasury Bill and Inscribed stock yields also fell around July 2013.

Aiming to enhance monetary policy effectiveness, the BPNG Cash Reserve Requirement was increased in 2013, reducing bank funds available for investment, with a consequent impact on earnings potential. By the end of 2013 28 day and 182 day Kina yields had climbed back to about 1.84% & 2.51% respectively. Short term offshore yields also fell over most of the year which, along with the depreciating Kina, reduced earning rates on offshore deposits. This has led to earnings on PNG Bank kina liquids and investments to be reduced by 9.1% in 2013 compared to 2012 at an average yield of 4.52% on an average balance of about K4.7 billion for 2013. Across the Group earnings from liquids and other similar investments reduced by a similar amount.

PARAMOUNT

Paramount Banking is the Strategic Business Unit entrusted with management of the Bank’s liability portfolio which stood at K5 billion in 2013. This is a result of the continued high liquidity experienced within the Banking system. Paramount Banking continued to perform well above budget forecast in spite of operational challenges in 2013.

BSP is not only seen as the Nation’s Bank but a Strategic Partner with the National and Provincial Governments in providing Banking and Financial services to the people of this Nation. The extensive Branch and Rural banking network together with Electronic Banking services throughout the Country are the Bank’s strength.

Paramount Banking’s Vision is to be the Bank of Choice for all High Value net worth clients. The business unit focuses on professional and personal relationship with its high valued clients including the National Government’s and its agencies.

The Community Affairs Officer continued to establish contacts with various Resources Developers and co-ordinate training on Banking and Financial services with Landowner groups including opening new accounts in anticipation of future compensation payments and royalty flows.

The slow growth in non-mining sectors including low commodity prices have contributed to the restraining of economic growth in 2013 and that is expected to continue into 2014, also subject to unexpected disruptions due to regional and global economic conditions.

GROUP RISK MANAGEMENT

Risk management at BSP is independently overseen by various

business units within the Group Risk Management strategic business unit. The specific business units are: (a) Credit – has underwriting and portfolio management responsibilities; (b) Operational Risk – has broad operational risk involvement across the network; (c) Asset Management – manages the distressed asset portfolio; and (d) Credit Inspection – provides an independent assessment of credit policy compliance.

In the second half of the year, the operational reporting lines for Audit and Legal Services were transferred to Group Risk Management while Audit retains an independent and direct reporting line to Board Audit Risk & Compliance Committee (BARCC). This change was implemented to allow a clear oversight of all the three risk lines of defence including Audit as the third and last defence in the risk management framework.

Credit

Credit risk is defined as the potential failure of a Borrower or Counterparty to meet its contractual obligations. Within BSP, credit risk is managed by developing and undertaking an ongoing review of a credit risk strategy that identifies our target market acceptance providing a platform to grow the business within defined parameters to build a quality loan portfolio across a broad range of sectors.

Senior BSP Management has the responsibility to implement credit risk strategy including developing policies and procedures for identifying, measuring, mitigating, monitoring, controlling and on a continuous basis reviewing the effectiveness of the credit risk strategy and inherent credit culture.

Completion of the construction and development phase of the PNG LNG project resulted in a return to more normal business activities with a lower demand for borrowing with a period of consolidation being experienced with this expected to continue in 2014. Consequently lending growth across all sectors of the PNG economy was relatively stable. Diversification of the loan portfolio across key economic sectors continues to be closely 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.

GDP growth of 6.2% is forecast for PNG over 2014 with a focus on the agriculture, forestry and the fisheries sector and a sharp increase in the oil and gas sector with the commencement of the gas production in 2014. Total non-mining GDP is forecasting moderate growth of 1.6 per cent in 2014 which is lower than 2013 growth of 4.7 per cent. The slowdown in the non-mining sectors reflects the contraction in the construction sector coming mainly from the completion of the PNG LNG project. The property market continues to be a sector undergoing reform with supply outweighing demand leading to lower rental yields and capital growth. BSP continues to monitor the exposure to the property sector undertaking appropriate stress testing of the property loan portfolio.

Overall performance of the loan portfolio remains sound with moderate growth achieved in both the corporate and retail

sectors in a subdued market. However despite the overall increase in asset balances the Bank's market share has declined in a competitive market. During the course of 2013, overall delinquency rates remained relatively stable with some marginal improvement in both the Corporate and Retail portfolios. The Retail portfolio experienced some delinquency volatility during 2013 due in part to a change in the collection process which has been addressed with an immediate improvement noted. The loan portfolio weighted average risk rating has remained stable with the loan portfolio overall risk profile considered to be sound.

Significant changes to the Retail loan application processing was achieved with the implementation of the automated loan origination system for unsecured personal loans resulting in a more consistent origination process and improved turnaround times for approval and funding. In 2014 it is proposed to expand the loan origination process to all retail loan products including secured personal loans, housing loans, small to medium business sector loans incorporating a credit scorecard that will provide a consistent loan decision and automated origination process providing improved turnaround times for our retail and small business customers.

Lending policies and procedures continue to be reviewed on an ongoing basis with further policy changes made in 2013. These changes are due to continuing changing market and product trends focussing on improving controls and reporting in order to move the Bank towards compliance with industry best practice for credit risk management standards. We continued to implement our social and environmental policies and processes which strive to be consistent with market adopted practices.

Training remained a key focus in 2013 and will continue into 2014. The Moody's online training introduced in 2012 has been completed with the majority of staff, predominantly in Credit and Corporate, successfully completing the program. The online training was complimented with Moody's conducting classroom training sessions specifically focussed on identifying potential early warning signals and implementing appropriate strategies.

Operational Risk

The Bank has independent Operational Risk functions in PNG, Fiji (both the Bank and Life Insurance operations) and Solomon Islands. The Head of Group Operational Risk functionally reports to the Board Audit Risk & Compliance Committee (BARCC) in PNG and administratively to the Group Chief Risk Officer.

The key focus for the operational risk unit continues to be the embedding and refinement of the Operational Risk Management Framework across the BSP Group and the strengthening and enhancement of Operational Risk Management tools to support this Framework.

Some of the risk initiatives undertaken during 2013 have included:

- Continuation of the process mapping, risk & control analysis

- and where required risk mitigation plans for key BSP processes;
- Improved monitoring and analysis of non-lending related losses across the Bank;
- Assist Executives and Senior Management with analysis and regular reporting of operational risk issues;
- Identification of the Top 20 enterprise wide risks across the Bank;
- Enhanced the process in investigating fraudulent transactions;
- Conducted regular operational risk, anti-money laundering and fraud awareness workshops across the Bank.

It is expected that a number of these activities will continue in 2014 with a renewed focus on further staff development and empowerment to continue proactively driving Operational Risk objectives.

Internal Audit

BSP has independent internal audit functions in PNG, Fiji (both the Bank and Life Insurance operations) and Solomon Islands with these various teams reporting, through the Head of Group Internal Audit, functionally to the Board Audit Risk & Compliance Committee (BARCC) in Port Moresby and administratively to the Group Chief Risk Officer.

Major highlights during 2013 were the combined Central Banks' (Bank of PNG, Reserve Bank of Fiji and Central Bank of the Solomon Islands) supervisory examination of the BSP Group during May - July and the internal audit of the Bank's Treasury & International Operations in PNG, with assistance from accountants, PricewaterhouseCoopers during November - December.

One of the key focus areas during 2013 was also the continued strengthening of the Bank's IT Audit capabilities.

Legal Services & Company Secretary

Legal Services provides an in-house legal counsel and advisory function for BSP. It is involved in legal advice on a range of matters to staff, many of which are time critical, with prompt and accurate advice being vital. The Head of Legal is also responsible for legal advice to the Executive. All contracts, leases and agreements are reviewed by Legal prior to execution. Legal Services also manage litigation matters involving the Bank.

Company Secretary has responsibility for compliance with PomSoX reporting requirements, BPNG regulatory requirements, corporate compliance requirements, investor relations and also Board secretarial functions within the Bank.

HUMAN RESOURCES

The Human Resources SBU is a key strategic partner in the Bank supporting the operations of the Bank through its core HR Management functions.

In 2013, the HR SBU implemented the following key initiatives:

Recruitment & Selection

- Facilitated the identification of a number of senior national staff to replace outgoing expatriate contract workers;
- Strengthened our partnership with university and tertiary level institutions through career choice workshops and recruitment fairs;
- Utilised the psychometric testing tools and interviewing guides available in the Assessment Centre methodology for Graduate and High Potential recruitment;
- Facilitated the integration of BSP Rural staff into the parent Retail SBU and together with the Remuneration team aligned all salaries and benefits.

Learning & Development

As part of the Bank's career development and succession planning program we initiated and facilitated the first three BSP staff for an ongoing three-month secondment in partnership with Barclays Africa Group Limited in Johannesburg, South Africa.

As part of the Bank's Senior Managers leadership development initiative facilitated the attendance of a number of senior managers in externally provided Leadership programs.

Training focused on the development and bank-wide roll out of two key Bank initiatives – LendFast for loan origination and Cheque Processing which provides significant changes to the way the Bank process cheques.

Ongoing training initiatives for 2013 included:

- Conducted a number of leadership development courses for junior and middle management employees;
- Conducted a number of team leadership for change management courses for junior and middle management employees;
- In response to a training needs analysis (TNA) survey, delivered a variety of soft skills and technical skills courses;
- Facilitated Moody's training in credit skills and business finance for Credit and Risk, Corporate Banking and Finance employees.

Remuneration Management/Succession Planning

- Aligned critical roles, key persons and assigned benefits and identified potential successors for critical roles to mitigate operational risks;
- in conjunction with SBU restructuring initiatives within the Bank, undertook Hay job evaluations, revised job grades and aligned salary levels to attract and / or retain specialist employees;



Sandra Fore, Stanerd Wai and Joyce Narakobi were attached with Barclays Africa Group Limited in Johannesburg, South Africa on a three month secondment.

- Conducted a market survey on total salary and benefits, aligned salaries in a number of key business units to maintain market competitiveness;
- Implemented automated Human Capital Management (HCM) payroll leave capture modules which eliminated manual processes and improved operational efficiencies;
- Continued to identify eligible national employees for participation in the Bank's First Home Owners Home Ownership Scheme and expanded the Bank's assistance to staff building on traditional land through the Informal Housing Scheme.

HR Operations

Development and implementation of the HCM system continued with the following milestones being realised:

- The Employee Self Service (ESS) and Manager Self Service (MSS) modules of HCM were implemented as the functional tools for all payroll leave captures;
- Operational efficiencies were realised through ESS and MSS automating of a number of staff payroll processes;
- Testing and validating of the HCM payroll system was completed through parallel runs with our CHRIS payroll system;
- HCM payroll was commissioned as the primary payroll system following the last pay period processing in December 2013;
- HCM became the source of truth of all management information and decision making reports.

HR Operations relaunched an updated Human Resource manual in an interactive, user friendly web based format.

Total head count was 2,947 (BSP PNG) and 3,951 (BSP Group). Staff turnover in 2013 was 10.0 percent compared to 17.0 percent in 2012.

Total training mandays for 2013 was 10,189 equating to almost 3.0 mandays per employee.

OPERATIONS & INFORMATION TECHNOLOGY

The role of the Operations & Information Technology SBU is to provide support to both external customers of the Bank across the multiple channels which BSP has made available as well as internal clients (i.e. other SBUs within BSP) in developing the infrastructure to enable reliable and efficiently executed external customer transactions.

A key driver is the need to ensure that our technology is always on, always available. Whilst planned outages for implementation of upgrades and certain other incidents related mostly to external service providers prevent the 100% threshold from being achieved, we achieved an availability level of 99.6% or more for our key systems which compares favourably to the banking industry regionally and, closer to home, has demonstrated greater reliability than that offered by peer banking institutions and other major service providers within Papua New Guinea. The critical front end processing system used to authorise card based transactions achieved 99.98% availability in 2013.

In addition to ensuring that all our critical systems had redundancy in terms of a secondary data centre location as well as contingency for potential individual equipment faults, significant



A customer using the OptiQ system to get a ticket.

effort was expended to identifying root causes for system outages and improving the IT infrastructure such that the number of these incidents be reduced. We can report that in overall terms such incidents reduced by more than 60% from 2012 making the exercise a highly successful one.

The SBU continues to contribute significantly to the expansion of the Bank's new channel and automated processing capabilities. This past year saw the culmination of numerous technology projects resulting in the introduction of:

- Wantok Moni;
- Mobile Banking for Solomon Islands;
- Internet Banking for Solomon Islands;
- Internet Payment Gateway;
- KATS Phase 1: RTGS;
- Automated Receipt Printing at Teller;
- Retail Lending Origination System;
- Customer Queuing;
- EFTPoS Integration;
- Infinium (HCM) Payroll Processing;
- Management Information System (MARS);
- Sun GL System Upgrade;
- Internet Banking Phase 2;
- Trade Finance Front Office portal;

In terms of the Bank's Facilities Management, much work was undertaken towards the delivery of:

- Fit-out and activation of BSP Haus, NCD;
- New BSP Tari Branch;
- Six BSP Premium Centres;
- 18 BSP Rural branches;
- 34 new ATM locations;

- Major branch refurbishments in Mt.Hagen, Buka and Kavieng;
- Ongoing activity towards development of new facilities including the Pacific Operations Centre, Gordons Security Base, new Data Centre and the Lae Corporate Banking Centre.

Within the processing teams, there has been increased automation and reduced headcount within Channel Operations, International Operations and Lending Support/Collections. The introduction of the new Loan Origination System is enabling automatic funding of loan approvals as opposed to previous practice where manual postings were necessary resulting in headcount requirements for reconciliations and day 2 verifications. In the International Operations BU, a business as usual project was undertaken to increase the utilisation of the automated Reconciliation tool such that the number of accounts automatically reconciled is now greater than 800 as compared to the previous 300. This has resulted in the flexibility to both reduce headcount as well as redeploy staff to areas providing a greater added value to the organisation.

Channel Operations historically encompassed Cash Distribution Centre, ATM & EFTPoS Support, Kundupe Processing and Card Management including all corresponding transactional and settlement activities. In order to better streamline the organisation and focus operational activities within Operations and IT, this BU now also has responsibility for the National and Lae Operational Centres which handle the centralised processing activities for NCD and Lae branches. As part of the KATS Project, these areas will be transformed into processing, checking and control functions to take advantage of economies of scale thereby reducing headcount requirements both within the BU as well as in the Network. Within Channel Operations the number of changes implemented on an annual basis to improve controls and efficiency are too numerous to mention.

The largest headcount component within the SBU continues to be the Security BU which had 440 people. Given the country's geographical spread and limited transport & security infrastructure, BSP's assets require 24/7 protection which can only be provided by having an ample in-house security capability complemented by outsourcing in certain locations where security capacity is best provided by local firms. Efforts during the year focussed on placing decreased reliance on human elements and increasing the capacity of systems. This included risk rating of improved vehicle tracking, upgraded utilisation of security access systems, improved monitoring using CCTV systems and improved investigatory techniques for internal and external incidents.

Lastly, the BSP Customer Call Centre has now also been integrated within the Operations and IT SBU given the need to more closely integrate their largely in bound calling capabilities with the technology required to provide customer support in an integrated and standardised level.

Plans for 2014

In terms of premises, the completion of the Pacific Operations Centre, new Security Base, new Data Centre and the new Lae Corporate Banking Centre are all expected to be completed between Q3 and Q4 2014, with relocations taking place in Q4 and Q1 2015. The POC will result in almost 900 staff from different buildings within NCD consolidating within the new site in Waigani. In Lae, all Corporate Banking activity, BSP First as well as regional functions will be headquartered within the new building on the old airport road.

Branch improvement work will also be prominent in 2014. Expected refurbishments include Waigani Banking Centre (commenced in December 2013) and Tabubil being the most prominent and new branch fit-outs for Mendi and Lihir.

Other strategic objectives of the SBU include the continued improvement of the robustness of the infrastructure (technology, people, processes) given the need for continuous development in line with increasing business needs and changing technology.

FINANCE & PLANNING

A year of consolidation

In 2013, the Finance and Planning team has built on developmental work that had been outsourced in previous years, and has taken on the ongoing production and development of these initiatives, in Business Planning and Analysis, and in Middle Office.

In 2013 the Business Planning and Analysis (BPA) team facilitated Strategic Planning exercises at SBU level, and this fed directly into the budgeting process in the latter half of the year. The team also took over and delivered the ongoing production and development of BSP's detailed Branch Profitability Analyses

and 3-year Models.

Improvements have also been made by Middle Office (for Treasury services) in 2013. The team resources have settled, and are continuing to develop a more detailed understanding of the underlying workings of the new system, leading to better improvement over reporting, control and monitoring activities between the system's front desk customer interface and the back office control functions. Middle Office ends 2013 well positioned and looking forward to working with Treasury to facilitate the introduction of more sophisticated products into the market in 2014.

A reduced reliance on consulting accompanied the Group's 2013 focus on cost reduction. Finance played a significant part in facilitating and driving cost reduction initiatives for the group, a major strategic focus in 2013. We envisage this focus will continue in 2014 and the Finance team will play an important role in ongoing exercises to achieve operating cost reduction and benefits realisation of capital investments.

Finance made progress towards its stated objectives for 2013. The team continued to develop and standardise reporting formats for the Group, Bank, and Strategic Business Units. Significant efforts were directed towards, and improvements were achieved, on the quality, accuracy, and timeliness of management information to stakeholders.

In 2013, the first phase of a project of key strategic importance was completed – Management Automated Reporting System (MARS) Phase 1. A Data Warehouse (DW) was built which draws data from the bank's core banking systems. The DW included powerful interface capabilities allowing MARS to link with the bank's other systems, with a Business Intelligence (BI) front end for queries and analytics. MARS will serve as a central repository of information and will be a core application of the bank's Analytics function.

By the end of 2013, the bank had migrated some of its existing reporting and analysis functions into the DW, and this will continue through to 2014. During 2014, MARS Phase 2 will further streamline the MIS function and will allow bank users and stakeholders to generate broader insights into its customers, its products, its distribution channels, and its processes and operations.

Team

Finance was able to successfully recruit at a higher level in 2013 and retain its high performing staff. The Analytics team formerly sited within the Retail SBU was merged with the financial analytics team within Finance and Planning, a timely and more cohesive structure given the implementation of MARS. Skills and knowledge were improved as a result of meeting greater and more sophisticated reporting challenges, both internally and externally.

LAE COMMERCIAL CENTRE

An artist's impression of the new Commercial Centre in Lae. The centre will be complete and operational in the 2nd half of 2014.



KOMO BRANCH

Traditional dancers celebrate the opening of BSP's Komo Sub-Branch in June 2013. The branch serves both the local landowners and workers of the PNG LNG Project.



CORPORATE GOVERNANCE

BSP has adopted an approach to Corporate Governance that is underpinned by its core values of Integrity, Leadership, People, Professionalism, Quality and Teamwork. 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 BSP's home exchange, Port Moresby Stock Exchange ("POMSOX"). It also closely monitors developments in corporate governance principles and practice within Australia and has benchmarked itself against:

1. ASX Corporate Governance Council 'Corporate Governance and Best Practice Recommendations';
2. Australian Prudential Regulatory Authority Prudential Standard APS 510;
3. Standard Australia AS 8000-2003 Good Governance Principles

BSP is mindful of the advantages of demonstrating to investors that its corporate governance standards meet the requirements expected of companies listed in countries such as Australia. This Corporate Governance Statement therefore compares BSP's corporate governance practices to the ASX Corporate Governance Council and Best Practice Recommendations. BSP manages in excess of half the banking market in Papua New Guinea, and is predominantly owned by institutions and individuals in Papua New Guinea. The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea. The set of Corporate Governance principles developed by BSP is 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 publishes its corporate governance practices on its website. This is available at www.bsp.com.pg in the shareholders section.

1. THE BOARD OF DIRECTORS

a) 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. The Board, with the support of its committees, is respon-

sible to the shareholders for the overall performance of the company including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising company performance and increasing shareholder value.

Key functions of the Board include:

- overall strategy of the company, including operating, financing, dividends, and risk management;
- appointing the Group 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 the company and monitoring results on a regular basis;
- ensuring that appropriate risk management systems are in place, and are operating to protect the company'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;
- acquisitions and disposals material to the business;
- establishing authority levels;
- Directors' remuneration via the Remuneration & Nomination Committee;
- selecting, with the assistance of the Audit, Risk and Compliance Committee, and recommending to shareholders, the appointment of external auditors;
- approving financial statements.



The BSP Board of Directors

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;
- keeping the Board and the market fully informed of material developments.

b) Membership, expertise, size and composition of the Board

The Corporate Governance Principles affirm that the majority of the Board should be independent. As is typical of small financial markets generally in Papua New Guinea, there are very considerable demands on the relatively small numbers of people with the

skills and experience to fill the demanding role of Non-executive Director on the Boards of the Nation's larger corporate institutions. In these circumstances it is inevitable that a number of the Non-Executive Directors of BSP will also have roles on the Boards, or in Senior Management, of institutions that may be significant shareholders in, or substantial customers of, the Bank. Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interests in advance, and absenting themselves from any consideration of matters where a conflict might arise. The Bank'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 designated as independent, plus the Group Chief Executive Officer. Under the Constitution, at each annual general meeting one-third of the company's Directors, in addition to any Director appointed during the year, excluding the Group Chief Executive Officer, must offer themselves for re-election by the shareholders. Normally, Non-executive Directors are expected to serve a maximum of four three-year terms, dating from the AGM at which the newly elected Director is first confirmed by shareholders. This provision has effect from the date the Bank took its present form, following the merger of BSP with the Papua New Guinea Banking Corporation in April 2002. In certain instances it may be considered that a director may bring valuable expertise, independent judgement and an ability to act which may determine that it is in the best interests of the Company for a director to serve beyond a fixed term.

The Board 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 and 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, and consequently gives careful consideration to setting criteria for new appointments it may recommend to shareholders in accordance with the BSP 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.

Nominees of the Board and/or shareholders must meet the 'fit and proper person' criteria established by the Bank of Papua New Guinea before they can take their place on the Board. The Board does not accept that any office bearer and/or employee of an institutional shareholder, by virtue only of his/her position within that organisation, have an automatic right to be appointed to the Board.

On joining the Board, new Directors will be provided with a comprehensive orientation programme.

c) Role and selection of the Chairman

The Chairman is elected by the Directors every two years and holds the position for a maximum of three terms. His role includes:

- ensuring all new Board members are fully aware of their duties and responsibilities;
- providing effective leadership on the company'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;
- reviewing the performance of Non-executive Directors;

The Chairman is not permitted to occupy the role of Chief Executive Officer.

Kostas Constantinou, OBE, who sits on the Board as an independent Non-executive Director, is the current Chairman.

d) 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 the Bank that would compromise their independence. Prior to appointment Directors designated 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 bank;
- the Director is not a substantial shareholder of the bank or otherwise associated directly with a substantial shareholder of the bank;
- the Director has not within the last three years been a material consultant or a principal of a material professional adviser to the Bank or a group member, or an employee materially associated with a service provided;
- the Director is not a material supplier to, or customer of the Bank or other group member, or a material consultant to the Bank or other group member, or an employee materially associated with a material supplier or customer;
- the Director has no material contractual relationship with the Bank or other group member other than as a Director of the bank;
- 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 the Bank.

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 the Group. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

The Bank of Papua New Guinea sets prudential limits on loans to 'associated persons': Bank South Pacific fully complies with these requirements.

Financial Note 30, Related party transactions, on pages 76- 78, provides details of Directors' interests.

e) Meetings of the Board and attendance

Scheduled meetings of the Board are held 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,

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea. The set of Corporate Governance principles developed by BSP is 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.



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, on pages 72 - 74, provides attendance details of Directors at Board meetings during 2013.

f) Review of Board Performance

The Remuneration and Nomination Committee reviews 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 conducted annually, and may involve assistance from external consultants.

g) 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 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 and the General 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 the company, 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.

2. BOARD COMMITTEES

a) Board Committees and Membership

The Board has established two committees whose functions and powers are governed by their respective charters. These committees are the Audit Risk and Compliance Committee, and the Remuneration and Nomination Committee.

Membership of the committees and a record of attendance at committee meetings during the year is detailed in table below. Remuneration details are provided in Financial Note 27 on page 72.

Membership of Board Committees as at 31/12/2013:

	Board Audit Risk & Compliance Committee	Remuneration & Nomination Committee
Geoff Robb	6/6 Chair	
Sir Nagora Bogan	4/6	
Gerea Aopi	4/6	
Arthur Sam ¹	6/6	
Freda Talao ²	5/6	
Kostas Constantinou	2/2*	Chair 3/3
Tom Fox	2/2*	3/3
Ila Temu	2/2*	3/3
Lyle Procter	2/2*	3/3

¹ Arthur Sam is a non-executive, non-director, appointed by the board for board development purposes. ² Freda Talao attends as an observer director. *Board members who attend the BARCC meeting to discuss the year end and half year accounts.

b) Committee Charters

The Committee Charters are available in the shareholders information section of the BSP website www.bsp.com.pg.

c) 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 Audit Risk and Compliance Committee is comprised of three Non-executive Directors, a majority of whom should be independent, and who are duly appointed by the Board. The Chairman of the Audit Risk and Compliance 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 BSP Board.

The Remuneration and Nomination Committee comprises three Non-executive Directors, the majority of whom should be independent, and 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 BSP Board.

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

d) Board Audit Risk & Compliance Committee

The Audit Risk and Compliance Committee is 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 the bank;
- performance of the operational risk function of the bank;
- 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;
- 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.

i. Annual Financial Statements

The Audit Risk and Compliance Committee 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;
- reviews the other sections of the Annual Report before its release and considers whether the information is understandable and consistent with members' knowledge about the bank and its operations;
- satisfies itself as to the accuracy of the financial accounts,

reconciles them with management accounts presented to the committee, and signs off on the financial accounts of the bank before they are submitted to the Board.

ii. External Audit

The Audit Risk and Compliance Committee is responsible for making recommendations to the Board on appointment and terms of engagement of BSP external auditors. The selection is made from appropriately qualified companies in accordance with Board policy. The Board submits the name of the recommended appointee to shareholders for ratification. In line with the policy of the Bank of Papua New Guinea, the signing partner in the external audit firm must be rotated at least every three years.

The committee reviews annually the performance of the external auditors and makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Bank of Papua New Guinea'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 Audit Risk and Compliance Committee 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 the Group to provide specialist consultancy services relating to financial, strategic and/or taxation matters.

The external auditor is invited to the Annual General Meeting of shareholders and is available to answer relevant questions from shareholders.

The Bank of Papua New Guinea Prudential Standards provide for a tri-partite meeting between BPNG, the external auditors, and the Bank, if required.

iii. Internal Audit

The Audit Risk and Compliance Committee approves, on the recommendation of management, the appointment of Head of Internal Audit. The committee meets regularly with 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 Audit and Risk Departments. The Audit Risk and Compliance Committee also reviews the qualifications

of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors. An independent review by an expert consultant is made regularly as to the effectiveness of the internal audit and risk function. These reports are presented to the Audit Risk and Compliance Committee, and the Board.

The Audit Risk and Compliance Committee 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 Audit Risk and Compliance Committee 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.

Internal Audit meets with the external auditors half yearly, to review the scope and findings of internal audit's annual audit plan, and the extent of the external audit plan, having regard to internal audit's findings.

iv. Compliance

The Audit Risk and Compliance Committee reviews the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations and the Constitution of BSP. 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 the bank'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 Audit Risk and Compliance Committee has the right to approach a regulator directly in the event of a prudential issue arising.

v. Risk Management

The committee's role in the bank's risk management processes are detailed in 3(b).

e) 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 a Chief Executive Officer and recommend an appropriate remuneration and benefits package to the full Board;



BSP has adopted an approach to Corporate Governance that is underpinned by its core values of Integrity, Leadership, People, Professionalism, Quality and Teamwork.

- 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 transactions between the Group and any of the Directors or relevant 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;
- review Board performance, tenure, and succession planning.

The Board has in place a review process, led by the Chairman, that involves a peer review of performance based on a broad range of criteria. A performance review has been performed every year since 2010.

3. RISK MANAGEMENT

a) 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. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

BSP distinguishes 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. More detailed commentary on financial risk management is provided in the Notes to the Financial Accounts.

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 Group's Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and the Credit Committee monitors credit risk. 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 the Group's 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, personnel 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;
- 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.

b) Risk Management Roles & 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 Strategic Business Unit Risk Registers, is used to determine the approval/control authorities/limits. The Board reviews these risk limits annually along with an annual review of the Group's significant 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 Policy and Procedures Manual which has been externally reviewed and approved by the Board.

The Board has also delegated to the Audit Risk and Compliance Committee responsibility for overview of loss control and for overseeing the risk management function.

The Audit Risk and Compliance Committee is responsible for providing regular reports 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 to approve.

The Group's Executive Committee is responsible for deliberating on risk management issues which are outside of the delegated authorities/ limits of the Credit Committee, Asset and Liability Committee (ALCO) and General Managers, with escalation of these issues to the Audit Risk and Compliance Committee, and the Board itself, in case of need.

c) 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:

- the financial records of the Group have been properly maintained and that they accurately record the true financial position of the Group;
- the financial statements and notes meet all appropriate accounting standards;
- there are sound systems of risk management and control that are operating effectively;

Additionally all General 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;
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

4. 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, acknowledge in writing having read, understood and agreed to abide by 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.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board further stipulates that senior management periodically undertake an appropriate communication programme 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;
- breach of statutory codes of practice.

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.

5. 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.

Market announcements are posted to BSP's website immediately after release to the market. All market announcements made by the bank since its listing in August 2003 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.

6. SHAREHOLDER COMMUNICATIONS

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

With this in mind, 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:

- our 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 group meetings with larger shareholders, within disclosure policies, to communicate financial performance and strategies.

7. REMUNERATION

BSP remuneration policy for senior management is comprised of a fixed component and an at risk component that is a combination of short term rewards and long term incentives. The remuneration packages of General Managers and the Chief Executive Officer are approved by the Remuneration and Nomination Committee, and details are provided by the committee to the Board.

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

Non-executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool approved periodically by shareholders. The shareholders in 2012 approved an increase in the pool to K2.00 million. During 2013 K1.43 million of the pool was utilised (2012: K1.42 million).

A table of fees paid to Directors during 2013 is produced on page 72. Non-executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share option programmes.

CUSTOMER SERVICE

BSP will place emphasis on training and career development of our staff. This will involve product knowledge to provide staff with the confidence to sell our products to our customers, specialist skills training, leadership development, and tailored multi-year programmes for our future leaders.



HISTORICAL SUMMARY 2013

Profit and Loss (K'000)	2008	2009	2010	2011	2012	2013
Net interest income	377,100	473,969	544,002	597,479	681,554	740,857
Non interest income	243,828	251,743	410,973	496,383	603,781	781,217
Bad and doubtful debt (expense)/recovery	(11,353)	(15,020)	(20,581)	(25,234)	(70,952)	(78,573)
Other operating expenses	(229,599)	(335,146)	(522,827)	(688,621)	(748,346)	(833,849)
Operating profit	379,976	375,546	411,566	468,490	534,126	594,685
Impairment of non-current asset	(50,000)	2,372	-	-	-	(14,967)
Share of profit from associates	-	-	-	6,496	11,170	12,270
Profit before tax	328,798	378,143	410,804	474,986	545,296	606,955
Income tax (expense)	(100,464)	(121,025)	(127,657)	(119,039)	(137,552)	(170,127)
Profit/(loss) after tax	228,334	257,118	283,147	355,947	407,744	436,828
Dividends (toea)						
Dividends paid per share ¹	2.20	2.20	5.37	47.3	55.0	58.0
Balance Sheet (K'000)						
Net loans and advances	2,343,844	3,638,562	4,091,297	4,300,913	4,804,626	5,306,362
Total assets	6,807,868	9,397,821	10,027,290	11,681,293	13,333,102	15,808,790
Deposits	5,782,020	7,493,779	7,984,657	9,366,281	10,860,522	12,200,999
Capital	744,254	934,097	1,134,397	1,344,188	1,465,893	1,619,060
Performance Ratios						
Return on assets	3.6%	3.2%	2.9%	3.3%	3.3%	3.0%
Return on equity	34.7%	30.6%	27.4%	28.7%	29.0%	28.3%
Expense/Income	45.0%	46.0%	54.7%	58.2%	55.3%	57.3%
Key Prudential Ratios						
Capital adequacy	22.8%	22.1%	23.6%	24.2%	22.3%	18.0%
Liquid asset ratio	47.5%	50.1%	43.0%	43.6%	38.9%	41.78%
Leverage ratio	10.4%	9.1%	10.5%	10.0%	9.0%	7.6%
Exchange rates (One (1) PNG Kina buys):						
US dollar	0.3735	0.3700	0.3785	0.4665	0.4755	0.3905
AU dollar	0.5396	0.4127	0.3724	0.4591	0.4580	0.4369

(Source – Bank of Papua New Guinea Quarterly Economic Bulletin)

¹Dividends per share has been adjusted for 1/10 share split 2008. In 2010, BSP paid a full and final dividend for the 2009 year in July, and an interim dividend for 2010 year, in November. Dividends per share has been adjusted for 10/1 share consolidation 2011. In 2011, BSP paid a full and final dividend for the 2010 year in June, and an interim dividend for 2011 year, in October. In 2012, BSP paid a final dividend for the 2011 year in June, and an interim dividend for 2012 year in October. In 2013, BSP paid a final dividend for the 2012 year in June, and an interim dividend for the 2013 year in October.

CONTRIBUTIONS BY BSP TO PNG

All amounts are expressed in K'000	2009	2010	2011	2012	2013
Company income taxes paid to PNG Government	101,372	213,771	119,590	212,080	155,391
Other taxes paid to PNG Government (IWT, FCWT,BWT)	11,169	9,780	10,091	6,204	4,989
Dividends paid	182,373	247,959	223,526	258,994	271,686
Payments to PNG based suppliers/creditors	171,761	153,200	240,402	489,754	440,331
Payments to PNG training institutions	1,858	2,908	2,133	8,471	6,468
Superannuation payments	3,599	4,336	5,176	8,187	9,420
Salaries paid in PNG	42,982	53,751	65,518	88,527	95,570
Commercial rental payments	6,532	15,038	21,094	19,565	20,459
Residential rental payments	2,612	2,745	10,396	33,609	36,408
Water	178	169	144	90	1,069
Power	5,319	5,067	5,544	11,489	13,930
Telecommunication	8,006	8,986	8,507	14,809	18,417
Total	537,761	717,710	712,121	1,151,779	1,074,138

OVERSEAS BRANCHES AND SUBSIDIARIES

SUMMARY FINANCIAL INFORMATION

All amounts expressed in K'000

	Total Asset	Total Liabilities	Turnover	Net Profit After Tax
Solomon Islands	459,963	428,364	30,430	8,610
Fiji Branches	1,945,046	1,859,574	111,490	11,709
BSP Life	663,141	531,670	179,313	13,564
Niue *	-	-	565	14
BSP Capital	21,011	12,052	3,789	(2,355)
BSP Convertible Note	21,318	14	1,253	847

*Kiwibank has taken over as the provider of banking services in Niue effective from end of April 2013.

OVERSEAS BRANCHES

2013 Highlights

FIJI

Economic Conditions

Economic indicators have been strong in 2013 with forecast GDP growth expected to be in the order of 3.6%. This has been achieved by strong performances from the Sugar Industry and an overall upturn in investment. New lending for investment rose 88% in the year to November and imports of investment goods rose annually by 25%. Tourism has performed reasonably with a marginal increase in visitor arrivals forecast after a slow start to the year.

Indicator for domestic consumption are high with electricity production (+5.6%), VAT Collections (+12.7%) and new vehicle sales (+40.4%). Inflation continues to hover around 3%. Foreign reserves remain strong at F\$1.8bn and 4.9 months import cover.

Monetary conditions remained challenging with system liquidity consistently over F\$600m with little opportunity for investment of these surplus funds. Credit growth improved to 15%. This was led by an increase in consumption lending and also an increase in lending for investment purposes. Lending rates declined due to strong competition in the marketplace.

It is expected that as the Government continues on the road to democratic elections in 2014, there will be a continued improvement in investment activities and economic growth.

2013 Achievements

Financial results for 2013 showed an increase in net profit after tax of just on 182%.

The Corporate area performed strongly with portfolio growth of 34% in a difficult marketplace. Revenues from this growth were offset by tighter margins and also a challenging time in the foreign exchange market due to new competition. The introduction of Business Internet Banking will provide higher service levels for our Corporate clients.

The Retail bank continued to perform quite strongly with substantial growth in the personal loans portfolio and the re-introduction of a revamped car loan product. Revenues from our electronic channels – ATM's, EFTPoS, SMS Banking & Internet Banking continue to grow and provide our clients with convenience and world class options as to how they do their banking.

Non accrual and problem loans and delinquencies have reduced across the board.

We embarked on our major project to upgrade our core banking system to the latest version. This will provide more efficient services for our clients and more flexible products. This upgrade is expected to be fully completed in February 2016. Recognising the increasing reliance on our electronic channel services, we also undertook upgrades in our data centres to provide high reliability and backup on our systems.

We have continued to invest in our branch network. We opened a BSP First & BSP Premium Service Centre in Nadi. We opened our new Lautoka Business Centre and also a Lautoka BSP First. We opened our Sales & Business Centre in Valelevu and Pacific House in Suva City. These centres provide account opening, enquiries and loan facilities to our retail customers and full teller service for our business customers. This new concept recognises that many of our retail customers can use our electronic channels or call centre to complete their day to day banking. We were also proud to open our new full service branch in the Damodar City complex.

2014 Initiatives and Challenges

2014 will be a critical year as we head into democratic elections by September. A smooth path to these elections will continue to engender business confidence and increased investment, both locally and from overseas.

Our challenge will be to continue to generate above market growth in an increasingly competitive environment. This includes the newly licensed 6th commercial bank, HFC Bank.

Much of the bank's focus will be ensuring that our core banking upgrade is successful as this will transform the bank's operations and improve customer service. We will continue to focus on great products and customer service as we build to being the



BSP assisted the National Airline with finance to assist with the purchase of the Airlines first Dash 8 airplane. The Dash 8 is seen as the perfect airplane for services around the Solomon Islands.

best bank in Fiji.

SOLOMON ISLANDS

2013 was a year of much change for BSP Solomon Islands. We farewelled the former Country Manager, Mark Corcoran, who spent 10 years with BSP (and prior to that NBSI) and welcomed new Country Manager, David Anderson, who has 37 years Banking experience in Australia and the South Pacific.

Branchless Banking Agencies started to be rolled out in September 2013 and Mobile Banking was launched in October 2013. These initiatives are the result of transferring successful products and services in the PNG market to other BSP territories. As at year end we have established 6 new agents and registered 4,785 customers to Mobile Banking and processed 63,024 Mobile Banking transactions.

BSP continues to have the largest ATM network and 2014 saw 1 new ATM established in the provincial town of Noro and our EFTPoS merchants increased from 43 to 101.

The continued growth of all electronic channels is a major focus in 2014. At the moment we are restricted to areas where Solomon Telekom provides 2G data signals, however, as they expand their network coverage it will enable us to provide Banking Services to more provincial areas of the Solomon Islands.

2013 also saw the refurbishment and relocation of our Point Cruz branch from the lower ground floor to the ground floor. Customers and staff welcomed the move and they are enjoying the new premises.

The Central Bank of Solomon Islands in October 2013 issued an Interim Banking Licence to Pan Oceanic Bank. This will allow Pan Oceanic Bank to take further steps to meet the requirements to gain a Full Banking Licence sometime in 2014. The establishment of this new Bank will offer new challenges to BSP; it is essential that we retain a close relationship with our customers and develop our Agency and Mobile Banking networks.

The Solomon Island economy continues to remain very liquid; this has increased competition in the lending market and has pushed Interest Rate margins down. Lending increased by 5% and deposits rose by 3%. Foreign Exchange earnings rose 9% over 2013 results. Country GDP growth stands at 4.8% and inflation at 5.5%. Foreign reserves are SBD3,809 million which is equivalent to 11 months Import Cover.

BSP's financial performance for 2013 was a Net Profit Before Tax that exceeded budget and 3% higher than 2012. As mentioned, increased competition in the lending area saw a tightening of margins and resulted in Interest Income being lower than budget.

However, a review of fees & charges and proactive investment of surplus liquidity compensated for this and resulted in results that were better than budget.

2014 promises to be an exciting year for BSP Solomon Islands as we continue the rollout of Electronic Banking initiatives and transform our workforce into a more sales oriented culture.

BSP CAPITAL LIMITED

2013 was a year of change for BSP Capital. It was a year where there were changes to the Management of the business as well as a greater client service and revenue focus in each of the 3 operating arms of BSP Capital (Share Broking, Funds Management and Corporate Advisory). In March of 2013 a new General Manager, Richard Borysiewicz was appointed, bringing with him 25 years of experience in Financial Services and a more aggressive focus on business origination at BSP Capital.

Share Broking

- BSP Capital continues to dominate the local market in terms of transactions. Clients of BSP Capital have been able to transact on both the local POMSoX as well as overseas markets;
- Activity and revenue were in line with the previous year. Turnover was much improved in the middle of the year

however global market conditions during November and December saw a decline in market activity;

- We completed a Compliance Listing on POMSoX during the year and there is the potential for additional new listings during the year ahead;
- The strategy for Share Broking is to seek out a broader mix of clients with PNG High Net Worth clients as the most likely local investor segment with which we can work more. In addition, BSP Capital is seeking greater exposure to overseas investors into the local market.

Funds Management

- Total Funds under Management during the year grew by 53%. This substantial increase in Funds was a mix of new mandates and cash flow from existing clients. Total Funds Under Management (FUM) at the end of December 2013 was K644 million;
- A substantial increase in FUM is expected due to an agreement reached with one of our largest clients for further inflows during 2014;
- We are in the early stages of negotiation with several new prospects and expect that further additions to our client list will be made in 2014.

Corporate Advisory

- BSP Capital was mandated during the year to work on several large transactions;
- BSP Capital is the premier Investment Bank in PNG and was appointed during 2013 by large corporates as well as government to act on their behalf in industries covering energy, telecommunications and real estate;
- The outlook for the year ahead is positive with numerous opportunities presenting themselves to work with clients in raising money, divesting or acquiring assets or providing strategic advice. BSP Capital is very well placed to work together with other parts of BSP (particularly Corporate Banking and Treasury) to offer complete and integrated solutions to clients.

BSP LIFE LIMITED

Overview

The 2013 year results in both financial and strategic actions that were undertaken were very pleasing. Our strong financial performances recorded in 2012 in both our Life and Health businesses continued into 2013 with profit results exceeding targets. Significant developments were also noted in our key strategic initiatives.

2013 saw the implementation and on-going execution of major initiatives planned for the year or which began in 2012:

- Returned the Health business to profitability through business growth, better underwriting and claims management practices;
- Development and launch of the new suite of Medical Products – Value, Premier and Premier Plus and the new endowment product - Bula Elite for the Life business;
- Substantial work was performed on the project being undertaken to change our core insurance systems. The new system was selected and implementation is underway;
- Completed feasibility assessment and received Board approval for the development of Denison/Duncan F\$11.2m gated accommodation project;
- Continued focus on investments subsidiaries' performances resulting in marked improvement in their values.

We had a strong 26% growth in Life new business which together with increased focus on conservation saw the Life inforce portfolio increasing by F\$4.0m. The 13th month persistency rate was at an all-time high of 75%. Health business inforce grew by F\$1.0m. Actual new business was below the significant growth experienced in 2012 due to a strong fight back by our competitors but the overall inforce book growth was pleasing.

Financial Performance

The Insurance Group NPAT for 2013 was F\$9.9m, F\$2.5m above budget. After adjustment for non-operating items NPAT is F\$9.2m, F\$1.8m above budget. The Life business NPAT was F\$9.8m against a budget of F\$7.4m while the Health business showed a profit of F\$16k against a budget profit of F\$15k.

Insurance Market

The Life insurance market continues to be dominated by endowment products. There are two major players. BSP Life market share on inforce annual premium basis (excluding single premiums) was at 57% at the end of 2012. Competition remains strong from our Life competitor which has been successful in the sale of a guaranteed return single premium product. 2013 saw the development and launch of a new endowment product, Bula Elite, which has been well accepted in the market. The focus on our system change in 2014 means that we have to properly prioritise our product initiatives as we push to lead in product innovation.

The health insurance market remains very competitive with four active competitors. BSP Health Term Life market share on premium income was 49% while the Medical market share was 29% in 2012; both products experiencing growth over 2011. With the review of underwriting guidelines the focus during 2013 was getting quality business on our books. With new customer education campaigns, additional licensed Health agents and a refined Group quote process, further improvements in market share are expected in 2014.



Branchless Banking in Seghe, Western Province, Solomon Islands.

Strategic Initiatives

In 2014, BSP Life will build on the strong results achieved in 2013. Strategic Initiatives underway include:

- Implementation of our new core insurance systems for both our Life and Health businesses.
- The Core Systems Change exercise will result in significant changes to our core insurance business processes impacting on organisation structure and human resources. An effective change management approach which will be a crucial component to the success of the project is being rolled out.
- Continuing to maintain the current aggressive growth stance on both Life and Health new business through product innovation and on-going channel development with focus on business quality and business retention.
- Continue to closely manage our Health business to ensure that profitability is sustained and improved.
- Low interest rate environment continues to negatively impact the investment return on a large portion of our investment portfolio that is in fixed interest securities. We will continue

to pursue growth assets opportunities while maximising returns from our current private equity investments.

- Continued improvement in risk management practices and the development of skills and expertise within the Insurance business ensuring that appropriately skilled staff provide service in critical areas.
- Focus on Customer Service enhancements through process transformation, people up-skilling and service culture development to complement the service delivery capability of our new systems.



**BSP LIFE
MANAGEMENT TEAM**

Seated: Malakai Naiyaga, Managing Director.

Standing (L-R): Michael Nacola, General Manager Distribution & Marketing, Munendra Naidu, Chief Financial Officer, Glenis Yee, GM Legal & Compliance, Pramesh Sharma, GM Investments.



**BSP FIJI
MANAGEMENT TEAM**

Seated (L - R): Ravindra Singh, GM Retail Bank, Kevin McCarthy, Country Manager, Cecil Browne, GM Corporate & International and Alvina Ali, GM Legal.

Standing (L - R): Ronesh Dayal, Chief Financial Officer, Howard Politini, GM Human Resources, William Wakeham, Chief Operating Officer, Ashleigh Matheson, Chief Risk Officer and Omid Saberi, Chief Information Officer.



**BSP SOLOMON ISLAND
MANAGEMENT TEAM**

Seated (L - R): Genevieve Apusae, Financial Controller, David Anderson, Country Manager, Pricilla Maehau, Relieving Manager, Commercial Banking.

Standing (L-R): Robert Bochman, Relationship Manager, Joan Ramo, Manager International Operations, Alphonse Toati, Manager Agencies & Electronic Banking, Janet Marau, Manager Retail Banking Operations, Peter Lemon, Manager Corporate Services, Lyn Toati, Manager Credit Administration, Winterford Maehau, Manager Information Services.

Helping Fiji grow.

BANKING EDUCATION IN FIJI

Customer Care Manager Moses
Taga promotes Electronic Banking to
Military Personnel.



DIRECTORS' REPORT



KOSTAS CONSTANTINOU, OBE
Chairman



ROBIN FLEMING
Group CEO

for the Year Ended 31 December 2013

The Directors take pleasure in presenting the Financial Statements of Bank of South Pacific Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2013. In order to comply with the provisions 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 include the provision of commercial banking and finance services, stock broking and 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 licensed to operate in the Solomon Islands, Fiji Islands and Niue. The registered office is at Douglas Street, Port Moresby.

Review of Operations

For the year ended 31 December 2013, the Bank's profit after tax was K424.762 million (2012: K399.588 million profit). The Group's profit after tax was K436.828 million (2012: K407.744 million).

Dividends

Dividend payments totalling K271.686 million were paid in 2013 (2012: K258.994 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 the year ended 31 December 2013:

Mr K Constantinou, OBE
Mr T E Fox, OBE
Dr I Temu

Mr R Fleming
Ms F Talao
Mr E B Gangloff

Mr G Robb, OAM
Sir N Bogan

Mr G Aopi, CBE
Mr C C Procter

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 27 of the Notes to the Consolidated Financial Statements. Mr Ernest B Gangloff was appointed to the board on 28 November 2013. The CEO Robin Fleming remains the only executive director in the composition of the board.

The company secretary is Mary Johns.

Independent Audit Report

The financial statements have been audited and should be read in conjunction with the independent audit report on page 90. Details of amounts paid to the auditors for audit and other services are shown in Note 41 of the Notes to the Financial Statements.

for the Year Ended 31 December 2013

Donations & Sponsorships

Donations and sponsorships by the Group during the year amounted to K9,267,141 (2012: K4,192,404).

Interests Register

Transactions recorded in the Interests Register are disclosed in Note 30 of the Notes to the Financial Statements.

Change in Accounting Policies

No change in accounting policies occurred during this year.

For, and on behalf of, the Directors.

Dated and Signed in accordance with a resolution of the Directors in Port Moresby this 26th day of March 2014.



KOSTAS CONSTANTINOU, OBE
Chairman



ROBIN FLEMING
Group Chief Executive Officer/Director

STATEMENT BY THE DIRECTORS

for the Year Ended 31 December 2013

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 give a true and fair view of the financial position and performance of the Bank and the Group.

Additional Statutory Information

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.

Dated and signed in accordance with a resolution of the Directors at Port Moresby this 26th day of March 2014.



KOSTAS CONSTANTINOU, OBE
Chairman



ROBIN FLEMING
Group Chief Executive Officer/Director

STATEMENT OF COMPREHENSIVE INCOME

for the Year Ended 31 December 2013

All amounts are expressed in K'000	Note	GROUP		BANK	
		2013	2012	2013	2012
Interest income	2	794,807	743,086	793,877	743,145
Interest expense	2	(53,950)	(61,532)	(53,474)	(61,619)
Net interest income		740,857	681,554	740,403	681,526
Banking fee and commission income	3	285,594	253,869	281,028	251,462
Other banking income	4	400,176	273,178	400,311	273,849
Net banking operating income		1,426,627	1,208,601	1,421,742	1,206,837
Net insurance premium income		179,313	144,823	-	-
Increase/(decrease) in policy liabilities		(22,025)	(20,347)	-	-
Claims, surrender and maturities		(61,841)	(47,742)	-	-
Net insurance operating income		95,447	76,734	-	-
Total net operating income before impairment & operating expenses		1,522,074	1,285,335	1,421,742	1,206,837
Impairment expenses	13	(78,573)	(70,952)	(78,573)	(70,952)
Impairment on subsidiary	8	(14,967)	-	(14,967)	-
Operating expenses	5	(833,849)	(680,257)	(735,326)	(600,448)
Profit before income tax		594,685	534,126	592,876	535,437
Income tax expense	6	(170,127)	(137,552)	(168,114)	(135,849)
Net profit after income tax		424,558	396,574	424,762	399,588
Non-controlling interests	9	12,270	11,170	-	-
Net profit for the year		436,828	407,744	424,762	399,588
Other comprehensive income					
Exchange difference on translation of foreign operations	24	(4,133)	3,487	(6,741)	(1,053)
Net value gain on revaluation of share options	24	(4,526)	1,288	(4,526)	1,289
Net movement in asset revaluation	24	-	9,810	-	9,810
Other comprehensive income for the year, net of tax		(8,659)	14,585	(11,267)	10,046
Total comprehensive income for the year		428,169	422,329	413,495	409,634
Earnings per share - basic & diluted (toea)	23	93.1	86.9	90.5	85.2

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

STATEMENT OF FINANCIAL POSITION

for the Year Ended 31 December 2013

All amounts are expressed in K'000	Note	GROUP		BANK	
		2013	2012	2013	2012
ASSET					
Cash and balances with Central Bank	10	2,030,800	1,806,597	1,992,970	1,764,275
Treasury & Central Bank bills	11	3,283,432	3,237,517	3,283,432	3,237,517
Amounts due from other banks	12	1,445,199	327,563	1,445,199	327,563
Loans and advances to customers	13	5,306,362	4,804,626	5,244,188	4,750,793
Property, plant and equipment	14	623,360	744,292	589,623	718,279
Assets subject to operating lease	14	61,505	69,226	61,505	69,226
Other financial assets	16	2,170,798	1,557,950	1,924,536	1,354,659
Investment in associates & joint ventures	9	116,821	96,441	43,690	43,275
Investment in subsidiaries	8	-	-	96,929	107,377
Intangibles	7	133,399	5,369	133,198	3,126
Investment properties	15	65,429	56,755	-	-
Asset held for sale	15	-	3,706	-	-
Deferred tax asset	6	134,372	111,141	127,151	110,401
Other assets	17	437,313	511,919	381,737	434,107
Total assets		15,808,790	13,333,102	15,324,158	12,920,598
LIABILITIES					
Amounts due to other banks	18	786,035	72,775	786,035	90,828
Amounts due to customers	19	12,200,999	10,860,522	12,296,226	10,920,691
Subordinated debt securities	20	75,525	75,525	75,525	75,525
Other liabilities	21	936,369	714,735	435,124	285,157
Provision for income tax	6	33,395	13,112	33,222	13,022
Deferred tax liabilities	6	47,370	34,560	38,698	28,358
Other provisions	22	110,037	95,980	105,016	91,198
Total liabilities		14,189,730	11,867,209	13,769,846	11,504,779
SHAREHOLDERS' EQUITY					
Ordinary shares	23	381,498	384,814	381,498	384,814
Retained earnings	24	1,035,290	870,148	991,368	838,292
Other reserves	24	202,272	210,931	181,446	192,713
Total shareholders' equity		1,619,060	1,465,893	1,554,312	1,415,819
Total equity and liabilities		15,808,790	13,333,102	15,324,158	12,920,598

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the Year Ended 31 December 2013

BANK						Retained Earnings/ (Accumulated losses)	
	Note	Share Capital	Assigned Capital	Reserves			Total
All amounts are expressed in K'000							
Balance at 1 January 2012	23&24	426,444	24,883	250,579		697,698	1,399,604
Net profit	24	-	-	-		399,588	399,588
Dividend paid	23	-	-	-		(258,994)	(258,994)
Elimination of Fiji Bank Investment	23	-	(24,883)	(67,912)		-	(92,795)
Share buyback	23	(41,630)	-	-		-	(41,630)
Other comprehensive income		-	-	10,046		-	10,046
Balance at 31 December 2012	23 & 24	384,814	-	192,713		838,292	1,415,819
Net profit	24	-	-	-		424,762	424,762
Final Dividend paid for 2012	23	-	-	-		(178,001)	(178,001)
Interim Dividend for 2013	23	-	-	-		(93,685)	(93,685)
Share buyback	23	(3,316)	-	-		-	(3,316)
Other comprehensive income		-	-	(11,267)		-	(11,267)
Balance at 31 December 2013	23 & 24	381,498	-	181,446		991,368	1,554,312
GROUP							
All amounts are expressed in K'000							
Balance at 1 January 2012	23&24	426,444	-	196,346		721,398	1,344,188
Net profit	24	-	-	-		407,744	407,744
Dividend paid	23	-	-	-		(258,994)	(258,994)
Share buyback	23	(41,630)	-	-		-	(41,630)
Other comprehensive income	-	-	-	14,585		-	14,585
Balance at 31 December 2012	23&24	384,814	-	210,931		870,148	1,465,893
Net profit	24	-	-	-		436,828	436,828
Dividend paid	23	-	-	-		(178,001)	(178,001)
Interim Dividend for 2013	23	-	-	-		(93,685)	(93,685)
Share buyback	23	(3,316)	-	-		-	(3,316)
Other comprehensive income	-	-	-	(8,659)		-	(8,659)
Balance at 31 December 2013	23&24	381,498	-	202,272		1,035,290	1,619,060

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

STATEMENT OF CASH FLOW

for the Year Ended 31 December 2013

All amounts are expressed in K'000	Note	GROUP		BANK	
		2013	2012	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		793,338	740,819	792,272	739,443
Fees and other income		824,729	638,579	680,650	524,618
Interest paid		(64,232)	(71,974)	(63,615)	(70,626)
Amounts paid to suppliers & employees		(653,712)	(565,607)	(489,745)	(452,221)
Operating cash flow before changes in operating assets	28	900,123	741,817	919,562	741,214
Increase in loans		(558,746)	(571,582)	(571,969)	(585,771)
Decrease/(increase) in bills receivable & other assets		8,361	(257,224)	13,532	(239,171)
Increase in deposits		1,280,731	1,465,780	1,375,536	1,474,302
Increase in bills payable & other liabilities		189,562	57,261	147,016	57,377
Net cash flow from operations before income tax		1,820,031	1,436,052	1,883,677	1,447,951
Income taxes paid		(156,953)	(238,675)	(156,634)	(233,720)
Net cash flow from operating activities		1,663,078	1,197,377	1,727,043	1,214,231
CASH FLOW FROM INVESTING ACTIVITIES					
Decrease/(increase) in government securities		(599,553)	(70,246)	(615,794)	(6,965)
Expenditure on property, plant & equipment		(212,647)	(218,027)	(203,484)	(213,096)
Proceeds from disposal of property, plant & equipment		7,760	3,822	7,615	3,818
Proceeds from other investments		34,653	25,215	-	-
Movement in share trading activities		3,446	8,252	-	-
Net cash flow from investing activities		(766,341)	(250,984)	(811,663)	(216,243)
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	23	(3,316)	(41,630)	(3,316)	(41,630)
Client management trust		(3,902)	(7,243)	-	-
Dividends paid	23	(271,686)	(258,994)	(271,686)	(258,994)
Net cash flow from financing activities		(278,904)	(307,867)	(275,002)	(300,624)
Net increase/(decrease) in cash and cash equivalents		617,833	638,526	640,378	697,364
Effect of exchange rate movements on cash & cash equivalents		10,746	(710)	10,746	(710)
Cash and cash equivalents at the beginning of the year		2,061,385	1,423,569	2,001,010	1,304,356
Cash and cash equivalents at the end of the year	28	2,689,964	2,061,385	2,652,134	2,001,010

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

for the Year Ended 31 December 2013

1. ACCOUNTING POLICIES

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

A Basis of Presentation & General Accounting Policies

The consolidated financial statements of the Bank of South Pacific Limited (the Bank) and the Group are prepared in accordance with International Financial Reporting Standards 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 and financial instruments.

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

There are no new standards and interpretations being adopted in these financial statements.

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

B Consolidation

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Bank and the Group as at 31 December 2013, 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 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 & Joint Ventures

Investments in Associates

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

In the consolidated financial statements, these investments are accounted for under the equity method, where:

- The investment is initially recognised at cost;
- The Group's share of profits or losses are recognised in the statement of comprehensive income.

Interests in Joint Ventures

A joint venture is a contractual arrangement whereby the Bank together with other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

When the Group undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the jointly controlled entity. The Group reports its interests in jointly controlled entities at cost, except when the investment is classified as held for sale, in which case it is 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 Statement of Comprehensive Income on an accrual basis using the effective yield method. The income arising from the various forms of instalment credit has been determined using the effective interest method.

Interest income includes coupons earned on inscribed stock, accrued discount and premium on Treasury and Central Bank bills.

for the Year Ended 31 December 2013

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 policy holder. 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 balance sheet 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 balance sheet 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 or survival) over a long duration. They protect the Group's customers from the consequences of events such as death, disability or critical illness. Guaranteed benefits paid on occurrence of the specified insurance event are fixed or linked to the level of bonus declared to the contract holder. 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 percent 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 or 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 Service 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 experience on claims, expense, mortality and investment returns.

E Fee & 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. Non-refundable front-end loan fees are capitalised and deferred over the expected term of the financial instrument.

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 Loans and Provisions for Loan Impairment

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

All loans and advances receivable are subject to continuous management review. A specific provision for loan impairment is established if there is objective evidence that the Bank and 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 Statement of Comprehensive Income.

General provisions for impairment are maintained to cover incurred losses unidentified at balance date in the overall portfolio of loans and advances. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria. The amount necessary to bring the provisions to their assessed levels, after

for the Year Ended 31 December 2013

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 the estimated useful life of 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 Bank and 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 programmes are recognised as an expense when incurred.

J Property, Plant and Equipment

Land and buildings are measured at fair value. 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 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.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

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 values 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% pa
Plant & 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 Bank and the Group are operating leases. Total payments made are charged to the Statement of Comprehensive Income reflecting the pattern of benefits derived from the leased assets.

Bank is lessor

Finance leases are included in Loans and Advances to Customers (Note 13) and are accounted for under the finance method whereby income is taken to account over the life of the lease in proportion to the outstanding investment balance.

for the Year Ended 31 December 2013

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 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 & 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.

M Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 flows estimated 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.

N Employee Benefits

A liability is required for benefits accruing to employees in respect of wages and salaries, annual leave, 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 as 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.

Employment Benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Bank and the Group pays fixed contributions into a separate fund, and there is no recourse to the Bank and the Group for employees if the fund has insufficient assets to pay employee

benefits relating to service up to the balance sheet date.

The Bank and 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 Papua New Guinean staff members. The contributions are at the current rate of employees' gross salary. Once the contributions have been paid, the Bank and the Group have no further payment obligations for post-employment benefits from the date an employee ceases employment with the Bank and the Group.

O 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 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 reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank 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 Bank intends to settle its current tax assets and liabilities on a net basis.

for the Year Ended 31 December 2013**Current & 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.

P Investments

Investments are classified into the following categories: held for trading, held-to-maturity and available-for-sale. Trading reflects active and frequent buying and selling, and financial instruments held for trading generally are used with the objective of generating a profit from short-term fluctuations in price or dealers margin. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; Management determines the appropriate classification of its investments at the time of the purchase.

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

Q Foreign currency

The financial statements of the Bank 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 rate 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 asset 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.

Share options

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expected rateably over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any non-market vesting conditions (for example profitability). Non-market conditions are included in assumptions about the number of options expected to become exercisable or the number of shares that the employee will ultimately receive.

This estimate is revised at each balance sheet date and the difference is charged or credited to the statement of comprehensive income, with a corresponding adjustment to equity. The proceeds received on exercise of the options net of any directly attributable transactions costs are credited to equity.

S Asset Impairment

At each reporting date, the Bank and 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 Bank and 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

for the Year Ended 31 December 2013

the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell 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 company's control and the company remains committed to a sale.

U Convertible Notes

Convertible notes issued by the company are regarded as compound instruments, consisting of a liability component equivalent to the three year fixed coupon amount and an equity component equivalent to the balance. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt.

The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, is included in equity.

The interest expense on the liability component is calculated by applying the coupon rate of 7 percent to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

V Derivative financial instruments & acceptances

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

Acceptances comprise undertakings by the Bank and the Group to pay bills of exchange drawn on customers. The Bank and 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 Bank and 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 Comparatives

Comparative figures have been adjusted to conform to changes in presentation in the current year, including:

- Computer development costs have been moved to Intangibles category from Other Assets category. Refer to note 7 (b).
- Elimination of the Fiji bank investment and the related assigned capital and capital adequacy reserve.

Investment in Subsidiary 2012	215,517
Elimination of Fiji Bank Branch investment entries	
- Assigned capital	(24,883)
- Capital adequacy reserve	(67,912)
- Colonial Bank assigned capital	(21,456)
	101,266
Transfer projects costs from other assets to investment	6,111
Adjusted balance for investment in subsidiary in 2012	107,377

for the Year Ended 31 December 2013

2. NET INTEREST INCOME

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Interest Income				
Cash and short term funds	8,184	6,417	8,184	6,417
Treasury bills	47,176	53,759	47,176	53,759
Central Bank Bills	27,850	56,095	27,850	56,095
Inscribed Stock	140,195	127,412	140,195	127,412
Loans and advances	569,262	496,988	568,332	497,047
Other	2,140	2,415	2,140	2,415
	794,807	743,086	793,877	743,145
Less:				
Interest Expense				
Customer deposits	32,054	44,606	31,578	44,693
Other banks	13,589	8,547	13,589	8,547
Subordinated debt securities	8,307	8,330	8,307	8,330
Other borrowings	-	49	-	49
	53,950	61,532	53,474	61,619
	740,857	681,554	740,403	681,526

3. BANKING FEE & COMMISSION INCOME

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Fee and commission income				
Credit related	73,263	67,808	73,263	67,808
Trade and international related	13,467	11,894	13,467	11,894
Electronic banking related	46,770	34,505	46,770	34,505
Brokerage and fee income	3,789	2,407	-	-
Other	148,995	138,175	148,218	138,175
	286,284	254,789	281,718	252,382
Less:				
Fee and commission expenses				
Agencies	690	920	690	920
	690	920	690	920
	285,594	253,869	281,028	251,462

4. OTHER BANKING INCOME

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Foreign Exchange related	353,463	223,708	353,463	223,708
Other	46,713	49,470	46,848	50,141
	400,176	273,178	400,311	273,849
Included in other income:				
Profit/(loss) on sale of fixed assets	(906)	498	(906)	498
Change in fair value of assets held through profit and loss	-	5,922	-	-

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

for the Year Ended 31 December 2013

5. OTHER OPERATING EXPENSES

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Administration	194,455	186,099	129,474	128,217
Auditors' remuneration (note 41)	2,707	2,496	2,110	1,423
Computing	39,521	34,983	39,521	34,983
Depreciation	90,817	57,968	86,723	54,806
Amortisation of computer development	85,018	25,785	85,018	25,785
Non-Executive Directors' costs	1,434	1,424	1,224	1,244
Non-lending losses	16,942	15,386	16,942	15,386
Premises & equipment	79,150	55,742	70,730	55,742
	510,044	379,883	431,742	317,586
Staff costs				
Defined contribution plans	10,643	9,348	9,512	8,346
Statutory benefit contributions	10,908	9,334	10,908	9,334
Wages and salaries	227,150	211,490	210,461	197,227
Other	75,104	70,202	72,703	67,955
	323,805	300,374	303,584	282,862
	833,849	680,257	735,326	600,448

6. INCOME TAX

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Income tax expense				
Current tax	181,261	180,190	180,959	178,622
Deferred tax	(12,599)	(8,970)	(12,341)	(14,936)
Current year	168,662	171,220	168,618	163,686
Income tax under/(over) provided in previous years	1,465	(33,668)	(504)	(27,837)
	170,127	137,552	168,114	135,849
Tax calculated at 30% of profit before tax (2012:30%)	178,406	160,631	177,863	160,631
Tax calculated at 20% of profit before tax – subsidiary	3,246	2,757	-	-
Expenses not deductible for tax	(13,520)	3,734	(9,245)	3,056
Net insurance income not subject to tax	-	4,098	-	-
Impact of change in tax rate – Fiji subsidiary	530	-	-	-
Income tax under/(over) provided in previous years	1,465	(33,668)	(504)	(27,838)
	170,127	137,552	168,114	135,849
Provision for income tax				
At 1 January	(13,112)	(77,961)	(13,022)	(73,684)
Income tax provision	(181,261)	(180,190)	(180,959)	(178,622)
Previous years over/(under) provided	4,125	6,364	4,125	5,564
Foreign tax paid	216	4,955	-	-
Tax payments made	156,637	233,720	156,634	233,720
At 31 December	(33,395)	(13,112)	(33,222)	(13,022)
Deferred taxes				
Specific allowance for losses on loans and advances	11,704	44,912	11,704	44,912
General allowance for losses on loans and advances	71,033	19,504	71,033	19,504
Employee related provisions	18,708	21,573	18,453	15,783
Prepaid expenses	(1,285)	(1,112)	(1,285)	(1,112)
Other provisions	17,085	18,164	16,527	22,052
Depreciation and amortisation	(29,234)	(29,952)	(27,033)	(22,588)
Unrealised foreign exchange gains	(10,444)	(4,658)	(10,381)	(4,658)
Deferred expenditure	9,435	8,150	9,435	8,150
At 31 December	87,002	76,581	88,453	82,043

for the Year Ended 31 December 2013

6. INCOME TAX (continued)

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Represented by:				
Deferred tax asset	134,372	111,141	127,151	110,401
Deferred tax liability	(47,370)	(34,560)	(38,698)	(28,358)
At 31 December	87,002	76,581	88,453	82,043

Movement in deferred tax is reconciled as follows:

All amounts are expressed in K'000	GROUP – 2013				
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Closing Balance
Gross deferred tax liabilities	(34,560)	(11,412)	(1,398)	-	(47,370)
Gross deferred tax assets	111,141	24,011	(780)	-	134,372
	76,581	12,599	(2,178)	-	87,002

All amounts are expressed in K'000	GROUP – 2012				
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Closing Balance
Gross deferred tax liabilities	(19,028)	(13,046)	-	(2,486)	(34,560)
Gross deferred tax assets	87,625	22,016	1,500	-	111,141
	68,597	8,970	1,500	(2,486)	76,581

All amounts are expressed in K'000	BANK – 2013				
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Closing Balance
Gross deferred tax liabilities	(28,358)	(11,467)	1,127	-	(38,698)
Gross deferred tax assets	110,401	23,808	(7,058)	-	127,151
	82,043	12,341	(5,931)	-	88,453

All amounts are expressed in K'000	BANK – 2012				
	Opening balance	Current period P&L Movements	Adjustment brought forward	Revaluation & net addition	Closing Balance
Gross deferred tax liabilities	(18,627)	(7,245)	-	(2,486)	(28,358)
Gross deferred tax assets	87,336	22,181	884	-	110,401
	68,709	14,936	884	(2,486)	82,043

BSP has a Banking Education team that meet customers in their communities or workplaces to educate them on how to use our products/services. Here Banking Education officer Vani Vani talks to staff at Anglicare .



for the Year Ended 31 December 2013

7. A) INTANGIBLE ASSET

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Gross carrying amount	201	2,243	-	-
	201	2,243	-	-

The Directors have determined that the carrying value of the goodwill arising on consolidation as a result of elimination of BSP investment in its subsidiaries is considered not materially impaired. These subsidiaries trade on a going concern basis and their normal business operations are not exceptionally impaired.

7. B) COMPUTER DEVELOPMENT COSTS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
At 1 January 2013	3,126	29,145	3,126	29,145
Additions	208,147	-	208,147	-
Adjustments	6,943	(234)	6,943	(234)
Amortisation expense	(85,018)	(25,785)	(85,018)	(25,785)
At 31 December 2013	133,198	3,126	133,198	3,126
Total Intangible assets	133,399	5,369	133,198	3,126

8. INVESTMENT IN SUBSIDIARIES

All amounts are expressed in K'000		Place of incorporation & operation ownership %	Balance of Investment	
Name of Subsidiary	Principal activity		2013	2012
BSP Capital Limited	Share brokerage/ Fund Management/ Capital Raising	PNG 100%	8,959	19,407
BSP Life Limited	Life Insurance	FIJI 100%	87,653	87,653
BSP Convertible Note Limited	Capital Raising	FIJI 100%	317	317
			96,929	107,377

Provision for impairment of the Investment in BSP Capital Limited

The directors have determined that the investment in BSP Capital Limited has been materially impaired as the carrying amount of the investment is greater than its net book value. As of the reporting date, the investment amount is written down to its net book value. The provision for impairment impacts the bank's results but not the consolidation as a result of elimination upon consolidation.

All amounts are expressed in K'000	2013	2012
Opening Balance	19,407	19,407
Net Movement	4,519	-
Provision for Impairment	(14,967)	-
Closing Balance	8,959	19,407

for the Year Ended 31 December 2013

9. INVESTMENTS IN ASSOCIATES & JOINT VENTURES

Name of Associates	Principal activity	Place of incorporation & operation	Proportion of ownership & voting power held	
			2013	2012
Suva Central Limited	Property Rental	Fiji	50%*	50%*
Richmond Limited	Hotel operation	Fiji	61.3%** , 50%***	61.3%** , 50%***
Williams and Gosling	Freight forwarding	Fiji	27.7%*	27.7%*
Carpark Limited	Property	PNG	33.33%	33.33%
Malagan Limited	Property	PNG	33.33%	33.33%

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

All amounts are expressed in K'000	Group		Bank	
	2013	2012	2013	2012
Associates				
Investment in associate - equity	53,166	42,394	-	-
Movement	7,464	(398)	-	-
Share of profit/(loss) for year ending December 2012	12,270	11,170	-	-
Net investment in associate	72,900	53,166	-	-
Summarised financial information of associates:				
Total assets	139,900	119,846	-	-
Total liabilities	(38,418)	(37,244)	-	-
Net assets	101,482	82,602	-	-
Net profit/(loss)	22,316	18,932	-	-
Share of associate's profit/(loss)	12,270	11,170	-	-
Joint Ventures				
Share held in jointly owned entity – at costs	43,921	43,275	43,690	43,275
Total investments in associates and joint ventures	116,821	96,441	43,690	43,275

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2013

10. CASH & BALANCES WITH CENTRAL BANK

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Notes, coins and cash at bank	391,639	423,238	353,809	380,916
Balances with Central Bank other than statutory deposit	572,581	510,161	572,581	510,161
Included in cash and cash equivalents	964,220	933,399	926,390	891,077
Statutory deposits with Central Bank	1,066,580	873,198	1,066,580	873,198
	2,030,800	1,806,597	1,992,970	1,764,275

11. TREASURY & CENTRAL BANK BILLS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Treasury & Central Bank bills – face value	3,309,115	3,225,565	3,309,115	3,225,565
Premium/(discount) for interest receivable	(25,683)	11,952	(25,683)	11,952
	3,283,432	3,237,517	3,283,432	3,237,517

12. AMOUNTS DUE FROM OTHER BANKS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Items in the course of collection	128,524	35,604	128,524	35,604
Placements with other banks	1,316,675	291,959	1,316,675	291,959
	1,445,199	327,563	1,445,199	327,563



Customers at Gilbert Camp, East Honiara finding out more information from a BSP staff.

for the Year Ended 31 December 2013

13. LOANS & ADVANCES TO CUSTOMERS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Loans originated by the BSP Group:				
Overdrafts	1,203,238	1,095,419	1,203,237	1,095,419
Lease financing	261,271	224,464	261,271	224,464
Term loans	2,951,144	2,638,291	2,931,168	2,617,631
Mortgages	1,124,777	1,028,791	1,124,300	1,028,000
Policy loans	43,013	38,194	-	-
Gross loans and advances net of reserved interest	5,583,443	5,025,159	5,519,976	4,965,514
Less allowance for losses on loans and advances	(277,081)	(220,533)	(275,788)	(214,721)
	5,306,362	4,804,626	5,244,188	4,750,793

The spread of the loans are detailed in the maturity analysis table in note 34. The loans are well-concentrated across various sectors and region and are further analysed in note 33.

Lease financing

The Group and the Bank provided finance leases 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 and advances to customers. Loans and advances to customers includes finance lease receivables, analysed as follows:

Gross investment in finance leases receivable

Not later than 1 year	28,268	27,498	28,268	27,498
Later than 1 year and not later than 5 years	266,429	244,080	266,429	244,080
	294,697	271,578	294,697	271,578
Unearned future finance income				
Not later than 1 year	(11,895)	(719)	(11,895)	(719)
Later than 1 year and not later than 5 years	(21,531)	(46,395)	(21,531)	(46,395)
	(33,426)	(47,114)	(33,426)	(47,114)
Present value of minimum lease payment receivable	261,271	224,464	261,271	224,464

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

Not later than 1 year	16,373	26,779	16,373	26,779
Later than 1 year and not later than 5 years	244,898	197,685	244,898	197,685
	261,271	224,464	261,271	224,464

Provision for impairment

Movement in allowance for losses on loan and advances;				
Balance at 1 January	220,553	168,072	214,721	162,174
Net new and increase provisioning	69,320	73,752	69,320	73,752
Loans written off against provisions / (write back of provisions no longer required)	(12,792)	(21,291)	(8,253)	(21,205)
Balance at 31 December	277,081	220,533	275,788	214,721

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors have been considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the bank's lending policies and collection procedures, and the timeliness and accuracy of its loan review function in line with the Group Provisioning Policy.

Bank of South Pacific has met the minimum provisioning amounts are to be maintained under Prudential Standard 2/2003 - Asset Classification, provisioning and suspension of interest. At the end of each calendar quarter, or more frequently if warranted, the board of directors has caused management to evaluate the collectability of all loans, including any accrued and unpaid interest in line with Bank of South Pacific's loan policy.

for the Year Ended 31 December 2013

13. LOANS & ADVANCES TO CUSTOMERS (continued)

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Provision for impairment is represented by:				
Collective provision	237,400	174,220	236,776	173,635
Individually assessed or specific provision	39,681	46,313	39,012	41,086
Balance at 31 December	277,081	220,533	275,788	214,721
Loan impairment expense				
Net collective provision funding	(57,449)	(65,013)	(57,449)	(65,013)
Net new and increase individually assessed provisioning	(11,871)	(8,739)	(11,871)	(8,739)
Total new and increase provisioning	(69,320)	(73,752)	(69,320)	(73,752)
Recoveries during the year	26,239	21,133	26,239	21,133
Net write back/(write off)	(35,492)	(18,333)	(35,492)	(18,333)
Balance at 31 December	(78,573)	(70,952)	(78,573)	(70,952)



BSP staff at the Telefomin sub-branch during the opening in February 2013. Telefomin, West Sepik Province, is only accessible by air and is one of the most remote places in PNG. Previously locals either travelled by air into provincial capital Vanimo or into Kiunga and Tabubil in Western Province to do banking.

for the Year Ended 31 December 2013

14. PROPERTY, PLANT & EQUIPMENT

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Carrying value				
Capital works in progress	117,253	325,821	113,744	324,982
Premises	490,704	407,608	465,966	386,707
Accumulated depreciation	(105,509)	(76,888)	(97,875)	(70,004)
Net Book Value	385,195	330,720	368,091	316,703
Equipment	471,108	361,790	436,168	334,239
Accumulated depreciation	(350,196)	(274,039)	(328,380)	(257,645)
Net Book Value	120,912	87,751	107,788	76,594
Total Net Book Value	623,360	744,292	589,623	718,279

Reconciliation of carry value of property, plant and equipment is set out below:

Capital WIP				
At 1 January	325,821	244,401	324,982	243,498
Additions	171,170	230,398	167,006	221,783
Transfers	(379,738)	(148,978)	(378,244)	(140,299)
Balance at 31 December	117,253	325,821	113,744	324,982
Premises				
At 1 January	330,720	296,539	316,703	281,258
Additions	90,489	51,841	86,745	52,634
Disposals	(7,877)	(422)	(7,877)	(422)
Depreciation expense	(28,137)	(17,238)	(27,480)	(16,767)
Balance at 31 December	385,195	330,720	368,091	316,703
Equipment				
At 1 January	87,751	81,963	76,594	72,766
Additions	88,909	44,140	83,360	39,177
Disposals	(789)	(5,617)	(644)	(5,305)
Depreciation expense	(54,959)	(32,735)	(51,522)	(30,044)
Balance at 31 December	120,912	87,751	107,788	76,594

for the Year Ended 31 December 2013

14. PROPERTY, PLANT & EQUIPMENT (continued)

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Assets subject to operating lease				
Carrying value				
Aircraft	123,326	123,326	123,326	123,326
Accumulated depreciation	(61,821)	(54,100)	(61,821)	(54,100)
Balance at 31 December	61,505	69,226	61,505	69,226
Reconciliation of carry value of aircraft is set out before:				
Aircraft				
At 1 January	69,226	68,936	69,226	68,936
Revaluation net increase	-	8,285	-	8,285
Depreciation	(7,721)	(7,995)	(7,721)	(7,995)
Balance at 31 December	61,505	69,226	61,505	69,226
Future minimum lease payments				
Not later than 1 year	10,104	8,373	10,104	8,373
Later than 1 year and not later than 5 years	25,427	28,609	25,427	28,609
Balance at 31 December	35,531	36,982	35,531	36,982

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

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Freehold land	14,932	14,531	11,832	11,434
Building	100,864	102,444	86,240	86,192
Aircraft	61,508	60,392	61,508	60,392
Balance at 31 December	177,304	177,367	159,580	158,018

Freehold land and buildings carried at fair value

An independent valuation of the Bank's land and buildings was performed by GDA Pacific Valuers to determine the fair value of the land and buildings. The valuation, which conforms to International Valuation Standards, was determined by reference to capitalisation of the notional income stream approach on the Market Value basis. The last valuation was dated 31 December 2011.

Asset subject to operating lease – aircraft

An independent valuation of the Bank's aircrafts was performed by Charles Taylor Aviation 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 most recent valuation was on 31 May 2012.

for the Year Ended 31 December 2013

15. INVESTMENT PROPERTIES

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Opening net book value	56,755	60,308	-	-
Net movement	8,251	1,112	-	-
Transfer to asset held for sale	-	(3,706)	-	-
Gain/Loss on revaluation	423	(959)	-	-
Balance at 31 December	65,429	56,755	-	-

16. OTHER FINANCIAL ASSETS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Securities - held to maturity				
Inscribed stock - issued by Central Bank	2,121,654	1,505,589	1,924,536	1,354,659
Financial assets carried at fair value through profit and loss:				
Equity securities	49,144	52,361	-	-
Balance at 31 December	2,170,798	1,557,950	1,924,536	1,354,659

The fair value hierarchy of the financial assets carried at fair value through profit and loss:

	Level 1	Level 2	Level 3	Level 4
2013				
Equity securities	-	47,811	1,333	49,144
Balance at 31 December	-	47,811	1,333	49,144
2012				
Equity securities	-	51,278	1,083	52,361
Balance at 31 December	-	51,278	1,083	52,361

The fair value hierarchy disclosure is in accordance with International Financial Reporting Standards requirements.

17. OTHER ASSETS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Items in transit and other assets	305,184	398,018	290,995	357,349
Accrued income	75,882	76,079	75,882	76,079
Intercompany account	-	-	494	(11,454)
Outstanding premiums	26,050	20,865	-	-
Inventory	7,861	5,575	-	-
Prepayments	13,943	14,824	13,943	14,824
Accounts receivable	8,393	(3,442)	423	(2,691)
Balance at 31 December	437,313	511,919	381,737	434,107

for the Year Ended 31 December 2013

18. AMOUNTS DUE TO OTHER BANKS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Items in the course of collection	786,035	72,775	786,035	90,828

19. AMOUNTS DUE TO CUSTOMERS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
On demand and short term deposits	10,232,667	9,012,413	10,326,962	9,016,405
Term deposits	1,968,332	1,848,109	1,969,264	1,904,286
Balance at 31 December	12,200,999	10,860,522	12,296,226	10,920,691

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 in note 34. The deposits are well-diversed across industries and regions.

20. SUBORDINATED NOTES

At 31 December, there are 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 any other breaches of terms and conditions with respect to these debt securities in 2013.

21. OTHER LIABILITIES

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Creditors and accruals	76,584	79,054	63,812	66,330
Items in transit and all other liabilities	362,875	223,079	371,312	218,827
Policy liabilities	481,087	399,627	-	-
Premiums received in advance	3,985	5,387	-	-
Outstanding claims	10,398	6,420	-	-
Claims incurred but not reported (IBNR)	1,440	1,168	-	-
Balance at 31 December	936,369	714,735	435,124	285,157
Policy liability is reconciled as follows:				
Opening balance	399,627	376,743	-	-
Increase in policy liability	81,460	22,884	-	-
Balance at 31 December	481,087	399,627	-	-

22. OTHER PROVISIONS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Staff related	62,191	57,069	57,170	52,287
Provision for non lending loss	30,947	25,394	30,947	25,394
Provision for others	16,899	13,517	16,899	13,517
Balance at 31 December	110,037	95,980	105,016	91,198
Staff related provisions				
At 1 January	57,069	46,478	52,287	42,609
Provisions charge	23,705	19,799	21,655	24,208
Payouts	(18,583)	(9,208)	(16,772)	(14,530)
Balance at 31 December	62,191	57,069	57,170	52,287

for the Year Ended 31 December 2013

23. ORDINARY SHARES - BANK

Number of shares in '000s, book value in K'000	Number of Shares	Book Value
At 31 December 2011/1 January 2012	473,882	426,444
Share buyback	(4,681)	(41,630)
Balance at 31 December 2012/1 January 2013	469,201	384,814
Share buyback	(777)	(3,316)
Balance at 31 December	468,424	381,498

At the Bank's Annual General Meeting held on the 20 May 2011 in Port Moresby, the shareholders approved a reorganisation of the Bank's capital through a share consolidation by which ten existing BSP ordinary shares were consolidated into one BSP share.

In May 2011, the Directors agreed to introduce a share buyback scheme of up to K40 million in conjunction with the 1 for 10 share consideration. The share buyback commenced in July 2011. At the expiry of the first buyback scheme the Directors approved a further buyback program of K40 million which commenced on Friday 9 March 2012 for a period of 12 months which ceased on 27 March 2013.

The issued capital of Bank of South Pacific Limited comprises ordinary shares. Following is a summary of principal shareholders as at 31 December 2013 and their respective percentage holdings.

Major shareholders: % shareholding	2013	2012
Independent Public Business Corporation	18.00	17.97
National Superannuation Fund Limited	11.10	11.06
Nambawan Super Limited	10.03	10.04
Petroleum Resources Kutubu Limited	9.85	9.84
Credit Corporation (PNG) Limited	7.75	7.85
Motor Vehicle Insurance Limited	6.67	6.66
PNG Sustainable Development Program Limited	6.23	6.25
IFC Capitalization (Equity) Fund LP	4.87	4.86
International Finance Corporation	4.87	4.86
Teachers Savings and Loans Society Limited	3.70	3.69
Comrade Trustee Services	3.09	3.13
Tropicana Limited	1.06	1.06
	87.22	87.27
All Others	12.78	12.73
	100.00	100.00

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23. ORDINARY SHARES - BANK (continued)

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Earnings per ordinary share				
Net Profit attributable to shareholders (K'000)	436,828	407,744	424,762	399,588
Weighted average number of ordinary shares on issue ('000)	469,136	469,201	469,136	469,201
Basic and diluted earning /(loss) per share (expressed in toea)	93.1	86.9	90.5	85.2

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 share equals diluted earnings per share.

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Dividend paid on ordinary shares				
Interim ordinary dividend (2013: 20 toea; 2012: 20 toea)	93,685	93,970	93,685	93,970
Final ordinary dividend (2012: 38 toea; 2011: 35 toea)	178,001	165,024	178,001	165,024
Balance at 31 December	271,686	258,994	271,686	258,994

Applicable dividend withholding tax of 17% has been deducted for payment to the relevant authority.



BSP Group DCEO/CFO Johnson Kalo and Gulf Governor Havilla Kavo sign agreements in June 2013 for BSP to return to Kerema.

for the Year Ended 31 December 2013

24. RESERVES & RETAINED EARNINGS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Retained earnings				
At 1 January	870,148	721,398	838,292	697,698
Net profit for the year	436,828	407,744	424,762	399,588
Dividend paid	(271,686)	(258,994)	(271,686)	(258,994)
Balance at 31 December	1,035,290	870,148	991,368	838,292
Reserves comprise:				
Revaluation reserve	170,103	170,103	170,103	170,103
Capital reserve	635	635	635	635
Equity component of convertible notes	18,218	18,218	-	-
Options reserve	-	4,526	-	4,526
General reserve	2,875	2,875	2,875	2,875
Exchange reserve	10,441	14,574	7,833	14,574
Balance at 31 December	202,272	210,931	181,446	192,713
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	170,103	160,293	170,103	160,293
Asset revaluation increment	-	12,296	-	12,296
Deferred tax on asset revaluation	-	(2,486)	-	(2,486)
Balance at 31 December	170,103	170,103	170,103	170,103
Capital reserve				
At 1 January	635	635	635	635
Balance at 31 December	635	635	635	635
Options reserve				
At 1 January	4,526	3,238	4,526	3,238
Movement during the year	(4,526)	1,288	(4,526)	1,288
Balance at 31 December	-	4,526	-	4,526
General reserve				
At 1 January	2,875	2,875	2,875	2,875
Balance at 31 December	2,875	2,875	2,875	2,875
Exchange reserve				
At 1 January	14,574	11,087	14,574	15,627
Movement during the year	(4,133)	3,487	(6,741)	(1,053)
Balance at 31 December	10,441	14,574	7,833	14,574

Exchange reserve

The movement in exchange reserve is a result of taking on alignment entries and month end entries of BSP's foreign branches in Solomon Islands and Fiji. These treatments are in accordance with applicable accounting standards.

for the Year Ended 31 December 2013

24. RESERVES & RETAINED EARNINGS (continued)

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. Each note entitles the holder to convert to ten (10) Fiji Class shares. On conversion all notes are redeemed for their face value and the proceeds of that redemption are applied as the subscription price for Fiji Class shares. Notes can only be redeemed in cash at the election of BSP CN Fiji with regulatory approval. The amount payable at redemption will be the greater of the market value or face value of the note plus accrued interest. The notes have mandatorily converted to Fiji Class Shares on 20 April 2013.

The net proceeds received from the issue of the convertible notes have been split between the financial liability element and the equity component, representing the residual attributable to the option to convert the financial liability into equity of BSP CN.

The equity component of K18.218 million has been credited to equity (option premium on convertible notes).

Note holders have no right to vote at meetings of BSP Convertible Notes Limited.

Statutory capital requirements in Fiji

As a requirement of the Reserve Bank of Fiji, BSP Fiji operations are required to maintain assigned capital of K24.833m (2012: K24.833m) and capital adequacy reserve of K68.547m (2012: K68.547m).



Branchless Banking in Malu'u, North Malaita, Solomon Islands

for the Year Ended 31 December 2013

25. CONTINGENT LIABILITIES AND COMMITMENTS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Off balance sheet financial instruments				
Standby letters of credit	47,692	18,051	47,692	18,051
Guarantees and indemnities issued	181,232	64,490	170,124	121,782
Forward Exchange Contracts	374,934	57,291	374,934	57,291
Trade letters of credit	47,691	86,963	25,619	86,963
Commitments to extend credit	860,453	1,290,923	695,233	1,178,340
	1,512,002	1,517,718	1,313,602	1,462,427

Legal Proceedings

A number of legal proceedings against the Bank and the Group were outstanding as at 31 December 2013. Suitable provisions have been made based on existing management information and professional advice, on likelihood of any success of claim against the bank. Based on information available at 31 December 2013, the Bank and the Group estimates a contingent liability of K77.90 million (2012: K74.780 million) in respect of these proceedings.

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Statutory deposits with the Central Bank				
Cash reserve requirement - 9% of all amounts due to customers (2012: 8 %)	1,066,580	873,198	1,066,580	742,495
Commitments for capital expenditure				
Amounts with firm commitments, and not reflected in the accounts	154,344	24,646	154,344	24,646
Operating lease commitments				
Not later than 1 year	40,079	23,048	40,079	23,048
Later than 1 year and not later than 5 years	37,556	80,914	37,556	80,914
	77,635	103,962	77,635	103,962

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. When the funds incur 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 consolidated financial statements.

for the Year Ended 31 December 2013

27. DIRECTORS' AND EXECUTIVE REMUNERATION

Executive Remuneration

Directors of the Group received remuneration including benefits during 2013 as detailed below:
All amounts are in K'000

Director	Meetings attended/ total held	Appointed/ (Resigned)	Base emolument	Total remuneration	
				2013	2012
K. Constantinou, OBE	7/7		222,539	222,539	195,090
T. E. Fox, OBE	7/7		213,542	213,542	210,037
Dr. I. Temu	7/7		112,014	112,014	113,910
C. C. Procter	6/7		217,388	217,388	211,969
Sir N. Bogan	6/7		104,967	104,967	101,224
R. Fleming*	4/4	01/06/13	-	-	-
I. B. Clyne*	3/3	(31/05/13)	-	-	-
J. G. Jeffery, CBE	2/2	(23/05/13)	62,385	62,385	160,244
G. Aopi, CBE	7/7		115,456	115,456	116,043
G. Robb, OAM	7/7		280,613	280,613	207,104
F. Talao	6/7		104,875	104,875	108,869
E. B Gangloff	0/1	28/11/13	-	-	-

Directors Thomas Fox and Ila Temu retired by rotation in accordance with Clause 15.3 of BSP's Constitution and being eligible, offered themselves for re-election by the shareholders at 24th May 2013 Annual General Meeting. John Jeffery resigned as a Director of the BSP Board on 23rd May 2013. Ernest Gangloff joined the Board as a Director on 28 November 2013 and will offer himself for election by the Shareholders at the Annual Meeting in May 2014.

Non - executive Directors - Constantinou, Fox and Procter received an allowance of K60,000 as Board Members of BSP Capital Ltd which forms part of the Group. Geoff Robb was appointed as a Director to the Board of BSP Capital Ltd and receives Directors fees of K60,000 per annum for this.

Ian B. Clyne ceased to be Group CEO and Managing Director on the 31st May 2013. Robin Fleming was appointed Group CEO and Managing Director as of 1st June 2013.

*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.

for the Year Ended 31 December 2013

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	2013 No.	2012 No.	Remuneration K'000	2013 No.	2012 No.	Remuneration K'000	2013 No.	2012 No.
100 – 110	34	28	420 – 430	2	1	750 – 760	2	2
110 – 120	16	29	430 – 440	2	1	760 – 770	2	1
120 – 130	21	21	440 – 450	-	2	770 – 780	1	-
130 – 140	21	25	450 – 460	2	-	780 – 790	1	-
140 – 150	24	14	460 – 470	-	1	800 – 810	1	1
150 – 160	11	9	480 – 490	-	2	810 – 820	-	3
160 – 170	10	8	490 – 500	1	3	820 – 830	1	1
170 – 180	13	8	500 – 510	1	3	830 – 840	1	-
180 – 190	8	6	510 – 520	3	5	850 – 860	1	-
190 – 200	9	6	520 – 530	2	-	880 – 890	1	-
200 – 210	1	5	530 – 540	2	3	890 – 900	1	-
210 – 220	7	3	540 – 550	3	2	910 – 920	1	-
220 – 230	4	4	550 – 560	-	2	950 – 960	-	1
230 – 240	4	3	560 – 570	2	-	960 – 970	1	-
240 – 250	9	5	570 – 580	4	5	980 – 990	2	-
250 – 260	7	5	580 – 590	-	2	1050 – 1060	-	1
260 – 270	6	5	590 – 600	3	2	1060 – 1070	-	1
270 – 280	4	2	600 – 610	5	-	1090 – 1100	1	-
280 – 290	3	5	610 – 620	2	4	1100 – 1110	1	-
290 – 300	-	2	620 – 630	1	-	1260 – 1270	1	-
300 – 310	3	7	630 – 640	2	1	1350 – 1360	-	3
310 – 320	4	3	640 – 650	-	3	1440 – 1450	-	1
320 – 330	1	1	650 – 660	3	3	1660 – 1670	1	-
330 – 340	2	1	670 – 680	-	2	1730 – 1740	1	-
340 – 350	2	2	680 – 690	1	2	1790 – 1800	1	-
350 – 360	2	3	690 – 700	3	1	2430 – 2440	1	-
360 – 370	3	2	700 – 710	1	4	4500 – 4510	-	1
370 – 380	2	3	710 – 720	1	1	6800 – 6810	1	-
380 – 390	2	1	720 – 730	-	1			
390 – 400	3	2	730 – 740	1	-			
400 – 410	4	1	740 – 750	1	-			
Total							312	291

Executives' remuneration stated includes phantom share options.

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27. DIRECTORS' AND EXECUTIVE REMUNERATION (continued)

Executive Remuneration

The specified executives during the year were:

Ian B Clyne	Robin Fleming	Robert Loggia	Richard Borysiewicz	Haroon Ali
Johnson Kalo	Peter Beswick	Paul Thornton	Frans Kootte	Aho Baliki
Giau Duruba	Mark Railston	Edward Ruha		

Specified executives remuneration in aggregate (K'000)

	Primary Salary	Primary Bonus	Non- monetary	Super	Pre-scribed benefits	Post-employment Other	Equity options	Other benefits	Total
2013	13,143	4,251	201	191	-	-	1,339	755	19,880
2012	8,213	1,954	220	200	-	-	1,200	378	12,165

28. RECONCILIATION OF OPERATING CASH FLOW

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Reconciliation of operating profit/(loss) after tax to operating cash flow before changes in operating assets				
Operating profit/(loss) after tax	436,828	407,744	424,762	399,588
Add: Tax expense	170,127	137,552	168,114	135,849
Operating profit before income tax	606,955	545,296	592,876	535,437
Major non cash amounts				
Depreciation	90,817	57,968	86,723	54,806
Amortisation of computer development costs	85,018	25,785	85,018	25,785
Net (profit)/loss on sale of fixed assets	906	(498)	906	(498)
Movement in forex income accrual	10,746	(710)	10,746	(710)
Movement in provision for doubtful debts	104,812	92,085	104,812	92,085
Movement in payroll provisions	5,778	9,587	5,778	9,587
Net effect of other accruals	(4,909)	12,304	32,703	24,722
Operating cash flow before changes in operating assets	900,123	741,817	919,562	741,214

Cash and cash equivalents

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

Cash and balances with Central Bank (note 10)	2,030,800	1,806,597	1,992,970	1,764,275
Due from other banks (note 12)	1,445,199	327,563	1,445,199	327,563
Due to other banks (note 18)	(786,035)	(72,775)	(786,035)	(90,828)
	2,689,964	2,061,385	2,652,134	2,001,010

for the Year Ended 31 December 2013

29. SEGMENT INFORMATION

Bank of South Pacific Limited and the Group comprises two segments, these being the provision of banking services and products and stock broking services. 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 the core banking segments of Retail Bank, Wholesale Bank which includes Corporate & Paramount SBUs, insurance operations in Fiji and BSP Capital's stock broking and fund management activities. The Bank of South Pacific Limited and Group's business segments operate in Papua New Guinea, Niue, Fiji and Solomon Islands. Inter segment adjustments reflects elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

Analysis by business segments:

Year ended 31 December 2013								
All amounts are expressed in K'000								
	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segment	Total
Revenue	510,606	669,906	111,716	188,370	3,687	32,356	99,101	1,615,742
Costs	(363,856)	(255,319)	(96,827)	(172,475)	(6,921)	(31,901)	(81,488)	(1,008,787)
Operating results	146,750	414,587	14,889	15,895	(3,234)	455	17,613	606,955
Income tax expense								(170,127)
Profit after tax								436,828

Year ended 31 December 2012								
All amounts are expressed in K'000								
	Retail	Wholesale	Fiji Bank	Insurance	BSP Capital	Others	Adjust Inter Segment	Total
Revenue	395,269	636,433	83,105	155,994	2,407	56,158	268,301	1,597,667
Costs	(258,909)	(326,565)	(78,522)	(142,209)	(6,315)	(33,878)	(205,973)	(1,052,371)
Operating results	136,360	309,868	4,583	13,785	(3,908)	22,280	62,328	545,296
Income tax expense								(137,552)
Profit after tax								407,744

for the Year Ended 31 December 2013

30. RELATED PARTY TRANSACTIONS

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 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 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 2013, balances and transactions of accounts for Directors were as follows:

All amounts are expressed in K'000	2013	2012
Deposits		
Opening balances	139,557	208,359
Net movement	52,889	(68,802)
Closing balance	192,446	139,557
Interest paid	4,022	7,261
Loans and advances		
Opening balances	172,725	157,039
Loans issued	339,602	219,795
Interest	40,128	58,296
Charges	11,590	6,113
Loan repayments	(179,725)	(268,518)
Closing balance	384,320	172,725

Employment-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 2013, staff account balances were as follows:

All amounts are expressed in K'000	2013	2012
Housing loans	18,111	17,296
Other loans	16,442	16,674
	34,553	33,970
Cheque accounts	8,083	23,736
Foreign currency accounts	237	320
Savings accounts	10	11
	8,330	24,067

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30. RELATED PARTY TRANSACTIONS (continued)**Interests Register**

The following are transactions recorded in the interests register:

Name	Nature of Interest	
K. Constantinou, OBE Chairman	Director	Bank of South Pacific Ltd ¹ , BSP Capital Ltd ¹ , Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Hebou Constructions Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Airlines PNG Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Kimbe Bay Hotel Ltd, Grand Pacific Hotel Ltd, City Centre Development Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, Southern Seas Investments Ltd, Texas Chicken South Pacific 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, Pacific Games Authority ^{1,6} , Anglicare Foundation.
T. E. Fox, OBE, BEc Deputy Chairman	Director	Bank of South Pacific Ltd ² , BSP Capital Ltd, Teyo No. 1 Ltd ⁵ , BSP Life Ltd, Akura Ltd.
	Shareholder	Bank of South Pacific Ltd, Teyo No. 1 Ltd, Akura Ltd.
	Trustee/Member	Institute of National Affairs ⁸ , PNG Institute of Directors.
R. Fleming	Director	Bank of South Pacific Ltd ⁹ , BSP Capital Ltd, BSP Convertible Notes Ltd, BSP Rural Ltd, BSP Life Ltd, BSP Capital Securities Ltd, BSP Services Ltd, Capital Nominees Ltd, BSP Nominees Ltd, Malagan Ltd, Carpark Ltd, NGIP Agmark Ltd, BSP Services (Fiji) Ltd, BSP Health Care (Fiji) Ltd, BSP Investments (Fiji) Ltd.
	Shareholder	Bank of South Pacific Ltd.
	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, Wahinemo Ltd, CDI Foundation.
	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.
	Trustee/Member	Institute of National Affairs, Business Council of PNG, PNG Chamber of Mines & Petroleum, Oil Search Health Foundation.
Dr I. Temu, PhD, MEc	Director	Bank of South Pacific Ltd, Tipi Enterprise Ltd, Telemu Ltd ¹ , Kina Petroleum Ltd, National Petroleum Company Ltd, Savi- Tec Ltd.
	Shareholder	Telstra Ltd, Nautilus Minerals Niugini Ltd.
	Employee	Barrick Gold Ltd.
	Member	Divine Word University.

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30. RELATED PARTY TRANSACTIONS (continued)

Interests Register

The following are transactions recorded in the interests register:

Name	Nature of Interest	
C. C. Procter, MEd, FFin	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Sun Hung Kai & Co. Ltd, Allied Overseas Ltd, Eurogold Ltd., Tanami Gold NL.
	Member	Australian Institute of Company Directors.
E. B. Gangloff	Director	Bank of South Pacific Ltd, Gangloff Consulting Ltd, Laurabada Investments Ltd, New Britain Palm Oil Ltd.
	Shareholder	Gangloff Consulting Ltd, Laurabada Investments Ltd.
	Member	CPA PNG, PNG Institute of Directors, Vice-President of PNG Business Council, Institute of National Affairs, Business & Officials Committee PNG/Australia Bilateral Ministerial Committee, CIMC Trade Services Commission Chairman.
Sir N. Bogan, KBE, LLB	Director	Bank of South Pacific Ltd, Nambawan Super Ltd ^{1,5} , 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 Unitech, Chairman PNG Taxation Review.
G. Robb, OAM	Director	Bank of South Pacific Ltd, BSP Capital Ltd.
	Member	Australian Institute of Company Directors.
F Talao, LLB	Director	Bank of South Pacific Ltd.
	Member	External Stakeholders Advisory Panel (ESAP) to Morobe Mining Joint Venture, Australian Institute of Company Directors.

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

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31. BANK OPERATIONS, RISKS & STRATEGIES IN USING FINANCIAL INSTRUMENTS

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

The Bank and 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 Bank and 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 standings. In addition to directly advancing funds to borrowers, the Bank and the Group also enters into guarantees and other commitments such as letters of credit, performance bonds, and other bonds.

The Bank and the Group also enters into transactions denominated in foreign currencies. This activity generally requires the Bank and 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 Bank and 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 Bank and 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 Bank 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 Bank and 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 Bank and 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. 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 Bank and the Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2013, the Bank and the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum capital adequacy requirements as set out under the standard are: Tier 1 8 percent, total risk based capital ratio 12 percent and the leverage ratio 6 percent.

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.

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32. CAPITAL ADEQUACY (continued)

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 Bank and the Group's capital adequacy level is as follows:

All amounts are expressed in K'000	Balance sheet/ notional amount		Risk-weighted amount	
	2013	2012	2013	2012
Balance sheet assets (net of provisions)				
Currency	2,030,800	1,806,597	-	-
Loans and advances	5,306,362	4,804,626	5,009,265	4,594,014
Investments and short term securities	5,454,230	4,795,467	-	-
All other assets	3,017,398	1,926,412	2,778,531	1,847,900
Off-balance sheet items	1,512,002	1,517,718	714,414	316,934
Total	17,320,792	14,850,820	8,502,210	6,758,848

Audited Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2013	2012	2013	2012
a) Tier 1 capital	1,181,187	1,185,382	13.9%	17.4%
Tier 1 + Tier 2 capital	1,533,093	1,516,086	18.0%	22.3%
b) Leverage Capital Ratio			7.6%	9.0%

The capital adequacy ratio has been affected by the capitalisation of the software development costs, categorised under intangibles per note 7, which is deducted from tier 1 capital.

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33. CREDIT RISK AND ASSET QUALITY

The Bank incurs risk with regards to loans and advances made to customers and other monies or investments held with financial institutions. Credit risk is the likelihood of future financial loss resulting from the failure of clients or counter-parties to meet contractual obligations to the Bank and 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 Bank and 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 Bank and 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 2013, the 25 largest exposures totalled K3.2 billion, accounting for over 60 percent of the Bank and 60 percent of the Group's total loan portfolio (2012: K2.815 billion, accounting for over 56 percent and 56 percent 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. Since its introduction, the Bank and the Group has complied with the requirement at all times.

Credit related commitments

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank and 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 Bank and the Group on behalf of a customer, authorising a third party to draw drafts on the Bank and 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 Bank and 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.

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33. CREDIT RISK & ASSET QUALITY (continued)

Economic sector risk concentrations

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

All amounts are expressed in K'000	2013	%	2012	%
As at 31 December				
Commerce, finance and other business	2,391,072	45	1,937,732	40
Private households	695,782	13	946,132	20
Government and Public Authorities	444,670	9	101,621	2
Agriculture	267,367	5	116,451	2
Transport and communication	583,853	11	723,624	15
Manufacturing	394,268	7	520,588	11
Construction	529,350	10	458,478	10
Net loan portfolio balance	5,306,362	100	4,804,626	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 Bank and 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 2013.

The maturity profile of material Assets and Liabilities as at 31 December 2013 is shown in the schedule below. 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 Bank and the Group, and does not impair the ability of the Bank and the Group to meet its financial obligations as they fall due. The Directors are also of the view that the Bank and 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 Minimum Liquid Asset Ratio ('MLAR') and Cash Reserve Requirement ('CRR') set by the regulatory authority, the Bank of Papua New Guinea ('BPNG'). The MLAR is the minimum ratio of liquid assets to total customer deposits considered by the regulator as sufficient to support exceptional liquidation by depositors, of their funds. The requirement to hold a minimum of 25 percent of the value of total customer deposits in the form of prescribed liquid assets was reduced to zero percent by the BPNG in September 2010. As at 31 December 2013, the Bank and the Group's Liquid Asset Ratio was approximately 41.78 percent (2012: 38.92%);
- The CRR specifies that a bank must hold an amount equal to 9 percent of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and the Group 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**

All amounts are expressed in K'000

As at 31 December 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Assets						
Cash & Central Bank assets	2,030,800	-	-	-	-	2,030,800
Treasury & Central Bank bills	548,769	1,284,959	1,442,069	7,635	-	3,283,432
Due from other banks	1,110,091	86,764	248,344	-	-	1,445,199
Loans and advances	1,275,469	106,587	662,365	1,408,141	1,853,800	5,306,362
Investments	152,673	30,185	83,642	937,033	967,265	2,170,798
Total assets	5,117,802	1,508,495	2,436,420	2,352,809	2,821,065	14,236,591
Liabilities						
Due to other banks	786,035	-	-	-	-	786,035
Due to customers	10,516,602	400,548	364,169	81,441	838,239	12,200,999
Other liabilities	936,369	-	-	-	75,525	1,011,894
Other provisions	133,632	57,170	-	-	-	190,802
Total liabilities	12,372,638	457,718	364,169	81,441	913,764	14,189,730
Net liquidity gap	(7,254,836)	1,050,777	2,072,251	2,271,368	1,907,301	46,861

As at 31 December 2012	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Total
Total assets	4,749,543	1,306,911	1,923,849	1,325,159	2,428,791	11,734,253
Total liabilities	10,915,010	506,315	315,394	48,723	81,767	11,867,209
Net liquidity gap	(6,165,467)	800,596	1,608,455	1,276,436	2,347,024	(132,956)

35. OPERATIONAL RISK

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Bank and the Group conducts its business. Examples of operational risk 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 organisation's compliance with them. The Operational Risk Committee coordinates the management process across the organisation.

An independent internal audit function also conducts regular reviews to monitor compliance with policy and the regulatory environment 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.

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

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

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

All amounts are expressed in K'000

As at 31 December 2013	USD	AUD	EURO	PGK	Others	Total
Assets						
Cash & Central Bank assets	2,856	2,340	47	1,395,220	630,337	2,030,800
Treasury & Central Bank bills	-	-	-	3,153,436	129,996	3,283,432
Due from other banks	684,184	345,435	20,417	23,745	371,418	1,445,199
Loans and advances	228,719	3,431	152	3,699,064	1,374,996	5,306,362
Investments	-	-	-	1,904,598	266,200	2,170,798
Other assets	-	-	-	1,361,940	210,259	1,572,199
Total assets	915,759	351,206	20,616	11,538,003	2,983,206	15,808,790
Liabilities						
Due to other banks	(339,396)	(36,883)	-	(13,702)	(396,054)	(786,035)
Due to customers	(396,834)	(252,396)	(13)	(9,805,477)	(1,746,279)	(12,200,999)
Other liabilities	-	-	-	(601,844)	(600,852)	(1,202,696)
Total liabilities	(736,230)	(289,279)	(13)	(10,421,023)	(2,743,185)	(14,189,730)
Net on-balance sheet position	179,529	61,927	20,603	1,116,980	240,021	1,619,060
Off-balance sheet net notional position	(283,238)	(59,576)	(20,535)	938,667	187,067	762,385
Credit commitments	-	-	-	1,512,002	-	-
As at 31 December 2012						
Total Assets	414,670	193,415	22,696	10,626,406	2,075,915	13,333,102
Total Liabilities	(343,027)	(364,966)	(3)	(9,149,052)	(2,010,161)	(11,867,209)
Net on-balance sheet position	71,643	(171,551)	22,693	1,477,354	65,754	1,465,893
Off-balance sheet net notional position	26,463	2,355	27,018	-	1,034,611	1,090,447
Credit commitments	-	-	-	1,517,718	-	-

for the Year Ended 31 December 2013

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 Bank and 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 Bank and 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 2013 and prevailing rates of interest, a 1% increase in rates will result in a K15.3 million increase in net interest income, whilst a 1% decrease in rates will result in a K45.2 million decrease in net interest income.



BSP Group CEO Robin Fleming (third from left), the BSP team and SVS during the signing of the agreement for the Supa V Stoa.

for the Year Ended 31 December 2013

37. INTEREST RATE RISK (continued)

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

All amounts are expressed in K'000

As at 31 December 2013	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 years	Non Interest Bearing
Assets						
Cash & Central Bank assets	-	-	-	-	-	2,030,800
Treasury & Central Bank bills	2,453,175	822,622	7,635	-	-	-
Due from other banks	1,350,589	94,609	-	-	-	-
Loans and advances	4,595,301	248,375	376,046	81,548	301	4,792
Investments	41,713	61,648	450,145	518,833	1,184,568	-
Other assets	5,894	5,052	20,207	5,363	-	1,458,333
Total assets	8,446,672	1,232,306	854,033	605,744	1,184,869	3,493,925
Liabilities						
Due to other banks	786,035	-	-	-	-	-
Due to customers	6,674,541	294,855	158,042	16,396	26	5,057,140
Other liabilities	-	-	-	-	75,525	983,739
Other provisions	-	-	-	-	-	143,432
Total liabilities	7,460,576	294,855	158,042	16,396	75,551	6,184,311
Interest sensitivity gap	986,096	937,451	695,991	589,348	1,109,318	(2,690,386)

As at 31 December 2012						
Assets						
Cash & Central Bank assets	-	-	-	-	-	1,806,597
Treasury & Central Bank bills	962,220	1,154,447	1,120,850	-	-	-
Due from other banks	327,563	-	-	-	-	-
Loans and advances	4,308,480	59,811	219,660	216,675	-	-
Investments	-	34,250	296,750	523,060	703,890	-
Other assets	-	-	-	-	-	1,598,849
Total assets	5,598,263	1,248,508	1,637,260	739,735	703,890	3,405,446
Liabilities						
Due to other banks	72,775	-	-	-	-	-
Due to customers	5,823,901	410,159	292,971	48,723	5	4,284,763
Other liabilities	-	-	-	-	75,525	714,735
Other provisions	-	-	-	-	-	143,652
Total liabilities	5,896,676	410,159	292,971	48,723	75,530	5,143,150
Interest sensitivity gap	(298,413)	838,349	1,344,289	691,012	628,360	(1,737,704)

for the Year Ended 31 December 2013

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Forward exchange contracts outstanding at 31 December 2013 stated at the face value of the respective contracts are:

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

As at 31 December 2013		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	(121,041)	(30,538)	(44)	(1,550)	(262,287)	
	Kina	318,482	71,112	160	2,636	9,853	402,243
Buying	FCY	10,100	-	-	-	926	
	Kina	(23,246)	-	-	-	(4,063)	(27,309)

As at 31 December 2012		USD	AUD	EURO	GBP	Other	Total
Selling	FCY	(35,634)	(4,709)	(3,966)	-	(7,489)	
	Kina	75,347	10,443	10,551	-	1,413	97,754
Buying	FCY	16,068	-	-	4,116	-	
	Kina	(33,285)	-	-	(14,085)	-	(47,370)

39. POLICY LIABILITIES FOR BSP LIFE LIMITED

Key assumptions used in determining this liability are as follows:

Discount Rates

For contracts which have a Discretionary Participating Feature, the discount rate used is linked to the assets which back those contracts. For 31 December 2013 this was 4.69% per annum (31 December 2012: 4.69% per annum), based on 5 year government bond rate and expected earnings from the investment portfolio. For contracts without DPF, a rate of 3.2% per annum was used at 31 December 2013 (31 December 2012: 3.2% per annum). For Accident business a rate of 3.2% per annum was used at 31 December 2013 (31 December 2012: 3.2% per annum). These rates were based on the 5 year government bond.

Investment and Maintenance Expenses

Future maintenance and investment expenses are based on budgeted expenses. Future inflation has been assumed to be 3.5% per annum (31 December 2012: 3.5% per annum) for determining future expenses.

Taxation

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

for the Year Ended 31 December 2013

39. POLICY LIABILITIES FOR BSP LIFE LIMITED (continued)

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 by comparing with the Group's own experience. The mortality rates used were 70% of the FJ90-94 Male table.

Rates of Discontinuance

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

	2013	2012
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 basis 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. Distributions are split between contract holders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20% (31 December 2012: 20%). For business written between 1995 and 1998 the shareholder receives 11% of distributions.

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 Company with Reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company, 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 the statements of comprehensive income when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries are recognised as claims recoveries under the statements of comprehensive income. This is netted off against the claim expenses. Reinsurance premiums are recognised as reinsurance expenses.

for the Year Ended 31 December 2013

40. EVENTS OCCURRING AFTER BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Bank and the Group, the results of these operations, or the state of affairs of the Bank and the Group in future financial years.

41. REMUNERATION OF AUDITORS

All amounts are expressed in K'000	GROUP		BANK	
	2013	2012	2013	2012
Financial Statements audits	2,707	2,496	2,110	1,423
Other Services	4,413	8,731	4,413	8,731
Balance at 31 December	7,120	11,227	6,523	10,154

The external auditor Deloitte Touche Tohmatsu is also engaged in providing other services to the Bank and Group as required. The provision of other services included secondment of staff to BSP Capital Limited, due diligence and board strategy planning.



Official Opening of the BSP Sub Branch in Komo.

Independent Audit Opinion to the members of Bank of South Pacific Limited and subsidiaries

We have audited the accompanying consolidated financial report of Bank of South Pacific Limited and subsidiaries which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies, other explanatory information and the directors' declaration.

Director's Responsibility for the Consolidated Financial Statements

Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Companies Act 1997 and International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Audit Opinion

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bank of South Pacific Limited and subsidiaries as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The financial report of the Bank of South Pacific Limited and subsidiaries is in accordance with the Companies Act 1997 and proper accounting records have been kept. Bank of South Pacific Limited and subsidiaries are in compliance with the Banking and Financial Institutions Act 2000 and other applicable acts and regulations.

During the year ended 31 December 2013 we also provided Bank of South Pacific Limited with tax and consulting services.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Suzaan Theron

Registered under the Accountants Act 1996
Partner, Chartered Accountants

Port Moresby, 21st day of March 2014.



REACHING THE UNREACHED

Strategically BSP has over the past 5 years positioned itself to optimise its capacity to meet the growing demands of a broad client base across a diverse geography.

This transformation has involved significant capital expenditure in our properties, information technology systems and infrastructure, as well as our products and channels.

SHAREHOLDERS INFORMATION

The following is a summary of pertinent issues relating to a 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:

(a) General meeting and notices

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

(b) Voting rights

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

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

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

(c) Issues of further shares

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

(d) Variation of rights

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

(e) Transfer of shares

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

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

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

(f) Partly paid shares

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

(g) Dividends

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



ATM Lobby at the new BSP Harbour City Branch, BSP Haus.

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.

(h) Liquidation

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

(i) Directors

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

(j) Appointment of directors

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

(k) Powers of the Board

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

(l) Share buy backs

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

(m) Officers' indemnities

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

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

Twenty largest registered fully paid ordinary shareholders

At the 31 December 2013, the twenty largest registered fully paid shareholders of the Group were:

	Share Held	%
1 Independent Public Business Corporation	84,311,597	18.00
2 National Superannuation Fund Limited	52,006,767	11.10
3 Nambawan Super Limited	46,962,180	10.03
4 Petroleum Resources Kutubu Limited	46,153,840	9.85
5 Credit Corporation (PNG) Limited	36,288,331	7.75
6 Motor Vehicles Insurance Limited	31,243,736	6.67
7 PNG Sustainable Development Program Limited	29,202,767	6.23
8 IFC Capitalization (Equity) Fund LP	22,796,644	4.87
9 International Finance Corporation	22,796,644	4.87
10 Teachers Savings and Loans Society Limited	17,317,366	3.70
11 Comrade Trustee Services Limited	14,456,052	3.09
12 Tropicana Limited	4,983,653	1.06
13 Lamin Trust Fund	3,518,132	0.75
14 Credit Corporation (PNG) Ltd (CC Finance Ltd)	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 Provincial Government	2,000,000	0.43
20 Mineral Resources Star Mountains Ltd	1,975,799	0.42
Other shareholders	39,485,944	8.42
	468,424,636	100.00

Distribution of Shareholding

At the 31 December 2013, BSP had 6,831 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1-1,000	5,799	1,490,314
1,001 - 5,000	685	1,402,928
5,001 - 10,000	99	704,485
10,001 - 100,000	166	5,835,077
100,001 and above	82	458,991,832
	6,831	468,424,636

Employee Share Scheme

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

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
T. E. Fox	160,013	0.00
G 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: +675 305 7700

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

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

TAKING BANKING TO REMOTE AREAS

The Local Parliamentarian Solan Mirisim makes the first transaction via an EFTPoS, at the Telefomin Sub-Branch during the launch as BSP staff look on.





Standing (L-R): Paul Thornton, GM Retail Banking, Giau Duruba, GM Human Resources, Peter Beswick, GM Corporate Banking, Haroon Ali, Group Chief Risk Officer, Richard Borysiewicz, GM BSP Capital, Edward Ruha, Chief Financial Officer - PNG.

Seated (L - R): Aho Baliki, OBE, GM Paramount, Robert Loggia, Group Chief Operating Officer, Robin Fleming, Group CEO, Johnson Kalo, Group DCEO/Group Chief Financial Officer, Mark Railston, GM Treasury.

PNG BRANCH DIRECTORY

AITAPE Branch Manager	457 2042 Alex Wafimbi	KUNDIAWA Branch Manager	535 1025 Rita Singut
ALOTAU Branch Manager	641 1284 Ben Umba	LAE TOP TOWN Premium Centre	473 9801 Joseph Was 473 4814 Mona Teloti
ARAWA Branch Manager	276 9244 Patrick Buibui	LAE COMMERCIAL Branch Manager	473 9800 Agnes Mark
BIALLA Branch Manager	983 1095 Mary Koi	LAE MARKET Branch Manager	473 9606 Josephine Komoru
BOROKO Branch Manager Premium Centre	323 2288 Anne Baniyamai 303 4354 Sheila John	LIHIR Branch Manager	986 4052 Kalat Tiriman
BSP Harbour City Branch Manager Premium Centre	305 6151 Alex Kuna 305 6189 Bau Kiso	LORENGAU Branch Manager	970 9050 Quillan Nongi
BSP FIRST, Harbour City Branch Manager	305 6503 Lama Orea	MADANG Branch Manager Premium Centre	422 2477 Cecilia Pasum 422 2621 Christine Mes
BUKA Branch Manager Premium Centre	973 9042 Julie Warren 973 9087	MENDI Branch Manager	549 1070 Billy Veveloga
BULOLO Branch Manager	474 5366 Joe Makinta	MORO Branch Manager	276 1566 Meck Kaum
GORDONS PREMIUM CENTRE Branch Manager	325 5999 Maureen Wanu	MOTUKEA Branch Manager	321 7701 Jenny Joel
BSP FIRST, Gordons Branch Manager	302 5245 Barry Namongo	MOUNT HAGEN Branch Manager Premium Centre	542 1877 Mary Kundi Ruth Kagl
DARU Branch Manager	645 9062 Ivy David	POPONDETTA Branch Manager	629 7171 Anthonia Dru
GOROKA Branch Manager	532 1633 Livikonimo Koki	PORGERA Branch Manager	547 6900 John Basanu
KAINANTU Branch Manager	537 1065 Marco Hamen	PORT MORESBY Branch Manager Premium Centre	322 9790 Rarua Kema 305 7943 Lina Popal
KAVIENG Branch Manager Premium Centre	984 2066 Madeleine Leka 984 2100	BSP FIRST PORT MORESBY Branch Manager	305 7731 Emily Basil
KIMBE Branch Manager	983 5166 Misbil Alfred	RABAU Branch Manager	982 1744 Bevilon Homuo
KIUNGA Branch Manager	649 1073 Suya Yopahafo	TABUBIL Branch Manager	649 9179 Tony Waningu
KOKOPO Branch Manager Premium Centre	982 9088 Robinson Panako 982 9068 Jennifer Tiolam	TARI Branch Manager	276 1650 Gabriel Ak

VANIMO Branch Manager	457 1209 Karen George	WAIGANI DRIVE Branch Manager	302 5301 Mathias Manowo
VISION CITY Branch Manager Premium Centre	310 0008 Sibona Kema 300 9103 Damaris Toran	WATERFRONT PLACE Team Leader	305 6408 Eric Tasman
BSP First	310 0008 Dianne Sawala	WEWAK Branch Manager	456 2344 Albert Seri
WABAG Branch Manager	547 1176 Jerry Marie		
WAIGANI BANKING CENTRE Branch Manager Premium Centre	300 9600 Jeffery Singer 300 9645 Lorraine Siaoa		

PNG BRANCH MANAGEMENT



AGNES MARK
Lae Commercial



ALBERT BURUA
NGI Area Manager



ALBERT SERI
Wewak



ALEX KUNA
Harbour City



ALEX WAFIMBI
Aitape



ANNE BANIAMAMA
Boroko



ANTONIA DRU
Popondetta



BARRY NAMONGO
BSP First, Gordons



BEN UMBA
Alotau



BEVILON HOMUO
Rabaul



BILLY VEVELOGA
Mendi



CECILIA PASUM
Madang



DAMARIS TORAN
Vision City Premium



DIANNE SAWALA
BSP First, Vision City



DENNIS LAMUS
Area Manager
Momase



ERIC TASMAN
Waterfront Premium



EMILY BASIL
BSP First, Port Moresby



GABRIEL AK GREG
Tari

BRANCH MANAGEMENT



IVY DAVID
Daru



JEFFREY SINGER
Waigani BC



JENNY JOEL
Motukea Service
Centre



JERRY MARIE
Wabag



JOE MAKINTA
Bulolo



JOHN BASANU
Porgera



JOSEPH WAS
Lae Top Town



JOSEPHINE KOMORU
Lae Market



JULIE WARREN
Buka



KALAT TIRIMAN
Lihir



KAREN GEORGE
Vanimo



LAMA OREA
BSP FIRST
Harbour City



LIVIKONIMO KOKI
Goroka



MADELEINE LEKA
Kavieng



MARCO HARMEN
Kainantu



MARY DALE KUNDI
Mt Hagen



MARY KOI
Bialla



MATHIAS MANOWO
Waigani Drive



MAUREEN WANU
Gordons Premium



MECK KAUM
Moro



MISBIL ALFRED
Kimbe



NUNI KULU
Area Manager
Southern



PATRICK BUIBUI
Arawa



QUILAN NONGI
Lorengau



RARUA KEMA
Port Moresby



RUBEN ELIZAH
Area Manager
Highlands



RITA SINGUT
Kundiawa



ROBINSON PANAKO
Kokopo



SIBONA KEMA
Vision City



STANERD WAI
Area Manager NCD



SUYA YOPAHAFO
Kiunga



TONY WANINGU
Tabubil

AIYURA	7230 8313 Cribia Albert	LAKURUMAU	7197 6005 Christine Gawi Frank
BANZ	7100 9078 Kessy Elly Sammy	LOUSIA	7031 2617 Lorna Solomon
BUIN	7100 7855 Melchior Tania	LUFA	7100 6761 Vida Kemati
CHUAVE	7197 6001 Maxie Joe	MAPRIK	7168 7815 Christian Tatu
DAULO	7100 6763 Delilah Gahale	MINJ	7100 9076 Pauline Kapal
GEMBOGL	7313 4177 William Koima	MUTZING	7100 2488 Frank Godfrey
GUMINE	7100 7860 John Sii	NAMATANAI	7197 6007 Mathew Tabakas
HENGANOFI	7100 7859 Amos James	NINGERUM	7031 8497 Mathew Tware
HOSKINS	7031 2627 Ruddy Samson	OKAPA	7374 5623 Mele Aron
IALIBU	7197 6004 Mathew Garu	PALMALMAL	7323 9181 Freda Nablup
KABWUM	7346 1426 Rachael Watu	PANGIA	7197 6003 Philemon Kambu
KAMTAI	7243 4695 Robert Kom	TAMBUL	7100 7863 Joseph Wanjil
KEREVAT	7190 8231 Kilala Kindau	TELEFOMIN	7255 8421 Donna Yarkin
KEROWAGI	7100 9077 Leah Taia	WAKUNAI	7100 7856 Melvin Kusa
KINIM	7100 7861 Malapun Bannick	WALIUM	7106 8357 Brenda Igsam
KOMO	7362 0760 Lobe Arawi	WAPENAMANDA	7100 7862 Grace Reto
KONOS	7197 6006 Maureen Nick	YANGORU	7127 0000 Michael Paul Java
KUPIANO	7288 4140 Andrew Baine Jnr	YONKI	7185 5768 Usick Asino
LABA	7197 6008 Auda Morea	ZENAG	7318 5855 Nicko Morris
LAIAGAM	7196 6002 Roselyn Joel		

FIJI		

FIJI	(679) 330 4011	
Country Head	Kevin McCarthy	

BA	(679) 662 7335	
Branch Manager	Anupa Kumar	

DAMODAR	(679) 321 4311	
Branch Manager	Manjila Goundar	

LABASA	(679) 881 1360	
Branch Manager	Eka Seduadua	

LAUTOKA	(679) 666 2466	
Branch Manager	Josefa Tuitubou	

NADI	(679) 662 7310	
Branch Manager	Davendran Pillay	

NAMAKA	(679) 662 7320	
Branch Manager	Madhur Lata Kumar	

NAUSORI	(679) 347 8499	
Branch Manager	Shailendra Roy	

PACIFIC HARBOUR	(679) 345 2030	
Officer in Charge	Naomi Waqa	

PACIFIC HOUSE	(679) 321 4580	
Officer in Charge	Shalit Kumar	

RAKIRAKI	(679) 662 7341	
Officer in Charge	Ronika Prakash	

SAMABULA	(679) 338 7999	
Branch Manager	Anand Nair	

SAVUSAVU	(679) 885 0221	
Officer in Charge	Vineeta Prasad	

SIGATOKA	(679) 662 7332	
Branch Manager	Reginald Kumar	

SUVA – CENTRAL	(679) 321 4455	
Branch Manager	Arif Mohammed	

TAVEUNI	(679) 888 0433	
Branch Manager	Marica Mara	

TAVUA	(679) 662 7338	
Officer in Charge	Sanjeev Sumer	

THOMSON ST	(679) 321 4671	
Branch Manager	Rajesh Chand	

VALELEVU	(679) 334 2333	
Officer in Charge	Sera Petueli	

BSP FIRST SUVA	(679) 323 4232	
Premium Centre SUVA		
Manager		Mereani Peters

BSP FIRST NADI	(679) 6705101	
Premium Centre NADI		
Manager		Lice Toga Albertina Lilo

BSP FIRST LAUTOKA	(679) 6660180	
Premium Centre LAUTOKA		
Manager		Meri Quminakelo Albertina Lilo

SOLOMON ISLANDS		

SOLOMON ISLANDS	(677) 21874	
Country Head		David Anderson

AUKI	(677) 40484	
Branch Manager		Samuel Misi

COMMERCIAL BANKING	(677) 23620	
Branch Manager		Rose Murray

GIZO	(677) 60539	
Relieving Branch Manager		Clotilda Londeka

HONIARA	(677) 21814	
Branch Manager		Michael Kahamana

MUNDA	(677) 62177	
Branch Manager		Rebecca Hickie

NORO	(677) 61222	
Branch Manager		Tewia Laore

POINT CRUZ	(677) 21874	
Branch Manager		Rose Funa

RANADI	(677) 39403	
Branch Manager		Joy Vave



BEYOND BANKING

Our people, devoted their own time during weekends to paint, plant, plumb and perform other manual work to deliver these wonderful projects. Our people also take time to visit the sick at the hospital.

Ryan Pini
BSP Ambassador

BSP

BSP

CORPORATE SOCIAL RESPONSIBILITY



BSP Ambassador Ryan Pini leads children during the Go Green Clean Up in September 2013.

BSP is a brand that has become a household name. When you think BSP, you think Mobile Banking, EFTPoS, ATMs, Bank branches, you think lime green. And as a bank, we take pride in our innovative and determined approach to banking.

In 2013, BSP delivered new branches, took banking to new heights with the introduction of Wantok Moni, a mobile banking service that enables BSP customers to transfer funds to anyone, anytime and anywhere. In 2013, we delivered a Kids Savings Account and a Sumatin Account.

Our teams have braved unforgiving weather, rugged terrain and many odds to educate people in rural communities, schools and villages on basic financial literacy. The feedback and appreciation from many of these far flung areas is simply amazing. Some of these areas, don't have roads. Take Telefomin for instance. No roads. But they have a rural branch. When we talk banking in your world, we mean what we say and we walk the talk.

And beyond banking, our people, devoted their own time during weekends to paint, plant, plumb and perform other manual work to deliver many wonderful projects. They do this, because they are not just bankers, they are a part of the community.

BSP has also supported many worthy causes, that we believe will ensure the people in the communities in which we operate, particularly children and youth have health, hope and opportunity for a brighter future.

Here is a brief look at what we did in 2013. In 2013, we delivered 33 Community Projects in Communities in which we operate. 16 in Education, 10 in Health and 6 in Environment/Community.

We installed water tanks in schools, constructed new town markets, and provided rubbish bins and bus shelters. We rebuilt Hospital Wards and provided much needed medical equipment and supplies. The list is endless. Our commitment is on-going.

BSP's "Go Green" year round environmental program now attracts hundreds of children and adults from all levels of society to help "Clean up our World". We sponsor able and disabled athletes, men and women from grassroots local events to high performance athletes.

By supporting local communities and people we encourage active participation and social responsibility in our community.



Supporting Buk Bilong Pikinini.



Go Green Fiji.



Kid's Tennis.

COMMUNITY PROJECTS

At BSP we understand every customer belongs to a community, and that the relationships we build with each and everyone brings us opportunities to help their communities.

Thousands of conversations happen each year with our customers, their communities and BSP men and women, to determine the area of greatest need for a community.

Once the need has been identified, BSP formulates an action plan - a plan to implement positive change and make a real difference to the lives of men, women and children throughout the South Pacific region.

We are proud that every Branch Manager and their teams make a personal commitment to this programme, devoting their own time, backed by all the resources of BSP. Our community projects typically include:

- refurbishing health facilities
- renovating schools
- bringing healthcare to communities
- installing water supply to schools and
- constructing new market buildings.

ENVIRONMENT & SUSTAINABILITY

Growing our responsibility and sustainability. We are the 'Greenest bank in the South Pacific'. As one of the South Pacific's largest organisations, BSP recognises the effect it has on environment and is committed to finding ways to reduce any negative impact and enhance the environment we live in.

As part of our environment strategy, we support organisations and initiatives that foster an understanding of environmental issues and provide practical support to building sustainable communities. We're continually seeking innovative new ways to decrease our environmental impact in the operation of our branches by reduction of resources and materials used wherever possible.

BSP Go Green Clean up 2013 Day had approximately 19,400 participants across the 39 branches where the clean up took place in PNG. There were around 970 groups registered. This is almost double the number of groups who took part at the 2012 Community Clean up Day. The majority of participants were community groups made up of friends, families, neighbourhoods and villages.

2013 Go Green Clean up Day was the most successful so far; we doubled the participation from last year. The theme for BSP's Go Green in 2013 was 'Recycle, Reuse, Respect':

- **Recycle:** Collect and deposit discarded items at an operation, where these materials can be recycled into new products, e.g. scrap metal/plastic buyers.
- **Reuse:** Remove wastes or 'patch up' damaged areas on an item or its components, to use again for the same purpose.
- **Respect:** Dispose your unwanted items properly - tied up in bags & put in a rubbish bin. Respect the environment.

These are the simple messages we as an organisation want to impart through events such as our Annual Clean Up Day, and we encourage everyone to do the same, every day.

SPORTS FOR LIFE

Promoting Sport and Choices for Life. "Never stop playing". It's the healthy lifestyle message at the heart of a huge and diverse set of lifestyle initiatives and programmes BSP has committed to do.

With a focus on children and youth programmes, BSP has invested significantly in children's sporting partnerships. We are proud that the number of children we have encouraged to lead active lifestyles since the programmes were commenced in 2009 have swelled to in excess of 800,000 children throughout the South Pacific region.



Supporting Operation Open Heart.



Supporting PNG Swimmers Inc for more that 10 years.

BSP's association with a huge range of sports includes cricket, tennis, the Paralympics, football, game fishing, AFL, Sailing, PGA and youth golf.

BSP Regional Tennis

The BSP Regional Tennis program was the first school program supported by BSP in 2009 to identify and develop children in the sport of Tennis in the country. To date a total of over 50,000 participants took on this program around the country. In 2013, with the support of K50,000, 1266 participants took part from 33 schools around the country.

The 2013 program was more defined and targeted to identify prospective players for the 2015 Pacific Games. Apart from financial assistance, our branch network around the country played a pivotal role in coordinating with the PNG Tennis Association to ensure the program was delivered as planned.

PNG Paralympics

BSP is the major sponsor of the PNG Paralympic Team, committing not only funds (K100,000pa), but merchandise and people. BSP aims to give athletes living with disabilities the opportunity to achieve their dreams. Rosemary Mawe, Manager Corporate Sponsorships has been an integral team member of the PNG Paralympic support team and in 2012 was appointed the Team Manager for the 2012 London Paralympic Games.

Swimming

BSP has supported PNG Swimming Inc (PNGSI) for over 10 years and was an integral part of supporting the development of Ryan Pini and Judith Meaurio who competed in the 2012 London Olympics. BSP sponsors directly the two target squads known as BSP Kundu Gold and Kundu Silver Target Aquatic Excellence Squads.

The PNGSI/BSP National Aquatic Excellence Program is a

program to recognise swimming excellence in our PNG Swimmers. The program covers swimmers from age 9 through to Open. Swimmers who achieve a qualifying standard are awarded a Silver or Gold standard level in the Junior (9-11 years), Intermediate (12-14 years) or Open levels (Kundu Target Squads).

With our support of K80,000, PNGSI works closely with Swimming NZ (SNZ), Swimming Australia Limited (SAL) and Australian Swim Coaches and Teachers Association (ASCTA) and regularly brings representatives to PNG for coaching clinics and courses and Technical official courses. In conjunction with these experienced partners the BSP Learn to Swim Program will be prioritised in other centres outside the National Capital District with Alotau and Lae community schools being targeted in the first instance.

BSP School Kriket

The global award winning children's cricket programme, BSP School Kriket, achieved the ambitious target of reaching more than 130,000 school children in 2013. The most successful initiative in the Asia Pacific region, the BSP School Kriket programme is expanding further nationwide. The programme has been awarded the Best Junior Development Programme with the International Cricket Council's (ICC) East Asia Pacific Award for three years running. From the regional award, the programme has also been awarded the ICC Global Award of Best Junior Participation initiative for 2010, 2011, and was a finalist in 2012. In 2013, the program saw record participation with 171,578 students and children participating in 10 regions, 297 schools and 136 clinics across the country.

Junior Golf Development Program

The Papua New Guinea Golf Association (PNGGA) has an ambitious objective to deliver gold medals in the 2015 Pacific Games and BSP will help drive these aspirations forward with a sponsorship package worth K600,000. BSP's sponsorship will support PNGGA's Junior Golf Development Program over



Award winning BSP School Krieket Programme.



Toea Wisil, BSP Brand Ambassador with a customer.

the next three years at K200,000 per annum. As part of this program, talented young golfers nationwide will be identified and given the opportunity to progress from the amateur to professional level, to ensure a high competitive environment is maintained.

Brand Ambassadors

BSP has two brand ambassadors who support our 'Sports for Life' initiatives. Ryan Pini has been a BSP Brand Ambassador for 3 years. As PNG's most celebrated athlete, Ryan represents dedication and commitment to his sport and his country and is a valued strategic partner in promoting healthy, active lifestyles - Sports for Life. Ryan promoted BSP and PNG throughout his challenge at the 2012 London Olympics. Ryan is now preparing to represent PNG at his last competition, the 2015 XV Pacific Games. Known as the Sprint Queen of the Pacific, Toea Wisil has certainly made her mark in the Papua New Guinean sports scene, inspiring young athletes all across Oceania. She was signed as the second BSP Ambassador in 2013. The arrangement will see the 25-year-old associate with BSP's team and use her experience and success to promote and encourage healthy, active lifestyles through various sports, environment and community initiatives supported by the bank.

Official Sponsor Pacific Games

Sports and Pacific Games Minister Justin Tkachenko made the official announcement in Port Moresby 7 February 2013, in front of Pacific Games CEO Peter Stewart, board members from the Pacific Games Committee, the Pacific Games Authority and the Venue, Infrastructure and Equipment Committee and Sports

Federation and Sports Foundation.

"I thank BSP not only for the sponsorship of the games, but also for their part in nation building and what these games will make for us," he added.

"BSP's choice to back the Games is a wise choice, for the exposure it will get and the contribution it will make. I encourage other Corporate Entities and big industries to support Pacific Games 2015. It is a huge task that I cannot do myself, and we have to work together," he stressed.

"It is with great pleasure that I now welcome on board BSP as the official sponsor for the PNG 2015 Pacific Games, I say with much confidence that we now have the capacity to dream big about the range of possibilities for engagement, participation and for delivering the best ever Pacific Games," said Games Chairperson Emmah Waiwai.



Some of the Major Sponsorships by BSP in 2013

CONFERENCES

- PNG Business Advantage
- Certified Practising Accountants
- Madang SME Summit
- BPNG Financial Inclusion Expo
- Institute of Internal Auditors
- PNG Australia Business Council
- Fiji Trade & Investment Mission to PNG
- Australia & PNG Mining Resource Expo
- PNG Human Resource Institute
- PNG Safety Expo

CULTURAL FESTIVALS

- Kenu & Kundu Festival
- Goroka Show
- Morobe Agricultural Show
- 6th Sepik Crocodile Festival
- Wawagira & Mask Festival
- Bulolo Show
- Rabaul Frangipani Show

SPORT

- PNG Cricket
- PNG Junior Golf Development Program
- Ryan Pini, Brand Ambassador
- PNG Paralympic Committee
- PNG Swimming Inc
- PNG Tennis Association
- Toea Wisil, Brand Ambassador
- AFL Premiership
- BSP Pennants
- Port Moresby Golf Open
- Game Fishing Club
- Kone Kanu Klub

CHARITIES/ORGANISATIONS

- Buk Bilong Pikinini (Lae, Goroka, Manus & NCD)
- Operation Open Heart Program
- Theophilus Foundation
- Anglicare
- Susu Mamas Ball
- Indigenous Business Council
- City Mission
- Salvation Army
- Filipino Association
- Indian Association
- Port Moresby Cancer Society



BSP Mascot

Some of the organisations supported by BSP in 2013



SUPPORTING WORTHY CAUSES

A BSP staff member at the Head Office giving blood during the 2013 Corporate Blood Drive. BSP's Port Moresby branches participated in this worthy event to help save lives.



A new children's playground at local hospital built by the Kavieng branch team



COMMUNITY PROJECTS IN 2013

AITAPE	New water tanks to St Anna Primary School.
ALOTAU	New medical equipment & renovation of Golanai Urban Health Clinic.
ARAWA	New beds, mattresses, pillows & clean up at local hospital.
BOROKO	Refurbishment St Johns for the Blind Centre and new office equipment
BIALLA	Renovation of ablution at Bialla Health Centre.
BUKA	Set up rubbish drums around township.
BULOLO	New 9000 ltr water tank and maintenance of ablution at Hompiri Primary School
DARU	Renovation of local Police Station, including new office furniture.
DOUGLAS ST	Building of library at Hohola Demonstration Elementary School.
GORDONS PREMIUM	Renovation of Ororo Primary School library.
GOROKA	Refurbishment of Goroka Base Hospital outpatient ward.
KAINANTU	Renovation of classroom, new Tuffa tank at Rapinka Primary School.
KAVIENG	Built a children's playground at local Hospital.
KIMBE	New mattresses to the surgical/children's ward at local hospital.
KIUNGA	Renovation of town basketball court & presentation of sport equipment.
KOKOPO & RABAU	New mattresses, pillow cases and medical equipment to Tapiipi Rural Health Centre.
KUNDIAWA	Reconstruction of Chemotherapy preparation room at the local hospital.
LAE 3 BRANCHES	Renovation of Buimo Correctional Services Clinic.
LIHIR	Built a new bus stop at Lihir Destiny School.
LORENGAU	New wheelie bins around township.
MADANG	Renovation of mental ward at local hospital.
MENDI	New toilets Magani Elementary School.
MORO	Renovation of classroom and library books to Kutubu High School.
MT HAGEN	New rubbish drums around township.
PORT MORESBY	Renovation of Classroom at Bavaroko Primary School.
POPONDETTA	New water tank and painting of classroom at Resurrection Primary School.
PORGERA	New water tanks at Sirunki Lutheran High School.
TABUBIL	Clean up & presentation of sporting equipment to Tabubil Primary & other schools in township.
VANIMO	New rubbish drums around township.
WABAG	Renovation of carpentry workshop at Holy Cross TVET Centre.
WAIGANI	New water taps, pipes, hand basins and a mini shelter at Waigani Elementary School.
WAIGANI DR	Renovation of classroom at Ted Diro Primary School.
WEWAK	Repainting workshop and new water tank at Callan Services Disabled Centre.

AITAPE



ALOTAU



ARAWA



BOROKO



BIALLA



BUKA



BULOLO



DARU



DOUGLAS ST



GORDONS



GOROKA



KAINANTU



KAVIENG



KIMBE



KIUNGA



KOKOPO & RABAUL



KUNDIAWA



LAE 3 BRANCHES



LIHIR



LORENGAU



MADANG



MENDI



MORO



MT HAGEN



PORT MORESBY



POPONDETTA



PORGERA



TABUBIL



VANIMO



WABAG



WAIGANI



WAIGANI DR



WEWAK



QUICK FACTS ABOUT BSP COMMUNITY PROJECTS

- **33:** The number of projects delivered in PNG in 2013
- **32** Community Projects in 2009, 34 in 2010, 35 in 2011 and 31 in 2012.
- **165:** The number of individual projects in PNG from 2009 – 2013
- **Since 2009:** 78 Projects focused in Education, 54 in Health and 27 centred around Environment/Community activities and 6 in Sports.
- **K3.6 million:** Amount BSP has invested in communities in PNG from 2009 – 2013



RENOVATED LIBRARY
Gordons Premium Centre helped renovate the Ooro Primary School library



Official Sponsor of the 2015 Pacific Games

