# BSP Financial Group Limited and Subsidiaries

**ARBN 649 704 656**

## Financial Statements

## 31 December 2024

## Contents of Financial Statements



**APRA Disclaimer:**

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

# Directors' Report

for the Year Ended 31 December 2024

The Directors take pleasure in presenting the Financial Statements of the BSP Financial Group Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2024. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

**Principal activities**

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

**Review of operations**

For the year ended 31 December 2024, the Group's profit after tax was K1,037.711 million (2023: K890.215 million). The Bank's profit after tax was K1,035.662 million (2023: K800.826 million).

The Directors are of the view that there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Bank and the Group. For the 2024 financial year, the Directors affirm that, to the best of their knowledge, BSP Financial Group has not participated in any activities that violate laws and regulations.

The results of the Bank and the Group 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 assets in the financial statements misleading.

No contingent liability other than that disclosed in the notes to the attached financial statements has become enforceable, or is likely to become enforceable, within a period of twelve months from the date of this report, that will materially affect the Bank and the Group in its ability to meet obligations as and when they fall due.

**Dividends**

Dividends totaling K712.684 million were paid in 2024 (2023: K831.813 million) to shareholders. A detailed breakup of this is provided in note 28.

**Outside Interests and Conflicts**

The Directors confirm that all significant interests in contracts related to the Group were disclosed, and they abstained from voting on matters in which they had an interest.

**Shareholders Engagement**

BSP Financial Group Limited is committed to providing fair and equitable treatment to all shareholders and offers various channels for accessing information about the Group's operations. The Directors affirm that the Group has taken all necessary steps to ensure fair and equitable treatment of all shareholders, implementing procedures that protect shareholder rights and remove barriers to exercising those rights

**Internal Controls Effectiveness**

The Directors confirm that they have assessed the effectiveness of the internal controls and risk management processes and consider them to be suitable.

**Engagement with Traditional Landowners**

The success of BSP Financial Group greatly depends on fostering and sustaining strong, supportive relationships with communities and organizations affected by our decisions. We actively engage with these communities through our donations, community projects and sponsorships. This collaboration with external partners on projects across various sectors helps provide community benefits and promote sustainable development in Papua New Guinea and the Asia Pacific region.

**Directors and officers**

The following were directors of the BSP Financial Group Limited at 31 December 2024:

| | | | |
|---|---|---|---|
| Mr Robert G. Bradshaw | Mr Mark T. Robinson | Mr Stuart A. Davis | Ms Priscilla Kevin |
| Mr Frank D. Bouraga | Mr Symon G. Brewis-Weston | Dr Matagialofi Lua'iufi | Mr Stephen C. Beach |
| Mr Ian A. Tarutia | Mrs Patricia F. Taureka-Seruvatu | | |

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 36 of the Notes to the Financial Statements. The Group CEO Mark T. Robinson was the only executive director.

The company secretary is Vandhna Narayan, appointment effective on 19th of October 2024.

**Independent auditor's report**

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 71. Details of amounts paid to the auditors for audit and other services are shown in Note 40 of the Notes to the Financial Statements.

**Donations and sponsorships**

Donations and sponsorship by the Group during the year amounted to K17.349 million (2023: K7.577 million).

**Change in accounting policies**

Changes to accounting policies that impacted the Group's result during the year are included in Note 1(A) of the Notes to the Financial Statements.

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 19th day of February 2025.

| | |
|---|---|
| Mr Robert G. Bradshaw<br>Chairman | Mr Mark T. Robinson<br>Group Chief Executive Officer/Managing Director |

# Statements of Comprehensive Income

for the Year Ended 31 December 2024

| | | Consolidated | | Bank | |
|---|---|---|---|---|---|
| *All amounts are expressed in K'000* | **Note** | **2024** | **2023** | **2024** | **2023** |
| Interest income | 3 | 2,091,750 | 1,962,928 | 1,965,706 | 1,849,145 |
| Interest expense | 3 | (127,251) | (118,097) | (119,933) | (110,447) |
| **Net interest income** | | **1,964,499** | **1,844,831** | **1,845,773** | **1,738,698** |
| Net fee and commission income | 4 | 386,581 | 353,900 | 357,221 | 323,249 |
| Other income | 4 | 570,252 | 488,719 | 600,448 | 469,894 |
| Net insurance operating income | 31 | 57,757 | 61,236 | - | - |
| **Net operating income before impairment and operating expenses** | | **2,979,089** | **2,748,686** | **2,803,442** | **2,531,841** |
| Impairment of financial assets | 6 | 18,212 | (182,195) | 41,605 | (165,562) |
| Operating expenses | 5 | (1,267,271) | (1,013,098) | (1,149,376) | (940,008) |
| Additional company tax settlement | 7 | 95,000 | - | 95,000 | - |
| **Profit before income tax** | | **1,825,030** | **1,553,393** | **1,790,671** | **1,426,271** |
| Income tax expense | 7 | (787,319) | (663,178) | (755,009) | (625,445) |
| **Net profit for the year attributable to parent** | | **1,037,711** | **890,215** | **1,035,662** | **800,826** |
| **Other comprehensive income** | | | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | | | |
| Translation of financial information of foreign operations to presentation currency | 29 | 38,519 | 94,112 | 24,757 | 48,551 |
| *Items that will not be reclassified to profit or loss:* | | | | | |
| Recognition of deferred tax on asset revaluation reserve movement | 29 | 748 | 615 | 748 | 615 |
| Net movement in asset revaluation reserve | 29 | (2,764) | 38,349 | 503 | 28,048 |
| **Other comprehensive income, net of tax** | | **36,503** | **133,076** | **26,008** | **77,214** |
| **Total comprehensive income for the year attributable to parent** | | **1,074,214** | **1,023,291** | **1,061,670** | **878,040** |
| **Earnings per share - basic and diluted (toea)** | 8 | **222.1** | **190.5** | **221.7** | **171.4** |

*Comparative period amounts have been restated to conform to presentation in the current year.*

The attached notes form an integral part of these financial statements

# Statements of Financial Position

as at 31 December 2024

| *All amounts are expressed in K'000* | Note | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and operating balances with Central Banks | 10 | 3,361,616 | 3,306,085 | 2,597,827 | 2,430,613 |
| Amounts due from other banks | 11 | 1,874,178 | 1,779,677 | 1,549,526 | 1,595,587 |
| Treasury and Central Bank Bills | 12 | 2,517,652 | 3,803,598 | 2,438,643 | 3,768,110 |
| Cash reserve requirement with Central Banks | 13 | 3,255,374 | 2,841,812 | 3,102,136 | 2,699,236 |
| Other financial assets | 14 | 7,157,971 | 6,373,451 | 6,471,226 | 5,741,162 |
| Loans and receivables from customers | 15 | 16,269,841 | 16,013,022 | 15,123,011 | 14,802,133 |
| Asset held for sale | 39 | 14,544 | - | - | - |
| Property, plant and equipment | | 1,046,624 | 1,034,741 | 754,156 | 765,075 |
| Aircraft subject to operating lease | | 30,006 | 32,387 | 30,006 | 32,387 |
| Investment in subsidiaries | 32 | - | - | 393,833 | 390,635 |
| Deferred tax assets | 7 | 257,517 | 329,288 | 252,205 | 323,233 |
| Other assets | 16 | 1,338,028 | 1,437,226 | 547,959 | 680,138 |
| **Total assets** | | **37,123,351** | **36,951,287** | **33,260,528** | **33,228,309** |
| **LIABILITIES** | | | | | |
| Amounts due to other banks | 17 | 260,198 | 363,665 | 657,738 | 604,785 |
| Customer deposits | 18 | 29,082,961 | 29,835,111 | 27,055,110 | 27,911,977 |
| Insurance contract liabilities | 31 | 1,437,650 | 1,249,512 | - | - |
| Other liabilities | 19 | 1,630,971 | 1,197,889 | 1,493,313 | 1,072,358 |
| Deferred tax liabilities | 7 | 58,505 | 61,780 | - | - |
| **Total liabilities** | | **32,470,285** | **32,707,957** | **29,206,161** | **29,589,120** |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Ordinary shares | 28 | 372,110 | 372,110 | 372,110 | 372,110 |
| Retained earnings | 29 | 3,732,584 | 3,415,689 | 3,330,765 | 2,963,899 |
| Other reserves | 29 | 513,638 | 454,830 | 351,492 | 303,180 |
| **Equity attributable to the members of the company** | | **4,618,332** | **4,242,629** | **4,054,367** | **3,639,189** |
| Minority interests | 32 | 34,734 | 701 | - | - |
| **Total shareholders' equity** | | **4,653,066** | **4,243,330** | **4,054,367** | **3,639,189** |
| **Total equity and liabilities** | | **37,123,351** | **36,951,287** | **33,260,528** | **33,228,309** |

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

Mr Robert G. Bradshaw
Chairman

Mr Mark T. Robinson
Group Chief Executive Officer/Managing Director

# Statements of Changes in Shareholders' Equity

for the Year Ended 31 December 2024

| *All amounts are expressed in K'000* | Note | Share capital | Reserves | Retained earnings | Minority Interests | Total |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Balance as at 1 January 2023** | | **372,110** | **319,881** | **3,359,184** | **727** | **4,051,902** |
| Net profit | | - | - | 890,215 | - | 890,215 |
| Other comprehensive income | | - | 133,076 | - | - | 133,076 |
| **Total comprehensive income** | | **-** | **133,076** | **890,215** | **-** | **1,023,291** |
| Dividends paid during the year | 28 | - | - | (831,616) | (197) | (831,813) |
| Gain attributable to minority interests | | - | - | (171) | 171 | - |
| **Total transactions with owners** | | **-** | **-** | **(831,787)** | **(26)** | **(831,813)** |
| Transfer from asset revaluation reserve | 29 | - | (1,632) | 1,632 | - | - |
| Others | | - | 1,053 | (1,103) | - | (50) |
| BSP Life policy reserve | 29 | - | 2,452 | (2,452) | - | - |
| **Balance at 31 December 2023** | | **372,110** | **454,830** | **3,415,689** | **701** | **4,243,330** |
| Net profit | | - | - | 1,037,711 | - | 1,037,711 |
| Other comprehensive income | | - | 36,503 | - | - | 36,503 |
| **Total comprehensive income** | | **-** | **36,503** | **1,037,711** | **-** | **1,074,214** |
| Dividends paid during the year | 28 | - | - | (712,684) | (269) | (712,953) |
| Minority interest capital | 32 | - | - | - | 33,918 | 33,918 |
| Gain attributable to minority interests | | - | - | (384) | 384 | - |
| **Total transactions with owners** | | **-** | **-** | **(713,068)** | **34,033** | **(679,035)** |
| Transfer from asset revaluation reserve | 29 | - | (1,746) | 1,746 | - | - |
| Others | 29 | - | (4) | - | - | (4) |
| Asset revaluation reserve tax effect change | | - | 14,561 | - | - | 14,561 |
| BSP Life policy reserve | 29 | - | 9,494 | (9,494) | - | - |
| **Balance at 31 December 2024** | | **372,110** | **513,638** | **3,732,584** | **34,734** | **4,653,066** |
| **Bank** | | | | | | |
| **Balance as at 1 January 2023** | | **372,110** | **224,976** | **2,991,169** | **-** | **3,588,255** |
| Net profit | | - | - | 800,826 | - | 800,826 |
| Other comprehensive income | | - | 77,214 | - | - | 77,214 |
| **Total comprehensive income** | | **-** | **77,214** | **800,826** | **-** | **878,040** |
| Dividends paid during the year | 28 | - | - | (827,106) | - | (827,106) |
| **Total transactions with owners** | | **-** | **-** | **(827,106)** | **-** | **(827,106)** |
| Transfer from asset revaluation reserve | 29 | - | (1,462) | 1,462 | - | - |
| BSP Life policy reserve | 29 | - | 2,452 | (2,452) | - | - |
| **Balance at 31 December 2023** | | **372,110** | **303,180** | **2,963,899** | **-** | **3,639,189** |
| Net profit | | - | - | 1,035,662 | - | 1,035,662 |
| Other comprehensive income | | - | 26,008 | - | - | 26,008 |
| **Total comprehensive income** | | **-** | **26,008** | **1,035,662** | **-** | **1,061,670** |
| Dividends paid during the year | 28 | - | - | (705,521) | - | (705,521) |
| **Total transactions with owners** | | **-** | **-** | **(705,521)** | **-** | **(705,521)** |
| Transfer from asset revaluation reserve | 29 | - | (1,751) | 1,751 | - | - |
| Asset revaluation reserve tax effect change | | - | 14,561 | - | - | 14,561 |
| Gain on amalgamation | 38 | - | - | 44,468 | - | 44,468 |
| BSP Life policy reserve | 29 | - | 9,494 | (9,494) | - | - |
| **Balance at 31 December 2024** | | **372,110** | **351,492** | **3,330,765** | **-** | **4,054,367** |

The attached notes form an integral part of these Financial Statements.

# Statements of Cash Flows

for the Year Ended 31 December 2024

| *All amounts are expressed in K'000* | Note | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Interest received | | 2,081,110 | 1,811,037 | 1,953,510 | 1,737,885 |
| Fees and other income | | 888,874 | 950,266 | 955,217 | 884,782 |
| Interest paid | | (104,865) | (125,932) | (113,178) | (91,395) |
| Insurance premiums received | | 304,551 | 266,148 | - | - |
| Claims, surrenders and maturity payments | | (173,358) | (166,366) | - | - |
| Additional company tax settlement | 7 | 95,000 | - | 95,000 | - |
| Amounts paid to suppliers and employees | | (1,154,076) | (1,160,925) | (976,970) | (1,119,853) |
| **Operating cash flow before changes in operating assets and liabilities** | 9 | **1,937,236** | **1,574,228** | **1,913,579** | **1,411,419** |
| **Net (increase)/ decrease in:** | | | | | |
| Loans and receivables from customers | | (12,788) | (1,443,252) | (105,913) | (1,501,138) |
| Cash reserve requirements with the Central Banks | | (404,779) | (290,437) | (397,924) | (255,308) |
| Bills receivable and other assets | | 57,205 | (170,641) | 95,267 | (75,588) |
| **Net increase/ (decrease) in:** | | | | | |
| Customer deposits | | (887,244) | 2,450,609 | (935,175) | 2,388,419 |
| Bills payable and other liabilities | | 452,703 | 336,869 | 301,593 | 244,222 |
| **Net cash flow from operations before income tax** | | **1,142,333** | **2,457,376** | **871,427** | **2,212,026** |
| Income taxes paid | 7 | (653,668) | (705,969) | (629,430) | (677,287) |
| **Net cash flow from operating activities** | | **488,665** | **1,751,407** | **241,997** | **1,534,739** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from government securities | | 12,011,165 | 11,638,082 | 11,364,057 | 11,371,850 |
| Purchases of government securities | | (11,482,109) | (12,846,075) | (10,749,364) | (12,565,005) |
| Expenditure on property, plant and equipment | | (135,381) | (74,798) | (140,053) | (39,289) |
| Expenditure on software development costs | | (15,885) | (82,549) | (15,885) | (81,848) |
| Proceeds from disposal of assets | | 2,518 | 1,513 | 34,818 | 1,493 |
| **Net cash flow from/(used) in investing activities** | | **380,308** | **(1,363,827)** | **493,573** | **(1,312,799)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| Dividends paid | 28 | (712,953) | (831,813) | (705,521) | (827,106) |
| Payment of interest on borrowings | | - | (246,479) | - | (246,479) |
| Repayment of principal on borrowings | | - | (9,533) | - | (9,533) |
| Sale of minority interest in subsidiary | 32 | 33,918 | - | - | - |
| **Net cash flow used in financing activities** | | **(679,035)** | **(1,087,825)** | **(705,521)** | **(1,083,118)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **189,938** | **(700,245)** | **30,049** | **(861,178)** |
| Exchange rate movements on cash and cash equivalents | | 63,561 | 194,998 | 38,151 | 105,233 |
| Cash and cash equivalents at the beginning of the year | | 4,722,097 | 5,227,344 | 3,421,415 | 4,177,360 |
| **Cash and Cash Equivalents at the end of the year** | 9 | **4,975,596** | **4,722,097** | **3,489,615** | **3,421,415** |

*Comparative period amounts have been restated to conform to presentation in the current year.*

The attached notes form an integral part of these Financial Statements.

## 1. Financial Statements Preparation

The material accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The Financial Statements where required, presents restated comparative information for consistency with the current year's presentation in the Financial Statements. The assets and liabilities are presented in order of liquidity on the Statements of Financial Position.

### A. Basis of Presentation and Material Accounting Policies

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

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

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

**Standards, amendments and interpretations effective in the year ended 31 December 2024**

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period ended 31 December 2024.

- Amendment to IAS 1 - Non-current liabilities with covenants. These amendments clarify how conditions which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these amendments.
- Amendment to IFRS 16 - Leases on sale and leaseback. These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
- Amendment to IAS 7 and IFRS 7 - Supplier finance. These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

The above changes did not have any material impact on the Group.

**Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2024 or adopted early**

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2025 or later periods, but the entity has not early adopted them:

- Amendments to IAS 21 – Lack of Exchangeability (effective 1 January 2025 - early adoption is available). An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

## 1. Financial Statements Preparation *(continued)*

### A. Basis of Presentation and Material Accounting Policies *(continued)*

- Amendment to IFRS 9 and IFRS 7 – Classification and Measurement of Financial Instruments (effective 1 January 2026 - early adoption is available).

  These amendments:

  - clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
  - clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
  - add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and
  - make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

- Annual improvements to IFRS – Volume 11 (effective 1 January 2026 - with earlier application permitted). Annual improvements are limited to changes that either clarify the wording in an Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements in the Accounting Standards. The 2024 amendments are to the following standards:

  - IFRS 1 First-time Adoption of International Financial Reporting Standards;
  - IFRS 7 Financial Instruments: Disclosures and its accompanying Guidance on implementing IFRS 7;
  - IFRS 9 Financial Instruments;
  - IFRS 10 Consolidated Financial Statements; and
  - IAS 7 Statement of Cash Flows.

- IFRS 18 Presentation and Disclosure in Financial Statements (effective 1 January 2027). This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

  - the structure of the statement of profit or loss;
  - required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
  - enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

The Group continues to assess the impact of adopting Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2024.

*New IFRS sustainability disclosure standards effective after 1 January 2025*

- IFRS S1, 'General requirements for disclosure of sustainability-related financial information (effective 1 January 2027 - This is subject to endorsement by the Accounting Standards Board of PNG). This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.
- IFRS S2, 'Climate-related disclosures' (effective 1 January 2027 - This is subject to endorsement by the Accounting Standards Board of PNG). This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.

## 1. Financial Statements Preparation *(continued)*

### B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2024, 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:

- consideration transferred is measured at the fair value of assets transferred, equity issued and liabilities assumed;
- identifiable net assets are recorded initially at acquisition, at their fair values; and
- 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. Foreign currency

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

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

**Foreign operations**

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

### D. Critical accounting estimates and judgments

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

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

The areas involving significant estimates and judgments are:

- Estimation of current tax liability in the multiple tax jurisdictions - note 7
- Estimated impairment of financial or non-financial assets - note 12, 14, 15 and 22
- Estimated insurance liability - note 31
- Estimation of fair value of financial and non-financial assets and liabilities - note 27

## 1. Financial Statements Preparation *(continued)*

### D. Critical accounting estimates and judgments

Measurement of expected credit loss allowance for financial assets measured at amortised cost in line with IFRS 9 is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Losses (ECL) is further detailed in note 15, and note 22 setting out the key sensitivities of the ECL changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in note 15.

# Financial Performance

## 2. Segment Reporting

### Accounting Policy

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. This reflects the way the Group's businesses are managed, rather than the legal structure of the Group.

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/segments for management purposes are banking services, split into PNG Bank and Offshore Banks and non-banking services which comprise insurance operations, fund management and asset financing activities. The Bank and Group's business segments operate in Papua New Guinea, Fiji, Solomon Islands, Cook Islands, Tonga, Samoa, Vanuatu, Cambodia and Laos. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

**Consolidated**

| *All amounts are expressed in K'000* | PNG Bank | Pacific Markets | Non-Bank Entities | Adjust Inter Segments | Total |
|---|---|---|---|---|---|
| ***Analysis by segments*** | | | | | |
| **Year ended 31 December 2024** | | | | | |
| Net interest income | 1,557,811 | 368,326 | 36,683 | 1,679 | 1,964,499 |
| Net fee, commission and other income | 378,014 | 124,497 | 6,376 | (112,628) | 396,259 |
| Foreign exchange related | 401,621 | 158,935 | 18 | - | 560,574 |
| Net insurance income | - | - | 57,320 | 437 | 57,757 |
| **Total operating income** | **2,337,446** | **651,758** | **100,397** | **(110,512)** | **2,979,089** |
| Operating expenses | (972,634) | (253,795) | (47,364) | 6,522 | (1,267,271) |
| Impairment expenses | 19,847 | 15,410 | (17,045) | - | 18,212 |
| Additional company tax settlement | 95,000 | - | - | - | 95,000 |
| **Profit before income tax** | **1,479,659** | **413,373** | **35,988** | **(103,990)** | **1,825,030** |
| Income tax | (669,644) | (105,846) | (11,829) | - | (787,319) |
| **Net profit after income tax** | **810,015** | **307,527** | **24,159** | **(103,990)** | **1,037,711** |
| | | | | | |
| Assets | 24,860,573 | 12,037,823 | 2,220,534 | (1,995,579) | 37,123,351 |
| Liabilities | (21,701,308) | (10,502,276) | (1,665,783) | 1,399,082 | (32,470,285) |
| **Net assets** | **3,159,265** | **1,535,547** | **554,751** | **(596,497)** | **4,653,066** |

| **Year ended 31 December 2023** | **PNG Bank (restated)** | **Pacific Markets** | **Non-Bank Entities** | **Adjust Inter Segments** | **Total (restated)** |
|---|---|---|---|---|---|
| Net interest income | 1,479,288 | 329,803 | 35,406 | 334 | 1,844,831 |
| Net fee, commission and other income | 393,782 | 20,893 | 26,263 | (56,026) | 384,912 |
| Foreign exchange related | 399,362 | 58,345 | - | - | 457,707 |
| Net insurance income | - | - | 60,642 | 594 | 61,236 |
| **Total operating income** | **2,272,432** | **409,041** | **122,311** | **(55,098)** | **2,748,686** |
| Operating expenses | (774,194) | (230,595) | (17,807) | 9,498 | (1,013,098) |
| Impairment expenses | (161,378) | (9,523) | (11,294) | - | (182,195) |
| **Profit before income tax** | **1,336,860** | **168,923** | **93,210** | **(45,600)** | **1,553,393** |
| Income tax | (559,079) | (84,976) | (19,123) | - | (663,178) |
| **Net profit after income tax** | **777,781** | **83,947** | **74,087** | **(45,600)** | **890,215** |
| | | | | | |
| Assets | 25,964,685 | 10,560,798 | 2,264,240 | (1,838,436) | 36,951,287 |
| Liabilities | (23,119,456) | (9,165,332) | (1,652,013) | 1,228,844 | (32,707,957) |
| **Net assets** | **2,845,229** | **1,395,466** | **612,227** | **(609,592)** | **4,243,330** |

## 3. Net Interest Income

### Accounting Policy

Interest income and expense are recognised in the Statement of Comprehensive Income on an accrual basis using the effective interest rate ("EIR") method. The EIR method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

Interest income includes coupons earned on Government inscribed stock, accrued discounts and premiums on Treasury and Central Bank bills. Interest income is recognised for Stage 1 and Stage 2 financial assets measured at amortised cost by applying the EIR to gross carrying amounts of the financial instruments. For Stage 3 financial instruments, interest income is recognised by applying EIR on the net carrying value of the financial instrument.

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

| | **Consolidated** | | **Bank** | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Interest income** | | | | |
| Loans and receivables from customers[1] | 1,439,924 | 1,315,235 | 1,319,218 | 1,204,163 |
| Other financial assets - inscribed stock | 468,376 | 419,474 | 466,802 | 418,144 |
| Treasury bills | 103,925 | 154,207 | 103,766 | 154,168 |
| Central Bank bills | 3,815 | 7,638 | 3,459 | 7,588 |
| Cash and balances with Central Banks | 36,324 | 31,393 | 49,306 | 42,698 |
| Other | 39,386 | 34,981 | 23,155 | 22,384 |
| **Total interest income** | **2,091,750** | **1,962,928** | **1,965,706** | **1,849,145** |
| Less: **Interest expense** | | | | |
| Customer deposits | 111,218 | 100,397 | 89,276 | 82,088 |
| Other banks | 10,014 | 11,729 | 24,971 | 22,719 |
| Other interest expense | 6,019 | 5,971 | 5,686 | 5,640 |
| **Total interest expense** | **127,251** | **118,097** | **119,933** | **110,447** |
| **Net interest income** | **1,964,499** | **1,844,831** | **1,845,773** | **1,738,698** |

[1]*Group interest income includes K27.105 million (Bank K24.639 million) recognised on impaired loans (Stage 3) to customers, 2023: K23.428 million (Bank K19.788 million). The Group takes up required provisions on such interest income as detailed in the accounting policy in note 15.*

## 4. Non-Interest Income

### Accounting policy

*Fee and commission income*

Fees and commissions are generally recognised on an accrual basis when the performance obligation is satisfied (i.e. service has been provided). Other non-risk fee income, which includes facility fees, includes certain line fees and fees for providing customer bank accounts. They are recognised over the term of the facility/period of service on a straight-line basis.

All other risk related fees that constitute cost recovery are taken to income when levied. Income which forms an integral part of the effective interest rate of a financial instrument is recognised using the effective interest rate method and recorded in interest income (for example, loan origination fees).

## 4. Non-Interest Income *(continued)*

*Foreign exchange income or losses*

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

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Net fee and commission income** | | | | |
| Electronic banking related fee income | 248,806 | 213,387 | 233,178 | 197,975 |
| Electronic banking related fee expense | (92,785) | (73,692) | (79,811) | (62,097) |
| **Net electronic banking related fee income** | **156,021** | **139,695** | **153,367** | **135,878** |
| Trade and international related | 22,282 | 20,711 | 19,419 | 17,981 |
| Product related | 165,989 | 157,779 | 153,006 | 144,225 |
| Other | 42,289 | 35,715 | 31,429 | 25,165 |
| | **386,581** | **353,900** | **357,221** | **323,249** |
| **Other income** | | | | |
| Foreign exchange related[1] | 560,574 | 457,707 | 488,962 | 399,362 |
| Operating lease rentals | 4,534 | 4,535 | 4,534 | 4,535 |
| Dividend income received | - | - | 83,666 | 38,603 |
| Other | 5,144 | 26,477 | 23,286 | 27,394 |
| | **570,252** | **488,719** | **600,448** | **469,894** |

*[1]Foreign exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.*

## 5. Operating Expenses

**Accounting Policy**

Salaries and related on-costs include annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departure, leave utilisation and future salary.

Superannuation expense includes expenses relating to defined contribution plans. Defined contribution expense is recognised in the period the service is provided.

Premises and equipment expenses include depreciation, which is calculated using the straight-line method over the asset's estimated useful life. The right-of-use assets are recognised under IFRS 16. Leases are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within depreciation of Property, Plant and Equipment.

Computing expenses are recognised as incurred, unless they qualify for capitalization as computer software due to the expenditure generating probable future economic benefits. If capitalised, computer software is subsequently amortised over its estimated useful life. The Group assesses, at each balance sheet date, useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Other expenses are recognised as the relevant service is rendered. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

## 5. Operating Expenses *(continued)*

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Administration | 243,700 | 95,241 | 227,230 | 80,763 |
| Computing | 159,489 | 141,491 | 147,945 | 130,989 |
| Depreciation | 81,087 | 80,733 | 75,266 | 74,773 |
| Amortisation of software costs | 49,175 | 46,383 | 48,999 | 46,122 |
| Non-executive directors costs | 4,639 | 4,646 | 4,718 | 4,326 |
| Non-lending losses | 15,948 | 42,802 | 15,758 | 44,101 |
| Impairment loss on Joint Ventures | 35,816 | - | - | - |
| Premises and equipment | 114,998 | 106,800 | 107,471 | 99,896 |
| | **704,852** | **518,096** | **627,387** | **480,970** |
| **Staff costs** | | | | |
| Wages and salaries | 448,483 | 388,356 | 415,256 | 358,855 |
| Defined contribution plans | 23,070 | 19,973 | 20,873 | 18,065 |
| Statutory leave entitlements | 15,791 | 14,276 | 14,854 | 13,186 |
| Other staff benefits | 75,075 | 72,397 | 71,006 | 68,932 |
| | **562,419** | **495,002** | **521,989** | **459,038** |
| | **1,267,271** | **1,013,098** | **1,149,376** | **940,008** |

## 6. Impairment of Financial Assets

**Accounting Policy**

***Impairment***

Loans and receivables from customers are subject to continuous management review. If there is an expectation that the Group will not be able to collect amounts due under the terms of the loan, a provision is recognised equivalent to lifetime ECL. All bad debts are written off against the available specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries and reductions in provisions are credited to the provision for loan losses in the Statement of Comprehensive Income.

General provisions for impairment are maintained to cover expected losses unidentified at balance date in the overall portfolio of Loans and receivables from customers. The provisions are determined having regard to the level of risk weighted assets, economic conditions, the general risk profile of the credit portfolio, past loss experience and a range of other criteria. The amount necessary to bring the provisions to their assessed levels, after write-offs, is charged to the Statement of Comprehensive Income.

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 15 provides more detail of how the expected credit loss allowance is measured.

**Impairment expense/(release) of financial assets by asset class is as follows:**

| | | | | |
|---|---|---|---|---|
| Loans and receivables from customers (note 15) | (18,035) | 172,615 | (40,650) | 155,917 |
| Treasury and Central Bank Bills (note 12) | (6,955) | (644) | (7,019) | (583) |
| Other financial assets (note 14) | 6,778 | 10,224 | 6,064 | 10,228 |
| | **(18,212)** | **182,195** | **(41,605)** | **165,562** |

## 7. Income Tax

**Accounting Policy**

*Current Tax*

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

*Deferred tax*

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Financial Position. 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 is realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

*Current and deferred tax for the period*

Current and deferred tax are 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.

*Critical accounting assumptions and estimates*

Recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities can require significant judgement, particularly where the recoverability of such tax balances relies on the estimation of future taxable profits and management's determination of the likelihood that uncertain tax positions will be accepted by the relevant taxation authority.

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Income tax expense** | | | | |
| Current tax | 695,037 | 664,841 | 667,589 | 634,630 |
| Deferred tax | 63,676 | 1,643 | 58,898 | (6,909) |
| Current year | 758,713 | 666,484 | 726,487 | 627,721 |
| Adjustment to prior year estimates | (8,741) | (3,306) | (8,825) | (2,276) |
| Impact of PNG tax rate change[1] | 37,347 | - | 37,347 | - |
| | **787,319** | **663,178** | **755,009** | **625,445** |
| Tax calculated at 45% (2023: 45%) of Bank profit before tax | 805,802 | 641,822 | 805,802 | 641,822 |
| Tax calculated at respective subsidiary tax rates | 27,734 | 39,000 | - | - |
| Expenses not deductible for tax purposes | 18,798 | 9,138 | 1,084 | 3,270 |
| Tax loss not recognized | 4,811 | 8,610 | - | - |
| Income not recognised for tax purposes[2] | (98,432) | (32,086) | (80,399) | (17,371) |
| Impact of PNG tax rate change[1] | 37,347 | - | 37,347 | - |
| Adjustment to prior year estimates | (8,741) | (3,306) | (8,825) | (2,276) |
| | **787,319** | **663,178** | **755,009** | **625,445** |

## 7. Income Tax *(continued)*

| *All amounts are expressed in K'000* | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|
| **Tax (payable)/receivable** | | | | |
| At 1 January | 40,033 | (2,507) | 40,836 | (4,104) |
| Income tax provision | (695,037) | (664,841) | (667,589) | (634,630) |
| Adjustment to prior year estimates | 8,632 | 3,064 | 9,263 | 2,283 |
| Other tax related items | 1,800 | (1,652) | 1,351 | - |
| Foreign tax paid | 23,809 | 24,241 | - | - |
| Tax payments made | 629,859 | 681,728 | 629,430 | 677,287 |
| **At 31 December** | **9,096** | **40,033** | **13,291** | **40,836** |
| **Deferred tax balances are represented by the tax effect of the following items:** | | | | |
| Specific allowance for losses on loans and receivables from customers | 76,160 | 82,861 | 69,883 | 76,335 |
| General allowance for losses on loans and receivables from customers | 116,346 | 180,896 | 113,005 | 176,949 |
| Employee related provisions | 69,821 | 44,058 | 68,033 | 42,580 |
| Prepaid expenses | (1,205) | (684) | (1,695) | (193) |
| Other provisions | 20,519 | 22,671 | 68,401 | 79,741 |
| Property, plant and equipment | (96,836) | (86,715) | (77,722) | (73,854) |
| Unrealised foreign exchange gains | (233) | (541) | (233) | (541) |
| Impact of PNG tax rate change[1] | (22,786) | - | (22,786) | - |
| Accruals | 37,226 | 24,962 | 35,319 | 22,216 |
| **At 31 December** | **199,012** | **267,508** | **252,205** | **323,233** |
| ***Represented by:*** | | | | |
| Deferred tax asset | 257,517 | 329,288 | 252,205 | 323,233 |
| Deferred tax liability | (58,505) | (61,780) | - | - |
| **At 31 December** | **199,012** | **267,508** | **252,205** | **323,233** |
| ***Deferred taxes movement:*** | | | | |
| **At 1 January** | 267,508 | 294,184 | 323,233 | 336,108 |
| Current year movement | (63,676) | (1,643) | (58,898) | 6,909 |
| Adjustment to prior year estimates | (109) | (242) | 438 | 7 |
| Impact of PNG tax rate change[1] | (22,786) | - | (22,786) | - |
| Other movements | 18,075 | (24,791) | 10,218 | (19,791) |
| **At 31 December** | **199,012** | **267,508** | **252,205** | **323,233** |

[1]The 2025 PNG National Budget and subsequent legislation passed before year end introduced a gradual reduction in the Corporate Income Tax rate for commercial banks as outlined below:

1. Profits below K300 million: Tax rate reduces from 45% to 40% in 2025, and 35% in 2026.
2. Profits above K300 million: Tax rate drops from 45% to 44% in 2025, decreasing by 1% annually until reaching 35%.

Given the legislation has been substantively enacted as at 31 December 2024 deferred tax balances have been calculated using the revised tax rates in the period they are expected to be utilized. A one-off charge of K37.347 million to tax expense was recognised resulting from the restatement of deferred tax balances relating to PNG Bank and its branches at the effective tax rate in the December 2024 accounts.

[2] The PNG Government imposed a K190 million Additional Company Tax (the Tax) on banks with over 40% market share for the 2022 financial year, directly affecting BSP's net profit. The Tax was non-deductible and was deposited in an escrow account pending BSP's legal challenge. On 19 February 2024, BSP settled its judicial review with the Internal Revenue Commission (IRC), agreeing to:

1. Receive a K95 million refund from the escrow account.
2. Pay K95 million to the IRC as a final settlement which was completed in April 2024.

## 8. Earnings per Ordinary Share

**Accounting Policy**

Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year, adjusted for shares which are bought back by BSP.

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Net profit attributable to parent equity interest (K'000) | 1,037,711 | 890,215 | 1,035,662 | 800,826 |
| Weighted average number of ordinary shares in use (000) | 467,220 | 467,220 | 467,220 | 467,220 |
| Basic and diluted earnings per share (expressed in toea) | **222.1** | **190.5** | **221.7** | **171.4** |

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. BSP Financial Group Limited has no dilutive potential ordinary shares. Consequently, basic earnings per ordinary share equals diluted earnings per share.

## 9. Reconciliation of Operating Cash Flow

| | | | | |
|---|---|---|---|---|
| **Reconciliation of net profit after tax to operating cash flow** | | | | |
| **before changes in operating assets and liabilities** | | | | |
| Net profit after tax | 1,037,711 | 890,215 | 1,035,662 | 800,826 |
| Add: Tax expense | 787,319 | 663,178 | 755,009 | 625,445 |
| **Profit before income tax** | **1,825,030** | **1,553,393** | **1,790,671** | **1,426,271** |
| **Major non cash amounts** | | | | |
| Depreciation | 81,087 | 80,733 | 75,266 | 74,773 |
| Amortisation of software costs | 49,175 | 46,383 | 48,999 | 46,122 |
| Net gain on sale of fixed assets | (2,466) | (2,356) | (2,282) | (2,038) |
| Impairment on financial assets | (18,212) | 182,195 | (41,605) | 165,562 |
| Movement in payroll provisions | 76,191 | 9,247 | 65,517 | 8,908 |
| Net changes in assets and liabilities | (73,569) | (295,367) | (22,987) | (308,179) |
| **Operating cash flow before changes in operating assets and liabilities** | **1,937,236** | **1,574,228** | **1,913,579** | **1,411,419** |

**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 Banks (note 10) | 3,361,616 | 3,306,085 | 2,597,827 | 2,430,613 |
| Amounts due from other banks (note 11)[1] | 1,874,178 | 1,779,677 | 1,549,526 | 1,595,587 |
| Amounts due to other banks (note 17) | (260,198) | (363,665) | (657,738) | (604,785) |
| | **4,975,596** | **4,722,097** | **3,489,615** | **3,421,415** |

*[1]Amounts due from other banks includes deposits of K65.725 million (2023: K61.242 million) held with counter-party banks that are not available for use by the Group.*

# Financial Instruments: Financial Assets

**Accounting Policy**

*Recognition*

Loans and receivables are recognised on settlement date, when cash is advanced to the borrowers.

*Modification of loans*

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a ‘new’ asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the Statement of Comprehensive Income as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss through the Statement of Comprehensive Income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

*De-recognition*

Financial assets are de-recognised when the rights to receive cash flows from the asset have expired.

There may be situations where the Group has partially transferred the risks and rewards of ownership and has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, the asset continues to be recognised on the balance sheet to the extent of the Group’s continuing involvement in the asset.

*Classification and measurement*

Financial assets are grouped into the following classes: cash and balances with central banks and financial assets measured at fair value through income statement (FVIS), investment securities, loans, other financial assets and life insurance assets.

Financial assets are classified based on a) the business model within which the assets are managed, and b) whether the contractual cash flows of the instrument represent solely payment of principal and interest (SPPI).

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the Group considers factors including how performance and risks are managed, evaluated

## Financial Instruments: Financial Assets *(continued)*

*Classification and measurement (continued)*

and reported and the frequency and volume of, and reason for, sales in previous periods and expectations of sales in future periods.

When assessing whether contractual cash flows are SPPI, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that they may not meet the SPPI criteria include contingent and leverage features, non-recourse arrangements, and features that could modify the time value of money.

*Debt instruments*

If the debt instruments have contractual cash flows which represent SPPI on the principal balance outstanding they are classified at:

- amortised cost if they are held within a business model whose objective is achieved through holding the financial asset to collect these cash flows; or
- fair value through other comprehensive income (FVOCI) if they are held within a business model whose objective is achieved either through collecting these cash flows or selling the financial asset; or
- FVIS if they are held within a business model whose objective is achieved through selling the financial asset.

Debt instruments are measured at FVIS where the contractual cash flows do not represent SPPI on the principal balance outstanding or where it is designated at FVIS to eliminate or reduce an accounting mismatch. Debt instruments at amortised cost are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. They are presented net of provisions for expected credit losses determined using the ECL model.

Debt instruments at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income except for interest income, impairment charges and foreign exchange gains and losses, which are recognised in the Statement of Comprehensive Income. Impairment on debt instruments at FVOCI is determined using the ECL model and is recognised in the Statement of Comprehensive Income with a corresponding amount in other comprehensive income. There is no reduction of the carrying value of the debt security which remains at fair value. The cumulative gain or loss recognised in other comprehensive income is subsequently recognised in the Statement of Comprehensive Income when the instrument is derecognised.

Debt instruments at FVIS are measured at fair value with subsequent changes in fair value recognised in the Statement of Comprehensive Income.

*Equity securities*

Equity securities are measured at FVOCI where they:

- are not held for trading; and
- an irrevocable election is made by the Group.

Otherwise, they are measured at FVIS.

Equity securities at FVOCI are measured at fair value with unrealised gains and losses recognised in other comprehensive income, except for dividend income which is recognised in the Statement of Comprehensive Income.

The cumulative gain or loss recognised in other comprehensive income is not subsequently recognised in the Statement of Comprehensive Income when the instrument is disposed.

Equity securities at FVIS are measured at fair value with subsequent changes in fair value recognised in the Statement of Comprehensive Income.

## Financial Instruments: Financial Assets *(continued)*

*Derivative financial instruments and acceptances*

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

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

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

## 10. Cash and Operating Balances with Central Banks

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Notes, coins and cash at bank | 747,285 | 707,416 | 657,920 | 612,198 |
| Balances with Central Banks other than statutory deposit | 2,614,331 | 2,598,669 | 1,939,907 | 1,818,415 |
| **At 31 December** | **3,361,616** | **3,306,085** | **2,597,827** | **2,430,613** |

## 11. Amounts Due from Other Banks

| | | | | |
|---|---|---|---|---|
| Items in the course of collection | 63,754 | 70,304 | 63,754 | 70,307 |
| Placements with other banks | 1,810,424 | 1,709,373 | 1,485,772 | 1,525,280 |
| **At 31 December** | **1,874,178** | **1,779,677** | **1,549,526** | **1,595,587** |

## 12. Treasury and Central Bank Bills

| | | | | |
|---|---|---|---|---|
| Treasury and Central Bank Bills – face value | 2,554,254 | 3,857,037 | 2,488,790 | 3,827,169 |
| Unearned interest | (35,130) | (36,488) | (35,312) | (37,205) |
| Less allowance for impairment | (15,014) | (21,969) | (14,835) | (21,854) |
| | **2,504,110** | **3,798,580** | **2,438,643** | **3,768,110** |
| **Financial assets carried at fair value through profit and loss** | | | | |
| Treasury Bills at fair value | 13,542 | 5,018 | - | - |
| **At 31 December** | **2,517,652** | **3,803,598** | **2,438,643** | **3,768,110** |
| **Allowance for impairment** | | | | |
| At 1 January | 21,969 | 22,613 | 21,854 | 22,437 |
| Provision for impairment | (6,955) | (644) | (7,019) | (583) |
| **At 31 December** | **15,014** | **21,969** | **14,835** | **21,854** |

## 13. Cash Reserve Requirement with Central Banks

The Bank and the Group comply with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that it operates in. The CRR specifies that a bank must hold an amount equal to a percentage of its total customer deposits in the form of cash in an account maintained by the respective Central Banks. The Bank and Group comply with this requirement on an ongoing basis. CRR applicable for each jurisdiction at balance date were: PNG 12% (2023: 10%), Fiji 10% (2023: 10%), Solomon Islands 5.5% (2023: 5%), Samoa 4.5% (2023: 4.5%), Tonga 15% (2023: 10%) and Vanuatu 5.25% (2023: 5.25%).

## 14. Other Financial Assets

| *All amounts are expressed in K'000* | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|
| Inscribed Stock – issued by Central Bank | 6,556,792 | 5,815,175 | 6,510,550 | 5,774,422 |
| Less allowance for impairment | (40,238) | (33,460) | (39,324) | (33,260) |
| | **6,516,554** | **5,781,715** | **6,471,226** | **5,741,162** |
| **Financial assets carried at fair value through profit and loss:** | | | | |
| Government Inscribed Stock | 308,158 | 277,876 | - | - |
| Equity securities | 333,259 | 313,860 | - | - |
| **At 31 December** | **7,157,971** | **6,373,451** | **6,471,226** | **5,741,162** |
| ***Allowance for impairment*** | | | | |
| At 1 January | 33,460 | 23,236 | 33,260 | 23,032 |
| Provision for impairment | 6,778 | 10,224 | 6,064 | 10,228 |
| ***At 31 December*** | **40,238** | **33,460** | **39,324** | **33,260** |

## 15. Loans and Receivables from Customers

**Accounting Policy**

Loans are originated by providing funds directly to the borrower and are recognised when cash is advanced to borrowers. Loans are subsequently measured at amortised cost using the effective interest rate method where they have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved through holding the loans to collect these cash flows. They are presented net of any provisions for ECL.

| *All amounts are expressed in K'000* | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|
| Overdrafts | 1,160,654 | 1,329,034 | 1,096,000 | 1,266,512 |
| Lease financing | 217,196 | 187,292 | 216,916 | 165,604 |
| Term loans | 12,146,935 | 12,320,061 | 11,482,286 | 11,550,128 |
| Mortgages | 3,307,512 | 2,888,873 | 2,830,440 | 2,465,798 |
| **Gross loans and receivables from customers net of unearned interest** | **16,832,297** | **16,725,260** | **15,625,642** | **15,448,042** |
| Less allowance for losses on loans and receivables from customers | (562,456) | (712,238) | (502,631) | (645,909) |
| **At 31 December** | **16,269,841** | **16,013,022** | **15,123,011** | **14,802,133** |

The spread of the loans is detailed in the maturity analysis table in Note 23. The loans are well-diversified across various sectors and are further analysed in Note 22. Allowance for losses includes K102.930 million (Bank K88.962) million), 2023: K97.057 million (Bank K83.055 million) provision taken up for interest recognised on stage 3 loans.

## 15. Loans and Receivables from Customers *(continued)*

**Accounting Policy** *(continued)*

**Lease financing**

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

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Gross investment in finance lease receivable** | | | | |
| Not later than 1 year | 30,250 | 12,203 | 30,013 | 11,214 |
| Later than 1 year and not later than 5 years | 195,519 | 190,300 | 195,459 | 164,258 |
| | **225,769** | **202,503** | **225,472** | **175,472** |
| **Unearned future finance income** | | | | |
| Not later than 1 year | (332) | (1,114) | (322) | (1,094) |
| Later than 1 year and not later than 5 years | (8,241) | (14,097) | (8,234) | (8,774) |
| | (8,573) | (15,211) | (8,556) | (9,868) |
| **Present value of minimum lease payments receivable** | **217,196** | **187,292** | **216,916** | **165,604** |

| | | | | |
|---|---|---|---|---|
| **Present value of minimum lease payments receivable is analysed as follows:** | | | | |
| Not later than 1 year | 29,918 | 11,089 | 29,691 | 10,120 |
| Later than 1 year and not later than 5 years | 187,278 | 176,203 | 187,225 | 155,484 |
| **At 31 December** | **217,196** | **187,292** | **216,916** | **165,604** |

**Allowance for Expected Credit Losses**

**Accounting Policy**

Impairment under IFRS 9 applies to all financial assets at amortised cost, lease receivables and credit commitments.

The ECL determined under IFRS 9 is recognised as follows:

- Loans (including lease receivables), debt securities at amortised cost and due from subsidiaries: as a reduction of the carrying value of the financial asset through an offsetting provision account; and
- Credit commitments: as a provision recorded within other liabilities.

*Measurement*

The Group calculates the provisions for ECL based on a three stage approach. ECL are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The models use three main components to determine the ECL including:

- Probability of default (PD): the probability that a counterparty will default;
- Loss given default (LGD): the loss that is expected to arise in the event of a default; and
- Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

## 15. Loans and Receivables from Customers *(continued)*

**Allowance for Expected Credit Losses** *(continued)*

**Model stages**

The three stages are as follows:

*Stage 1: 12 months ECL - performing*

For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months ECL is recognised.

*Stage 2: Lifetime ECL – performing*

For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing, a provision for lifetime ECL is recognised.

*Stage 3: Lifetime ECL – non-performing*

For financial assets that are non-performing a provision for lifetime ECL is recognised. Indicators include a breach of contract with the Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on a group of loans.

*Collective and individual assessment*

Expected credit losses are estimated on a collective basis for exposures in Stage 1, Stage 2 and Stage 3 exposures below specified thresholds and on an individual basis for Stage 3 exposures that meet specified thresholds.

*Expected life*

In considering the time frame for expected credit losses in stages 2 and 3, the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For certain revolving credit facilities which include both a drawn and undrawn component (e.g. credit cards and revolving lines of credit), the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. For these facilities, lifetime is based on historical behaviour.

*Movement between stages*

Assets may move in both directions through the stages of the impairment model. Assets previously in stage 2 may move back to stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, assets in stage 3 may move back to stage 1 or stage 2 if they are no longer assessed to be non-performing.

*Off-Balance Sheet amounts*

Any off-balance sheet items, such as loan commitments, are considered for impairment both on an individual and collective basis.

*Definition of default*

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes. The default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due. Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they meet the definition of default. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the Statement of Comprehensive Income.

## 15. Loans and Receivables from Customers *(continued)*

**Allowance for Expected Credit Losses** *(continued)*

*Critical accounting assumptions and estimates*

Key judgements include when a significant increase in credit risk has occurred and estimation of forward looking macroeconomic information. Other factors which can impact the provision include the borrower's financial situation, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

*Significant increase in credit risk*

Determining when a financial asset has experienced a significant increase in credit risk since origination is a critical accounting judgement which is primarily based on changes in internal customer risk grades since origination of the facility. Judgement is involved in setting the rules to determine whether there has been a significant increase in credit risk since initial recognition of a loan, resulting in the financial asset moving from 'stage 1' to 'stage 2', this increases the ECL calculation from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk combined with transition from stage 2 to stage 1 may similarly result in significant changes in the estimate. The setting of precise trigger points requires judgement. The change in an internal customer risk grade is based on both quantitative and qualitative factors. The change in the internal customer risk grade that the Group uses to represent a significant increase in credit risk is based on a sliding scale. This means that a higher credit quality exposure at origination would require a more significant downgrade compared to a lower credit quality exposure before it is considered to have experienced a significant increase in credit risk.

A backstop is applied and the financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Customers in hardship arrangements are normally treated as an indication of a significant increase in credit risk.

The Group does not apply the low credit risk exemption which assumes investment grade facilities do not have a significant increase in credit risk.

*Probability weighting of each scenario*

The Group considers three future macroeconomic scenarios including a base case scenario along with upside and downside scenarios. Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario, as well as specific portfolio considerations where required. This is further expanded in note 22.

- Base case scenario
  This scenario utilises external economic forecasts used for strategic decision making and forecasting, resulting in the base case representing comparable market average default rates.
- Upside scenario
  This scenario represents a modest improvement on the base case scenario, resulting in lower than market average default rates.
- Downside scenario
  This scenario represents a moderate recession, with higher than market average default rates.

*Forward looking macroeconomic information*

The measurement of ECL for each stage and the assessment of significant increase in credit risk consider information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation of forward-looking information is a critical accounting judgement. The macroeconomic variables used in these scenarios, based on current economic forecasts, include (but are not limited to) change in real gross domestic product growth rates and unemployment rates.

## 15. Loans and Receivables from Customers *(continued)*

**Allowance for Expected Credit Losses** *(continued)*

*Forward looking macroeconomic information (continued)*

The macroeconomic scenarios are weighted based on the Group's best estimate of the relative likelihood of each scenario. The weighting applied to each of the three macroeconomic scenarios takes into account historical frequency, current trends, and forward looking conditions.

The macroeconomic variables and probability weightings of the three macroeconomic scenarios are subject to the approval of the Group Chief Financial Officer and Group Chief Risk Officer.

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Judgements can change with time as new information becomes available which could result in changes to the provision for expected credit losses.

The loss allowance recognised in the period is impacted by a variety of factors, as described below and as detailed in the following table:

| | **Consolidated** | | **Bank** | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Provision for impairment** | | | | |
| Movement in allowance for losses on loans and receivables from customers: | | | | |
| Balance at 1 January | 712,238 | 642,115 | 645,909 | 583,426 |
| Net new and increased provisioning / (release of provisions) | (17,492) | 92,654 | (43,835) | 74,710 |
| Loans written off against provisions/(Write back of provisions no longer required) | (132,290) | (22,531) | (99,443) | (12,227) |
| **At 31 December** | **562,456** | **712,238** | **502,631** | **645,909** |
| | | | | |
| **Provision for impairment is represented by**: | | | | |
| Collective provision for on balance sheet exposure | 230,059 | 365,935 | 211,901 | 341,734 |
| Individually assessed or specific provision | 290,103 | 291,497 | 251,599 | 252,688 |
| **Total provisions for on balance sheet exposure** | 520,162 | 657,432 | 463,500 | 594,422 |
| Collective provision for off balance sheet exposure | 42,294 | 54,806 | 39,131 | 51,487 |
| **At 31 December** | **562,456** | **712,238** | **502,631** | **645,909** |
| **Loan impairment expense** | | | | |
| Net collective provision funding | (135,595) | (1,640) | (132,682) | (165) |
| Net new and increased individually assessed provisioning | 118,103 | 94,294 | 88,847 | 74,875 |
| **Total new and increased provisioning/(release of provisions)** | **(17,492)** | **92,654** | **(43,835)** | **74,710** |
| Recoveries | (96,538) | (77,833) | (91,695) | (75,569) |
| Net write off | 95,995 | 157,794 | 94,880 | 156,776 |
| **At 31 December** | **(18,035)** | **172,615** | **(40,650)** | **155,917** |

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Net financial assets originated, which includes additional allowances for new financial instruments recognised during the period, net of releases for financial instruments de-recognised in the period; and
- Movement in risk parameters and other changes arising from regular refreshing of inputs to models, foreign exchange retranslations for assets denominated in foreign currencies and other movements.

## 15. Loans and Receivables from Customers *(continued)*

The impact of the factors on the Group's exposure and loss allowance is detailed in the following table:

*All amounts are expressed in K'000*

| **EAD - Loans and receivables from customers** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **1 January 2023** | **13,059,927** | **1,350,157** | **481,432** | **14,891,516** |
| Transfers to/(from) | | | | |
| Stage 1 | (351,029) | 270,059 | 80,970 | - |
| Stage 2 | 462,385 | (641,612) | 179,227 | - |
| Stage 3 | - | 4,254 | (4,254) | - |
| Net financial assets originated | 2,214,747 | (308,028) | (72,975) | 1,833,744 |
| **Total movement in EAD during the year** | **2,326,103** | **(675,327)** | **182,968** | **1,833,744** |
| **31 December 2023** | **15,386,030** | **674,830** | **664,400** | **16,725,260** |
| **ECL – Loans and receivables from customers** | | | | |
| **1 January 2023** | **236,472** | **108,891** | **225,671** | **571,034** |
| Transfers to/(from) | | | | |
| Stage 1 | (6,107) | 5,286 | 821 | - |
| Stage 2 | 29,682 | (45,015) | 15,333 | - |
| Stage 3 | - | 147 | (147) | - |
| Net financial assets originated | 63,176 | 3,265 | (17,460) | 48,981 |
| Transfers between stages | (24,219) | 10,640 | 48,779 | 35,200 |
| Movements due to risk parameter and other changes | (28,165) | 11,882 | 41,031 | 24,748 |
| **Total net P&L charge/ (release) during 2023** | **34,367** | **(13,795)** | **88,357** | **108,929** |
| Loans written off against provision/(write back of provision no longer required) | - | - | (22,531) | (22,531) |
| **31 December 2023** | **270,839** | **95,096** | **291,497** | **657,432** |
| **EAD - Loans and receivables from customers** | | | | |
| **1 January 2024** | **15,386,030** | **674,830** | **664,400** | **16,725,260** |
| Transfers to/(from) | | | | |
| Stage 1 | (163,815) | 79,988 | 83,827 | - |
| Stage 2 | 188,652 | (271,817) | 83,165 | - |
| Stage 3 | - | 589 | (589) | - |
| Net financial assets originated | 428,174 | (117,836) | (203,301) | 107,037 |
| **Total movement in EAD during the year** | **453,011** | **(309,076)** | **(36,898)** | **107,037** |
| **31 December 2024** | **15,839,041** | **365,754** | **627,502** | **16,832,297** |
| **ECL – Loans and receivables from customers** | | | | |
| **1 January 2024** | **270,839** | **95,096** | **291,497** | **657,432** |
| Transfers to/(from) | | | | |
| Stage 1 | (5,481) | 3,743 | 1,738 | - |
| Stage 2 | 19,524 | (28,549) | 9,025 | - |
| Stage 3 | - | 74 | (74) | - |
| Net financial assets originated | (923) | (10,042) | (1,779) | (12,744) |
| Transfers between stages | (11,583) | (36,336) | 15,211 | (32,708) |
| Movements due to risk parameter and other changes | (60,398) | (5,905) | 106,775 | 40,472 |
| **Total net P&L charge/ (release) during 2024** | **(58,861)** | **(77,015)** | **130,896** | **(4,980)** |
| Loans written off against provision/(write back of provision no longer required) | **-** | - | (132,290) | (132,290) |
| **31 December 2024** | **211,978** | **18,081** | **290,103** | **520,162** |

## 15. Loans and Receivables from Customers *(continued)*

Total off balance sheet exposures are predominantly classified under stage 1 as at balance date.

| *All amounts are expressed in K'000* | **2024 Stage 1** | | **2023 Stage 1** | |
|---|---|---|---|---|
| | **Gross exposure** | **Provisions** | **Gross exposure** | **Provisions** |
| **Balance 1 January** | 3,501,126 | 54,806 | 4,593,667 | 71,081 |
| Increase/(decrease) in exposure to expected credit losses | 329,143 | (12,512) | (1,092,541) | (16,275) |
| **Balance at 31 December** | **3,830,269** | **42,294** | **3,501,126** | **54,806** |

*Write-off policy*

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

## 16. Other Assets

| *All amounts are expressed in K'000* | **Consolidated 2024** | **Consolidated 2023** | **Bank 2024** | **Bank 2023** |
|---|---|---|---|---|
| ***Financial Assets*** | | | | |
| Funds in transit and other assets[1] | 269,825 | 357,551 | 154,870 | 281,819 |
| Intercompany account | - | - | 5,918 | 5,068 |
| Prepayments | 47,058 | 40,605 | 40,124 | 31,793 |
| Accounts receivable | 8,456 | 6,321 | 6,338 | 4,519 |
| Accrued income | 10,494 | 11,818 | 6,209 | 10,216 |
| Tax receivable | 9,096 | 40,033 | 13,291 | 40,836 |
| | **344,929** | **456,328** | **226,750** | **374,251** |
| ***Non-Financial Assets*** | | | | |
| Inventory | 36,775 | 31,872 | **-** | - |
| Investment in Joint Ventures | 273,488 | 303,617 | 30,286 | 29,615 |
| Intangible assets | 294,828 | 282,243 | 290,923 | 276,272 |
| Investment properties | 388,008 | 363,166 | - | - |
| | **993,099** | **980,898** | **321,209** | **305,887** |
| **At 31 December** | **1,338,028** | **1,437,226** | **547,959** | **680,138** |

[1] Funds in transit includes interbank transactions which are in the process of clearance.

# Financial Instruments: Financial Liabilities

**Accounting Policy**

*Recognition*

Financial liabilities are recognised when an obligation arises.

*Classification and subsequent measurement*

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities arising from the transfer of financial assets which did not qualify for de-recognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

*De-recognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

*Financial guarantee contracts and loan commitments*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in note 15); or
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Expected credit loss on loan commitments provided by the Group is measured as the amount of the loss allowance (calculated as described in note 15). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision liability.

## 17. Amounts Due to Other Banks

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Vostro account balances | 151,874 | 155,078 | 151,874 | 155,100 |
| Interbank account balances | 108,324 | 208,587 | 505,864 | 449,685 |
| **At 31 December** | **260,198** | **363,665** | **657,738** | **604,785** |

## 18. Customer Deposits

| | | | | |
|---|---|---|---|---|
| On demand and short term deposits | 25,943,817 | 26,845,460 | 24,440,318 | 25,598,031 |
| Term deposits | 3,139,144 | 2,989,651 | 2,614,792 | 2,313,946 |
| **At 31 December** | **29,082,961** | **29,835,111** | **27,055,110** | **27,911,977** |

*The deposits are diversified across industries and regions with the maturity profile of deposits included in note 23.*

## 19. Other Liabilities

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Creditors and accruals | 301,679 | 131,693 | 262,850 | 92,135 |
| Items in transit and all other liabilities | 678,940 | 428,128 | 776,351 | 541,337 |
| Lease liability | 267,943 | 279,816 | 238,002 | 251,468 |
| Insurance business other liabilities | 140,040 | 152,600 | - | - |
| Other provisions | 242,369 | 205,652 | 216,110 | 187,418 |
| **At 31 December** | **1,630,971** | **1,197,889** | **1,493,313** | **1,072,358** |

**Repurchase agreements**

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognized in the balance sheet in their original category (investment securities). Repurchase agreements are recognised at fair value and subsequently measured at amortised cost. The cash consideration received is recognized as a liability. As at 31 December 2024, K295 million (2023: nil) recognised in items in transit and all other liabilities.

## 20. Contingent Liabilities and Commitments

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

Commitments to extend credit represent the unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit are subject to customers maintaining approved specific credit standards. While there is credit risk associated with the remainder of commitments, the risk is considered to be modest, since it results from the possibility of unused portions

## 20. Contingent Liabilities and Commitments *(continued)*

of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The total outstanding contractual amount of commitments to extend does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The Bank has for some time been working to uplift and strengthen the Group's systems and processes to comply with the Anti-money Laundering and Counter Terrorist Financing Act 2015 (AML and CTF). BSP has implemented various improvements, involving significant investment in systems and personnel, to its AML/CTF Program.

Improvements undertaken by BSP include a revision of governance structures to give Directors enhanced oversight over the Compliance and AML functions; increased AML staffing resources; updated Risk Assessments and Policies; implementation of and enhancements to transaction monitoring systems; improved customer documentation and identification procedures and a comprehensive AML/CTF training program for staff who support the AML/CTF Program, as well as an awareness program for all its staff. The Board also monitors the effectiveness of its AML and CTF program through internal and external audit reviews where specific compliance issues and weaknesses are brought to the attention of the Board. This is an ongoing process and further uplifting and strengthening of the AML and CTF program may be required.

The Financial Analysis and Supervision Unit (FASU) had advised BSP on 22 December 2022 that no penalties or fines will be levied in relation to the most recent external audit of BSP's AML/CTF policies and procedures. FASU have advised they will continue to monitor progress on the execution of BSP's Action Plan designed to improve the level of compliance with AML/CTF policies and procedures. Accordingly, no provision has been raised for this matter.

The Group operates in a number of regulated markets and is subject to regulatory reviews and inquiries. The potential outcome and total costs associated with these regulatory reviews and inquiries and the remediation processes for any issues identified in the future remain uncertain.

### Off balance sheet financial instruments

| | Consolidated | | Bank | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Letters of credit | 231,074 | 238,236 | 227,192 | 230,572 |
| Guarantees and indemnities issued | 324,211 | 286,312 | 300,354 | 267,390 |
| Commitments to extend credit | 3,274,770 | 2,976,617 | 3,047,330 | 2,819,050 |
| | **3,830,055** | **3,501,165** | **3,574,876** | **3,317,012** |
| **Commitments for capital expenditure** | | | | |
| Amounts with firm commitments, and not reflected in the accounts | **87,167** | **44,585** | **67,141** | **16,358** |

***Legal Proceedings***

A number of legal proceedings against the Group were outstanding as at 31 December 2024. For all litigation exposure where a loss is probable, an appropriate provision has been made. Based on information available at 31 December 2024, the Group estimates a contingent liability of K17.1 million (2023: K16.4 million) in respect of these proceedings.

# Risk Management

## 21. Risk Management Framework and Controls

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These risks (risk of an 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 Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. These margins are achieved and increased by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

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

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

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

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

## 22. Credit Risk and Asset Quality

### 22.1 Credit risk

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

Credit risk is managed by analysing the risk spread across various sectors of the economy and ensuring risk is diversely spread across personal and commercial customers. 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 (reporting to the Board through the Group 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.

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1 Credit risk *(continued)*

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

#### 22.1.1 Credit risk measurement

**Loans and advances (incl. loan commitments and guarantees)**

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

**Credit risk grading**

The Group uses an internal credit risk grading system that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Group Chief Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Group's rating method comprises 11 rating levels for instruments not in default (1 to 11) and three default classes (12 to 14). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

| Group Internal Scale | S&P Letter Grade | Description |
|---|---|---|
| **1** | BBB+ | Standard Monitoring |
| **2** | BBB | |
| **3** | BBB- | |
| **4** | BB+ | |
| **5** | BB | |
| **6** | BB- | |
| **7** | B+ | |
| **8** | B | |
| **9** | B- | |
| **10** | CCC+ | Special Monitoring |
| **11** | CCC | |
| **12** | CCC- | Substandard |
| **13** | D-I | Doubtful |
| **14** | D-II | Loss |

#### 22.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition, as summarised below:

## 22. Credit Risk and Asset Quality *(continued)*

**22.1 Credit risk** *(continued)*

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 22.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 22.1.2.2 for a description of how the Group defines credit-impaired and default.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 22.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 22.1.2.3 includes an explanation of how the Group has incorporated this in its ECL models.

The following diagram summarises the impairment requirements under IFRS 9.

**Change in credit quality since initial recognition**

| Stage 1 | Stage 2 | Stage 3 |
|---|---|---|
| (Initial recognition) | (Significant increase in credit risk since initial recognition) | (Credit-impaired assets) |
| 12-month expected credit losses | Lifetime expected credit losses | Lifetime expected credit losses |

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

**22.1.2.1 Significant increase in credit risk**

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Qualitative Criteria - if the instrument meets one or more of the following criteria:
  - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
  - Actual or expected forbearance or restructuring.
  - Actual or expected significant adverse change in operating results of the borrower.
  - Significant change in collateral value (secured facilities only) which is expected to increase risk of default.
  - Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.
- Quantitative criteria - applies to performing loans risk graded at 10 or 11 as per BSP's credit rating system which are 'watch list' categories. By definition, these have experienced a SICR event since inception hence need to be classified as Stage 2, with lifetime PDs applicable. This criteria applies regardless of whether loans in these two risk grades are in arrears or not.
- Backstop - A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instrument in the year ended 31 December 2024.

## 22. Credit Risk and Asset Quality *(continued)*

**22.1 Credit risk** *(continued)*

### 22.1.2.2 Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

*Quantitative criteria*

The borrower is more than 90 days past due on its contractual payments.

*Qualitative criteria*

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance.
- The borrower is deceased.
- The borrower is insolvent.
- The borrower is in breach of financial covenant(s).
- An active market for that financial asset has disappeared because of financial difficulties.
- Concessions have been made by the lender relating to the borrower's financial difficulty.
- It is becoming probable that the borrower will enter bankruptcy.
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

### 22.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1 Credit risk *(continued)*

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Model adjustments are also included within the ECL allowance. Model adjustments are used in circumstances where it is judged that the existing inputs, assumptions and model

techniques do not capture all relevant risk factors. The emergence of new macroeconomic, microeconomic factors, changes to parameters or credit risk data not incorporated into current parameters are examples of such circumstances.

The Group used statistical models to convert historical PDs into forward looking lifetime PDs. The conversion process looks at the historical relationship between long-term PDs for a particular year and the observed (annual) default rate for the same year (called the 'Z-factor') and a set of systematic factors for the year. The Group has performed historical analysis and identified the key economic variables (systematic factors) impacting credit risk and expected credit losses which are as follows:

- GDP Growth (%)
- Change in Unemployment (%)
- Change in Equity Index (%)
- Change in Energy Index (%)
- Change in Non-Energy Index (%)
- Change in the Proportion of Downgrades (%)

These are then compared to the expected systematic factors and long-term PDs for a future year to estimate the PiT PDs for that future year. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Strategy team and provide the best estimate view of the economy over the next five years. Z-factors are estimated for five years based on forecast systematic data and all future years from year 6 are adjusted using Z- factors which diminish in magnitude from the one estimated for year 5.

**Economic variable assumptions**

The period-end assumptions used for the ECL estimate as at 31 December 2024 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

| | | **2024** | **2025** | **2026** | **2027** | **2028** |
|---|---|---|---|---|---|---|
| GDP Growth (%) | Base | 3.5% | 3.3% | 3.3% | 3.3% | 3.3% |
| | Upside | 4.0% | 3.4% | 3.8% | 3.8% | 3.8% |
| | Downside | 3.1% | 3.0% | 2.8% | 2.8% | 2.8% |
| Change in Unemployment (% total lab force) (%) | Base | -3.5% | -3.3% | -3.3% | -3.3% | -3.3% |
| | Upside | -4.0% | -3.4% | -3.8% | -3.8% | -3.8% |
| | Downside | -3.1% | -3.0% | -2.8% | -2.8% | -2.8% |
| Change in Equity Index (%) | Base | 22.0% | | | | |
| | Upside | 23.0% | | | | |
| | Downside | 21.0% | | | | |
| Change in Energy Index (%) | Base | -6.3% | -2.1% | -2.1% | -2.1% | -2.1% |
| | Upside | -6.6% | -2.2% | -2.2% | -2.2% | -2.2% |
| | Downside | -5.9% | -2.0% | -2.0% | -2.0% | -2.0% |
| Change in Non-Energy Index (%) *(Per World Bank commodities price forecast)* | Base | -3.0% | -1.2% | -1.2% | -1.2% | -1.2% |
| | Upside | -3.2% | -1.3% | -1.3% | -1.3% | -1.3% |
| | Downside | -2.9% | -1.1% | -1.1% | -1.1% | -1.1% |
| Change in the Proportion of Downgrades (%) | Base | -6.0% | | | | |
| | Upside | -15.0% | | | | |
| | Downside | 15.0% | | | | |

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1 Credit risk *(continued)*

The weightings assigned to each economic scenario at 31 December 2024 were as follows:

| Scenario | Base | Upside | Downside |
|---|---|---|---|
| Weight | 50% | 10% | 40% |

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

***Sensitivity Analysis***

As described above, the Group applies 3 alternative macroeconomic scenarios (base, upside, downside scenarios) to reflect an unbiased probability weighted range of possible future outcomes in estimating ECL.

The most significant assumptions affecting the ECL allowance are as follows:

i) GDP given the significant impact on business performance and collateral valuations;
ii) Change in proportion of downgrades given that it is "BSP specific" and addresses potential signs of stress both within credit markets in general and in client specific portfolios.

Set out below are approximate levels of provisions for impairment under the base and downside scenarios for the group assuming 100% weighting was applied to each scenario holding all other assumptions constant.

| *All amounts are expressed in K'000* | **2024** | **2023** |
|---|---|---|
| Reported probability weighted ECL | 562,456 | 712,238 |
| 100% base scenario | 537,869 | 644,209 |
| 100% downside scenario | 591,426 | 760,560 |

**Sensitivity of provisions for impairment to SICR assessment criteria**

- If 1% of Stage 1 credit exposures as at 31 December 2024 was included in Stage 2, provisions for impairment would approximately increase by K7.401 million for the bank. (31 December 2023 K8.022 million).
- If 1% of Stage 2 credit exposures as at 31 December 2024 was included in Stage 1, provisions for impairment would approximately decrease by K0.206 million for the bank. (31 December 2023 K0.247 million).

**22.1.2.4 Grouping of instruments for losses measured on a collective basis**

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1 Credit risk grading *(continued)*

**Retail – Groupings for collective measurement**

- Loan to value ratio band
- Risk Grade
- Product type (e.g. Residential/Buy to Let mortgage, Overdraft, Credit Card)

#### 22.1.3 Credit risk exposure

#### 22.1.3.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

*All amounts are expressed in K'000*

| | 2024 | | | | 2023 |
|---|---|---|---|---|---|
| **ECL staging** | **Stage 1** | **Stage 2** | **Stage 3** | | |
| | **12-month** | **Lifetime** | **Lifetime** | **Total** | **Total** |
| **Credit grade** | | | | | |
| Standard monitoring | 15,839,041 | 197,692 | - | 16,036,733 | 15,690,659 |
| Special monitoring | - | 168,062 | - | 168,062 | 370,201 |
| Default | - | - | 627,502 | 627,502 | 664,400 |
| **Gross carrying amount** | **15,839,041** | **365,754** | **627,502** | **16,832,297** | **16,725,260** |
| Loss allowance | (211,978) | (18,081) | (290,103) | (520,162) | (657,432) |
| **Net Carrying amount** | **15,627,063** | **347,673** | **337,399** | **16,312,135** | **16,067,828** |

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in note 15 'Expected credit loss measurement'.

The total balance of investment securities measured at amortised cost K9,075.916 million (2023: K9,635.724 million) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K55.252 million (2023: K55.429 million).

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

**Maximum exposure to credit risk**

| *All amounts are expressed in K'000* | **2024** | **2023** |
|---|---|---|
| **Trading assets** | | |
| Equity securities | 333,259 | 313,860 |

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1.3.2 Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

| **31 December 2024**<br>**Consolidated**<br>*All amounts are expressed in K'000* | **Gross exposure** | **Impairment allowance** | **Carrying amount** | **Fair value of collateral held** |
|---|---|---|---|---|
| **Credit-impaired assets** | | | | |
| Loans to individuals: | | | | |
| • Overdrafts | 35,084 | 8,422 | 26,662 | 24,117 |
| • Credit cards | 154 | 154 | - | - |
| • Term loans | 43,649 | 28,227 | 15,422 | 46,186 |
| • Mortgages | 182,954 | 79,412 | 103,542 | 230,932 |
| Loans to corporate entities: | - | - | - | - |
| • Large corporate customers | 277,890 | 133,319 | 144,571 | 215,926 |
| • Small and medium-sized enterprises (SMEs) | 87,449 | 40,373 | 47,076 | 111,573 |
| • Others | 322 | 196 | 126 | 872 |
| **Total credit-impaired assets** | **627,502** | **290,103** | **337,399** | **629,606** |
| **31 December 2023** | | | | |
| **Total credit-impaired assets** | **664,400** | **291,497** | **372,903** | **750,247** |

Impairment allowance is assessed for each counterparty giving regard to collateral held for the respective exposure.

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1.4 Credit Quality – Prudential guidelines

The prudential standard maintained by the Bank of Papua New Guinea specifies detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those grades.

An analysis by credit quality of loans outstanding at 31 December 2024 is as follows:

| **Consolidated**<br>**As at 31 December 2024**<br>*All amounts are expressed in K'000* | **Overdrafts** | **Term loans** | **Mortgages** | **Lease financing** | **Total** | **2023** |
|---|---|---|---|---|---|---|
| *Neither past due nor impaired* | **1,058,263** | **10,675,486** | **2,561,383** | **196,838** | **14,491,970** | **14,718,890** |
| *Past due but not impaired* | | | | | | |
| Less than 30 days | 19,939 | 173,977 | 81,316 | 300 | 275,532 | 819,404 |
| 30 to 90 days | 48,996 | 945,552 | 435,231 | 7,514 | 1,437,293 | 522,566 |
| | **68,935** | **1,119,529** | **516,547** | **7,814** | **1,712,825** | **1,341,970** |
| *Individually impaired loans* | | | | | | |
| - Less than 30 days | 1,741 | 3,345 | 5,327 | 17 | 10,430 | 12,950 |
| - 30 to 90 days | 1,772 | 36,697 | 36,237 | 4,295 | 79,001 | 131,155 |
| - 91 to 360 days | 2,563 | 23,469 | 38,134 | 474 | 64,640 | 124,797 |
| - More than 360 days | 27,380 | 288,409 | 149,884 | 7,758 | 473,431 | 395,498 |
| | 33,456 | 351,920 | 229,582 | 12,544 | 627,502 | 664,400 |
| **Total gross loans and receivables from customers** | **1,160,654** | **12,146,935** | **3,307,512** | **217,196** | **16,832,297** | **16,725,260** |
| Less impairment provisions | (282,125) | (179,728) | (95,235) | (5,368) | (562,456) | (712,238) |
| **Net loans and receivables from customers** | **878,529** | **11,967,207** | **3,212,277** | **211,828** | **16,269,841** | **16,013,022** |

### 22.1.5 Credit related commitments

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same risk as loans.

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

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

## 22. Credit Risk and Asset Quality *(continued)*

### 22.1.6 Economic sector risk concentrations

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

**Consolidated**
**As at 31 December 2024**

| *All amounts are expressed in K'000* | **2024** | **%** | **2023** | **%** |
|---|---|---|---|---|
| Commerce, finance and other business | 8,110,804 | 50 | 7,759,590 | 48 |
| Private households | 4,335,401 | 27 | 4,331,761 | 27 |
| Government and public authorities | 647,899 | 4 | 696,574 | 4 |
| Agriculture | 200,478 | 1 | 367,284 | 2 |
| Forestry | 1,539 | - | 3,810 | - |
| Transport and communication | 1,368,355 | 8 | 1,216,261 | 8 |
| Manufacturing | 451,487 | 3 | 429,990 | 3 |
| Construction | 1,153,878 | 7 | 1,207,752 | 8 |
| **Net loan portfolio balance** | **16,269,841** | **100** | **16,013,022** | **100** |

### 22.1.7 Loan segment concentration

Concentration by customer loan segments is as follows:

| | | | | |
|---|---|---|---|---|
| Corporate / Commercial | 9,405,533 | 58 | 9,224,478 | 58 |
| Government | 2,056,288 | 13 | 2,234,613 | 14 |
| Retail | 4,808,020 | 29 | 4,553,931 | 28 |
| **Net loan portfolio balance** | **16,269,841** | **100** | **16,013,022** | **100** |

### 22.1.8 Impact of overlays on the provision for ECL

The following table attributes the breakup between modelled ECL and other economic overlays. Where there is increased uncertainty regarding the required forward-looking economic conditions under IFRS 9, or limitations of the historical data used to calibrate the models to current stressed environments, overlays are typically used to address areas of potential risk not captured in the underlying modelled ECL.

| *All amounts are expressed in K'000* | **2024** | **2023** |
|---|---|---|
| Modelled provision for ECL (Stage 1 and 2) | 264,944 | 396,008 |
| Overlays | 7,409 | 24,733 |
| **Total** | **272,353** | **420,741** |

## 23. Liquidity Risk

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

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

**Short-term mismatch of asset and liability maturity at 31 December 2024**

The maturity profile of material Assets and Liabilities as at 31 December 2024 is shown in the following table. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Group, and does not impair the ability of the Group to meet its financial obligations as they fall due. Liquidity management is centrally coordinated by Group Treasury, with oversight from the Asset and Liability Committee (ALCO). The Group's Liquidity Policy provides a standalone framework for assessing the behavioral maturity of the deposit portfolio, ensuring the Group's ability to meet obligations under various market conditions.

**Maturity of assets and liabilities (gross contractual cash flows)**

*All amounts are expressed in K'000*

| **Consolidated<br>As at 31 December 2024** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Banks | 4,097,577 | - | - | - | 2,519,413 | 6,616,990 |
| Amounts due from other banks | 1,469,589 | 230,434 | 151,643 | 22,512 | - | 1,874,178 |
| Treasury and Central Bank bills | 739,893 | 775,477 | 1,000,747 | 39,025 | - | 2,555,142 |
| Loans and receivables from customers | 5,546,296 | 1,003,178 | 2,263,785 | 6,942,400 | 5,109,473 | 20,865,132 |
| Other financial assets | 1,168,640 | 123,479 | 799,320 | 2,973,439 | 4,782,329 | 9,847,207 |
| **Total assets** | **13,021,995** | **2,132,568** | **4,215,495** | **9,977,376** | **12,411,215** | **41,758,649** |
| **Liabilities** | | | | | | |
| Amounts due to other banks | 160,528 | 79,124 | 19,031 | - | 1,515 | 260,198 |
| Customer deposits | 27,059,550 | 403,631 | 1,178,437 | 168,790 | 468,832 | 29,279,240 |
| Lease liability | - | - | - | 164,769 | 103,174 | 267,943 |
| Other liabilities | 1,992,042 | 3,061 | 693,350 | 45,644 | 92,154 | 2,826,251 |
| Other provisions | 196,253 | 15 | 22,052 | 372 | 23,677 | 242,369 |
| **Total liabilities** | **29,408,373** | **485,831** | **1,912,870** | **379,575** | **689,352** | **32,876,001** |
| **Net liquidity gap** | **(16,386,378)** | **1,646,737** | **2,302,625** | **9,597,801** | **11,721,863** | **8,882,648** |

## 23. Liquidity Risk (continued)

| *All amounts are expressed in K'000* | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Consolidated As at 31 December 2023** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with Central Banks | 3,858,283 | - | 28,640 | - | 2,260,974 | 6,147,897 |
| Amounts due from other banks | 1,463,862 | 307,699 | 8,116 | - | - | 1,779,677 |
| Treasury and Central Bank bills | 36,256 | 715,087 | 2,726,254 | 364,318 | - | 3,841,915 |
| Loans and receivables from customers | 6,096,831 | 301,977 | 3,351,832 | 7,539,375 | 3,135,371 | 20,425,386 |
| Other financial assets | 1,467,440 | 71,666 | 1,020,700 | 4,568,393 | 3,616,630 | 10,744,829 |
| **Total assets** | **12,922,672** | **1,396,429** | **7,135,542** | **12,472,086** | **9,012,975** | **42,939,704** |
| **Liabilities** | | | | | | |
| Amounts due to other banks | 227,366 | 39,862 | 71,739 | 24,698 | - | 363,665 |
| Customer deposits | 27,548,734 | 774,518 | 1,401,126 | 329,766 | 438,841 | 30,492,985 |
| Lease liability | - | - | - | 152,613 | 127,203 | 279,816 |
| Other liabilities | 1,495,713 | 1,098 | 540,418 | 126,696 | 77,825 | 2,241,750 |
| Other provisions | 197,382 | - | 8,269 | - | - | 205,651 |
| **Total liabilities** | **29,469,195** | **815,478** | **2,021,552** | **633,773** | **643,869** | **33,583,867** |
| **Net liquidity gap** | **(16,546,523)** | **580,951** | **5,113,990** | **11,838,313** | **8,369,106** | **9,355,837** |

## 24. Operational Risk

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

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

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

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

## 25. Foreign Exchange Risk

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

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

## 25. Foreign Exchange Risk (continued)

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

*All amounts are expressed in K'000*

| **Consolidated<br>As at 31 December 2024** | **PGK** | **FJD** | **SBD** | **USD** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Banks | 2,879,405 | 1,903,613 | 905,783 | 12,944 | 915,245 | 6,616,990 |
| Amounts due from other banks | 48,597 | 472,377 | 4,211 | 790,328 | 558,665 | 1,874,178 |
| Treasury and Central Bank Bills | 2,429,758 | - | 22,611 | - | 65,283 | 2,517,652 |
| Loans and receivables from customers | 9,768,799 | 4,545,685 | 472,605 | 215,790 | 1,266,962 | 16,269,841 |
| Other financial assets | 6,505,837 | 606,805 | - | - | 45,329 | 7,157,971 |
| Other assets | 1,359,467 | 1,085,233 | 81,838 | - | 160,181 | 2,686,719 |
| **Total assets** | **22,991,863** | **8,613,713** | **1,487,048** | **1,019,062** | **3,011,665** | **37,123,351** |
| **Liabilities** | | | | | | |
| Amounts due to other banks | 40,081 | (230,856) | (1,070) | - | (68,353) | (260,198) |
| Customer deposits | (18,742,406) | (5,418,632) | (1,105,614) | (1,013,553) | (2,802,756) | (29,082,961) |
| Other liabilities | (1,108,696) | (1,882,746) | (50,957) | (1,296) | (83,431) | (3,127,126) |
| **Total liabilities** | **(19,811,021)** | **(7,532,234)** | **(1,157,641)** | **(1,014,849)** | **(2,954,540)** | **(32,470,285)** |
| **Net on-balance sheet position** | **3,180,842** | **1,081,479** | **329,407** | **4,213** | **57,125** | **4,653,066** |
| *Off-balance sheet position* | - | - | - | *197* | *(411)* | *(214)* |
| *Credit commitments* | *1,292,299* | *2,207,475* | *42,703* | - | *287,792* | *3,830,269* |

*All amounts are expressed in K'000*

| **Consolidated<br>As at 31 December 2023** | **PGK** | **FJD** | **SBD** | **USD** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with Central Banks | 2,776,705 | 1,500,354 | 823,272 | 12,575 | 1,034,991 | 6,147,897 |
| Amounts due from other banks | 43,070 | 380,822 | 4,880 | 796,861 | 554,044 | 1,779,677 |
| Treasury and Central Bank Bills | 3,751,720 | - | 21,431 | - | 30,447 | 3,803,598 |
| Loans and receivables from customers | 10,293,112 | 4,036,379 | 476,469 | 280,171 | 926,891 | 16,013,022 |
| Other financial assets | 5,765,279 | 567,619 | - | - | 40,553 | 6,373,451 |
| Other assets | 1,586,730 | 1,012,874 | 101,820 | - | 132,218 | 2,833,642 |
| **Total assets** | **24,216,616** | **7,498,048** | **1,427,872** | **1,089,607** | **2,719,144** | **36,951,287** |
| **Liabilities** | | | | | | |
| Amounts due to other banks | (39,162) | (247,495) | - | - | (77,008) | (363,665) |
| Customer deposits | (20,770,906) | (4,565,672) | (1,073,168) | (880,186) | (2,545,179) | (29,835,111) |
| Other liabilities | (747,358) | (1,624,178) | (55,959) | (3,814) | (77,872) | (2,509,181) |
| **Total liabilities** | **(21,557,426)** | **(6,437,345)** | **(1,129,127)** | **(884,000)** | **(2,700,059)** | **(32,707,957)** |
| **Net on-balance sheet position** | **2,659,190** | **1,060,703** | **298,745** | **205,607** | **19,085** | **4,243,330** |
| *Off-balance sheet position* | - | - | - | *913* | *(874)* | *39* |
| *Credit commitments* | *1,775,078* | *1,442,267* | *49,880* | - | *233,901* | *3,501,126* |

## 25. Foreign Exchange Risk *(continued)*

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

| *All amounts are expressed in K'000* | 2024 | | 2023 | |
|---|---|---|---|---|
| | Impact on profit or loss | Impact on equity | Impact on profit or loss | Impact on equity |
| USD strengthening by 5% (2023 – 5%) | 219 | 219 | (713) | (713) |
| USD dollar weakening by 15% (2023 – 15%) | (544) | (544) | 1,768 | 1,768 |
| AUD strengthening by 5% (2023 – 5%) | 296 | 296 | 128 | 128 |
| AUD dollar weakening by 15% (2023 – 15%) | (735) | (735) | (316) | (316) |

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

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

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

Forward exchange contracts outstanding at 31 December 2024 stated at the face value of the respective contracts are:

*All amounts are expressed in '000*

| **As at 31 December 2024** | | **USD** | **AUD** | **EURO** | **GBP** | **JPY** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | FCY | (863) | - | - | - | (127,104) | (584) | - |
| **Selling** | **Kina** | (3,453) | - | - | - | (3,255) | (2,336) | (9,044) |
| | FCY | 912 | 6 | - | - | 135,000 | 427 | - |
| **Buying** | **Kina** | 3,650 | 16 | - | - | 3,457 | 1,707 | 8,830 |

| **As at 31 December 2023** | | **USD** | **AUD** | **EURO** | **GBP** | **JPY** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | FCY | (991) | (21) | - | - | (100,324) | (1,075) | - |
| **Selling** | **Kina** | (3,695) | (52) | - | - | (2,645) | (4,008) | (10,400) |
| | FCY | 1,236 | 178 | 149 | - | 1,241 | 1,269 | - |
| **Buying** | **Kina** | 4,608 | 453 | 614 | - | 33 | 4,731 | 10,439 |

## 26. Interest Rate Risk

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

These mismatches are actively managed as part of the overall interest rate risk management process governed by the Assets and Liability Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Group. The objective of interest rate risk control is to minimise these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. The table below illustrates the interest sensitivity of assets and liabilities at the balance date.

## 26. Interest Rate Risk (continued)

**Interest sensitivity of assets, liabilities and off balance sheet items**

*All amounts are expressed in K'000*

| Consolidated<br>As at 31 December 2024 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-interest bearing |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and Balances with Central Banks | 1,369,192 | - | - | - | - | 1,992,424 |
| Amounts due from other banks | 610,146 | 245,809 | 191,877 | 22,512 | - | 803,834 |
| Treasury and Central Bank Bills | 746,421 | 792,546 | 978,685 | - | - | - |
| Cash reserve requirement with Central Banks | - | - | - | - | - | 3,255,374 |
| Loans and receivables from customers | 12,446,463 | 151,869 | 895,053 | 2,144,181 | 558,611 | 73,664 |
| Other financial assets | 65,421 | 491,053 | 1,117,773 | 2,990,154 | 2,493,570 | - |
| Other assets | 122,423 | 66,092 | 3,115 | - | - | 2,495,089 |
| **Total assets** | **15,360,066** | **1,747,369** | **3,186,503** | **5,156,847** | **3,052,181** | **8,620,385** |
| **Liabilities** | | | | | | |
| Amounts due to other banks | 103,070 | 77,279 | 19,031 | - | - | 60,818 |
| Customer deposits | 10,604,347 | 709,587 | 1,377,522 | 157,908 | 86 | 16,233,511 |
| Other liabilities | 309,832 | 77 | 178 | 276,185 | 59,245 | 2,180,735 |
| Other provisions | 4,897 | - | 1,795 | - | - | 294,182 |
| **Total liabilities** | **11,022,146** | **786,943** | **1,398,526** | **434,093** | **59,331** | **18,769,246** |
| **Interest sensitivity gap** | **4,337,920** | **960,426** | **1,787,977** | **4,722,754** | **2,992,850** | **(10,148,861)** |
| | | | | | | |
| **As at 31 December 2023** | | | | | | |
| **Assets** | | | | | | |
| Cash and Balances with Central Banks | 1,060,602 | - | - | - | - | 2,245,483 |
| Amounts due from other banks | 1,123,433 | 276,504 | 102,205 | - | - | 277,535 |
| Treasury and Central Bank Bills | 15,982 | 707,187 | 3,080,429 | - | | - |
| Cash reserve requirement with Central Banks | - | - | - | - | - | 2,841,812 |
| Loans and receivables from customers | 5,470,385 | 109,640 | 2,363,761 | 5,118,239 | 2,872,444 | 78,553 |
| Other financial assets | 33,022 | 231,671 | 870,822 | 3,348,886 | 1,889,050 | - |
| Other assets | 63,894 | 81,322 | 958 | - | - | 2,687,468 |
| **Total assets** | **7,767,318** | **1,406,324** | **6,418,175** | **8,467,125** | **4,761,494** | **8,130,851** |
| **Liabilities** | | | | | | |
| Amounts due to other banks | 155,666 | 39,862 | 71,739 | 24,698 | - | 71,700 |
| Customer deposits | 9,521,996 | 953,752 | 1,395,089 | 203,826 | 47 | 17,760,401 |
| Other liabilities | - | 21 | 72 | 266,846 | 69,960 | 1,904,850 |
| Other provisions | 3,942 | - | - | - | - | 263,490 |
| **Total liabilities** | **9,681,604** | **993,635** | **1,466,900** | **495,370** | **70,007** | **20,000,441** |
| **Interest sensitivity gap** | **(1,914,286)** | **412,689** | **4,951,275** | **7,971,755** | **4,691,487** | **(11,869,590)** |

Given the profile of assets and liabilities as at 31 December 2024 and prevailing rates of interest, a 1% increase in rates will result in a K33.686 million (2023: K29.012 million) increase in net interest income, whilst a 1% decrease in rates will result in a K97.052 million (2023: K70.518 million) decrease in net interest income.

## 27. Fair Values of Financial and Non-Financial Assets and Liabilities

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

The table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy. The different levels have been defined as follows:

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

**Consolidated**

*All amounts are expressed in K'000*

| **As at 31 December 2024** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| ***a) Financial assets*** | | | | |
| Equity securities | - | 333,259 | 4,105 | 337,364 |
| Treasury Bills | - | 13,542 | - | 13,542 |
| Government Inscribed Stock | - | 308,158 | - | 308,158 |
| ***Non-financial assets*** | | | | |
| Land and buildings | - | - | 570,875 | 570,875 |
| Investment properties | - | - | 388,008 | 388,008 |
| Aircraft subject to operating lease | - | - | 30,006 | 30,006 |
| **Total assets** | **-** | **654,959** | **992,994** | **1,647,953** |
| ***b) Financial liabilities*** | | | | |
| Insurance contract liabilities | - | - | (1,437,650) | (1,437,650) |
| **Total liabilities** | **-** | **-** | **(1,437,650)** | **(1,437,650)** |

| **As at 31 December 2023** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| ***a) Financial assets*** | | | | |
| Equity securities | - | 308,085 | 5,775 | 313,860 |
| Treasury Bills | - | 5,018 | - | 5,018 |
| Government Inscribed Stock | - | 277,876 | - | 277,876 |
| ***Non-financial assets*** | | | | |
| Land and buildings | - | - | 582,448 | 582,448 |
| Investment properties | - | - | 363,166 | 363,166 |
| Aircraft subject to operating lease | - | - | 32,387 | 32,387 |
| **Total assets** | **-** | **590,979** | **983,776** | **1,574,755** |
| ***b) Financial liabilities*** | | | | |
| Insurance contract liabilities | - | - | (1,249,512) | (1,249,512) |
| **Total liabilities** | **-** | **-** | **(1,249,512)** | **(1,249,512)** |

**Consolidated**

**Financial assets at fair value through profit and loss**

| **Level 3** | **2024** | **2023** |
|---|---|---|
| Opening balance | 983,776 | 872,220 |
| Total gains and losses recognised in: | | |
| - Profit and loss | (33,313) | (31,582) |
| - Other comprehensive income | 16,790 | 51,029 |
| - Purchases | 33,497 | 45,358 |
| - Disposals | (1,472) | (1,628) |
| - Translation movements | (6,167) | 48,379 |
| **Closing balance** | **993,111** | **983,776** |

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2024.

## 27. Fair Values of Financial and Non-Financial Assets and Liabilities *(continued)*

Property, plant and equipment represents commercial land and buildings owned and occupied. Investment properties represent land and buildings owned and leased out by the Group. Assets subject to operating lease relate to aircraft owned and leased out by the Group. Property, plant and equipment, Investment property and Assets subject to operating lease are valued based on valuations provided by independent valuers.

The frequency of valuations complies with Group policy. The significant inputs used in preparing the valuations relate to:

- Selling prices of similar properties and aircraft
- Maintenance costs
- Replacement costs

The fair value of the land and buildings and aircraft are classified as level 3 within the fair value hierarchy due to the use of the above mentioned unobservable inputs.

Sensitivities to reasonably possible changes in non-market observable valuation assumptions would not have a material impact on the Groups' reported results.

# Capital and Dividends

## 28. Ordinary Shares

**Accounting Policy**

**Share issue costs**

External costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

| *Number of shares in '000s, Book value in K'000* | **Number of shares** | **Book value** |
|---|---|---|
| At 1 January 2023 | 467,220 | 372,110 |
| **31 December 2024** | **467,220** | **372,110** |

**Dividends on ordinary shares**

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

| | **Consolidated** | | **Bank** | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Dividends paid on ordinary shares** | | | | |
| Interim ordinary dividend (2024: 45 toea; 2023: 37 toea) | 211,715 | 174,010 | 210,249 | 172,869 |
| Final ordinary dividend (2023: 106 toea; 2022: 140 toea) | 500,969 | 657,803 | 495,272 | 654,237 |
| | **712,684** | **831,813** | **705,521** | **827,106** |

In accordance with the Papua New Guinea Companies Act 1997 the shares have no par value. The Group's securities consist of ordinary shares which have equal participation and voting rights.

## 29. Retained Earnings and Other Reserves

### Retained earnings

| *All amounts are expressed in K'000* | **Consolidated 2024** | **Consolidated 2023** | **Bank 2024** | **Bank 2023** |
|---|---|---|---|---|
| At 1 January | 3,415,689 | 3,359,184 | 2,963,899 | 2,991,169 |
| Net profit for the year | 1,037,711 | 890,215 | 1,035,662 | 800,826 |
| Final dividends paid | (500,969) | (657,606) | (495,272) | (654,237) |
| Interim dividends paid | (211,715) | (174,010) | (210,249) | (172,869) |
| Disposal of assets – transfer from asset revaluation | 1,746 | 1,632 | 1,751 | 1,462 |
| Amalgamation of Finance PNG with PNG Bank (Note 38) | - | - | 44,468 | - |
| Other | - | (1,103) | - | - |
| BSP Life policy reserve | (9,494) | (2,452) | (9,494) | (2,452) |
| Gain attributable to minority interest | (384) | (171) | - | - |
| **At 31 December** | **3,732,584** | **3,415,689** | **3,330,765** | **2,963,899** |
| **Other reserves comprise:** | | | | |
| Asset revaluation reserve | 145,000 | 134,205 | 124,442 | 110,381 |
| Capital reserve | 635 | 635 | 635 | 635 |
| Equity component of Fiji Class Shares | 21,578 | 21,578 | - | - |
| Statutory insurance reserve | 71,882 | 62,388 | 71,882 | 62,388 |
| Foreign currency translation reserve | 274,543 | 236,024 | 154,533 | 129,776 |
| **At 31 December** | **513,638** | **454,830** | **351,492** | **303,180** |

### Other reserves

| *All amounts are expressed in K'000* | **Consolidated 2024** | **Consolidated 2023** | **Bank 2024** | **Bank 2023** |
|---|---|---|---|---|
| **Movement in reserves for the year:** | | | | |
| **Asset revaluation reserve** | | | | |
| At 1 January | 134,205 | 96,873 | 110,381 | 83,180 |
| Net asset revaluation increment / (decrement) | (2,764) | 38,349 | 503 | 28,048 |
| Transfer asset revaluation reserve to retained earnings | (1,746) | (1,632) | (1,751) | (1,462) |
| Others | (4) | - | - | - |
| Impact of PNG tax rate change | 14,561 | - | 14,561 | - |
| Release of deferred tax on disposal of assets | 748 | 615 | 748 | 615 |
| **At 31 December** | **145,000** | **134,205** | **124,442** | **110,381** |

## 29. Retained Earnings and Other Reserves *(continued)*

| *All amounts are expressed in K'000* | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|
| **Capital reserve** | | | | |
| At 1 January | 635 | 635 | 635 | 635 |
| **At 31 December** | **635** | **635** | **635** | **635** |
| | | | | |
| **Statutory insurance reserve** | | | | |
| At 1 January | 62,388 | 59,936 | 62,388 | 59,936 |
| BSP Life policy reserve | 9,494 | 2,452 | 9,494 | 2,452 |
| **At 31 December** | **71,882** | **62,388** | **71,882** | **62,388** |
| | | | | |
| **Foreign currency translation reserve** | | | | |
| At 1 January | 236,024 | 140,859 | 129,776 | 81,225 |
| Movement during the year | 38,519 | 94,112 | 24,757 | 48,551 |
| Other | - | 1,053 | - | - |
| **At 31 December** | **274,543** | **236,024** | **154,533** | **129,776** |

**Equity component of convertible notes**

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

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

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

## 30. Capital Adequacy

The Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Laos are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF), Central Bank of Solomon Islands (CBSI), The Financial Supervisory Commission (FSC), Central Bank of Samoa (CBS), National Reserve Bank of Tonga (NRBT), Reserve Bank of Vanuatu (RBV), the National Bank of Cambodia (NBC) and Bank of Laos P.D.R. 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 prescribes the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December

## 30. Capital Adequacy *(continued)*

2024, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%.

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

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

The Group's capital adequacy level is as follows (unaudited):

| | **Balance sheet / notional amount** | | **Risk-weighted amount** | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| **Balance sheet assets (net of provisions)** | | | | |
| Currency | 6,616,990 | 6,147,897 | 30,087 | 46,447 |
| Loans and receivables from customers | 16,129,056 | 15,860,753 | 13,027,973 | 12,585,259 |
| Investments and short term securities | 9,540,231 | 10,061,461 | 383,877 | 336,077 |
| All other assets | 4,837,074 | 4,881,176 | 2,695,775 | 2,736,278 |
| Off-balance sheet items | 3,830,055 | 3,501,165 | 228,542 | 212,668 |
| **Total** | **40,953,406** | **40,452,452** | **16,366,254** | **15,916,729** |
| | | | | |
| **Capital ratios** | | | | |
| a) Tier 1 capital | 3,958,804 | 3,496,941 | 24.2% | 22.0% |
| Total Capital | 4,294,489 | 3,881,320 | 26.2% | 24.4% |
| b) Leverage Capital Ratio | | | 10.8% | 9.6% |

The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%.

# Group Structure

## 31. Insurance

The Group's consolidated Financial Statements include the assets, liabilities, income and expense of the life and general insurance businesses. The Group's insurance business is made up of Life Insurance Contracts, Medical Insurance and Term Life Insurance. Insurance Contract products are provided by BSP Life (Fiji) Limited and BSP Life PNG Limited (collectively referred to in this note as the Company.)

*Summary of Measurement Approach*
The company uses different measurement approaches, depending on the type of contracts as noted below:

| | Product classification | Measurement Model |
|---|---|---|
| **Component of Contracts Issued** | | |
| Participating Base Products | Insurance contracts with Direct participating features | VFA |
| Riders of Participating Base Products | Insurance contracts | GMM |
| Non-Participating Contract (including associated riders) | Insurance contracts | GMM |
| **Reinsurance Contracts held** | | |
| Term Life and Disability - Surplus Reinsurance | Reinsurance contract held | GMM |
| Term Life and Disability - Catastrophe Insurance Cover | Reinsurance contract held | PAA |

The Company does not have any reinsurance contract issued, that qualify as insurance contacts under IFRS 17.

IFRS 17 defines a General Measurement Model (GMM) to use for valuing Insurance Contracts, with two modifications of this model applicable under certain circumstances. The GMM requires the projection of future cash flows related to insurance contracts using current financial and non-financial assumptions. The two other modifications of the GMM are described below;

- The Variable Fee Approach (VFA), insurance contracts with direct participation features are eligible to use this model. The model allows for the variable nature of fees that the Company earns from the Insurance Contracts, which depend on the underlying assets' performance.
- The Premium Allocation Approach (PAA) is a simplified model which does not require future projections to satisfy the requirements under IFRS 17, provided that the Insurance Contracts sold are profitable.

*A. Definitions and Classifications*

Insurance contracts are contracts by which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. This assessment is made on a contract-by-contract basis at the contract issue date.

The Company assesses, on a group of contract basis, whether participating contracts meet the definition of insurance contracts with direct participating features. The Company uses its judgement to assess whether the amount expected to be paid to the policyholder constitutes a substantial share of fair value returns from the underlying items and whether the variable cash flows represent a substantial proportion of the cash flows.

## 31. Insurance *(continued)*

*B. Level of aggregation applied to Insurance Contracts*

IFRS 17 requires insurance contracts to be recognised and measured in groups. The grouping of individual contracts under IFRS 17 is performed to limit the offsetting of profitable contracts against onerous ones regarding how insurers manage and evaluate their business performance. A portfolio of Contracts is defined based on Contracts that have similar risks and are managed together. The Portfolio is further divided into groups based on the year of issue and the expected level of profitability.

The Company issues two types of long-term products Participating and Non-Participating products. The products falling under each category have similar risks and have been managed together (risk transfer and risk pooling).

*C. Recognition*

The Company recognises groups of insurance contracts from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from a policyholder in the group becomes due; and
- the date when a group of contracts becomes onerous.

*D. Contract boundary*

The Company includes in the measurement of a group of insurance contracts all the future cash flows expected to arise within the boundary of each of the contracts in the group. In determining the cash flows within the boundary of an insurance contract, the Company assesses whether it arises from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums or the Company has the substantive obligation to provide the policyholder with services.

Cash flows outside the insurance contract boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

*E. Measurement of insurance contract issued*

*i) Measurement on initial recognition for contracts other than PAA*

A group of insurance contracts are measured on initial recognition as the sum of the expected fulfilment cash flows within the contract boundary and the contractual service margin representing the unearned profit in the contract relating to services that will be provided under the contracts.

**Fulfilment cash flows (FCF)**

The FCF are the current unbiased and probability-weighted estimates of the present value of the future cash flows, including a risk adjustment for non-financial risk. The Company considers a range of scenarios to establish a full range of possible outcomes without undue cost or effort about the amount, timing and uncertainty of expected future cash flows to arrive at the probability weighted value. The estimates of future cash flows reflect conditions existing at the measurement date including assumptions at that date regarding the future.

**Discount rates**

The time value of money and financial risk is measured separately from the expected future cash flows with changes in financial risks recognised in the profit or loss at the end of each reporting period. The Company measures the time value of money for all portfolios of participating, non-participating and riders using a point estimator given the maturity of the market and the lack of availability of market data.

## 31. Insurance *(continued)*

**Discount rates** *(continued)*

Expected cash flows that vary based on the returns on any financial underlying items are discounted using the top-down approach. The discount assumption is set using the expected earnings on the assets supporting the liability and this has been determined using market observed reference assets and the anticipated margin for each asset category relative to the performance of the reference asset.

**Risk adjustment for non-financial risk**

The Company measures the compensation it would require for bearing the uncertainty about the amount and timing of cash flows arising from insurance contracts, other than financial risk separately as an adjustment for non-financial risk. The Company uses cost of capital method in estimating the risk adjustment. The cost of capital approach uses the basis that Company's risk preference is based on the capital that it requires to hold which is appropriate for the non-financial risks that are relevant to IFRS 17 measurement objectives.

**Contractual service margin (CSM)**

The CSM is a component of the overall carrying amount of a group of insurance contracts representing unearned profit the Company will recognise as it provides insurance contract services over the coverage period.

**Coverage Period**

The Company determines, at initial recognition, the group's coverage units and allocates the group's CSM based on the coverage units provided in the period. The Company determines coverage units as follows:

- For the Participating Base product, the coverage unit is linked to the bonus declared on these contracts, as this is the more significant service provided under the contract.
- For all the other portfolios, the coverage being provided is death cover linked to a predetermined amount, which is the sum insured. The sum insured will be used as the coverage unit.

**Insurance acquisition cash flows**

The Company includes insurance acquisition cash flows in the measurement of a group of insurance contracts if they are directly attributable either to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. The Company estimates at a portfolio level insurance acquisition cash flows not directly attributable to the group but directly attributable to the portfolio and then allocates them to the group of newly written and renewed contracts on a systematic and rational basis.

*ii) Subsequent measurement for contracts other than PAA*

Subsequent to initial recognition, at the end of each reporting period, the carrying amount of the group of insurance contracts will reflect a current estimate of the liability for remaining coverage (LRC) as at that date and a current estimate of the liability for incurred claims (LIC).

The LRC represents the Company's obligation to investigate and pay valid claims under existing contracts for insured events that have not yet occurred, and amounts that relate to other insurance contract services not yet provided, comprising of the fulfilment cash flows relating to future service and the CSM yet to be earned.

## 31. Insurance *(continued)*

The LIC includes the Company's liability to pay valid claims for insured events that have already incurred, other incurred insurance expenses arising from past coverage service and includes the liability for claims incurred but not yet reported. It also includes the Company's liability to pay amounts the Company is obliged to pay the policyholder under the contract, including repayment of investment components, when a contract is derecognised. The current estimate of LIC comprises of the fulfilment cash flows related to current and past service allocated to the group at the reporting date.

**Changes in fulfilment cash flows**

At the end of each reporting period, the Company updates the fulfilment cash flows to reflect the current estimates of the amounts, timing and uncertainty of future cash flows and discount rates.

As all cashflows form a part of the underlying items for Participating Base Products, any experience adjustment or change in the estimate of future cash flow will impact future services, hence all items impact CSM.

**Recognition of the CSM in profit or loss**

CSM amount is released to profit or loss in each period during which the insurance contract services are provided.

The CSM amount to be released in each reporting period is determined as the coverage unit provided for the period as a percentage of the total expected coverage unit, applied to the CSM at the end. The total number of coverage units in the group is determined by considering for each contract the quantity of benefits provided under the contract and the expected coverage period. The total coverage unit, except for Participating Base Contracts, is calculated by applying the discounted future coverage unit at the risk free discount rate.

The CSM at the end of the reporting period is equally allocated to each of the coverage units provided in the current period and expected to be provided in the future. The CSM recognise in the profit or loss the amount of CSM allocated to the coverage units provided during the period. The CSM for reinsurance contracts held is released to the profit or loss as services are received from the reinsurer in the period.

*iii) Subsequent measurement for Reinsurance contracts other than PAA*

Changes in fulfilment cash flows

At the end of each reporting period, the Company updates the fulfilment cash flows to reflect the current estimates of the amounts, timing and uncertainty of future cash flows and discount rates.

**Experience adjustment**

Experience adjustments in relation to current or past service are recognised in the profit or loss, hence, incurred claims (including incurred but not reported) and other incurred insurance service expenses are included in the profit or loss. Experience adjustments in relation to future service are included in adjustments to the CSM.

The carrying amount of the CSM is adjusted at the end of the reporting period to reflect changes in the FCF applying the same approach as for insurance contracts issued, expect that the change in carrying amount can cause the CSM to be negative.

**Recognition of the CSM in profit or loss**

CSM amount is released to profit or loss in each period during which the insurance contract services are provided.

The CSM amount to be released in each reporting period is determined as the coverage unit provided for the period as a percentage of the total expected coverage unit, applied to the CSM at the end. The total number of coverage units in the group is determined by considering for each contract the quantity of benefits provided under the contract and the

### 31. Insurance *(continued)*

expected coverage period. The total coverage unit, except for Participating Base Contracts, is calculated by discounting future coverage unit at the risk free discount rate.

The CSM at the end of the reporting period is equally allocated to each of the coverage units provided in the current period and expected to be provided in the future. The CSM recognised in the profit or loss reflects the amount of CSM allocated to the coverage units provided during the period.

*iv) Onerous Contracts*

The onerous assessment is done on an individual contract level assessing future expected cash flows on a probability-weighted basis including a risk adjustment for non-financial risk. On initial recognition, the contracts expected to be loss making are grouped together and such groups are measured and presented separately. Once contracts are allocated to a group, they are not re-allocated unless they are substantively modified. For Participating Base Products, the onerous assessment takes into consideration the cashflow between the contracts in the Group of Contracts

A group of insurance contracts become onerous when the adjustment to the CSM exceeds the amount of CSM and the Company recognises the excess in insurance service expenses and records it as a loss component of the LRC.

After a loss component is recognised, the Company allocates any subsequent changes in FCF of the LRC on a systematic basis between the loss component and the LRC excluding the loss component.

*F. Contracts measured under the fair value*

The Company applied the fair value approach for those contracts issued more than 5 years prior to the date of transition to IFRS 17. This decision was made noting the significant time and effort needed to construct the transaction data required at the level to apply the requirements of IFRS 17 prior to this period.

**Level of aggregation**

The Company included contracts issued prior to January 2018 into one group split by portfolios of insurance contracts and applied the fair value approach as at December 2017.

**Fair valuation of liabilities of insurance contracts**

The fair value of liabilities has been determined per IFRS 13 Fair Value Measurement. There are no recent transactions or comparable markets for life insurance liabilities. In measuring the fair value, the approach taken is:

- The discounted value of projected cash flows relating to in-force life insurance contracts using assumptions reflecting past and expected future experience from the perspective of a potential purchaser.
- Plus allowance for the cost of holding statutory capital that a market participant acquiring the contracts would be required to bear.

Using a risk-adjusted discount rate to reflect the perspective of a potential purchaser.

*Fulfilment cash flows*

The fulfilment cash flows were estimated prospectively as at the transition date.

*Contractual service margin*

The CSM was estimated to be the difference between the fair value of a group of insurance contracts, measured in accordance with IFRS 13 as described above, and its FCF as at the transition date.

## 31. Insurance *(continued)*

**Accounting Policy**

***(a) Recognition and measurement***

*Long-term insurance contracts*

These contracts insure human life events (for example death, survival, disability, and critical illness) over a long duration and are underwritten by BSP (Fiji) Life Limited and BSP Life PNG Limited. Guaranteed benefits paid on occurrence of the specified insurance event are fixed and for participating policies declared bonuses are also payable. Most of the policies have maturity and surrender benefits.

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

The recognition and measurement of these contracts have been determined in accordance with IFRS 17. Short term contracts are not a material part of the BSP Financial Group's operations.

***(b) Methods and assumptions***

Key assumptions used in determining the Policy Liabilities of the Group are as follows:

*(i) Discount rates*

For contracts which have a DPF, the discount rate used is linked to the assets which back those contracts. For Fiji for the year ended 31 December 2024 this was 4.782% per annum (2023: 4.946% per annum), based on current 10-year government bond yields and expected earnings from the investment portfolio. For contracts without DPF and Accident Business, a rate of 3.90% per annum was used at 31 December 2024 (2023: 3.90% per annum). These rates were based on the 10-year government bond rate as published by the regulator.

*(ii) Investment and maintenance expenses*

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.5% per annum (2023: 3.5% per annum) for determining future expenses.

*(iii) Taxation*

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

*(iv) Mortality and morbidity - Fiji*

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male. These are then adjusted for the Company's own experience. Mortality rates used are as follows by gender and insured amount:

- Male and sum insured above FJ$200,000: 20% (2023: 20%) for base products and 65% (2023: 65%) for rider products of the FJ90-94 Male table for participating business in Statutory Fund 1.
- Male and sum insured up to FJ$200,000: 48% (2023: 48%) for base products and 65% (2023: 65%) for rider products of the FJ90-94 Male table for participating business in Statutory Fund 1.
- Female: An age setback of 3 years is applied to the Male rates above.

## 31. Insurance *(continued)*

*(v) Rates of discontinuance*

Best estimate assumptions for the incidence of withdrawal and discontinuance vary by product and duration and are based on the Group's experience which is reviewed regularly. Rates used in 2024 were the same as 2023 rates.

*(vi) Basis of calculation of surrender values*

Surrender values are determined by the Company. There have been no changes to surrender bases during the period (or the prior periods).

*(vii) Discretionary participating business*

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

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.

The FCF include a projection of the declaration of future bonuses and their impact on claims. The supportable bonus rate that emerges from the Margin on Service valuation (valuation method for policyholder profit/bonus management) as at 31st December 2024 for Participating Business is used as the IFRS 17 assumption. The policyholder retained earnings is added to the Insurance Contract Liability.

***(c) 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 profit or loss when they become due and payable in accordance with the reinsurance agreements.

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

**Financial Information**

The accounting policies of the consolidated entity, which have been applied in determining the financial information shown above, are the same as those applied in the consolidated financial statements. The summarised income statement for BSP Life (Group) is presented below as per the subsidiary's accounts. The consolidated profit includes insurance profit and investment earnings on shareholder's funds.

| *All amounts are expressed in K'000* | **Life insurance** | **General insurance and other items** | **2024 (Total)** | **2023 (Total)** |
|---|---|---|---|---|
| Insurance revenue | 45,570 | 52,018 | 97,588 | 84,037 |
| Insurance service expenses | (23,041) | (45,597) | (68,638) | (60,636) |
| **Insurance service result from insurance contracts issued** | **22,529** | **6,421** | **28,950** | **23,401** |
| Net expenses from reinsurance contracts | (653) | (1,451) | (2,104) | (2,803) |

## 31. Insurance *(continued)*

**Financial Information** *(continued)*

| | Life insurance | General insurance and other items | 2024 (Total) | 2023 (Total) |
|---|---|---|---|---|
| **Insurance service result** | **21,876** | **4,970** | **26,846** | **20,598** |
| Insurance finance income – investments | 145,770 | 747 | 146,517 | 119,002 |
| **Net investment income** | **145,770** | **747** | **146,517** | **119,002** |
| Insurance finance income/(expense) for insurance contracts issued | (121,686) | - | (121,686) | (105,331) |
| **Net insurance finance expenses** | **(121,686)** | **-** | **(121,686)** | **(105,331)** |
| **Net insurance and investment result** | **45,960** | **5,717** | **51,677** | **34,269** |
| Net income from subsidiaries | 107,864 | - | 107,864 | 107,760 |
| Other Income | 9,546 | 2 | 9,548 | 11,103 |
| Other Operating Expenses | (110,280) | (1,052) | (111,332) | (91,896) |
| **Net insurance operating income** | **53,090** | **4,667** | **57,757** | **61,236** |

The reconciliation of the Life insurance contract liabilities as at 31 December 2024 is as follows:

| | Liability for remaining coverage | | | Liability for incurred claims | Total |
|---|---|---|---|---|---|
| *All amounts are expressed in K'000* | **Excluding loss component** | **Loss component** | **Policy Loans*** | | |
| Opening contract assets | (5,966) | - | - | - | (5,966) |
| Opening insurance contract liabilities | 1,371,999 | 1,271 | (135,713) | 11,955 | 1,249,512 |
| **Net opening balance** | **1,366,033** | **1,271** | **(135,713)** | **11,955** | **1,243,546** |
| **Changes in the statement of profit or loss and OCI** | | | | | |
| Insurance revenue | (45,570) | - | - | - | (45,570) |
| Insurance service expenses | 20,435 | (337) | - | 2,943 | 23,041 |
| **Insurance service result** | **(25,135)** | **(337)** | **-** | **2,943** | **(22,529)** |
| Insurance finance expenses from insurance contracts recognised in profit and loss | 120,738 | 48 | - | - | 120,786 |
| Investment components excluded from insurance revenue and insurance service expenses | (136,956) | - | - | 162,486 | 25,530 |
| Effect of movements in exchange rates | 7,633 | 17 | (1,794) | 156 | 6,012 |
| **Total changes in the statement of profit or loss and OCI** | **(8,585)** | **65** | **(1,794)** | **162,642** | **152,328** |
| *Cash flows* | | | | | |
| Premiums received | 251,122 | - | 3,197 | - | 254,319 |
| Insurance acquisition cash flows | (29,987) | - | - | - | (29,987) |
| Claims and other insurance service expenses paid | (12,955) | - | - | (159,185) | (172,140) |
| Others | - | - | (209) | - | (209) |
| **Total cash flows** | **208,180** | **-** | **2,988** | **(159,185)** | **51,983** |
| **Net closing balance** | **1,540,493** | **999** | **(134,519)** | **18,355** | **1,425,328** |
| | | | | | |
| Closing contract assets | (11,708) | - | (614) | - | (12,322) |
| Closing insurance contract liabilities | 1,552,201 | 999 | (133,905) | 18,355 | 1,437,650 |
| **Net closing balance** | **1,540,493** | **999** | **(134,519)** | **18,355** | **1,425,328** |

** Policy loans and Other Insurance related assets that are transferred at face value to LRC.*

## 31. Insurance *(continued)*

### Financial Information *(continued)*

The reconciliation of the Life insurance contract liabilities as at 31 December 2023 is as follows:

| *All amounts are expressed in K'000* | **Liability for remaining coverage** | | | **Liability for incurred claims** | **Total** |
|---|---|---|---|---|---|
| | **Excluding loss component** | **Loss component** | **Policy Loans*** | | |
| Opening assets | (5,177) | - | - | - | (5,177) |
| Opening liabilities | 1,173,979 | 1,181 | (121,342) | 13,876 | 1,067,694 |
| **Net opening balance** | **1,168,802** | **1,181** | **(121,342)** | **13,876** | **1,062,517** |
| **Changes in the statement of profit or loss and OCI** | | | | | |
| **Insurance revenue** | (45,093) | - | - | - | (45,093) |
| **Insurance service expenses** | 19,682 | (18) | - | 3,895 | 23,559 |
| **Insurance service result** | **(25,411)** | **(18)** | **-** | **3,895** | **(21,534)** |
| Insurance finance expenses from insurance contracts recognised in profit and loss | 118,953 | 41 | - | - | 118,994 |
| Investment components excluded from insurance revenue and insurance service expenses | (145,475) | - | - | 145,475 | - |
| Effect of movements in exchange rates | 63,870 | 67 | (6,925) | 605 | 57,617 |
| **Total changes in the statement of profit or loss and OCI** | **11,937** | **90** | **(6,925)** | **149,975** | **155,077** |
| *Cash flows* | | | | | |
| Premiums received | 222,143 | - | - | - | 222,143 |
| Insurance acquisition cash flows | (25,736) | - | - | - | (25,736) |
| Claims and other insurance service expenses paid | (11,113) | - | (2,320) | (151,896) | (165,329) |
| Others | - | - | (5,126) | - | (5,126) |
| **Total cash flows** | **185,294** | **-** | **(7,446)** | **(151,896)** | **25,952** |
| **Net closing balance** | **1,366,033** | **1,271** | **(135,713)** | **11,955** | **1,243,546** |
| Closing assets | (5,966) | - | - | - | (5,966) |
| Closing liabilities | 1,371,999 | 1,271 | (135,713) | 11,955 | 1,249,512 |
| **Net closing balance** | **1,366,033** | **1,271** | **(135,713)** | **11,955** | **1,243,546** |

## 31. Insurance *(continued)*

### Financial Information *(continued)*

**Insurance and Financial Risk Management**

The Company is committed to the management of risk to achieve sustainability of service to its customers, employment of its staff and profits to its shareholders and therefore, takes on controlled amounts of risk when considered appropriate.

Reconciliation of the measurement components of insurance contract balances for insurance contracts as at 31 December 2024:

| | Estimates | Risk | CSM | | | Total |
|---|---|---|---|---|---|---|
| **31 December 2024** | **of present value of future cash flows** | **adjustment for non-financial risk** | **Contracts under Full retrospective approach** | **Contracts under fair value approach** | **Other contracts** | |
| **1 January 2024** | **1,196,457** | **4,708** | **15,376** | **24,841** | **8,130** | **1,249,512** |
| **Changes in the statement of profit or loss and OCI** | | | | | | |
| *Changes that relate to current service* | | | | | | |
| CSM recognised for services provided | - | - | (1,397) | (2,600) | (933) | (4,930) |
| Change in risk adjustment for non-financial risk for risk expired | - | (1,222) | - | - | - | (1,222) |
| Experience adjustments | (4,932) | - | - | - | (12,882) | (17,814) |
| | **(4,932)** | **(1,222)** | **(1,397)** | **(2,600)** | **(13,815)** | **(23,966)** |
| *Changes that relate to future service* | | | | | | |
| Contracts initially recognised in the year | (7,904) | 1,446 | - | - | 6,793 | 335 |
| Changes in estimates that adjust the CSM | 20,986 | 5,645 | (3,325) | (1,429) | (6,760) | 15,117 |
| Changes in estimates that result in losses and reversals of losses on onerous contracts | (14,725) | (840) | - | - | - | (15,565) |
| | **(1,643)** | **6,251** | **(3,325)** | **(1,429)** | **33** | **(113)** |
| *Changes that relate to past services* | | | | | | |
| Adjustments to liabilities for incurred claims | 2,759 | - | - | - | - | 2,759 |
| **Insurance service result** | **(3,816)** | **5,029** | **(4,722)** | **(4,029)** | **(13,782)** | **(21,320)** |
| Insurance finance expenses from insurance contracts recognised in profit and loss | 112,781 | 226 | 183 | 95 | 94 | 113,379 |
| Investment components excluded from insurance revenue and insurance service expenses | 23,934 | - | - | - | (570) | 23,364 |
| Effect of movements in exchange rates | 29,545 | 111 | 542 | 671 | (2,422) | 28,447 |
| **Total changes in the statement of profit or loss and OCI** | **162,444** | **5,366** | **(3,997)** | **(3,263)** | **(16,680)** | **143,870** |
| Cash flows | 29,149 | - | - | - | 15,119 | 44,268 |
| **Net balance as at 31 December 2024** | **1,388,050** | **10,074** | **11,379** | **21,578** | **6,569** | **1,437,650** |

## 31. Insurance *(continued)*

**Financial Information** *(continued)*

**Insurance and Financial Risk Management** *(continued)*

Reconciliation of the measurement components of insurance contract balances for insurance contracts as at 31 December 2023:

| 31 December 2023 | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | CSM: Contracts under Full retrospective approach | CSM: Contracts under fair value approach | CSM: Other contracts | Total |
|---|---|---|---|---|---|---|
| **1 January 2023** | **1,001,792** | **1,750** | **18,418** | **35,412** | **5,145** | **1,062,517** |
| **Changes in the statement of profit or loss and OCI** | | | | | | |
| *Changes that relate to current service* | | | | | | |
| CSM recognised for services provided | - | - | (1,540) | (3,244) | (723) | (5,507) |
| Change in risk adjustment for non-financial risk for risk expired | - | (618) | - | - | - | (618) |
| Experience adjustments | (1,702) | - | - | - | (12,689) | (14,391) |
| | **(1,702)** | **(618)** | **(1,540)** | **(3,244)** | **(13,412)** | **(20,516)** |
| *Changes that relate to future service* | | | | | | |
| Contracts initially recognised in the year | (11,302) | 1,256 | - | - | 10,091 | 45 |
| Changes in estimates that adjust the CSM | 16,544 | 2,064 | (2,614) | (9,720) | (5,752) | 522 |
| Changes in estimates that result in losses and reversals of losses on onerous contracts | (420) | 39 | - | - | - | (381) |
| | **4,822** | **3,359** | **(2,614)** | **(9,720)** | **4,339** | **186** |
| **Insurance service result** | **3,120** | **2,741** | **(4,154)** | **(12,964)** | **(9,073)** | **(20,330)** |
| Insurance finance expenses from insurance contracts recognised in profit and loss | 100,626 | 106 | 174 | 123 | 50 | 101,079 |
| Investment components excluded from insurance revenue and insurance service expenses | 5,153 | - | - | - | (1,052) | 4,101 |
| Effect of movements in exchange rates | 64,658 | 111 | 938 | 2,270 | 1,493 | 69,470 |
| **Total changes in the statement of profit or loss and OCI** | **173,557** | **2,958** | **(3,042)** | **(10,571)** | **(8,582)** | **154,320** |
| Cash flows | 21,108 | - | - | - | 11,567 | 32,675 |
| **Net balance as at 31 December 2023** | **1,196,457** | **4,708** | **15,376** | **24,841** | **8,130** | **1,249,512** |

## 31. Insurance *(continued)*

An analysis of the expected recognition of the CSM remaining at the end of the reporting period in the profit or loss is provided in the following table. The analysis below considers the Insurance and Reinsurance Contract:

| Total CSM for insurance contracts | Less than 1 year | In 1 to 3 years | In 4 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As at 31 December 2024 | 4,348 | 10,409 | 5,410 | 19,360 | 39,527 |
| As at 31 December 2023 | 5,345 | 12,945 | 6,908 | 23,149 | 48,347 |

BSP Life conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, mortality, morbidity, and inflation. The table below illustrates how changes in key assumptions and experience would impact the reported profit, liabilities, and equity of BSP Life. For Market risks, the effect of movements in interest rates or equity values on the value of assets and liabilities is shown. For insurance risk, changes to key assumptions would have no impact on liabilities, which are calculated using Margin on Services, for which there is an offsetting reserve for future profits under non-participating and future supportable bonus for participating policies.

| **Results from sensitivity analysis** | **31 December 2024** | | | | **31 December 2023** | | | |
|---|---|---|---|---|---|---|---|---|
| *All amounts are expressed in K'000* | **Effect on assets** | **Effect on liabilities** | | **Profit/ (loss)** | **Effect on assets** | **Effect on liabilities** | | **Profit/ (loss)** |
| | | **FCF** | **CSM** | | | **FCF** | **CSM** | |
| **Market Risks** | | | | | | | | |
| Increase in Interest Rates of 1% | (24,376) | (30,403) | 10,983 | (4,956) | (20,683) | (25,719) | 8,915 | (3,879) |
| Decrease in Interest Rates of 1% | 27,598 | 36,195 | (14,066) | 5,469 | 23,307 | 28,881 | (9,966) | 4,392 |
| Equity values increase by 10% | 75,515 | 53,739 | 5,885 | 15,891 | 72,791 | 49,912 | 7,390 | 15,489 |
| Equity values decrease by 10% | (75,515) | (53,755) | (5,863) | (15,897) | (72,791) | (50,121) | (7,207) | (15,463) |
| Foreign currency strengthens by 10bps | 30,702 | 21,848 | 2,393 | 6,461 | 22,183 | 15,211 | 2,252 | 4,720 |
| Foreign currency weakens by 10bps | (20,616) | (14,675) | (1,601) | (4,340) | (15,219) | (10,480) | (1,507) | (3,232) |
| **Insurance risks** | | | | | | | | |
| Increase in expenses of 10% | - | 215 | (173) | (42) | - | 2,324 | (2,024) | (300) |
| Improvement in lapses by 10% | - | 707 | (588) | (119) | - | (524) | 708 | (184) |
| Worsening of lapses by 10% | - | (1,013) | 815 | 198 | - | 497 | (677) | 180 |
| Improvement in mortality of 10% | - | (5,323) | 4,826 | 497 | - | (1,348) | 1,141 | 207 |
| Worsening of mortality of 10% | - | 4,739 | (4,213) | (526) | - | 3,242 | (2,866) | (376) |
| Worsening of morbidity of 10% | - | (724) | 639 | 85 | - | (73) | 71 | 2 |

## 31. Insurance *(continued)*

The risk management framework is targeted at ensuring that the Company maintains sufficient capital at a level which exceeds the minimum solvency requirements prescribed by the regulators.

The Company is exposed to financial as well as insurance risks. The Group's risk management strategy is set by the Board of Directors through the following sub-committees:

- BSP Life (Fiji) Limited Investment Governance Committee (IGC) (Market Risk) and
- Board Audit and Compliance Committee (Operational and Other Risk).

Implementation of the risk management strategy and the day-to-day management of risk is the responsibility of the Executive Management.

***Insurance risk***

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and is unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using actuarial methods.

The Company's objectives in managing risks arising from the insurance business are:

- To ensure risk appetite decisions are made within the context of corporate goals and governance structures
- To ensure that an appropriate return on capital is made in return for accepting insurance risk
- To ensure that strong internal controls embed underwriting to risk within the business
- To ensure that internal and external solvency and capital requirements are met
- To use reinsurance as a component of insurance risk management strategy.

*Terms and conditions of insurance contracts*

The nature of the terms of insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the long-term insurance contracts:

| **Type of Contract** | **Details of Contract Terms and Conditions** | **Nature of Compensation for Claims** | **Key Variables that affect the timing and uncertainty of Future Cash Flows** |
|---|---|---|---|
| Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability) | Benefits paid on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the insurer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion. | Benefits, defined by the insurance contract, are determined by the contract, and are not directly affected by the performance of underlying assets or the performance of the contracts as whole. | − Mortality<br>− Morbidity<br>− Discontinuance rates<br>− Expenses<br>− Market rates on underlying assets |
| Life insurance contracts with discretionary participating benefits (endowment and whole of life) | These policies include a clearly defined initial guaranteed sum which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. | Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. | − Mortality<br>− Morbidity<br>− Market risk<br>− Discontinuance rates<br>− Expenses<br>− Market rates on underlying assets |

## 31. Insurance *(continued)*

**Insurance and Financial Risk Management**

Variations in claim levels will affect reported profit and equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed.

Concentrations of insurance risk arise due to the large sums assured on certain individuals. The largest exposures all relate to mortality. The largest single exposure for the Life business is K14.2m of which K13.6m is reinsured (2023: K14.0m of which K13.5m is reinsured). For BSP Life PNG, the largest single exposure is K11.2 million of which K11.1 million is reinsured (2023: K11.1 million of which K11.0 million was reinsured).

Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk and diversify the type and amount of insurance risks accepted, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance and proactive claims handling. The experience of the Company's Life Insurance business is reviewed regularly.

## 32. Investment in Subsidiaries

| Name of subsidiary | Principal activity | Place of incorporation and operation | | Balance of investment | |
|---|---|---|---|---|---|
| | | | Ownership % | 2024 | 2023 |
| BSP Capital Limited | Fund Management/ Investment Banking | PNG | 100% | 2,448 | 2,448 |
| BSP Life (Fiji) Limited | Life Insurance | Fiji | 100% | 87,599 | 87,599 |
| BSP Life (PNG) Limited | Life Insurance | PNG | 100% | 25,000 | 25,000 |
| BSP Convertible Notes Limited | Capital Raising | Fiji | 100% | 371 | 371 |
| BSP Finance Limited | Credit Institution | PNG | 100% | 97,677 | 94,478 |
| BSP Platform Pacific Limited | Digital Technology | PNG | 100% | 395 | 395 |
| Bank of South Pacific Tonga Ltd | Bank | Tonga | 100% | 71,611 | 71,611 |
| Bank South Pacific (Samoa) Ltd | Bank | Samoa | 98.7% | 70,712 | 70,713 |
| Bank South Pacific Vanuatu Ltd | Bank | Vanuatu | 100% | 38,020 | 38,020 |
| **At 31 December** | | | | **393,833** | **390,635** |

| | 2024 | 2023 |
|---|---|---|
| **Represented by:** | | |
| At 1 January | 390,635 | 399,361 |
| BSP Platform Pacific Limited conversion from Joint Venture | - | 395 |
| Partial conversion of debt to equity. | 3,198 | - |
| Additional capital / (divestment of shares) | - | (9,121) |
| **At 31 December** | **393,833** | **390,635** |

BSP Life (Fiji) Limited divested 40% of its interest in Future Farms Limited of K33.918 million, during the reporting period. The entity retained control over the investment.

## 33. Investment in Joint Ventures

| Name of Joint Venture | Principal activity | Place of incorporation and operation | Ownership % 2024 | Ownership % 2023 |
|---|---|---|---|---|
| Suva Central Ltd | Property rental | Fiji | 50%* | 50%* |
| Richmond Ltd | Hotel operations | Fiji | 50%* | 50%* |
| BSP Finance Cambodia Plc[1] | Asset financing | Cambodia | 50%* | 50%* |
| BSP Finance Laos[1] | Asset financing | Laos | 50%* | 50%* |

*The investments above are accounted for using the equity method.*
** Both ownership and voting power held, ** ownership, *** voting power held.*
*[1] Assets held for sale.*

| *All amounts are expressed in K'000* | Consolidated 2024 | Consolidated 2023 | Bank 2024 | Bank 2023 |
|---|---|---|---|---|
| **Joint Ventures** | | | | |
| Investment in Joint Ventures | 303,617 | 270,111 | 29,615 | 26,127 |
| (Disposal of)/New investment during the year | 3,197 | (39,510) | - | - |
| Translation movement | 3,411 | 14,904 | 357 | 546 |
| Impairment loss (Note 39) | (35,816) | - | - | - |
| Share of profit/(loss) for the year | 13,623 | 58,112 | 314 | 2,942 |
| Asset held for sale (Note 39) | (14,544) | - | - | - |
| **Net investment in joint venture** | **273,488** | **303,617** | **30,286** | **29,615** |
| **Summarised financial information of Joint Ventures:** | | | | |
| Total assets | 655,830 | 734,386 | 95,141 | 94,016 |
| Total liabilities | (334,566) | (432,283) | (41,491) | (41,001) |
| **Net assets** | **321,264** | **302,103** | **53,650** | **53,015** |
| Share of profit/(loss) for the year | 54,468 | 28,742 | 314 | 2,942 |
| Group fair value alignment | (40,845) | 29,370 | - | - |
| **Share of profit in Group** | **13,623** | **58,112** | **314** | **2,942** |

# Other

## 34. Fiduciary Activities

The Group especially through BSP Capital Limited conducts investment fund management and other fiduciary activities as responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation. These funds are not consolidated, as the Group does not have direct or indirect control. Where the funds 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 Financial Statements.

## 35. Related Party Transactions

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

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

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions.

## 35. Related Party Transactions *(continued)*

These transactions are carried out on commercial terms and market rates. For the year ended 31 December 2024, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

| *All amounts are expressed in K'000* | **2024** | **2023** |
|---|---|---|
| **Customer Deposits** | | |
| Opening balances | 82,772 | 150,256 |
| Net movement | 81,000 | (67,484) |
| Closing balance | **163,772** | **82,772** |
| Interest paid | 14 | 12 |
| **Loans and receivables from customers** | | |
| Opening balances | 894,914 | 636,622 |
| Loans issued | 800,000 | 67,500 |
| Interest | 50,526 | 45,596 |
| Charges | - | 12 |
| Loan repayments | (858,339) | (132,117) |
| New Director | 1 | 834,409 |
| Outgoing Director | - | (557,108) |
| **Closing balance** | **887,102** | **894,914** |

Subsidised transactions are provided for staff. Such transactions include marginal discounts on interest rates, and specific fee concessions. These benefits 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 2024, staff account balances were as follows:

| | | |
|---|---|---|
| Housing loans | 192,126 | 195,907 |
| Other loans | 63,532 | 65,568 |
| | **255,658** | **261,475** |
| Cheque accounts | 14,264 | 10,085 |
| Savings accounts | 6,235 | 6,923 |
| | **20,499** | **17,008** |

## 36. Directors and Executive Remuneration

### Directors' remuneration

Directors of the company received remuneration including benefits during 2024 as detailed below:

| *All amounts are expressed in Kina* | | | **Total remuneration** | | | |
|---|---|---|---|---|---|---|
| **Name of Director** | **Meetings attended / total held** | **Appointed/ (Resigned)** | **2024 Bank** | **2024 Subsidiaries** | **2024 Total** | **2023 Total** |
| Sir K.G. Constantinou, OBE | 1/1 | (Feb 2023) | - | - | - | 215,326 |
| M.T. Robinson[1] | 7/7 | | - | - | - | - |
| R.G. Bradshaw | 7/7 | | 942,946 | - | 942,946 | 692,274 |
| S.G. Brewis-Weston | 7/7 | | 524,030 | - | 524,030 | 414,864 |
| Dr. M. Lua'iufi | 7/7 | | 510,905 | 120,000 | 630,905 | 519,239 |
| S.A Davis | 7/7 | | 537,155 | - | 537,155 | 427,364 |
| P. Kevin | 7/7 | | 507,155 | - | 507,155 | 402,364 |
| F.D. Bouraga | 7/7 | | 521,530 | - | 521,530 | 389,864 |
| P.F. Taureka-Seruvatu | 7/7 | | 517,780 | - | 517,780 | 402,364 |
| I.A. Tarutia | 5/5 | | 524,030 | - | 524,030 | 249,538 |
| A. Sam | 1/7 | (Feb 2024) | 127,894 | | 127,894 | 427,364 |

## 36. Directors and Executive Remuneration *(continued)*

**Directors' remuneration** *(continued)*

*All amounts are expressed in Kina*

| Name of Director | Meetings attended / total held | Appointed/ (Resigned) | Total remuneration 2024 Bank | 2024 Subsidiaries | 2024 Total | 2023 Total |
|---|---|---|---|---|---|---|
| S.C. Beach | 5/5 | Apr 2024 | 399,261 | - | 399,261 | - |
| | | | **5,112,686** | **120,000** | **5,232,686** | **4,140,561** |
| Shareholder Approved Cap | | | | | **6,000,000** | **4,500,000** |

[1]Managing Director / Group 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.

**Executive Remuneration**

The specified executives as at 31 December 2024 were:

| | | | |
|---|---|---|---|
| Mark Robinson | Ronesh Dayal | Peter Beswick | Daniel Faunt |
| Nuni Kulu | Rohan George | Richard Nicholls | Vandhna Narayan |
| Hari Rabura | Maryann Lameko-Vaai | Paul Black (August 2024) | |

*All amounts are expressed in K'000*

| Year | Salary | Short term incentive | Value of benefits | Long term incentive | Leave encashment | Final entitlements | Total |
|---|---|---|---|---|---|---|---|
| 2024 remuneration | 20,078 | 9,174 | 1,444 | 4,816 | 477 | - | **35,989** |
| 2023 remuneration | 16,226 | 5,405 | 1,247 | 2,564 | 993 | - | **26,435** |

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 | 2024 No. | 2023 No. | Remuneration K'000 | 2024 No. | 2023 No. | Remuneration K'000 | 2024 No. | 2023 No. |
|---|---|---|---|---|---|---|---|---|
| 100 – 110 | 183 | 125 | 590 – 600 | 3 | 1 | 1200 – 1210 | 1 | 1 |
| 110 – 120 | 135 | 122 | 600 – 610 | 3 | 4 | 1240 – 1250 | - | 1 |
| 120 – 130 | 101 | 84 | 610 – 620 | 2 | 5 | 1240 – 1250 | - | 1 |
| 130 – 140 | 71 | 70 | 620 – 630 | 1 | 4 | 1260 – 1270 | 1 | 1 |
| 140 – 150 | 70 | 68 | 630 – 640 | 2 | 2 | 1310 – 1320 | - | 1 |
| 150 – 160 | 51 | 51 | 640 – 650 | 2 | 1 | 1320 – 1330 | - | 1 |
| 160 – 170 | 44 | 38 | 650 – 660 | - | 1 | 1330 – 1340 | - | 1 |
| 170 – 180 | 27 | 32 | 660 – 670 | - | 1 | 1340 – 1350 | 1 | 1 |
| 180 – 190 | 30 | 27 | 670 – 680 | - | 2 | 1360 – 1370 | - | 1 |
| 190 – 200 | 18 | 25 | 680 – 690 | 4 | 1 | 1370 – 1380 | - | 1 |
| 200 – 210 | 24 | 17 | 690 – 700 | - | 2 | 1380 – 1390 | 1 | - |
| 210 – 220 | 17 | 20 | 710 – 720 | 1 | 1 | 1410 – 1420 | - | 1 |
| 220 – 230 | 19 | 19 | 720 – 730 | 1 | 1 | 1430 – 1440 | - | 1 |
| 230 – 240 | 13 | 14 | 730 – 740 | 1 | 2 | 1440 – 1450 | - | 1 |
| 240 – 250 | 18 | 26 | 740 – 750 | 1 | - | 1520 – 1530 | - | 1 |
| 250 – 260 | 11 | 5 | 750 – 760 | 1 | 1 | 1530 – 1540 | - | 1 |
| 260 – 270 | 9 | 10 | 760 – 770 | 1 | 2 | 1550 – 1560 | - | 1 |
| 270 – 280 | 5 | 8 | 770 – 780 | 1 | 1 | 1560 – 1570 | - | 1 |
| 280 – 290 | 5 | 7 | 780 – 790 | 1 | - | 1680 – 1690 | 1 | - |
| 290 – 300 | 5 | 9 | 790 – 800 | 1 | - | 1760 – 1770 | - | 1 |
| 300 – 310 | 3 | 5 | 800 – 810 | 2 | - | 1780 – 1790 | 1 | 1 |
| 310 – 320 | 8 | 8 | 810 – 820 | 1 | 1 | 1790 – 1800 | 1 | - |
| 320 – 330 | 8 | 5 | 820 – 830 | - | 2 | 1810 – 1820 | - | 1 |
| 330 – 340 | 10 | 5 | 830 – 840 | 1 | - | 1840 – 1850 | - | 1 |
| 340 – 350 | 5 | 4 | 840 – 850 | 1 | - | 1880 – 1890 | - | 1 |
| 350 – 360 | 4 | 6 | 850 – 860 | - | 1 | 1930 – 1940 | - | 1 |

## 36. Directors and Executive Remuneration *(continued)*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 360 – 370 | 5 | 3 | 860 – 870 | 1 | 2 | 1980 – 1990 | 1 | - |
| 370 – 380 | 12 | 5 | 870 – 880 | - | 2 | 2000 – 2010 | 1 | - |
| 380 – 390 | 8 | 3 | 900 – 910 | 2 | - | 2060 – 2070 | 1 | - |
| 390 – 400 | 4 | 4 | 910 – 920 | 2 | 2 | 2080 – 2090 | 1 | 1 |
| 400 – 410 | 7 | 4 | 930 – 940 | 2 | - | 2250 –2260 | - | 1 |
| 410 – 420 | 7 | 3 | 940 – 950 | 1 | 1 | 2280 – 2290 | - | 1 |
| 420 – 430 | 5 | 6 | 950 – 960 | 2 | - | 2360 – 2370 | - | 1 |
| 430 – 440 | 3 | 5 | 960 – 970 | - | - | 2410 – 2420 | 2 | |
| 440 – 450 | 5 | 6 | 990 – 1000 | 1 | 2 | 2430 – 2440 | - | 1 |
| 450 – 460 | 6 | 1 | 1000 – 1010 | 2 | 1 | 2480 – 2490 | 1 | - |
| 460 – 470 | 9 | 2 | 1010 – 1020 | 1 | 1 | 2490 – 2500 | 1 | - |
| 470 – 480 | 5 | 8 | 1020 – 1030 | 1 | - | 2500 – 2510 | - | 1 |
| 480 – 490 | 4 | 7 | 1030 – 1040 | 1 | - | 2610 – 2620 | 1 | - |
| 490 – 500 | 2 | 5 | 1040 – 1050 | - | 1 | 2750 – 2760 | - | 1 |
| 500 – 510 | 3 | 2 | 1050 – 1060 | - | 1 | 3190 – 3200 | - | 1 |
| 510 – 520 | 2 | 3 | 1060 – 1070 | 1 | - | 7120 –7130 | 1 | - |
| 520 – 530 | 2 | - | 1070 – 1080 | 1 | - | | | |
| 530 – 540 | 2 | 5 | 1090 – 1100 | 3 | - | | | |
| 540 – 550 | 1 | 2 | 1100 – 1110 | - | 3 | | | |
| 550 – 560 | 2 | 2 | 1120 – 1130 | 1 | 2 | | | |
| 560 – 570 | 2 | 4 | 1130 – 1140 | 2 | 1 | | | |
| 570 – 580 | 1 | 2 | 1140 – 1150 | 1 | - | | | |
| 580 – 590 | 5 | 4 | 1160 – 1170 | 3 | 2 | | | |
| | | | | | | **Total** | **1,072** | **984** |

*Remuneration disclosures have been updated to reflect entitlements applicable to respective years. Short term incentives and long term incentives for executives are paid post availability of audited accounts in the subsequent year and have been aligned accordingly. Prior year disclosures were based on the period each entitlement was received.*

## 37. Events Occurring After Balance Sheet Date

### Conversion of Fiji Branch to Subsidiary

As part of BSP Financial Group's strategic initiatives to enhance operational and regulatory compliance, the Fiji branch was converted into a wholly owned subsidiary, BSP Financial Group (Fiji) Pte Limited, effective 1 January 2025. This restructuring aligns with the Group's commitment to gaining operational efficiencies and meeting jurisdictional requirements. This is also in line with recent global corporate financial structure trends.

### Nature of the Transaction

The conversion will involve the transfer of all assets, liabilities, and operations of the Fiji branch to the new subsidiary. The transaction will be accounted for as a reorganization within the Group.

### Financial Impact

The following net assets were transferred to the subsidiary. The foreign currency translation reserve at 1 January 2025 of K81.778 million attributable to the Fiji branch will be derecognised and recognised in that Statement of Income and Expenditure of the parent entity. The conversion has no material impact on the Group's assets, liabilities, equity, and profit or loss account.

| **Assets** | *All amounts in K'000* |
|---|---|
| Loans and advances | 4,519,542 |
| Property, plant, and equipment | 38,317 |
| Cash and cash equivalents | 1,343,802 |
| Cash reserve requirement with Central Bank | 562,108 |
| Amounts due to other banks | 138,628 |
| Other assets | 124,977 |
| **Total assets** | **6,727,374** |
| Deposits | 5,460,003 |
| Amounts due to other banks | 230,856 |
| Other liabilities | 322,492 |
| Equity & retained earnings | 714,023 |
| **Total equity and liabilities** | **6,727,374** |

## 37. Events Occurring After Balance Sheet Date *(continued)*

The net assets will be transferred to the subsidiary at their carrying amounts, and the investment in the subsidiary will be recognised at the same value in the parent entity's financial statements.

**Consolidation in 2025**

Following the conversion, BSP Financial Group (Fiji) Pte Limited will be fully consolidated into the BSP Financial Group's financial statements. All intercompany transactions and balances between the Group and the new subsidiary will also be eliminated on consolidation.

**Regulatory and Operational Implications**

The conversion exercise involved various stakeholder engagements and required regulatory approvals were received from Reserve Bank of Fiji, Fiji Revenue and Custom Services, Fiji Competition & Consumer Commission, Investment Fiji and Government of Fiji. The subsidiary now operates as "BSP Financial Group (Fiji) Pte Limited" and complies with local statutory and regulatory requirements.

## 38. Amalgamation of BSP Finance PNG Limited

The Registrar of Companies approved the amalgamation of BSP Finance PNG Limited with BSP Financial Group Limited. The effective date of amalgamation was 31 December 2024. BSP Finance PNG Limited was amalgamated into the Company using the short-form amalgamation process under section 235 of the Companies Act 1997.

The name of the amalgamated company is BSP Financial Group Limited. Under the amalgamation, the Company took control of all the assets of BSP Finance PNG Limited and assumed the responsibility for their liabilities. The amalgamation was accounted in the 2024 financial year based on predecessor accounting with book value accounting used for the purposes of the transaction. The amalgamation had no impact on the Group's assets, liabilities, equity, and profit or loss account, as the amalgamated entity has been fully controlled by the Group and consolidated prior to the amalgamation and after the amalgamation. This strategic decision was made to enhance operational efficiency and leverage synergies between the two entities and to strengthen the competitive position of the combined entity in the market. Further, amalgamation had no impact on the Group's cash flows.

The effect of amalgamation of BSP Finance PNG Limited at the date of amalgamation is summarised below:

| | **K'000** |
|---|---|
| Assets of amalgamated entity | 134,479 |
| Liabilities of amalgamated entity | (90,011) |
| **Total net assets acquired on amalgamation** | 44,468 |
| Less: investment in amalgamated entity | - |
| **Amount recognised directly within common control reserve in equity** | 44,468 |
| **Total cash held by amalgamated entity on amalgamation** | 6,095 |

**Predecessor accounting**

Amalgamations of entities under common control are accounted for using the predecessor values method. Under this method, the financial statements of the combined entity are presented as if PNG Bank and BSP Finance PNG Limited had been combined from the date when the combining entities were amalgamated. The assets and liabilities of the amalgamated entities are stated at the predecessor carrying amounts. Fair value measurement is not required, and no new goodwill arises in predecessor accounting.

Any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of the transaction is included within common control reserve in equity.

## 39. Asset held for sale

At 31 December 2024, the Company has classified its investment in the joint ventures (BSP Finance Cambodia & BSP Finance Laos) as held for sale. The investment is expected to be sold in the next financial year. The carrying amount of the investment has been measured at the lower of its carrying amount and fair value less costs to sell, resulting in a reclassification to non-current assets held for sale with a carrying amount of K14.544 million. The impairment taken up in this period is K35.816 million.

## 40. Remuneration of Auditor

| | **Consolidated** | | **Bank** | |
|---|---|---|---|---|
| *All amounts are expressed in K'000* | **2024** | **2023** | **2024** | **2023** |
| Financial statement audits | 5,427 | 6,925 | 3,831 | 4,611 |
| Other services | 583 | 553 | 541 | 517 |
| | **6,010** | **7,478** | **4,372** | **5,128** |

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

# *Independent auditor's report*

To the shareholders of BSP Financial Group Limited

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

### *Our opinion*

We have audited the financial statements of BSP Financial Group Limited (the Bank), which comprise the statements of financial position as at 31 December 2024, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, including material accounting policy information. The Group comprises the Bank and the entities it controlled at 31 December 2024 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) and other generally accepted accounting practice in Papua New Guinea; and

- give a true and fair view of the financial position of the Bank and the Group as at 31 December 2024, and their financial performance and cash flows for the year then ended.

### *Basis for opinion*

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

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

#### *Independence*

We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* that are relevant to audits of the financial statements of public interest entities in Papua New Guinea, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

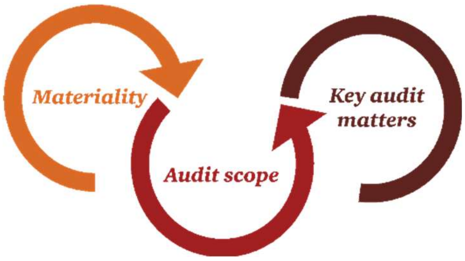
Our firm carries out other services for the Group in the areas of audit-related and tax advice services. The provision of these other services has not impaired our independence as auditor of the Bank and the Group.

### *Our audit approach*

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

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

PricewaterhouseCoopers, PwC Haus, Level 6, Harbour City, Konedobu,
PO Box 484 Port Moresby, Papua New Guinea
T: +675 321 1500 / +675 305 3100, www.pwc.com.pg




***Materiality***

- For the purpose of our audit of the Group we used overall group materiality which represents approximately 5% of the Group's profit before taxes.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.
- We chose Group profit before taxes as, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark.
- We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable thresholds.

***Audit scope***

- We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea (PNG) which are the most significant to the Group, and directed the scope of the audit of other subsidiaries included in the Group financial statements sufficient to express an opinion on the financial statements as a whole.
- For the Group's activities in Fiji, Solomon Islands, Samoa, Tonga, Cook Islands, and Vanuatu the audit work was performed by other non PwC network firms operating under our instructions.
- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

***Key audit matters***

- Amongst other relevant topics, we communicated the following key audit matters to the Board Audit and Compliance Committee:
  - Loan loss provisioning
  - IT systems and controls
- These matters are further described in the Key audit matters section of our report.

## *Key audit matters*

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

| Key audit matter | How our audit addressed the key matter |
|---|---|
| ***Loan loss provisioning - Refer to Note 15 of the financial statements for a description of the accounting policies and to Note 22 for an analysis of credit risk and asset quality***<br><br>Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, impairment of loans and advances is an area of significance in the current year audit of the Bank and its subsidiaries.<br><br>IFRS 9 *Financial Instruments* (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application.<br><br>Areas of judgement included:<br><br>• The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables<br><br>• The identification of exposure for which there has been a significant increase in credit risk<br><br>• Assumptions used in the expected credit loss model such as valuation of collateral and assumptions made on future values, financial condition of counterparties and forward looking macroeconomic factors. | To assess the Group's loan loss provisioning, we performed the following audit procedures on a sample basis, amongst others:<br><br>• Obtained an understanding of the processes and controls relevant to the credit origination and credit monitoring processes<br><br>• Assessment of the reasonableness of the key outputs of the expected credit loss model, as well as key judgements and assumptions used by management<br><br>• Testing the key fields identified to have an impact on the expected credit loss provision by agreeing these back to source documentation<br><br>• Examining the model methodology for consistency and appropriateness for loans and advances in Stage 1 and Stage 2. This included evaluation of the appropriateness of the estimates made on the Probability of Default, Loss Given Default and Exposure at Default<br><br>• For Stage 3 loans and advances, procedures over the credit watch list and delinquencies, and evaluation of assumptions made in the valuation of collateral and recovery cash flows. |
| ***IT systems and controls***<br><br>We focused on this area because the Group is heavily dependent on complex IT systems for the capture, processing, storage and extraction of significant volumes of transactions.<br><br>There are some areas of the audit where we seek to place reliance on system functionality including certain automated controls, system calculations and reports.<br><br>Our reliance on these is dependent on the Group's IT General Control (ITGC) environment, in particular, user access maintenance and changes to IT systems being authorised and made in an appropriate manner. | Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key ITGCs which support the continued integrity of the in-scope IT systems.<br><br>Our procedures over ITGCs focused on user access and change management and we also carried out tests, on a sample basis, of system functionality that was key to our audit approach.<br><br>Where we identified design or operating effectiveness matters relating to ITGCs and system functionality relevant to our audit, we performed alternative or additional audit procedures. |

## *Information other than the financial statements and auditor's report*

The directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the financial statements and the auditors' report thereon), which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available after that date. Our opinion on the financial statements does not cover the other information and we do not, and will not, express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## *Responsibilities of the directors for the financial statements*

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

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

## *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Report on other legal and regulatory requirements*

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2024:

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

## *Who we report to*

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Jonathan Grasso
Partner
Registered under the Accountants Act 1996

Port Moresby
19 February 2025

## Directors' Declaration

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the PNG Companies ACT 1997, including compliance with International Financial Reporting Standards (IFRS) and giving a true and fair view of the financial position and performance of the Group as at and for the year ended 31 December 2024.

Signed in accordance with a resolution of the directors.

On behalf of the Directors.

Dated and signed at Port Moresby this 19th day of February 2025.

| | |
|---|---|
| **Robert G. Bradshaw** | **Mark T. Robinson** |
| Chairman | Group Chief Executive Officer & Managing Director |