BSP FINANCIAL GROUP LIMITED
Information Memorandum

BSP

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Corporate Directory

Board of Directors

- Sir Kostas Constantinou, OBE (Chairman)
- Robin Fleming, CSM, MBA, MMGT (Group Chief Executive Officer and Managing Director)
- Arthur Sam, CPA, MAICD (Non-Executive Director)
- Ernest Brian Gangloff, CPA, MAICD (Non-Executive Director)
- Dr Fa'amausili Matagialofi Lua'iufi, PhD, MSc (Non-Executive Director)
- Robert Bradshaw, LLB, MAICD (Non-Executive Director)
- Stuart Davis, LLB, GAICD (Non-Executive Director)
- Priscilla Kevin, BSc, MAICD (Non-Executive Director)
- Frank Bouraga, CPA (Non-Executive Director)
- Symon Brewis-Weston, MAppFin (Non-Executive Director)

Company Secretary

Mary Johns, LLB, ML

Registered Office

Address: Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Hohola, Port Moresby, National Capital District, Papua New Guinea
Phone: +675 305 7159
Website: www.bsp.com.pg

Australian Legal Advisor

Ashurst Australia
5 Martin Place
Sydney NSW 2000

Papua New Guinea Legal Advisor

Ashurst Papua New Guinea
MRDC Haus,
Port Moresby, Papua New Guinea

Auditor

PricewaterhouseCoopers, Papua New Guinea
PwC Haus, Level 6, Harbour City
Port Moresby, Papua New Guinea

Corporate Advisor

BSP Capital Limited
Ground Floor, Ravalian Haus, Waterfront
Port Moresby, Papua New Guinea

Australian Share Registry

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

Papua New Guinea Share Registry

PNG Registries Limited
PO Box 1265
Port Moresby, Papua New Guinea

IMPORTANT NOTICES

About this Information Memorandum

This Information Memorandum is dated 27th April, 2021 and has been prepared by BSP Financial Group Limited ARBN 649 704 656 (**BSP**) for the purposes of a compliance listing of BSP, and the quotation of its fully paid ordinary shares, on ASX.

This document is not a prospectus, product disclosure statement or offer information statement and does not constitute an offer of securities or an invitation to apply for the issue of securities, either expressly or by implication, in any jurisdiction. However, this Information Memorandum does contain the information that would be required under section 710 of the Corporations Act 2001 (Cth) (**Corporations Act**) as if it were a prospectus offering for subscription the same number of fully paid ordinary shares for which quotation is sought.

BSP is a company incorporated in Papua New Guinea

BSP is a PNG incorporated company and will retain its PNG incorporation following the Listing. There are differences in how securities and financial products are regulated under PNG law and Australian law. The rights, remedies and compensation arrangements available to Australian investors in PNG securities and financial products may differ from the rights, remedies and compensation arrangements for Australian securities and financial products. The taxation treatment of PNG securities and financial products is not the same as that for Australian securities and products.

An investment in BSP may involve currency exchange risk. The currency for securities is PNG Kina for PNGX listed shares and Australian dollars for ASX listed shares. The value of securities may go up and down according to changes in the exchange rate between PNG Kina and Australian dollars. These changes may be significant. Payments received in relation to securities that are not in Australian dollars for shares listed on ASX may incur fees in having the funds credited to a bank account in Australia in Australian dollars.

If you are uncertain about whether an investment in BSP is appropriate for you, you should speak to your professional advisers.

ASX listing

BSP will apply to Australian Securities Exchange (**ASX**) for admission of BSP to the official list of ASX and quotation of its shares on ASX. BSP's ASX ticker will be "BFL". If and when BSP is admitted to, and its shares are quoted on the ASX, the ASX Listing Rules will apply to BSP (subject to any waivers provided by ASX from time to time). The ASX Listing Rule waivers and confirmations that have been sought from ASX are described in section 8.5.2 of this Information Memorandum.

The fact that ASX may admit BSP to the official list is not to be taken as an indication of the merits of BSP. None of ASX nor its officers take any responsibility for the contents of this Information Memorandum or of an investment in shares in BSP.

PNGX Listing

BSP's shares are listed on PNGX Markets (**PNGX**), Papua New Guinea's national stock exchange under the ticker "BSP".
This Information Memorandum is intended to be read in conjunction with the publicly available information released by BSP to PNGX in connection with BSP's continuous disclosure obligations under the PNGX Listing Rules. As a listed company, BSP is subject to continuous disclosure obligations which require it to notify certain material information to PNGX for the purpose of that information being made available to participants in PNGX. A copy of the material notified to PNGX may be viewed and obtained on its website at www.pngx.com.pg.

Not investment advice

No offer of securities is being made under this Information Memorandum. The information contained in this Information Memorandum is not financial product advice, has been prepared as general information only and does not take into account your investment objectives, financial situation or particular needs. It is important that you read this Information Memorandum carefully and in its entirety before deciding whether to invest in BSP shares. If you have any questions these should be directed to your relevant advisers.

No person named in this Information Memorandum, nor any other person, warrants or guarantees the performance of BSP or any return on investment in BSP shares.

Financial information presentation

Section 5 sets out in detail the financial information referred to in this Information Memorandum. The financial information contained in Section 5 has been prepared and presented in accordance with International Financial Reporting Standards (**IFRS**), except where otherwise stated.

The financial information in this Information Memorandum should be read in conjunction with, and is qualified by reference to, the commentary contained in Section 5 and the Risk Factors set out in Section 6.

Potential investors should note that certain financial data included in this Information Memorandum is not recognised under the Australian Accounting Standards and is classified as 'non-IFRS financial information' under ASIC Regulatory Guide 230 'Disclosing non-IFRS financial information (RG 230). BSP consider that non-IFRS information provides useful information to users in measuring the financial performance and condition of BSP. The non-IFRS financial measures do not have standardised meanings under the Australian Accounting Standards and therefore may not be completely comparable to similarly titled measures presented by other entities, nor should they be interpreted as an alternative to other financial measures determined in accordance with the Australian Accounting Standards. Potential investors are cautioned therefore not to place undue reliance on any non-IFRS financial information and ratios in this Information Memorandum.

All financial amounts contained in this Information Memorandum are expressed in Papua New Guinea Kina (**PGK**) and rounded to the nearest PGK million, unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Information Memorandum are due to rounding. Unless otherwise stated, AUD amounts expressed in PGK, and PGK amounts expressed in AUD, have been calculated using a foreign exchange rate of 2.81 PGK to 1 AUD.

Forward looking statements

This Information Memorandum contains forward looking statements, which may be identified by words such as "anticipates", "may", "should", "could", "likely", "believes", "estimates", "expects", "targets", "predicts", "projects", "forecasts", "intends", "guidance", "plan" and other similar words that involve risks and uncertainties. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, as at the date of this Information Memorandum.

Any forward looking statements are subject to various risks that could cause BSP's actual results to differ materially from the results expressed or anticipated in these statements. Forward looking statements should be read in conjunction with, and are qualified by reference to, the risk factors as set out in Section 6, the general and specific assumptions contained in the Financial Information as set out in Section 5 and other information in this Information Memorandum. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the control of BSP, the Directors and BSP's management. BSP, the Directors and BSP's management cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in this Information Memorandum will actually occur and potential investors are cautioned not to place undue reliance on these forward looking statements.

Industry and Market Data

This Information Memorandum, including the Industry Overview in Section 3 and the Business Overview in Section 4, uses market data and third party estimates and projections relating to markets, market sizes, market shares, market segments, market positions and other industry data pertaining to BSP's business and markets. BSP has obtained portions of this information from market research prepared by third parties.

Potential investors should note that the industry estimates and forecast data is subject to uncertainty and not necessarily reflective of actual and future market conditions. There is no assurance that any of the third party estimates or projections contained in this information will be achieved. BSP has not independently verified this information and cannot give any assurances to the accuracy or completeness of this market and industry data or the underlying assumptions used in generating this market and industry data. Industry assumptions, forecasts and estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the Risk Factors set out in Section 6.

Statements of past performance

This Information Memorandum includes information regarding past performance of BSP and prospective investors should be aware that past performance is not, and should not be relied upon as being indicative of future performance.

Distribution restrictions

The distribution of this Information Memorandum outside Australia may be restricted by law and persons who come into possession of this Information Memorandum outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No new capital

BSP has not raised any capital during the three months before the date of issue of this Information Memorandum and will not need to raise any capital for three months after the date of issue of this Information Memorandum.

Defined terms and abbreviations

Some words and expressions used in this Information Memorandum have defined meanings, which are explained in the Glossary or are defined in the context in which they appear. Unless otherwise stated, a reference to time in this Information Memorandum is to PNG time. Unless otherwise stated, references to dates or years are calendar year references.

Supplementary disclosure

BSP will issue a supplementary Information Memorandum if it becomes aware of any of the following between the date of this Information Memorandum and the date on which BSP's securities are quoted on ASX:

- a material statement in this Information Memorandum is misleading or deceptive;
- there is a material omission from this Information Memorandum;
- there has been a significant change affecting a matter included in this Information Memorandum; or
- a significant new circumstance has arisen and it would have been required to be included in this Information Memorandum.

Photographs and diagrams

Photographs and diagrams used in this Information Memorandum that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Information Memorandum or its contents or that the assets shown in them are owned by BSP. Diagrams used in this Information Memorandum are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Information Memorandum.

Company Website

BSP maintains a website at www.bsp.com.pg. Any references to documents included on BSP's website are for convenience only, and information contained in or otherwise accessible through this or a related website is not a part of this Information Memorandum.

This Information Memorandum is important and should be read in its entirety.

Letter from the Chairman

BSP has become the largest financial services company in the South Pacific, however we are not willing to rest on our success. There is much to do in the next phase of our growth. Listing on the ASX is an important part of a carefully considered strategy aimed at ensuring BSP continues to prosper and grow, while continuing to deliver positive returns to shareholders and high levels of customer service.

BSP has had a significant impact on the financial services landscape in the South Pacific since listing on the PNGX in 2003. A range of acquisitions have followed, including Habib Bank in Fiji in 2006, National Bank of Solomon Islands in 2007, Colonial National Bank and Colonial Fiji Life Insurance Limited in 2009 and in 2015 and 2016 the acquisition of Westpac's operations in the Cook Islands, Samoa, Solomon Islands, Tonga and Vanuatu. Each of these acquisitions had the effect of significantly broadening and strengthening BSP's geographic reach. In the subsequent years, BSP has also established asset finance businesses in Fiji, PNG, the Solomon Islands, Cambodia and Lao, and a life insurance business in PNG.

Today, BSP is the largest lender in six key South Pacific markets including PNG, the Solomon Islands, Tonga, Cook Islands, Samoa and Fiji. BSP's market leadership is underpinned by the largest branch network in the region, where BSP believes it has consistently been a pioneer in bringing financial innovation and technology to an underbanked marketplace.

The Board considers now is the right time for BSP to list on the ASX, so that BSP's shares will be quoted on both the ASX and the PNGX. In our view, a prudent approach at this stage is to list on ASX by way of compliance listing, and in that context, BSP will not be raising any capital as part of the ASX listing process.

On behalf of the Board I am pleased to present this Information Memorandum which sets out information regarding BSP's operations, and also contains information regarding the listing on the ASX as well as business and financial information and investment risk factors.

It is the Board's view that the dual listing will:

- Provide BSP with a new source of capital to facilitate the growth of the business; and
- Increase the liquidity of trading of BSP shares.

Following the listing on ASX, existing and new investors will be able to acquire either ASX or PNGX listed BSP shares. The compliance listing is a very exciting development for BSP and BSP's existing shareholders, and we look forward to the next phase of growth.

Yours faithfully,

Sir Kostas Constantinou, OBE
Chairman, BSP

2. Investment Overview

Topic	Summary	For more information
Who is BSP?	• BSP is a leading financial services provider in the South Pacific. In particular, BSP is the largest lender in PNG, the Solomon Islands, Tonga, the Cook Islands, Samoa and Fiji. • BSP serves both retail and corporate customers, and provides non- banking services through BSP Life, BSP Capital and BSP Finance. • As of 31 December 2020, BSP had a total of 77 branches, 40 sub-branches and 201 agents throughout PNG and the South Pacific.	Sections 4.1 and 4.3
What is BSP's history?	• BSP's operations date back to 1957, when it was founded in Port Moresby as a branch of National Australia Bank. In 1993, a consortium of PNG businesses acquired the bank and created the first and only PNG private sector owned bank at that time. • BSP merged with the state-owned Papua New Guinea Banking Corporation in 2002, creating the largest bank in PNG by market share. Other acquisitions followed, including Habib Bank in Fiji in 2006, National Bank of Solomon Islands in 2007 and Colonial Group of Companies in Fiji in 2009. • In 2015 and 2016, BSP completed the acquisition of Westpac's operations in the Cook Islands, Samoa, the Solomon Islands, Tonga and Vanuatu, significantly broadening and strengthening BSP's geographic reach. • Between 2015 and 2019, BSP established BSP Finance in Fiji, PNG, the Solomon Islands, Cambodia and Lao. • Prior to lodgement of this Information Memorandum the Company changed its name from Bank of South Pacific Limited to BSP Financial Group Limited.	Section 4.2

What are BSP's business segments?	• BSP divides its business operations into the following areas:
	  • PNG retail and corporate banking;
	  • Offshore banking operations in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu; and
	  • Non-banking operations, which consist of life insurance services in Fiji and PNG, health insurance services in Fiji, funds management and corporate advisory services in PNG through BSP Capital; and asset finance operations in PNG, Fiji, Solomon Islands, Cambodia and Lao through BSP Finance.
	• Additionally, BSP has a treasury function that supports banking operations across each of its jurisdictions.
		Section 4.4

Topic	Summary	For more information
Which geographies does BSP operate in?	• In addition to its leading position in PNG, BSP also has operations in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Lao. • In PNG, BSP provides banking services through its retail banking, and corporate banking operations. BSP also provides capital management and corporate advisory services in PNG through BSP Capital and asset finance in PNG and Fiji through BSP Finance. • In Fiji, BSP offers retail and corporate banking services, and operates life insurance business through BSP Life. • In Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu, BSP is primarily focused on the retail banking segment and mid-size corporates. • In Cambodia and Lao, BSP has established asset finance businesses with its local joint venture partner RMA Group.	Sections 4.1 and 4.4
Who are BSP's customers?	• BSP's target retail customers include salary and wage earners, students, the underbanked rural population, small and medium sized enterprises, as well as governments. • In PNG and Fiji, BSP also targets small, medium and large corporates through its corporate banking unit, and mid-size corporates in other locations.	Section 4.4
Who are BSP's competitors?	• The majority of the PNG banking sector activity is undertaken by BSP, ANZ PNG, Westpac PNG and Kina Securities, which collectively account for 91% of the banking sector assets and 89% of lending in the PNG banking system. As at December 2020, BSP accounted for 64.6%, ANZ 13.4%, Westpac 10.9% and Kina Securities 12.2% of loans outstanding in PNG. • The majority of the Fiji banking sector activity is undertaken by BSP, ANZ and Westpac. Smaller competitors include the Bank of Baroda, HFC Bank and Bred Bank. BSP is the largest lender and the second largest deposit taker in Fiji. • Outside PNG and Fiji, BSP is the largest lender and the largest deposit taker in the Solomon Islands, Tonga, the Cook Islands and Samoa.	Section 3.3 and 3.4

What is BSP's growth strategy?	• BSP's current market position and product capabilities provide it with multiple growth drivers across various channels, products and markets.
	• BSP has a strong track record of growth, both through organic and inorganic initiatives, and is supported by attractive fundamental trends in the PNG banking market.
	• In pursuing future growth, BSP's management is focused on two key levers:
	  ◦ Cementing South Pacific market leadership position; and
	  ◦ Innovating product offering and improving service levels
		Section 4.7

2.1 Key Financial Metrics

Topic	Summary	For more information
What is BSP's historical and forecast performance?	• A summary of BSP's historical financial information is set out below.	Section 5.2

Key financial metrics and growth trends

	FY16	FY17	FY18	FY19	FY20	FY20 v FY19	CAGR	5-Year Avg
Profit & Loss (PGKm)								
Interest Income	1,268	1,433	1,562	1,586	1,592	0.4%	4.7%	1,488
Interest expense	(160)	(155)	(181)	(194)	(145)	(25.3%)	(2.0%)	(167)
Net interest income	1,108	1,278	1,381	1,392	1,447	4.0%	5.5%	1,321
FX income	254	276	314	328	288	(12.1%)	2.6%	292
Non-interest income	430	445	470	451	411	(8.9%)	(1.0%)	441
Impairment on financial assets	(99)	(78)	(82)	(99)	(201)	102.9%	15.3%	(112)
Other operating expenses	(770)	(852)	(887)	(819)	(803)	(2.0%)	0.8%	(826)
Profit before income tax	923	1,069	1,196	1,253	1,142	(8.9%)	4.3%	1,116
Income tax expense	(280)	(312)	(352)	(363)	(336)	(7.4%)	3.7%	(328)
Net profit for the year	643	757	844	890	806	(9.5%)	4.6%	788
Dividends (toea)								
Dividends paid per share	88	111	127	139	121			
Earnings per share	137.7	162.0	180.6	190.6	172.6	-9.4%	4.6%	168.7
Balance Sheet (PGKm)								
Net loans and advances	10,103	11,209	12,531	13,201	13,507	2.3%	6.0%	12,110
Total assets	20,832	22,370	23,081	24,527	27,523	12.2%	5.7%	23,667
Deposits	16,912	17,902	18,233	19,339	21,654	12.0%	5.1%	18,808
Net assets/Equity	2,314	2,628	2,872	3,117	3,434	10.2%	8.2%	2,873
Performance ratios								
Return on assets	3.3%	3.5%	3.7%	3.7%	3.1%			3.5%
Return on equity	29.6%	30.6%	30.7%	29.7%	24.6%			29.0%
Expense/income	42.9%	42.6%	41.0%	37.7%	37.4%			40.3%
Loans to deposits	59.7%	62.6%	68.7%	68.3%	62.4%			64.3%
Key Prudential Ratios								
Capital adequacy ratio	23.1%	24.5%	22.9%	22.0%	23.2%			23.1%
Tier 1 Capital	19.8%	21.3%	19.8%	19.5%	20.8%			20.2%
Liquid asset ratio	35.8%	36.9%	33.6%	30.0%	32.6%			33.8%
Leverage ratio	9.3%	10.0%	10.3%	10.5%	10.3%			10.1%
Prudential Capital and risk weighted assets								
Tier 1 Capital	1,917	2,212	2,339	2,527	2,788	10.3%	7.8%	2,356
Total Capital	2,233	2,549	2,695	2,849	3,096	8.7%	6.7%	2,685
Risk weighted assets	9,682	10,395	11,788	12,960	13,370	3.2%	6.7%	11,639

2.2 Key Strengths

Topic	Summary	For more information
Market leadership across PNG and the South Pacific	• BSP is the largest bank lender in PNG, Fiji, the Solomon Islands Tonga, the Cook Islands and Samoa. • BSP is the largest deposit taker in PNG, the Solomon Islands Tonga, the Cook Islands and Samoa, and the second largest deposit taker in Fiji. • In PNG, the largest market in the South Pacific, as of 31 December 2020 BSP was the number one bank in PNG in terms of market share, with a 65% share of the loan market. • In Fiji, the second largest market in the South Pacific, BSP is the second largest bank in terms of deposits and operates the largest network of branches and ATMs. • As of 31 December 2020, BSP had a total of 77 branches, 40 sub-branches and 201 agents throughout the South Pacific. • BSP enjoys strong brand recognition within PNG and the South Pacific given its domestic heritage and clear market share leadership which, along with its geographic presence and scale, provides a platform for the deployment of new products and services, access to underbanked areas of the region and growth of the customer deposit base. • BSP also benefits from economies of scale given its leading presence both in PNG and throughout the South Pacific, and is able to efficiently service low density, rural areas through its capital light sub-branch and agent network.	Sections 4.1, 4.3 and 4.4
Attractive financial profile delivering consistent growth	• BSP has delivered uninterrupted year-on-year growth in loans, deposits and assets, achieving a compound annual growth rate (**CAGR**) for these segments of 6.0%, 5.1% and 5.7%, respectively, from FY16 to FY20. • BSP has delivered consistent growth in profitability and returns, with an NPAT CAGR and earning per share from FY16 to FY20 of 4.6%, driven by robust net interest income and strong non-interest income.	Section 5.2
Well capitalised balance sheet and strong returns	• BSP's strong FY20 profit result was achieved while maintaining capital discipline and prudent balance sheet management, and ensured BSP's commitment to financial strength across all capital, funding and liquidity metrics. • BSP finished 2020 with a capital adequacy ratio of 23.2% (2019 = 22.0%) and leverage ratio of 10.3% (2019 =10.5%), both of which remain well in excess of the respective 12% and 6% PNG prudential requirements. • Further, despite adverse COVID-19 impacts on FY20 results, BSP's 5-year return on earnings and return on assets averaged 29.0% and 3.5%, respectively.	Sections 4.2 and 4.7

Topic	Summary	For more information
Proven track record of executing growth initiatives	• BSP has a strong track record of growth, both through organic and inorganic initiatives, which has been supported by attractive fundamental trends in PNG and the South Pacific banking markets. • BSP has successfully integrated numerous acquisitions to broaden its geographic and product scope, including: – In 2002, BSP merged with Papua New Guinea Banking Corporation, creating the largest bank in PNG; – In 2006, BSP acquired Habib Bank in Fiji, expanding its geographic reach; – In 2007, BSP acquired the National Bank of Solomon Islands, adding another country to its geographic coverage; – In 2009, BSP acquired the Colonial Bank and Colonial Life Fiji Insurance Limited (later rebranded to BSP and BSP Life, respectively), strengthening its footprint in Fiji and expanding its product offering into insurance; – In 2015 and 2016, BSP further expanded its geographic presence through the acquisition of Westpac's businesses in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu; and – Between 2015 and 2019, BSP established BSP Finance in Fiji, PNG, the Solomon Islands, Cambodia and Lao.	Sections 4.2 and 4.7
Experienced Board and management providing robust governance and risk controls	• BSP's Board and management team have extensive experience in financial services, with deep knowledge and understanding of the PNG and South Pacific markets. • BSP's management team and employees are focused on and dedicated to prudent risk management, and have established a comprehensive framework covering credit, liquidity, market, operational and other risks. • BSP continuously develops and improves this framework to implement an integrated and comprehensive risk management and internal control system, through which BSP aims to achieve an international best-in-class risk management standard.	Section 7

2.3 Key Risks

Topic	Summary	For more information
Concentration in PNG	• BSP's core businesses primarily operate in PNG, which comprised approximately 76% of 2020 revenues, and BSP is therefore susceptible to adverse events beyond BSP's control that may occur in PNG. • BSP is impacted by the macro-economic performance of PNG's economy, which has been adversely impacted by the COVID-19 pandemic and is highly dependent on the mining and oil and gas sectors both through commodity prices and further development of PNG's natural resources. • Economic downturns or political and social instability in PNG or any other factors that may cause BSP to be unable to maintain or grow its business could materially and adversely affect its operating results.	Section 6.2.1
Foreign Exchange Risk	• BSP has historically derived a material amount of income from executing foreign exchange transactions for customers, and any changes in the volume of those transactions or the margins charged could materially impact BSP's results. • BSP is also subject to foreign exchange translation risk given its business operations in other jurisdictions, which operate in their local currencies. • Any depreciation in the PGK, or any other currencies BSP generates earnings in such as FJD, against the AUD could negatively impact the value of AUD-denominated Shares and any dividends received. • PNG continues to face shortages of foreign currency, and potential difficulties in obtaining foreign currency could affect BSP's customers and subsequently impact BSP's business. • Restrictions on the foreign exchange market and on capital movements from and into PNG may hamper investors' ability to receive payments and dividends, or more severely restrict customers' access to foreign currency.	Section 6.2.2
Dividend risk	• BSP's current expectation is for dividends to be paid in accordance with the dividend policy set by the Board and expects to pay Australian dollar (**AUD**) denominated dividends for Shares held by non-PNG (including Australian) residents on BSP's Australian sub-register. BSP is subject to potential limitations on the availability of foreign currency. Despite BSP having procedures in place to mitigate this risk, for example through accessing foreign currency through non-PNG based operations, there is a risk that BSP may be unable to source sufficient AUD to pay the full value of any dividend declared in AUD to investors holding Shares on BSP's Australian sub-register.	Section 6.2.3
Relationship with the PNG government	• BSP has an established historic relationship with various levels of the PNG government, which is a depositor, lender and through the Bank of Papua New Guinea (**BPNG**), a counterparty for BSP's holding of liquid securities and investments. The PNG government is also an indirect shareholder of BSP through Kumul Consolidated Holdings (**KCH**), a corporation established by statute, which holds 18.2% of BSP's share capital as of December 31, 2020. • This relationship means BSP's business can be affected at a macro level by the financial position of the PNG government and any adverse changes in the political environment.	Section 6.2.4
Political risk	• Profitability may be adversely impacted by political instability, local disputes and community issues as well as expropriation, war, civil unrest and terrorism. • BSP's future revenue and expenditure may also be affected by a number of political and social issues such as differing political agendas and decision making, environmental and social policy and the impact of bribery, corruption and money laundering. • Future revenue and expenditure of BSP may be affected by changes in laws, regulations or policies or in taxation legislation.	Section 6.2.6

Topic	Summary	For more information
Funding and liquidity risk	• As of 31 December 2020, 83% of BSP's deposits had a maturity of less than 12 months. • If a substantial number of depositors fail to roll over deposited funds or if BSP faces a high volume of deposit withdrawals, BSP's liquidity position could be affected and BSP may be required to seek more expensive forms of funding. • BSP's liquid assets are generally invested with the BPNG, which is the central bank of PNG. • BSP accepts a high level of deposit-taking from various levels of PNG government and government-related entities, which comprised 26% of total PNG deposits as of 31 December 2020. BSP generally invests any excess deposits in a range of liquid assets including PNG government securities, which comprised 30% of total PNG assets.	Section 6.2.7
Credit risk	• BSP has exposure to many different products, sectors, counterparties and obligors whose credit quality can have a significant adverse impact on its business, results of operations, financial condition and prospects. • Although BSP has credit monitoring policies in place, it may not correctly assess the creditworthiness of credit applicants or other counterparties (or their financial condition may change) and BSP could suffer material losses despite efforts to mitigate credit risk through diversification of assets and collateral requirements. • Customer-specific circumstances, macro-economic factors or other external factors could affect customers' ability to repay their loans or other obligations to BSP.	Section 6.2.9
Implementation of BSP's growth strategy	• BSP's growth initiatives may not succeed if market conditions change significantly, opportunities develop more slowly than expected, the identified strategic initiatives have less potential than were envisioned originally or the profitability of products and services is reduced by competitive pressures. • BSP's growth could result in increased levels of operational risk and further stress on operational and technological systems and controls, increasing the possibility of operational errors occurring. An inability to manage the occurrence of these risks could have a material adverse impact on BSP's business, results of operations, financial condition and prospects.	Section 6.2.10
COVID-19	• The COVID-19 pandemic has already impacted BSP. Should a continued outbreak occur in the South Pacific region this may have a detrimental impact on BSP customers' ability to meet their obligations to BSP and may have a broader impact on BSP's operational and financial performance.	Section 6.2.14
Litigation risk	• As part of its ordinary course of business, BSP is exposed to the risk of litigation and/or other legal or regulatory proceedings. The majority of these cases generally do not involve the risk of a material adverse impact on financial performance or Shareholders' equity. • BSP is from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. • There are no legal proceedings other than as described in section 8.4 to which BSP is a party that it believes are likely to have a material adverse impact on its future financial results and BSP is not aware of any such legal proceedings that are pending or threatened.	Section 6.2.15

Topic	Summary	For more information
Compliance with regulations	• BSP operates in a highly regulated industry and is subject to a number of banking and other regulations. Ensuring adherence to and compliance with any new, or changes to existing, laws and regulations may increase BSP's cost of doing business and/or limit its ability to engage in relevant activities. Furthermore, non-compliance with regulatory guidelines could expose BSP to potential liabilities and fines, reputational and brand damage, restriction or potential loss of licences and/or reduced access to transaction banking services. • Providing banking products and services in multiple jurisdictions also exposes BSP to a variety of regulatory challenges and risks arising from managing potentially inconsistent legal and regulatory requirements and maintaining an integrated system of internal controls.	Section 6.2.19
Talent attraction and retention	• BSP's success depends on the continued service and performance of key employees, particularly its executives and senior management, and the ability to attract, retain, motivate and develop suitably skilled and qualified staff. • The loss of key personnel or any inability to manage attrition levels may have a material adverse effect on BSP's ability to grow and increase employee training and development costs, and in turn impact BSP's business, results of operations, financial condition and prospects.	Section 6.2.20
Risk of IT system failure, security breaches or cyber-crime and inability to adapt to technological advances	• Systems technology is critical to BSP's operations and any disruptions in customer experience or failure of online or mobile banking platforms could have a material adverse effect on BSP's reputation and be costly to rectify. • Though BSP continues to invest in information security controls, like other banks BSP is subject to the risk of attempted IT security breaches and cyber-attacks which could result in significant financial losses. • In addition, existing technology will need to evolve and respond to technological advances and banking industry standards on a cost-effective and timely basis.	Section 6.2.21
Corruption, money laundering and terrorism	• As emerging markets, PNG and the South Pacific are exposed to an elevated level of corruption risk. Though the PNG government has recently adopted several legislative, enforcement and judicial measures, the actual and perceived risk of corruption, bribery and money laundering continues to be high. • BSP has implemented numerous anti-money laundering (**AML**) and combating the financing of terrorism (**CTF**) and anti-corruption compliance policies and procedures with continued staff reinforcement on AML/CTF through risk awareness workshops and enhanced oversight. It has also established an AML/CTF program to identify, manage and mitigate the exposure to the risk of money laundering and terrorist financing. BSP believes its current policies and procedures are adequate and is making continuous improvements consistent with international practice.	Section 6.2.22

2.4 BSP directors and senior management

Topic	Summary	For more information
Who are the Directors of BSP?	• Sir Kostas Constantinou, OBE (Chairman) • Robin Fleming, CSM, MBA, MMGT (Group Chief Executive Officer and Managing Director) • Arthur Sam, CPA, MAICD (Non-Executive Director) • Ernest Brian Gangloff, CPA, MAICD (Non-Executive Director) • Dr Fa'amausili Matagialofi Lua'iufi, PhD, MSc (Non-Executive Director) • Robert Bradshaw, LLB, MAICD (Non-Executive Director) • Stuart Davis, LLB, GAICD (Non-Executive Director) • Priscilla Kevin, BSc, MAICD (Non-Executive Director) • Frank Bouraga, CPA (Non-Executive Director) • Symon Brewis-Weston, MAppFin (Non-Executive Director)	Section 7.1
Who are the senior management of BSP?	• Robin Fleming (Group Chief Executive Officer and Managing Director) • Ronesh Dayal (Group Chief Financial Officer) • Mike Hallinan (Group Chief Risk Officer) • Frank Van Der Poll (Group Chief Operating Officer) • Daniel Faunt (Group General Manager Retail Banking) • Peter Beswick (Group General Manager Corporate Banking) • Vandhna Narayan (Group General Manager Compliance) • Nuni Kulu (General Manager Digital) • Kili Tambua (General Manager Offshore Branches) • Andy Roberts (General Manager and Director BSP Finance) • Rohan George (Group General Manager Treasury) • Hari Rabura (General Manager Human Resources) • Mary Johns (Company Secretary)	Section 7.3

2.5 Significant interests, dividends and related party transactions

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>What interests in BSP do Directors hold at the date of this Information Memorandum?</td><td>
<table>
<tr><th>Director</th><th>Number of Shares held</th></tr>
<tr><td>Robin Fleming, CSM, MBA, MMGT</td><td>93,000</td></tr>
<tr><td>Other Directors</td><td>Nil</td></tr>
</table>
</td><td>Section 7.4.1</td></tr>
<tr><td>Who are the existing Shareholders in BSP?</td><td>
<table>
<tr><th colspan="4">Top 20 Shareholders (31 March 2020)</th></tr>
<tr><th>#</th><th>Shareholder %</th><th>No. of Shares</th><th>% Holding</th></tr>
<tr><td>1</td><td>Kumul Consolidated Holdings</td><td>84,811,597</td><td>18.2%</td></tr>
<tr><td>2</td><td>Nambawan Super Limited</td><td>55,672,261</td><td>11.9%</td></tr>
<tr><td>3</td><td>Petroleum Resources Kutubu Limited</td><td>46,153,840</td><td>9.9%</td></tr>
<tr><td>4</td><td>NASFUND</td><td>45,318,417</td><td>9.7%</td></tr>
<tr><td>5</td><td>Fiji National Provident Fund</td><td>40,547,063</td><td>8.7%</td></tr>
<tr><td>6</td><td>Credit Corporation (PNG) Limited</td><td>33,294,081</td><td>7.1%</td></tr>
<tr><td>7</td><td>Motor Vehicles Insurance Limited</td><td>31,243,736</td><td>6.7%</td></tr>
<tr><td>8</td><td>PNG Sustainable Development Program Limited</td><td>23,827,156</td><td>5.1%</td></tr>
<tr><td>9</td><td>Teachers Savings and Loans Society</td><td>15,317,366</td><td>3.3%</td></tr>
<tr><td>10</td><td>Comrade Trustee Services Limited</td><td>12,456,052</td><td>2.7%</td></tr>
<tr><td>11</td><td>IFC Capitalization (Equity) Fund LP</td><td>4,213,877</td><td>0.9%</td></tr>
<tr><td>12</td><td>International Finance Corporation</td><td>4,213,877</td><td>0.9%</td></tr>
<tr><td>13</td><td>Lamin Trust Fund</td><td>3,518,132</td><td>0.8%</td></tr>
<tr><td>14</td><td>Capital Nominees Limited</td><td>3,341,892</td><td>0.7%</td></tr>
<tr><td>15</td><td>Credit Corporation (PNG) Limited</td><td>3,000,000</td><td>0.6%</td></tr>
<tr><td>16</td><td>Samoa National Provident Fund</td><td>2,984,804</td><td>0.6%</td></tr>
<tr><td>17</td><td>Mineral Resources OK Tedi No. 2 Limited</td><td>2,890,000</td><td>0.6%</td></tr>
<tr><td>18</td><td>Solomon Islands National Provident Fund</td><td>2,500,001</td><td>0.5%</td></tr>
<tr><td>19</td><td>Nominees Niugini Limited</td><td>2,369,495</td><td>0.5%</td></tr>
<tr><td>20</td><td>Catholic Diocese of Kundiawa</td><td>2,217,798</td><td>0.5%</td></tr>
<tr><td colspan="2">Total Top 20</td><td>419,891,445</td><td>89.9%</td></tr>
<tr><td colspan="2">Other Shareholders</td><td>47,333,228</td><td>10.1%</td></tr>
<tr><td colspan="2">Total</td><td>467,224,673</td><td>100.0%</td></tr>
</table>
</td><td>Section 8.1.1</td></tr>
<tr><td>Is BSP party to any related party transactions?</td><td>• BSP is party to a number of related party transactions, which arise in the ordinary course of business. Other than as set out in this Information Memorandum, BSP is not party to any material related party transactions.</td><td>Section 7.4.4</td></tr>
<tr><td>Does BSP have a dividend policy?</td><td>• BSP has adopted the practice of paying an interim dividend in October of each year, based on half year results, and paying a final dividend based on audited full year results, after the end of the financial year, and no later than the end of the second quarter of the succeeding year.
• The BSP Board has maintained its dividend policy of 70% to 75% of prior year earnings, to the extent that this does not impact on capital adequacy requirements, or otherwise put BSP's growth at risk.</td><td>Section 8.2.5</td></tr>
</table>

capability

Attention to detail, service and the latest in banking

3. Industry Overview

3.1 Introduction to PNG and the South Pacific

PNG is a major developing country in the Pacific with a population of approximately 8.78 million and nominal GDP of approximately US$23 billion in 2020, according to the International Monetary Fund (**IMF**). Since 2014 PNG has become a major exporter of liquified natural gas (**LNG**), which has become a key factor underpinning economic growth along with mining of copper, gold and nickel deposits. Other factors underpinning the economy include:

- Agriculture, forestry and fishing;
- Increasing urbanisation and real per capita incomes supporting rising consumption;
- Government macroeconomic policies which are supportive of growth; and
- Attractive relative geographic position to other high growth Asian markets.

Outside PNG, the South Pacific has a population of about 2.3 million people according to the World Bank, spread across a unique and diverse region made up of hundreds of islands and scattered over an area equivalent to 15% of the globe's surface. As many of these economies are developing, cooperation between international development partners, regional organisations and governments are key to ensuring their continued success and growth. Beyond the immediate challenges of the COVID-19 pandemic, greater economic integration, more equitable natural resource agreements, more open labour markets and adaptation to climate change will be important drivers of the South Pacific's future.

3.2 PNG macroeconomic overview

3.2.1 GDP

PNG's economic performance has been robust over the past two decades, notwithstanding a range of significant challenges. Foreign investment in resources construction and PNG's exports have underpinned substantial employment growth, a construction boom and growth in other sectors, particularly wholesale trade, retail trade, transport, storage and communication. Over recent years the PNG economy has faced headwinds from volatility in commodity markets, droughts and a major earthquake in 2018. During 2020, PNG faced significant economic headwinds from the COVID-19 pandemic, directly and indirectly. During the most recent Article IV Consultations, the IMF indicated it expected the pandemic will continue to restrain economic activity in 2021 and that a recovery will gradually occur over the course of 2022.

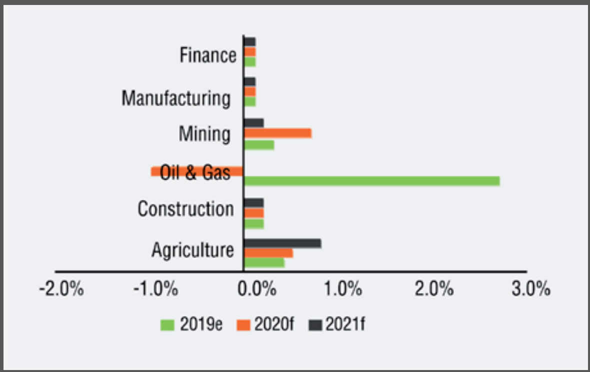
Underlying the volatility in headline GDP growth, the PNG economy has been experiencing a transitional phase following the completion of the first phase of construction of the PNG LNG project, whereby the relative contribution to growth from the resources sector has decreased and the relative contribution from other sectors, such as agriculture, has increased. That said, the pipeline of potential resource projects is strong and there is untapped potential for agricultural development and ongoing urbanisation of the population.

PNG GDP Growth Trends and Outlook

YEAR	Nominal GDP (USD Billion)	Real GDP Growth (% yoy)
2017	22.74	3.5
2018	24.04	-0.8
2019	24.81	4.9
2020	23.28	-3.3
2021f	23.27	1.2
2022f	23.87	2.9

Source: IMF, 2021

PNG GDP Growth by Industry



Source: PNG 2020 National Budget

3.2 PNG macroeconomic overview

3.2.2 Key industries

The majority of PNG's economic activity is generated by agriculture, oil and gas, and mining. In 2020, according to the National Budget, agriculture, forestry and fishing is projected to have contributed to approximately 18% of GDP. The oil and gas sector is also projected to have contributed to approximately 18% of GDP, while mining is projected to have contributed approximately 12% to GDP.

Sector contributions to 2020 GDP in PNG

Sector	Projected Nominal GDP (Kina Million)	Prjected GDP share (%)
Agriculture	16,059.2	18%
Construction	5,856.3	7%
Oil & Gas	15,529.7	18%
Mining	10,666.3	12%
Manufacturing	1,740.7	2%
Other	38,176.2	43%
Total Economy	88,028.4	100%

Source: PNG 2020 National Budget

3.2.3 Major economic projects

PNG is expected to benefit from a number of large-scale energy and natural resources projects over the coming years such as:

- Further development of the PNG LNG project (now in production);
- The Elk Antelope LNG project;
- The Wafi-Golpu project; and
- The Frieda River project.

Further detail on each of these projects is set out in the table below.

Project	Project description
PNG LNG	• The PNG LNG project is a c.US$20 billion development operated by Exxon which was completed ahead of schedule in mid-2014. The project is expected to operate for 30 years and comprises two production trains and a 700 kilometre gas pipeline to an LNG plant 20 kilometres northwest of Port Moresby. • The project produces 6.9 million liquefaction tonnes per annum, with offtake largely contracted to Asian based buyers including Tokyo Electric Power Company, Inc., Osaka Gas Company Ltd, CPC Corporation and China Petroleum and Chemical Corporation (also known as Sinopec).
Papua LNG	• The project produces 6.9 million liquefaction tonnes per annum, with offtake largely contracted to Asian based buyers including Tokyo Electric Power Company, Inc., Osaka Gas Company Ltd, CPC Corporation and China Petroleum and Chemical Corporation (also known as Sinopec).
Wafi-Golpu	• The Wafi-Golpu project is a 50/50 joint venture between Newcrest Mining Limited and Harmony Gold Mining Company Limited. • The project has a forecast development cost of US$5 billion and will involve the extraction of gold deposits of approximately 20 million ounces and copper deposits of approximately 94 million tonnes over a mine operating life of more than 20 years.
Frieda River	• Frieda River represents one of the largest undeveloped copper-gold deposits in the world, and is operated by PanAust Limited owned by GRAM. • The mineral resource is estimated to contain 12 million tonnes of copper and 19 million ounces of gold, representing three times the in-ground metal content of all copper-gold extracted from the Ok Tedi Mine over the last 25 years. Average annual production of metal in concentrate is expected to be 175,000 tonnes copper and 250,000 ounces gold over an initial mine life of 17 years. Development cost is yet to be quantified but may approximate US$2 billion.

3.2.4 Population

According to the IMF, PNG's population is approximately 8.78 million. Consistent with its status as a developing country, World Bank data indicates PNG's population is relatively young with more than 35% of the population under the age of 15 years and only 3% of the population over the age of 65 years. PNG's population demographics are largely driven by its relatively high fertility rate and a relatively low life expectancy at birth of 63 years compared to 70 years for other Pacific Island countries.

The majority of the population is located in rural areas with approximately only 12% living in the major urban centres. Around 39% of the population is located in the Highlands region with the Eastern and Southern Highlands provinces representing the two most populous regions, each with more than 500,000 people. The ongoing net migration to urban centres, such as Port Moresby and Lae, is expected to benefit PNG's growth by providing a larger labour force.

3.2.5 Government policy and fiscal position

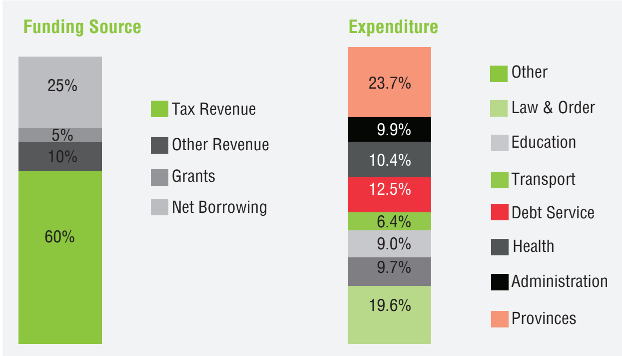
After a history of governance by Australia, PNG became self-governing on 1 December 1973 and achieved independence from Australia on 16 September 1975. PNG remains a Commonwealth realm with a Governor-General as head of state and a National Parliament located in the capital, Port Moresby, consisting of members representing constituencies, provincial leaders and representatives from the capital. PNG maintains an independent judicial system comprised of the Supreme Court, National Court and local and village courts.

PNG's general election is held every five years, with the last election having been held in June 2017, and both the national and local level government elections running concurrently. The national Government faced a no confidence motion in December 2020 but garnered the necessary parliamentary support to remain in power. While this demonstrates risks of political instability, which may also result in unexpected shifts in government sentiment toward the financial sector, BSP's results have not been materially impacted as a result of any election since PNG's independence.

As indicated in the 2020 National Budget, PNG government policy has remained supportive of economic growth. Specifically, the PNG National Budget has been framed around spending government revenues more carefully, raising revenues fairly and minimising the cost of budget financing. The National Government is deliberately aiming to stimulate growth in the non-resource sectors of the economy, in particular the agriculture, fishing and forestry sectors.

In late 2015, PNG legislated for the establishment of a sovereign wealth fund to help manage the risks associated with volatile resource revenues. Tax revenues received from resource projects will be directed into a stabilisation fund, which can be drawn upon to fund expenditure needs, with the excess being deposited into a savings fund. This is intended to help insulate the economy from the volatility associated with commodity cycles, while providing a reliable source of long-term revenues.

PNG government funding and expenditure



Source: PNG 2020 National Budget, ADB

PNG government fiscal balance summary

Sector	2019B	2020B
Revenue	13,022.4	14,095.4
Expenditure	16,525.9	18,726.5
Net Borrowing	3,503.5	4,631.1
% of GDP	3.4%	5.0%
% of Debt of GDP	38.5%	40.3%

Source: PNG 2020 National Budget

3.2.6 Trade balance and exchange rate

PNG has maintained a current account balance surplus since 2014, with current account surpluses expected to increase over the coming years, reflecting persistently strong trade performance supported by commodity exports from the LNG and mining sectors.

BPNG regulates authorised foreign exchange dealers and considers management of its foreign exchange reserves as a key factor facilitating meeting its objective of price stability, as well as servicing PNG foreign government debt obligations and protecting the economy from external shocks. In this context, PNG's currency has been loosely pegged to the US dollar (**USD**) following the introduction by BPNG of a trading band of 75bps on either side of the official BPNG reference rate in June 2014.

This has restricted USD/PGK movement and resulted in the IMF changing the de facto exchange rate regime classification from a floating to crawl-like arrangement. The current market is characterised by a structural shortage of foreign exchange currency and, while banks can satisfy some of their clients' foreign exchange needs internally, BPNG interventions are also a source of foreign exchange in the interbank market. The authorities have facilitated a gradual depreciation of the PGK against the USD over recent years as inflation rates have gradually declined. In BSP's view, the depreciation of the PGK against the USD over recent years reflects a range of factors including depressed commodity prices and relatively high domestic import demand, exacerbated by a backlog of import orders. Movements of the PGK against the Australian dollar over recent years have primarily mirrored movements of the AUD against the USD.

PGK/AUD exchange rate (2011-2021)

Source: BPNG, BSP Treasury as at March 2021 .

PGK/USD exchange rate (2011-2021)

Source: BPNG, BSP Treasury as at March 2021.

Average inflation has been in trend decline over recent years according to PNG 2020 National Budget estimates. In BSP's view, this declining trend reflects:

- The gradual and managed depreciation of the PGK against the USD;
- Lower international food and fuel prices;
- Lower prices of seasonal items including fruits, vegetables and betelnut due to improved supply conditions;
- Increased competition particularly in the retail and wholesale sector; and
- Weak private sector investment.

3.3 PNG banking and financial services sector

PNG's banking and financial services sector is a major and important part of the PNG economy. The sector is comprised of banking institutions, superannuation funds, life insurance companies and other licensed financial institutions regulated by BPNG. According to BPNG, the banking sector represents the largest part of the financial services sector with assets and liabilities of approximately PGK 31 billion as of the June quarter 2020.

The recent IMF Article IV report notes that the financial system is adequately capitalised, non-performing loans are moderate and that the banking system is well positioned to manage exchange rate risks. A risk for the banking system is the long-term health of the state-owned enterprise sector which is facing a range of structural challenges requiring balance sheet adjustments. The banking sector has remained highly profitable, although loan growth has suffered as a consequence of the significant macroeconomic headwinds. The short-term outlook of the PNG banking sector is clouded by the ongoing impacts of COVID-19, however BSP believes that there are reasons to be cautiously optimistic over the medium to long term given the:

- Strong long-term growth potential, noting that a large proportion of the population still remains in the informal sector (i.e. "unbanked"), and the banking sector is investing significant time and resources in improving and promoting financial literacy and participation;
- Strong capital adequacy and liquidity position with more than half of total banking sector assets held in government securities or cash, conservative loan to deposit ratios and limited exposure to international capital markets or complex financial products; and
- Strong asset quality and prudent credit risk taking with a majority of loans to corporate and SME customers, low levels of non-performing loans and high bad debt provisions in the context of a challenging macroeconomic environment.

Banking sector Loans and Growth

Year	Loans Outstanding (PGK million)	Loan Growth (%, YoY)
2015	12,209	13.9
2016	13,239	8.4
2017	12,541	-5.3
2018	12,298	-1.9
2019	13,488	9.7
2020	13,445	-0.3

Source: BPNG June Quarter 2020.

Commercial bank loans by sector (Q2-2020)

Sector	Loans Outstanding (PGK Million)	Proportion of Outstanding (%)
Agriculture, Forestry and Fishing	209	1.6
Manufacturing	648	4.8
Transport and Communicaitons	1,622	12.1
Wholesale Trade	423	3.1
Retail Trade	1,335	9.9
Building and Constructions	615	4.6
Resources	1,113	8.3
Hotels and Resturants	833	6.2
Real Estate	2,156	16.0
Government	164	1.2
Housing & Personal Loan	2,357	17.5
Other	1,970	14.7
Total	13,445	100.0

Source: BPNG

3.3.1 Banking sector structure

The banking sector is comprised of institutions licensed or authorised by BPNG to accept deposits from the public and issue credit and includes commercial banks, finance companies, merchant banks, savings and loans societies, and microfinance companies. Commercial banks have remained the structurally dominant form of deposit taking institution within the overall banking sector, consistently taking more than 90% of deposits available to the sector. Four commercial banks, being BSP, Kina Securities, Westpac PNG and ANZ PNG, have been a mainstay of the banking system. However, in September 2019 ANZ sold its retail banking business to Kina Securities and in December 2020 Westpac Banking Corporation announced its intention to sell its entire PNG operations to Kina Securities subject to a range of conditions, including regulatory approvals. If the Westpac sale proceeds, the number of commercial banks in PNG will be reduced from four to three, and retail banks from three to two.

Deposit Taking Institutions

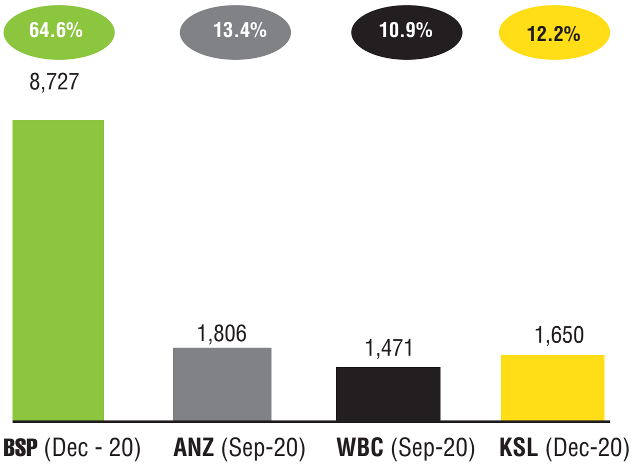
Institution	Deposits as at Sep 2020 (PGK million)	Share of Deposits as at Sep 2020 (%)
Commercial banks	19,389	91.4
Finance companies	542	2.6
Merchant banks	323	1.5
Savings and Loans Societies	781	3.7
Microfinance Companies	172	0.8
Total	21,207	100.0

Source: BPNG

3.3.2 PNG commercial banking competitive landscape

The majority of the PNG banking sector activity is undertaken by the four commercial banks, namely BSP, ANZ PNG, Westpac PNG and Kina Securities. These commercial banks account for 91% of the banking sector assets and 89% of lending in the PNG banking system.

Banking sector market share by total loans (K millions)



Source: Company disclosures and BPNG

The commercial banks maintain levels of capital materially above the minimum regulatory capital requirements, and BSP represents the largest commercial bank in the PNG banking sector with the highest number of branches, ATMs and EFTPOS terminals across PNG.

PNG Commercial bank metrics[1]

	Unit	BSP	ANZ	Westpac	Kina Bank
Performance					
NPAT	PGK m	642	183	64	76
ROE	%	26.8	8.4	6.9	21.1
ROA	%	3.6	3.3	1.7	2.4
NIM	%	6.95	4.92	6.08	7.62
Relative scale					
Net loans and advances	PGK bn	8.4	1.7	1.4	1.6
Provisions for expected credit losses	%	6.1	7.4	5.7	2.3
Deposits	PGK bn	14.75	2.92	2.59	2.58
Total assets	PGK bn	18.50	5.45	3.84	3.32
Capital Adequacy					
Tier 1 capital ratio	%	20.8*	115.3	54.1	22.2
Total capital ratio	%	23.2*	126.8	59.4	25.4
PNG operations footprint[1]					
ATMs	#	319	0	72	80
Branches	#	40	0	15	17
Sub-branches	#	38	0	0	0
EFTPoS terminals	#	6,879	0	c.3,700	2,500

Notes: [1] BSP and Kina Securities FY Dec-2020; and ANZ and Westpac FY Sep-2020.

*BSP Group Capital Adequacy Ratios

Source: Company disclosures and BSP Internal Management Reports

The strong market position of the commercial banks is largely due to the history of the PNG banking sector, which was developed as an extension of the Australian system during the period in which PNG was governed by Australia. During this time, each of the major Australian banks opened PNG branches in the major urban centres. Following this initial development, other regulated entities such as licensed financial institutions and savings and lending societies developed, complementing the existing commercial banks by extending similar services into more rural areas.

3.3.3 Banking sector regulatory framework

Established in 1973, BPNG is the central bank of PNG and the official authority for supervision and regulation of PNG's banks and financial institutions under the Banks and Financial Institutions Act 2000. BPNG's powers, objectives, functions and responsibilities are specified in the Central Banking Act 2000.

BPNG's main objectives are:

- To formulate and implement monetary policy with a view to achieving and maintaining price stability;
- To formulate financial regulation and prudential standards to ensure stability of the financial system in PNG;
- To promote an efficient national and international payments system; and
- Subject to the above, to promote macro-economic stability and economic growth in PNG.

In pursuit of the above objectives, BPNG has the ability to:

- Issue currency;
- Act as banker and financial agent to the Government;
- Regulate banking, credit and other financial services;
- Manage the gold, foreign exchange and other international reserves of PNG;
- Perform any function conferred on it by or under any international agreement to which PNG is a party; and
- Perform any other function conferred on it by or under any other law of PNG.
-

BPNG is responsible for managing, enforcing and issuing financial regulations and prudential standards for authorised institutions in a number of areas including:

- Single borrower and large exposure limits;
- External audit requirements;
- Capital adequacy requirements;
- Asset classification, provision and suspension of interest;
- Limits on loans connected to related parties;
- Limits on inter-bank placements;
- Minimum financial disclosure requirements;
- Credit risk management and exposure limits;
- Mobile phone banking and mobile payment requirements;
- Customer due diligence standards;
- Operational risk management frameworks;
- Market risk management principles and frameworks;
- Foreign currency transactions and exposure limits;
- Restrictions on transactions with related parties; and
- Corporate governance principles and requirements including external audits, independent director and chairperson requirements, fit and proper requirements and business continuity management.

BPNG employs two approaches with regard to supervision and monitoring of financial stability:

- Offsite surveillance—including the collection and analysis of quarterly prudential reports, annual accounts and other regulator reports; and
- On-site reviews or examinations—involving on-site inspection by examiners and analysts on an institution's systems and processes, particularly those relating to risk and internal controls.

BPNG through its supervisory role may require boards of financial institutions to put in place necessary policies and processes to adequately identify and mitigate risk.

BPNG has generally been successful in implementing these standards on an ongoing basis as evidenced by the stability and profitability of the PNG banking sector over the last fifteen years. The supervisory regime is currently based on Basel I, and BPNG has been working to continue to improve financial infrastructure, prudential regulation, financial literacy and access to financial services in PNG.

In particular, BPNG has been at the forefront of efforts to improve PNG's legal and regulatory framework to comply with international standards for AML/CTF. The Anti-Money Laundering and Counter-Terrorist Financing Act 2015 (**AML/CTF Act**) aims to detect and deter money laundering and terrorist financing activities through the setting of specific obligations for financial institutions and designated non-financial bodies and professions. The AML/CTF Act established the Financial Advisory and Supervision Unit which sits independently from BPNG and has a main function to:

- Carry out financial intelligence and analysis concerning suspected money laundering and terrorist financing;
- Monitor and ensure compliance to the AML/CTF Act; and
- Receive reports and information provided to it by reporting agencies.

The AML/CTF Act provides a legislative framework, which is in line with Financial Action Task Force (**FATF**) recommendations issued in 2012. As noted by FATF, PNG has instituted legislation that substantially addresses these recommendations by:

- Adequately criminalising money laundering and terrorist financing;
- Establishing adequate procedures for the confiscation of assets related to money laundering;
- Establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets;
- Establishing a fully operational and effectively functioning financial intelligence unit;
- Establishing suspicious transaction reporting requirements;
- Implementing an adequate AML/CTF supervisory and oversight programme for all financial sectors; and
- Establishing effective controls for cross-border currency transactions.

BPNG is focused on making several further reforms to enhance the function, stability and inclusiveness of the PNG banking sector including:

- Enhancement of BPNG's prudential standards and if necessary the underlying regulatory legislation;
- Developing and applying its AML/CTF framework, including independent consultation with national and international agencies, through the recently established Financial Analysis Supervision Unit;
- Increasing financial inclusion as part of the Microfinance Expansion Project, including new rules for the emerging PNG mobile banking and payment services industry;
- Improving liquidity and access in the primary and secondary government securities markets, including increasing the use of electronic trading and auction systems; and
- Improving inter-bank liquidity through the implementation of an electronic inter-bank funds transfer system (Kina Automated Transfer System).

3.4 Non-PNG Countries

BSP also has banking operations in a number of other Pacific Island countries including Fiji and Solomon Islands with smaller operations in Cook Islands, Samoa, Tonga and Vanuatu. Key metrics for each geography and BSP's market positioning, with a comparison to PNG, are set out in the table below.

	PNG	Fiji	Solomon Islands	Samoa	Tonga	Vanuatu	Cook Islands[3]
Currency	**Papua New Guinea Kina**	**Fiji Dollar**	**Solomon Islands Dollar**	**Samoa Tala**	**Tongan Pa'anga**	**Vanuatu Vatu**	**New Zealand Dollar**
Population (000s) (2020E)	8,781	900	655	203	100	300	20
Population growth[1] (%)	1.95	0.72	2.56	0.49	1.24	2.43	8.60
GDP (US$bn) (2020E)	23.28	3.932	1.551	0.829	0.503	0.864	0.390
Real GDP growth (2020)	-3.30%	-21.00%	-5.00%	-5.00%	-2.50%	-8.30%	-7.0%
% of BSP Group loans[2] (FY20)	62.3%	24.3%	3.8%	3.7%	2.2%	2.1%	1.6%
BSP Loan market share	65%	26%	52%	30%	41%	15%	38%
BSP Loan market share Rank	1	1	1	1	1	4	1
Key competitors	ANZ, Westpac, Kina Securities	ANZ, Westpac, Bank of Baroda, HFC, Bred Bank	ANZ, Bred Bank, Pan Oceanic Bank	ANZ, National Bank of Samoa, Samoa Commercial Bank	ANZ, Tonga Development Bank, Mbf	ANZ, Bred Bank, National Bank of Vanuatu	ANZ, Bank of Cook Islands

Note: [1] UN Population division

[2] Based on latest available company information

[3] Cook Islands information is for 2019, sourced from ADB 10-Sep-20 estimates and Pacific Economic Monitor (December 2020)

Source: IMF, World Economic Outlook Database, October 2020 Edition, ADB data available for Cook Islands

3.4.1 Fiji

According to IMF statistics, Fiji is a leading Pacific Islands nation with a population of approximately 900,000 and GDP of USD3.932 billion. Fiji's economy is heavily dependent on tourism and has therefore been significantly adversely affected by the COVID-19 pandemic in 2020. In its latest Article IV Report, the IMF is forecasting a rebound in the economy in 2021 and 2022, however the IMF expects that the level of nominal GDP will remain below 2019 levels.

Commercial banks represent the largest portion of the Fiji banking sector by total loans and remain profitable and well capitalised. BSP is one of the top three commercial banks in Fiji along with the local subsidiaries of ANZ and Westpac, with smaller players including the Bank of Baroda, HFC Bank and Bred Bank. Westpac announced in December 2020 that it intends to sell its Fiji business to Kina Securities Limited subject to a range of conditions, including regulatory approval. The Reserve Bank of Fiji is responsible for the prudential supervision and regulation of all banking activities in Fiji including capital adequacy, credit exposure management and limits, financial disclosure requirements and liquidity risk management.

3.4.2 Solomon Islands

According to IMF statistics, Solomon Islands is a small Pacific Islands nation with a population of approximately 655,000 and GDP of USD1.55 billion. The economy is heavily dependent on agriculture, forestry and fisheries. The economy suffered a significant contraction in 2020 reflecting the direct and indirect impacts of the COVID-19 pandemic. According to its latest Article IV Report, the IMF is forecasting a rapid return to pre-pandemic GDP levels in 2021. Banking sector activities in Solomon Islands are regulated by the Central Bank of the Solomon Islands with the regulatory framework covering all financial sector activities such as capital adequacy, credit exposure limits and foreign currency transaction restrictions. The banking sector industry is mainly comprised of commercial banks including BSP, a local subsidiary of ANZ, BRED Bank, and Pan Oceanic Bank with BSP having the largest market share by assets.

Fiji GDP Growth Trends and Outlook

Year	Nominal GDP (USD billion)	Real GDP growth (%, yoy)
2017	5.35	5.4
2018	5.54	3.5
2019	5.41	-1.3
2020	3.93	-21.0
2021f	4.36	11.5
2022f	4.85	8.5

Source: IMF, 2021

Solomon Islands GDP Growth Trends and Outlook

Year	Nominal GDP (USD billion)	Real GDP growth (%, yoy)
2017	1.46	5.3
2018	1.59	3.9
2019	1.60	1.2
2020	1.55	-5.0
2021f	1.68	4.5
2022f	1.80	3.9

Source: IMF, 2021

integrity

Our dedication ensures that doing business is a seamless, efficient and enjoyable process

4. Business Overview

4.1 Introduction

BSP is a leading financial services provider in its chosen markets throughout the South Pacific, with an extensive branch network across seven pacific nations. BSP serves both retail and corporate customers through its banking operations, and also provides non-banking services such as life insurance through BSP Life, funds management and corporate advisory through BSP Capital and asset finance through BSP Finance.

As of 31 December 2020, BSP had a total of 77 branches, 40 sub-branches and 201 agents throughout the South Pacific, as shown below.

77

BRANCHES	
Papua New Guinea	40
Fiji	16
Solomon Islands	8
Cook Islands	2
Samoa	5
Tonga	2
Vanuatu	4

40

SUB BRANCHES	
Papua New Guinea	38
Fiji	0
Solomon Islands	0
Cook Islands	0
Samoa	0
Tonga	2
Vanuatu	0

201

AGENTS	
Papua New Guinea	50
Fiji	41
Solomon Islands	7
Cook Islands	10
Samoa	38
Tonga	28
Vanuatu	27

11,033

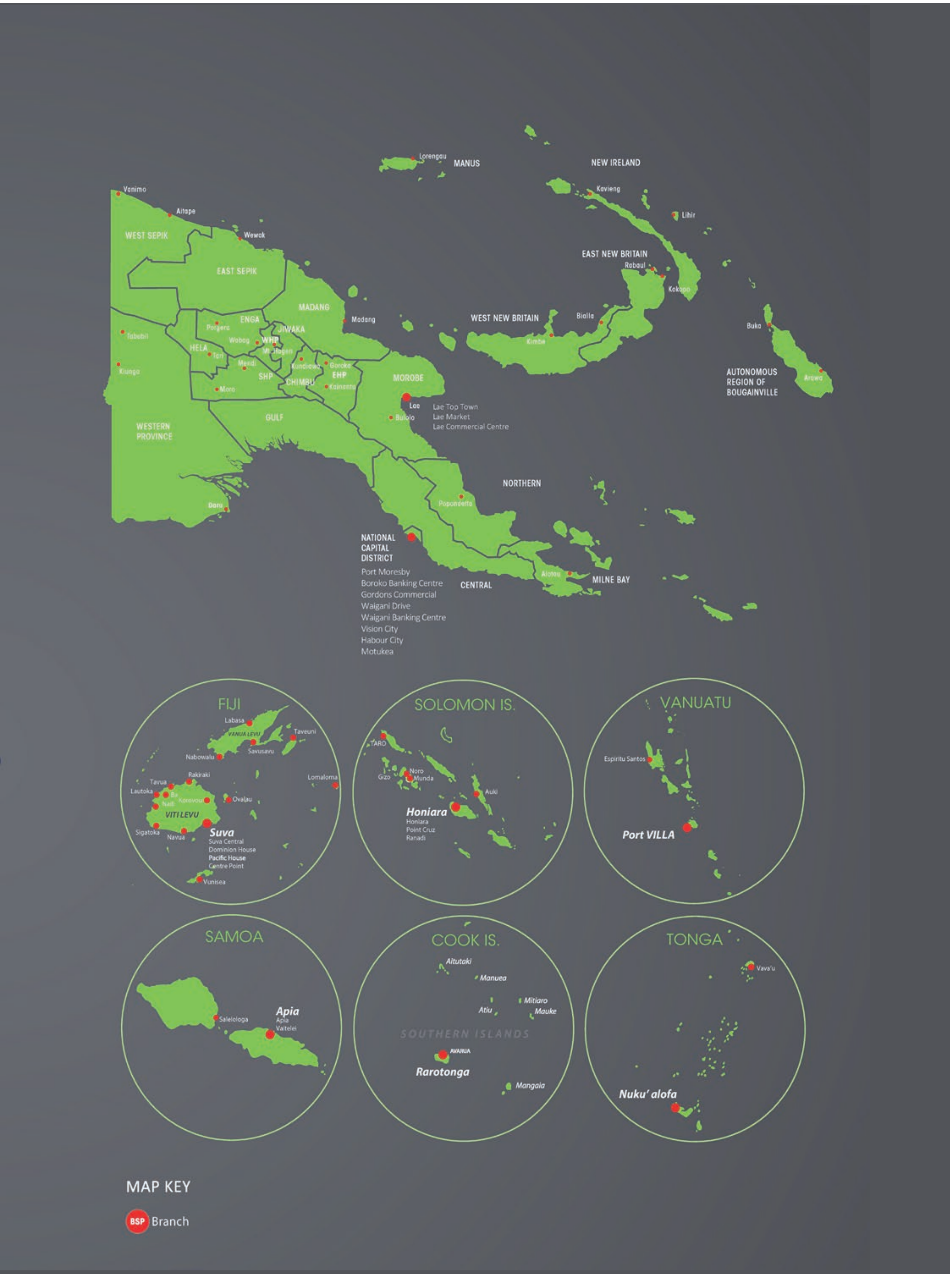
EFTPoS	
Papua New Guinea	6,879
Fiji	2,126
Solomon Islands	297
Cook Islands	449
Samoa	448
Tonga	408
Vanuatu	426

554

ATMS	
Papua New Guinea	319
Fiji	121
Solomon Islands	34
Cook Islands	13
Samoa	26
Tonga	14
Vanuatu	27

Key:
Branches – provide the full complement of BSP's Retail products and services
Sub branches – are located in rural districts and provide primary general banking services
Agencies – are mainly sole traders, who act on behalf of BSP on a commission basis. They provide basic cash transaction services.

The breadth of BSP's network enables it to provide unique "whole of bank" solutions to corporate clients and their stakeholders along the value chain. In PNG, these customers are often large PNG enterprises or foreign multi-national corporations, which BSP services through a physical local presence, even for customer operations that are rural or remote, such as for mining or oil and gas projects. This capability provides BSP with a strong competitive advantage in attracting large corporate clients and multi-nationals, positioning BSP as the financial services provider of choice for integrated, turn-key solutions.


Lorengau
MANUS
NEW IRELAND
Kavieng
Lihir
Vanimo
Aitape
WEST SEPIK
Wewak
EAST SEPIK
EAST NEW BRITAIN
Rabaul
Kokopo
MADANG
Madang
WEST NEW BRITAIN
Bialla
Kimbe
Buka
ENGA
Porgera
JIWAKA
Tabubil
Wabag
WHP
Mt Hagen
HELA
Tari
Mendi
Kundiawa
Goroka
EHP
SHP
CHIMBU
Kainantu
Kiunga
Moro
MOROBE
AUTONOMOUS REGION OF BOUGAINVILLE
Arawa
Lae
Bulolo
Lae Top Town
Lae Market
Lae Commercial Centre
GULF
WESTERN PROVINCE
NORTHERN
Popondetta
Daru
NATIONAL CAPITAL DISTRICT
Port Moresby
Boroko Banking Centre
Gordons Commercial
Waigani Drive
Waigani Banking Centre
Vision City
Habour City
Motukea
CENTRAL
Alotau
MILNE BAY
FIJI
Labasa
VANUA LEVU
Taveuni
Savusavu
Nabowalu
Rakiraki
Lomaloma
Tavua
Lautoka
Ba
Nadi
Korovou
Ovalau
VITI LEVU
Sigatoka
Navua
Suva
Suva Central
Dominion House
Pacific House
Centre Point
Vunisea
SOLOMON IS.
TARO
Gizo
Noro
Munda
Auki
Honiara
Honiara
Point Cruz
Ranadi
VANUATU
Espiritu Santos
Port VILLA
SAMOA
Apia
Apia
Vaitelei
Salelologa
COOK IS.
Aitutaki
Manuea
Mitiaro
Atiu
Mauke
SOUTHERN ISLANDS
AVARUA
Rarotonga
Mangaia
TONGA
Vava'u
Nuku' alofa
MAP KEY
BSP Branch

4.2 History of BSP

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

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

Key Milestones in BSP's Development[1]

1957	• Commenced operations in Port Moresby on 1 May 1957 as a branch of National Australia Bank
1974	• Incorporated as Bank of South Pacific, a wholly owned subsidiary of the Australian parent
1993	• National Investment Holdings Limited, a nationally owned company, acquired BSP from National Australia Bank
2002	• Merged with State owned Papua New Guinea Banking Corporation
2003	• Listed on the PNG national stock exchange, now PNGX
2006	• Established a presence in Fiji through the aquisition of Habib Bank Limited's Fiji operations, which was rebranded BSP
2007	• Acquired National Bank of Solomon Islands Limited, which was rebranded as BSP
2009	• Acquired Colonial National Bank and Colonial Fiji Life Insurance Limited from Commonwealth Bank of Australia, which were rebranded BSP and BSP Life Fiji, respectively
2015-16	• Acquired Westpac's operations in Solomon Islands, Cook Islands, Somoa, Tonga and Vanuatu • Established BSP Finance in Fiji and PNG
2017	• Established BSP Finance in Solomon Islands and Cambodia[2]
2018	• Established BSP Life PNG
2019	• Established BSP Finance in Lao[2]
2021	• Name changed from Bank of South Pacific Limited to BSP Financial Group Limited

Note: [1] *BSP is not authorised under the Banking Act 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 and will not be covered by the financial claims scheme under Division 2AA of the Banking Act.*
[2] *BSP's Cambodia and Lao operations are undertaken through a joint venture with its joint venture partner RMA Group.*

4.3 Market Strength

BSP is the dominant bank operating in the South Pacific. In particular, BSP is the largest lender in PNG and the majority of the other South Pacific markets.

Market Share (Dec-20)

		PNG	Solomon Islands	Tonga	Cook Islands	Samoa	Fiji	Vanuatu
BSP's Share of Loan Market	%	65	52	41	38	30	26	15
	Rank	#1	#1	#1	#1	#1	#1	#4
BSP's Share of Deposit Market	%	65	53	43	47	29	26	17
	Rank	#1	#1	#1	#1	#1	#2	#4

The PNG and Fiji markets are the dominant regions in BSP's portfolio accounting for more than 86% of total lending and 84% of total deposits.

Portfolio Share (Dec-20)

	PNG	Solomon Islands	Tonga	Cook Islands	Samoa	Fiji	Vanuatu
Share of BSP's Loan Portfolio (%)	62.3	24.3	3.8	3.7	2.2	2.1	1.6
Share of BSP's Deposit Portfolio (%)	67.4	17.2	5.0	3.0	2.1	2.5	2.7

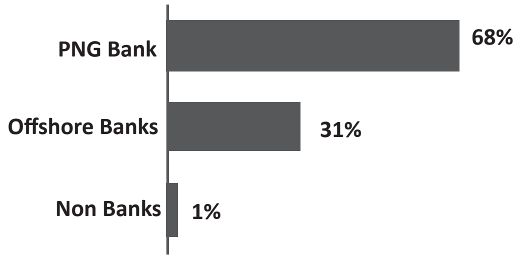
4.4 Divisional Overview

BSP provides a broad range of services to both retail and corporate clients throughout the South Pacific, and divides its business operations into the following areas:

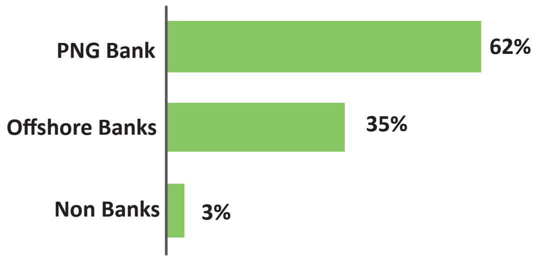
- Retail and corporate banking in PNG;
- Offshore banking operations in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu;
- Non-banking operations, which consist of:
  - BSP Life – life insurance services in Fiji and PNG, and health insurance services in Fiji;
  - BSP Capital – Funds management and corporate advisory services in PNG through BSP Capital; and
  - BSP Finance – asset finance operations in PNG, Fiji, Solomon Islands, Cambodia and Lao.[1]

Additionally, BSP has a treasury function that supports banking operations across each of its jurisdictions.

Deposit Mix (FY2020)



Loan Mix (FY2020)



4.4.1 PNG Retail Banking

PNG retail banking delivers banking services to BSP customers through PNG's largest branch, sub branch and agent network, with a particular focus on individuals, small businesses, social and business groups, churches, government and non-government organisations. BSP operates bank branches in all major cities in PNG and then extends coverage to PNG's more rural areas through its network of sub-branches and, even further afield, agents, as well as through mobile services. See Section 3.4 for further information on BSP's distribution network.

Retail banking provides payment and electronic commerce services through the EFTPOS system, ATMs, debit cards, mobile banking, online banking, and internet payment gateway, all of which position BSP as the largest payment processor in PNG. BSP's digital services allow customers the freedom to do most of their everyday banking where and when they want, with a mere 8% of banking transactions made within branches, predominantly around cash deposits, loan applications, card services and account maintenance. This is a significant achievement, given the high cash dependency in BSP's key markets. A summary of retail banking's products and services offered is set out below.

Deposit and transactional accounts

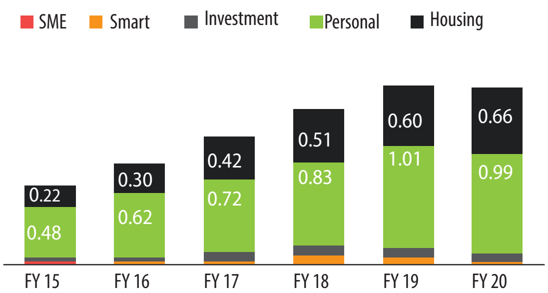
- BSP provides different types of banking accounts for everyday banking solutions to a broad spectrum of customers, ranging from standard transaction and savings accounts to savings products such as short-term deposits.
- Accounts are tailored to customers' needs and demographics, including rural customers, children, students and adults.
- BSP also offer small and medium enterprise (**SME**) Business Packages containing essential products and services required by a SME, including SME Business Current Account, SME Business Deposit Account, SME VISA Card, Internet Banking and Mobile banking.

[1] Cambodia and Lao operations – 50:50 joint venture with RMA Group that is headquartered in Bangkok, Thailand.

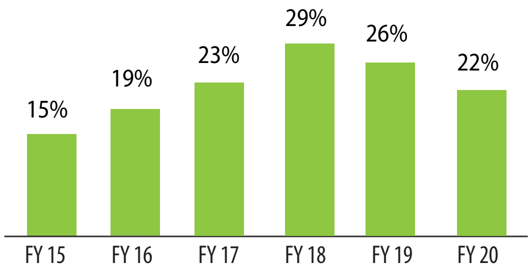
Consumer and Small Business Loan

- BSP provides a range of consumer and small business loan options designed to meet the particular needs and budgets of customers, including personal loans, home mortgage loans, investment loans, and SME loans. Predominantly all personal loans are unsecured, while home loans are typically secured by mortgages over the relevant real estate asset. Small SME loans are typically unsecured while larger SME loans are secured over various assets of the business. As of December 2020, the personal loan portfolio comprised of 80,648 loans. The average size is PGK11,793, with an average interest rate of 27% and probability of default of 6.09%.
- Applications for personal and home mortgage loans are processed using an automated, computerised, points-based credit scoring process, which enables BSP to efficiently process applications, generally within 24 hours of receiving the necessary customer information.

PNG Bank - Retail Loan evolution (K billion)



Average retail loan Interest rate (%)



Cards

- BSP offers a number of bank card products, consisting of a variety of debit cards, including Visa and branded EMV scheme cards, and card-based mobile banking services.
- As of 31 December 2020, BSP has issued approximately 1.3 million cards, all of which are connected to mobile and e-banking services.

SME banking

- SMEs are an increasingly important segment of the PNG economy, and BSP is the only bank in PNG to have dedicated branches in Port Moresby, Lae and Goroka for SME customers.
- BSP has developed a "financial pathway" for new SME customers, which helps them transition their business from a cash-based operation to an established business using electronic banking channels to accept and make payments, borrow money to finance their operations and establish a financial "footprint".

BSP Priority and BSP First

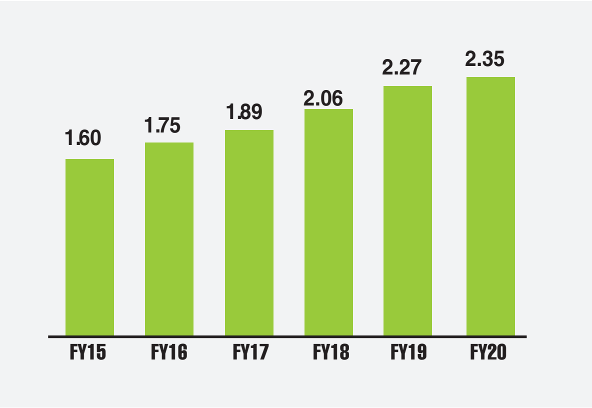
- BSP Priority and BSP First are premium banking services for high-income individuals, serving customers with minimum annual incomes of K250,000 and K500,000 respectively.
- BSP Priority provides customers with a higher-level banking service than is available in mass-market branches, such as access to premium banking lounges, while BSP First provides individually tailored banking services as well as dedicated personal bankers, exclusive banking centres and other benefits.

Banking Education and Financial Literacy

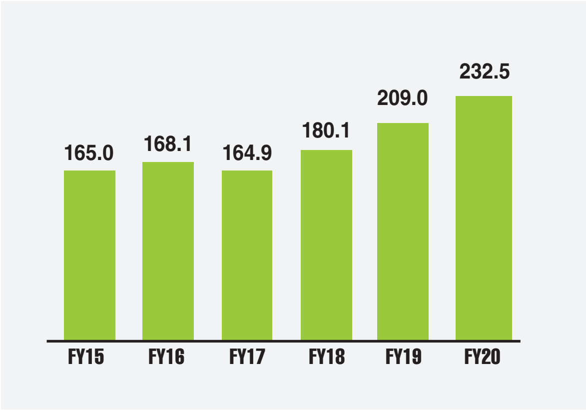
- Retail's banking education and financial literacy department aims to assist young people and people in underbanked locations, particularly rural PNG, to understand the importance of finance and financial discipline. This enables the financially illiterate to more efficiently participate in the economy, thereby increasing the number of banked individuals while also contributing to personal empowerment and the economic development of PNG.

BSP has experienced growth in customer accounts and transaction levels over the years, which has been partially driven by an increase in payments activity, as the PNG economy matures. BSP is continuing to grow its retail customer base by providing banking services to traditionally unbanked segments of the PNG population in rural areas, primarily through the expansion of its agent network, as well as through expansions of its branch and sub- branch network, where local economic development is expected to result in a need for banking services. BSP believes that its commitment to and presence across the retail banking market throughout PNG and its associated brand recognition give the Company a unique advantage in the PNG competitive landscape.

Retail customer accounts (millions)



Retail transaction volumes (millions)

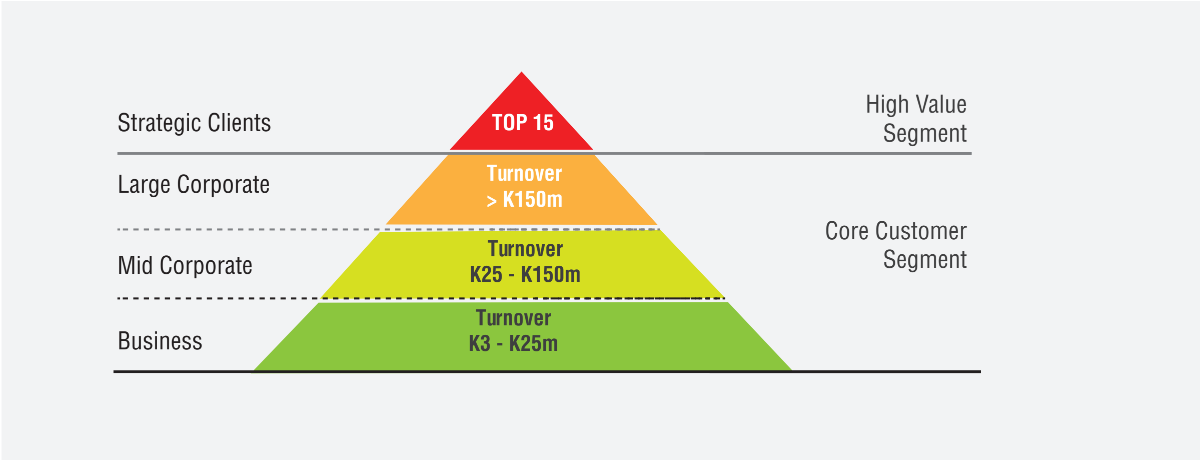


PNG retail banking also provides operational support to banking operations at BSP's offshore branches, which generally consists of transferring knowledge about new products and standards, providing promotional materials and marketing support, and aiding in the implementation and execution of BSP's strategy in these markets.

4.4.2 PNG Corporate Banking

PNG corporate banking provides a wide variety of business banking solutions to corporate customers ranging from small corporates to mid-sized and large corporations and major strategic clients. BSP's corporate customer segmentation strategy is presented in the diagram below:

Corporate Banking's customer segmentation strategy

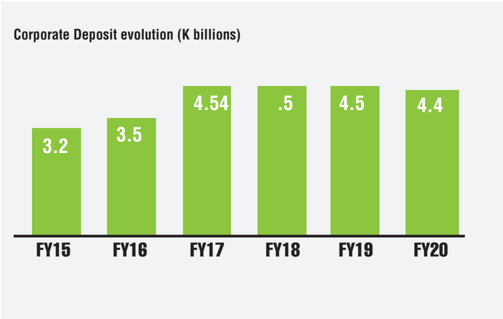


The products and services BSP provides to corporate clients are set out in the table on the next page.

Deposit Accounts

- BSP corporate banking offers a range of flexible transaction and deposit accounts that allow its customers to effectively manage their finances. These include fixed interest term deposit accounts, and foreign currency deposit accounts (both variable-interest-bearing and non-interest bearing current accounts).

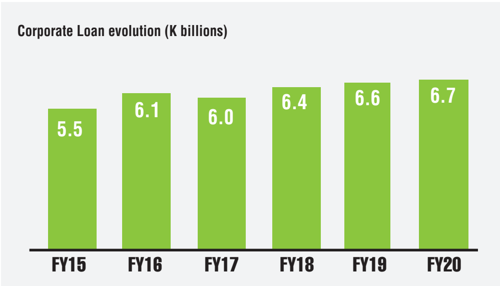
- BSP is focused on increasing its market share and overall volume of term deposits through targeting strategic and large customers, and deposits have increased from PGK3.2 billion at the end of FY15 to PGK4.4 billion at the end of FY20.

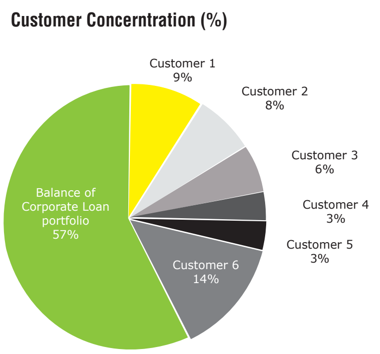


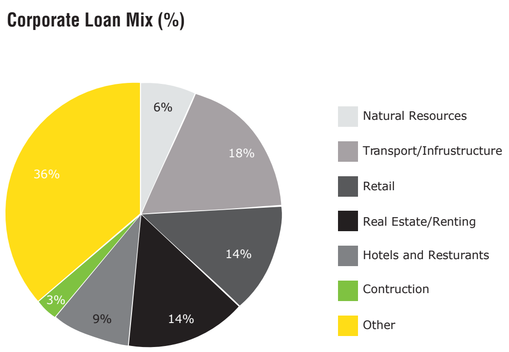
Loan Accounts

- Corporate lending products consist of short-term loans, long-term loans, asset finance leases and trade finance, all of which are primarily denominated in PGK.

- The corporate loan portfolio has increased from K5.5 billion at the end of FY15 to K6.7 billion at the end of FY20, driven primarily by efforts to increase market share and strong macro-economic conditions in PNG.







- BSP's corporate loan book mix largely reflects the distribution of broader PNG economic activity, which is primarily driven by large corporates in the extractive, construction, telecommunication, transport, retail and hospitality industries.

Foreign exchange

- BSP's treasury business facilitates foreign currency transactions through dedicated dealers or via business internet banking. See Section 4.4.5 for further information.

Whole of BSP solutions	▸ "Whole of BSP" solutions provide value-added support to corporate clients and their stakeholders along the value chain, strengthening the relationships with these corporate clients while simultaneously expanding the retail customer base. ▸ These customers are often large PNG enterprises or foreign multi-national corporations looking to set up operations in PNG. BSP is usually able to provide enhanced service through a physical local presence, even for customer operations that are rural or remote, such as for mining or oil and gas projects. ▸ Services include account-opening assistance, tailored package home loan programs and financial literacy training for corporate customers' employees, suppliers, sub-contractors and other business partners and for these stakeholders' relatives, as well as preferential lending services, payroll processing and retail, life insurance products, corporate finance and treasury support for the corporate entities.
Strategic customer support	▸ Strategic customer support is a dedicated team of experienced bankers focused solely on large multi-national corporate customers and large companies operating in PNG. These teams aim to ensure delivery of exceptional service and solutions from all of BSP's business banking units. ▸ The team anticipates and delivers "whole of BSP" solutions, and coordinates all areas of the BSP group that provide a role in servicing strategic customers.

4.4.3 Non-PNG Banking

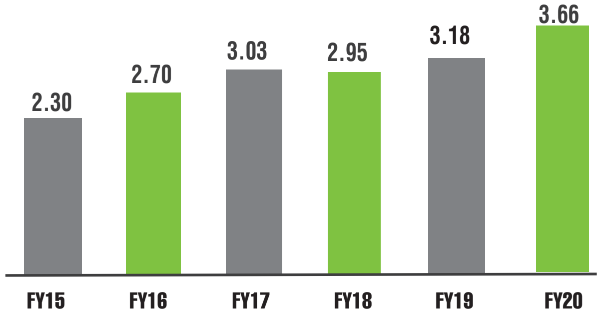
In addition to PNG, BSP also has conducted banking operations in Fiji since 2006, in Solomon Islands since 2007, in Cook Islands, Samoa and Tonga since 2015 and in Vanuatu since 2016. BSP provides banking services to both retail and corporate customers in all of these countries.

4.4.3.1 Fiji

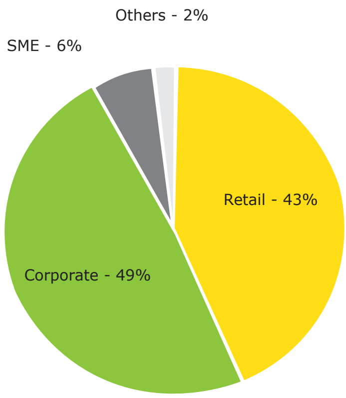
BSP has been operating in Fiji since 2006, following the acquisition of the Fiji operations of Habib Bank Limited. BSP further expanded its network in 2009 by acquiring the Fiji operations of Colonial Group from Commonwealth Bank of Australia, and in 2014 by launching BSP Finance Fiji. In September 2015, as part of BSP's continued efforts to improve the services offered to customers, BSP successfully completed the upgrade of its core banking system in Fiji.

BSP is Fiji's largest bank in terms of lending, and currently operates 16 branches, 121 ATMs, more than any other bank in Fiji, and 41 rural agent outlets. Banking operations in Fiji are divided into two strategic businesses, namely retail banking and corporate banking. The range of banking services and products provided in Fiji is substantially similar to those provided in PNG.

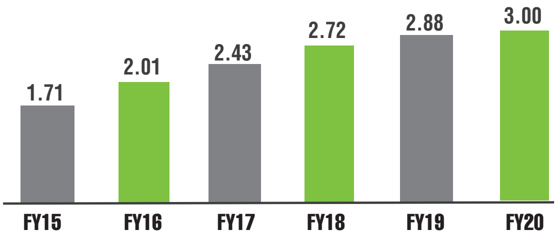
Growth in deposit book (K billion)



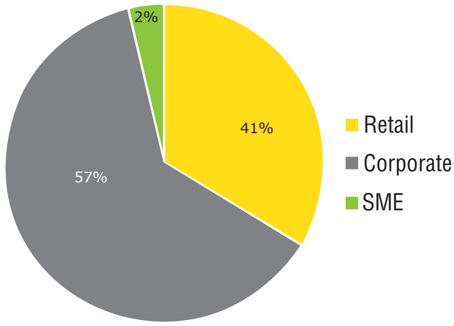
Deposit mix (FY20)



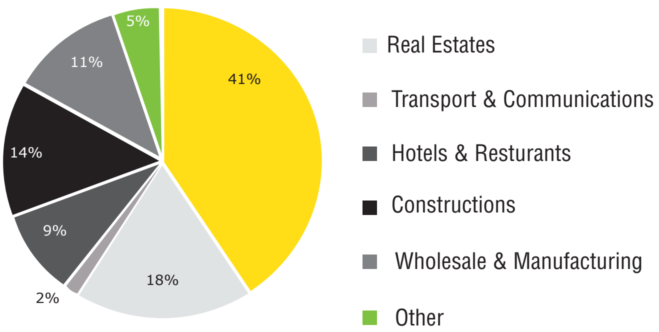
Growth in Loan Book (K billion)



Loan Mix (FY20)



Loan mix by sector (FY20)



4.4.3.2 Other geographies

In addition to PNG and Fiji, BSP also operates in the Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu. BSP's operations in these markets are summarised in the table below.

As of 31 December 2020	Solomon Islands	Samoa	Tonga	Cook Islands	Vanuatu
Deposits (K millions)	1,104	664	463	599	547
Loans (K millions)	502	503	299	221	280
Total assets (K millions)	1,415	807	619	666	650
Customer accounts	156,376	71,745	34,875	13,656	37,281
Branches	8	5	2	2	4
Sub-branches	0	0	2	0	0
ATMs	34	26	14	13	27
EFTPoS	297	448	408	449	426
Agents	7	38	28	10	27

4.4.4 Non-Banking Operations

4.4.4.1 BSP Life

BSP operates an insurance business in Fiji through its wholly owned subsidiary BSP Life Limited (**BSP Life**), which focuses primarily on life insurance, but also includes a small portion of health insurance.

BSP Life is the largest life insurer in Fiji with a 57% market share based on 2020 annual inforce premiums, and one of six major general insurers through its health insurance operations. The business has grown from FJD76.8 million in annual premium income in FY19 to FJD80.3 million in FY20. BSP Life's net profit after tax has decreased from FJD20.4 million in net profit after tax in FY19 to FJD15.3 million in FY20 that can attributed to COVID-19's effect on Fiji's economy, given the heavy reliance on international tourism.

BSP is in the process of improving BSP Life's market leadership position in Fiji, whilst looking at capturing new growth in its PNG operations, which commenced in PNG in 2018. BSP Life PNG's total inforce premiums were PGK16.5m as of 31 December 2020; its premium growth can be attributed to market share growth and introducing new life insurance products into the PNG market.

4.4.4.2 BSP Capital

BSP Capital provides funds management and capital advisory services to large institutional investors, such as superannuation funds and retail investors.

BSP Capital is also the second largest fund manager in PNG, with PGK 7.9 billion in funds under management as of 31 December 2020. Corporate and Retail act as referral points for BSP Capital.

4.4.4.3 BSP Finance

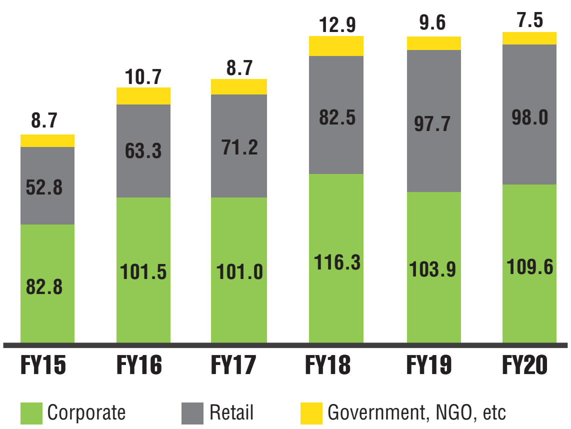
BSP Finance provides asset finance in PNG, Fiji, and Solomon Islands offering commercial loans, finance leases and term deposit products predominantly to SMEs and small commercial businesses, though in some cases also to individual borrowers. BSP Finance was established to extend BSP's financial and lending activities into broader sectors of the local economy throughout PNG and the South Pacific region. BSP has expanded its operations into South East Asia, via its joint ventures in Lao and Cambodia with our partner RMA Group[1].

4.4.5 Treasury

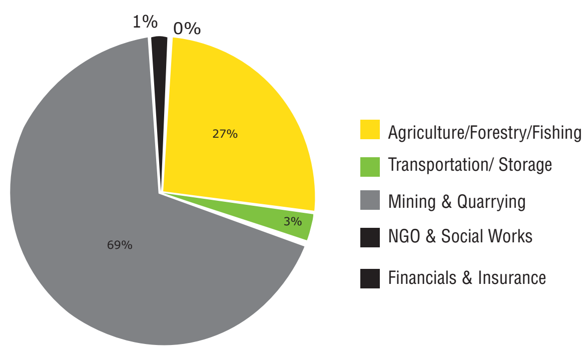
BSP's treasury operations consist primarily of foreign exchange transactions, which are undertaken only on behalf of customers and not on a proprietary basis. FX earnings are generally driven by FX inflows, with the corporate client base providing the majority of FX earnings through BSP's extensive branch network, which captures a large market share of retail FX flows.

BSP's FX average market share throughout the year has grown from 43.5% in FY19 to 44.2% in FY20, with a large portion of FX inflows over the past 12 months concentrated in the mining sector. In FY20, BSP's FX transaction volume totalled PGK15.3 billion, with a monthly average volume of PGK1.3 billion

FX earnings (K millions)



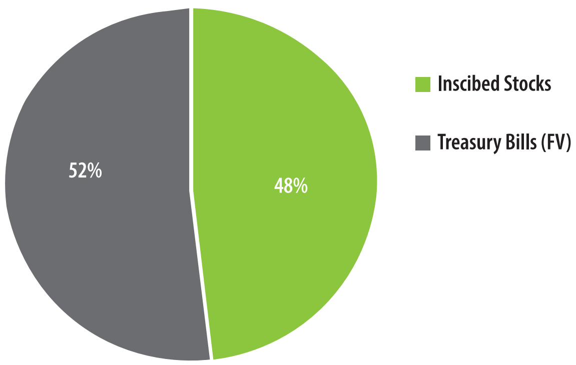
FX inflows—industry breakdown (FY20)



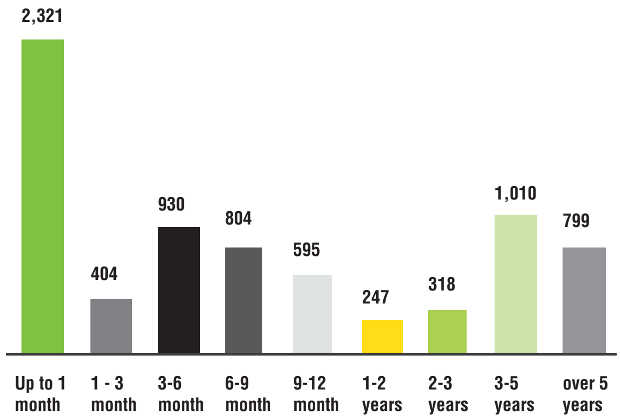
[1]RM rover, Ford, John Deere and a number of other vehicle and equipment brands in South East Asian markets.

The treasury function also manages BSP's investment portfolio, under the supervision of the Group Asset and Liability Committee. As of 31 December 2020, the majority of BSP's investment portfolio comprised Treasury and Central Bank bills and Central Bank balances, approximately 8% of the investment portfolio has a time to maturity of less than 30 days, and approximately 60% of the investment portfolio has a time to maturity of less than one year.

Investment portfolio composition (Dec 2020)



Investment portfolio and Central Bank balances by time to maturity (Dec 20) (K millions)

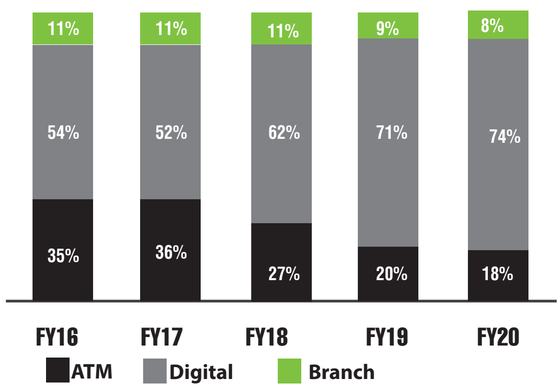


4.5 Distribution Channels

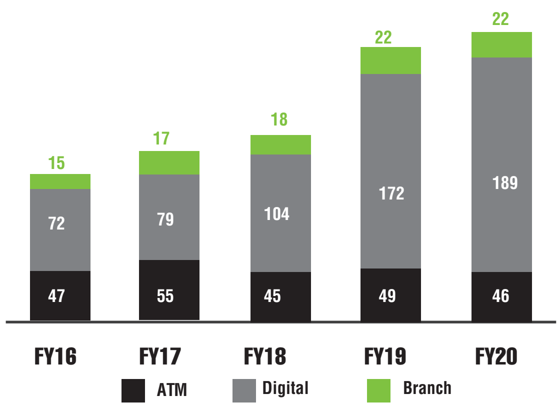
BSP has an extensive, multi-channel network throughout PNG and other markets in the South Pacific. Its network of branches, sub-branches and agents is the largest in PNG, and is complemented by various electronic banking channels, including the largest ATM network in PNG.

From FY16 to FY20, there have been significant increases in the number of transactions made through BSP's digital channels, which has seen a total increase of 162%. This is primarily due to an increase in mobile payments, and BSP's extensive EFTPOS network.

Group Annual Transaction Mix by Channel



Group Transactions per month by Channel (millions)



4.5.1 Branch and sub-branch network

BSP has a well-established branch and sub-branch network in PNG, Fiji and Solomon Islands. This branch and sub-branch strategy is key to BSP's ability to meet the needs of customers in local communities and is an important source of customer acquisition and deposit and asset growth.

Branch geographical breakdown

As of 31 December	FY18	FY19	FY20
PNG	46	43	40
Fiji	17	17	16
Solomon Is.	8	8	8
Samoa	3	5	5
Tonga	4	2	2
Cook Is.	2	2	2
Vanuatu	3	4	4
Total	**83**	**81**	**77**

Sub-branch geographical breakdown

As of 31 December	FY18	FY19	FY20
PNG	43	46	38
Fiji	0	0	0
Solomon Is.	0	0	0
Samoa	0	0	0
Tonga	2	2	2
Cook Is.	0	0	0
Vanuatu	0	0	0
Total	**45**	**48**	**40**

Branches provide a variety of banking services to retail and corporate customers, including cheque, transaction and savings facilities, term and on-call products, personal, commercial and corporate lending services and foreign exchange and trade facilities. Sub-branches offer a more limited range of services tailored to meet the basic banking needs of their location, and mostly use "branchless banking" technology on tablet computers and EFTPoS terminals that allows them to provide account opening, deposit and withdrawal services. Through providing this mixed network, BSP is able to more efficiently tailor its service offering to the needs of its customer base and serve a broader market, including pockets of economic development near major infrastructure or other development projects.

4.5.2 Agents

BSP's network of agents comprises small and medium-sized third-party enterprises, with whom BSP has already established a banking relationship, that have entered into exclusive contractual agency agreements to provide BSP's customers with certain services. Agents mainly provide deposit and withdrawal services to BSP's clients in PNG using BSP's branchless banking system of EFTPoS terminals and outside of PNG assist with settling transactions using their cash. Agents are supported by branch and sub-branch staff who visit the agents on a regular basis.

Agents typically are located around the periphery of BSP's branch and sub-branch network, often several hours' drive away from the nearest branch or sub-branch. This agency model enables BSP to address a significantly broader customer base, while providing agents with increased foot traffic into their businesses and commissions based on a small retainer fee tiered according to the volume of transactions performed, transaction fees for each transaction processed and pay agents a commission fee for maintaining a certain level of liquidity (an average monthly balance of more than PGK2,000).

4.5.3 Electronic banking

BSP provides a broad array of electronic banking services, including a network of ATMs, phone banking, mobile banking, internet banking and EFTPoS.

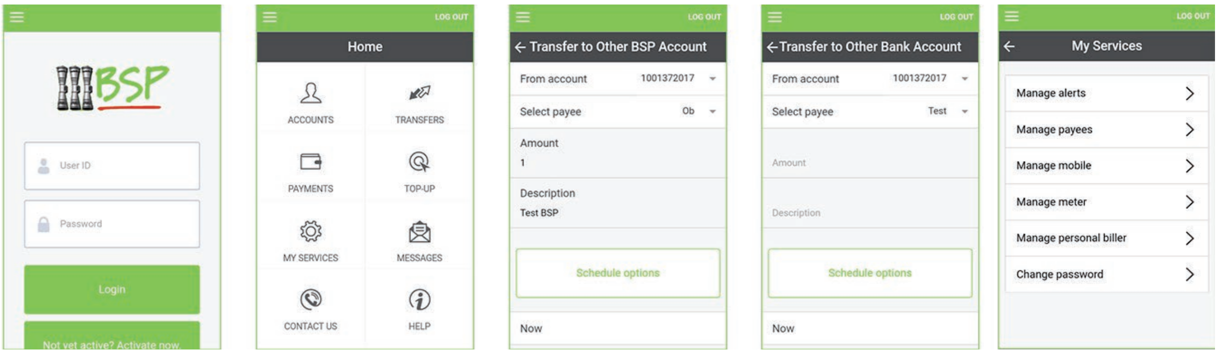
ATM network

BSP operates the largest network of ATMs in PNG and Fiji, with 319 ATMs in PNG and 121 ATMs in Fiji as of 31 December 2020. The ATM network features 24-hour service and a full range of transaction services, including card cash withdrawals, transfers between linked accounts, mobile phone and prepaid electricity top-up, PIN change, condensed statements, and cash deposits on a limited number of ATMs.

Mobile banking

BSP has also invested heavily in establishing a quality mobile banking platform, which is its fastest-growing distribution channel as measured by transaction volume. BSP launched its USSD mobile banking service in 2011, which can be used even on very basic mobile handsets and has functionality including balance enquiries and condensed statements, mobile phone top-ups, prepaid electricity top-ups, personal loan repayments, transfers between linked accounts, third-party transfers within BSP and third-party transfers to other banks. BSP launched its internet- based mobile application in 2014, which is available on smart phones and provides the same functionality as the USSD mobile banking service, though through a more convenient interface.

BSP's mobile banking application



Internet banking and internet payment gateway

BSP's internet banking platform consists of retail and corporate product suites, providing customers with a range of services, including:

- Transfers between linked accounts;
- Transfers to third parties within BSP and at other banks in PNG;
- Foreign exchange transfers, account statement downloads;
- Batch file uploads and salary/creditor payments; and
- Transaction search capabilities.

Corporate customers are also able to apply various levels of enquiry and marker/checker functions for payment authorisation, and authorisation codes for individual transactions are generated on tokens that BSP issues, which enables the authorisation of transactions from anywhere around the world.

BSP also has an internet payment gateway, which is available to commercial clients to facilitate online sales through the acceptance and authorisation of Scheme card payments.

EFTPoS

BSP has the largest EFTPoS merchant and terminal network in PNG, making it one of the largest processor of retail payments in PNG. BSP is also one of the largest issuer of bank cards in PNG, through the combination of its proprietary cards and Scheme cards.

Proprietary cards can only be used domestically in PNG, and include the mass market "Kundu card", the "Sumatin card" for students, the "Kids card" for children and the "Smart Business card" for SMEs. BSP-issued scheme cards are Visa, and BSP has acquirer approvals for VISA, MasterCard, UnionPay and American Express.

Payroll deposits

BSP offers a payroll deposit processing service through BSP Kundu Pei, which is a secure, computer-based salary processing system designed specifically for our customers to process salary and creditor payments. BSP provides and installs Kundu Pei software on customers' computers, which allows them to prepare salary and creditor data and send it securely through a web portal that uploads files in real-time to BSP's network. Salaries processed through Kundu Pei are automatically credited to employees' accounts.

4.6 Operations

4.6.1 Talent development

BSP has a long track record of strong employee engagement and talent development, having been recognised by the Papua New Guinea Human Resource Institute as the Best Private Sector Employer in 2013 to 2018 consecutively. BSP also has established and developed a management team with significant specialist skills and experience in the PNG banking sector, which provides the Company with a significant advantage in a competitive market.

BSP has a leadership development program in place, which provides upward career mobility for employees at various levels of the organisation and a greater depth of talent to support management succession planning. The program is a three year, structured development process that provides chosen candidates with business school courses, formal mentor relationships with executive management, external secondments, and other training and development opportunities. The leadership development program accepted 13 candidates in 2018, 15 candidates in 2019 and 5 candidates in 2020. Since the program's inception in 2015, a total of 65 (28 male and 37 female) employees have participated in the program.

As of 31 December 2020, BSP had a total of 4,360 employees. A breakdown of staff by geography and function is set out in the figures below.

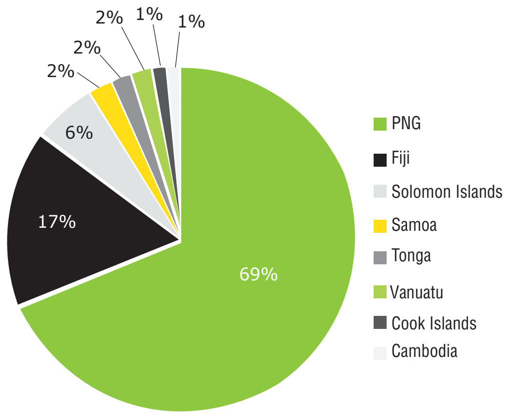
4.6.2 Information technology update

BSP believes information technology is crucial to its future, and a focus on continuously building and upgrading systems is a critical element of the Company's strategy. BSP is currently replacing its existing core banking systems (ICBS) with Oracle's FLEXCUBE system, which is expected to deliver several strategic benefits including:

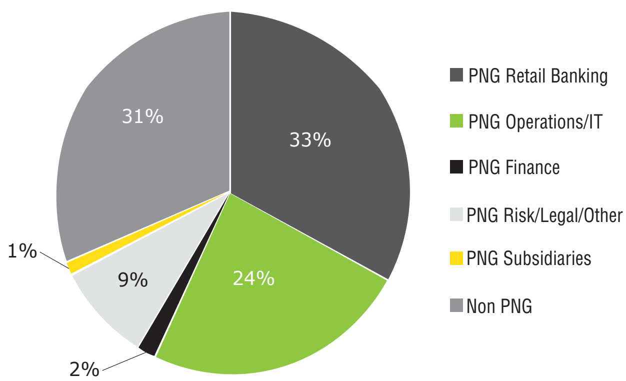
- Lowering operating costs;
- Enhancing compliance and regulatory reporting functions and fraud and risk monitoring;
- Improving product innovation (especially digital product innovation), including by providing for a greater range of features and benefits, better product integration and faster product development; and
- Improving customer service and the customer experience.

COVID-19 related travel restrictions have delayed BSP Vanuatu's core system replacement to the first half of 2021. PNG's replacement is planned to occur in the second half of 2021.

FTE by geography (31 December 2020)



FTE by function (31 December 2020)



4.6.3 Risk management

BSP has a well-established and comprehensive risk management framework, as illustrated in the diagram below:

BSP risk management framework

Within the risk management framework, interest rate risk and FX risk are managed and monitored within the BSP Market Risk Policy framework, which includes limits such as for:

- Interest rate risk, interest rate tenor, deposit concentration, regulatory cash reserve requirement and liquid assets; and
- FX risk, net overnight FX positions and single currency overnight positions.

BSP also regularly performs scenario analysis and stress testing to assess the impact of various internal and external outcomes, including severe distress in industries such as property, transport and oil and gas sectors.

In its credit approval process, BSP maintains independent checks and balances by separating the loan origination and application and credit analysis, as well as credit services and monitoring functions. BSP also separates its risk management and compliance divisions.

BSP has implemented an AML/CTF program, which meets the relevant PNG legal and regulatory requirements, and is making continuous improvements consistent with international practice. For further information on BSP's AML/CTF policies and procedures and associated PNG regulation, see Sections 3.3.3, 6.2.19 and 6.2.22.

4.6.4 Corporate social responsibility

Corporate social responsibility is an integral part of BSP's business and the Company commits substantial resources and energies to social development.

BSP supports a large number of charities in PNG and across the other Pacific Islands. Since 2009, BSP has invested approximately PGK11.83m in 477 community projects in PNG and in 13 community projects in Fiji and Solomon Islands. All branches in PNG are directly involved in corporate social responsibility initiatives and have been delivering community projects annually since 2009.

4.7 Growth strategy

BSP's current market position and product capabilities provide it with multiple growth drivers across various channels, products and markets.

BSP has a strong track record of growth, both through organic and inorganic initiatives and is supported by attractive fundamental trends in the PNG banking market. In pursuing future growth, BSP's management is focused on two key levers, being cementing BSP's South Pacific market leadership position, and innovating product offering and improving service levels, which are summarised in the table below.

Growth Lever	Current Position	Near to Medium Term Objectives
Pacific Islands		
Cementing South Pacific market share leadership position	▸ In 2015–2016, BSP acquired business in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu, which have all been successfully integrated into BSP's operations with staff retained and customer growth exceeding expectations. ▸ BSP has entered the asset finance market via its joint ventures in Lao and Cambodia.	▸ Maintain organic growth trajectory by leveraging the South Pacific's largest distribution network and considerable technology investment (PGK450m): – Continued focus on market share growth. Between 2015 and 2020, BSP PNG, Fiji and Solomon Islands grew their lending share from 54% to 65%, 22% to 26%, and 45% to 53% respectively. – By way of example, BSP PNG grew its customers by 167,252 in 2020, 36.8 times its key competitor that attracted 4,550 new customers. ▸ Continue to explore South Pacific in-organic growth opportunities in existing and adjacent markets. – BSP has a proven M&A capability and a track record of successful business integration, an example being the 2015 Westpac Pacific acquisition, with the forecast payback period halved and double digit ROI achieved. ▸ Continue to explore emerging South East Asian (with comparable attributes to PNG) in-organic growth opportunities in asset finance – Low cost and low risk market entry strategy to gain market knowledge and experience in advance of exploring South East Asian banking opportunities. ▸ Secure alternative sources of foreign currency funding to support both organic and in-organic growth initiatives.

Growth Lever	Current Position	Near to Medium Term Objectives
Pacific Islands		
Innovating product offering and improving service levels	BSP's product offering is broad and includes both banking and non-banking products, but there is scope to further innovate our digital products and services and improve customer experiences.	On the back of BSP's PGK450m core banking system investment, BSP intends to continue development of BSP's digital offering to improve the frequent everyday banking experiences of our customers, with a focus on mobile and online services.
	Established a fintech joint venture (50:50) "PlatformPac Limited" 1H-2020, with TruTeq Communications (specialising in digital solutions in emerging markets).	PlatformPac Limited will launch an internet payments gateway that allows BSP customers to use non-scheme cards to perform online payments with BSP registered merchants in the 1H-2021. • Products and services developed under the joint venture can be on-sold into markets where BSP does not operate. • The joint venure will play a key role in the development of innovative banking products and services for our customers, which is expected to contribute to BSP's sustainable competitive advantage.

5. Financial Information

5.1 Introduction to financial information

This section provides an overview of the financial performance of BSP and includes other financial disclosures as required by the ASX Listing Rules.

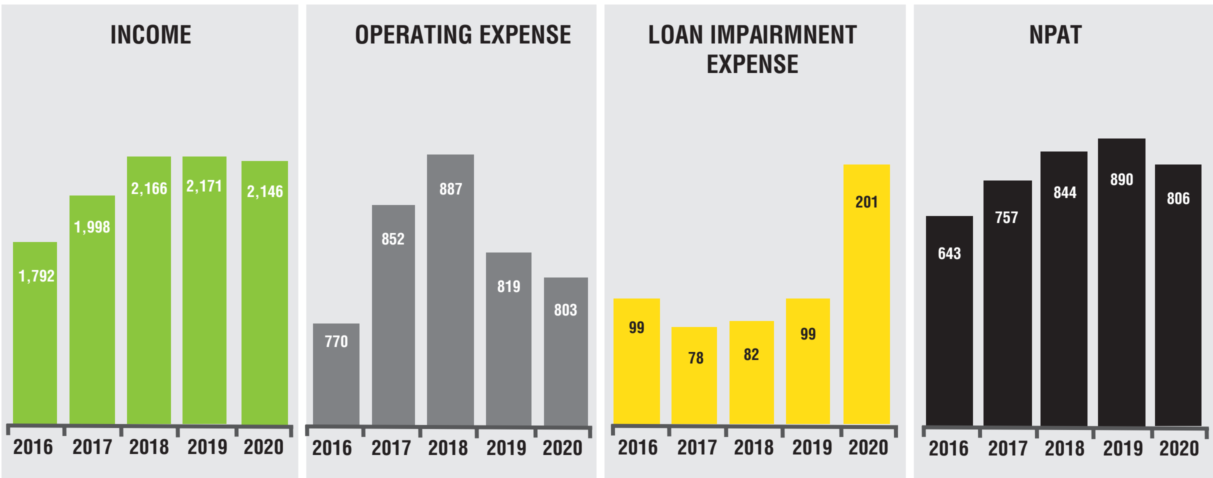
Audited financial statements in PGK for BSP and the Group for the year ended 31 December 2020 are set out in Appendix B of this Information Memorandum. The full year financial statements, comprising the statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and the accompanying notes, have been independently audited by PricewaterhouseCoopers PNG.

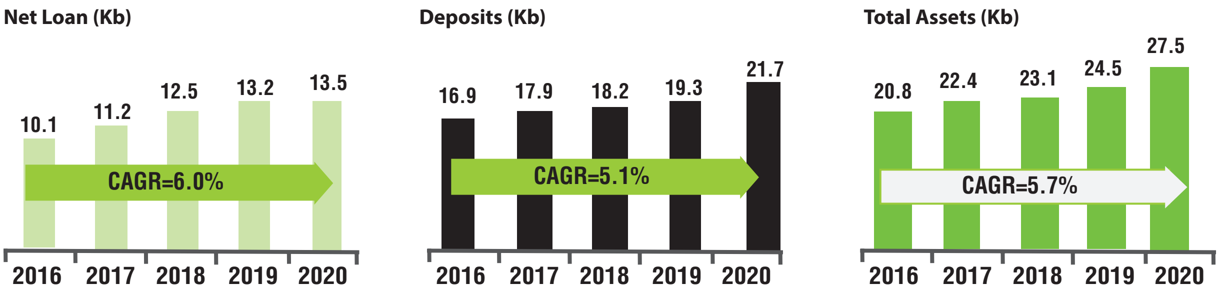
The financial statements have been prepared in accordance with International Accounting Financial Reporting Standards as issued by the International Accounting Standards Board and interpretations of these standards issued by the International Financial Reporting Interpretations Committee. The financial statements comply with International Financial Standards.

5.2 Summary historical financial performance

BSP's financial performance over the past five years is summarised in the following figures.

Historical financial performance FY16 to FY20 (PGK million)





BSP has achieved strong income growth over the past five financial years, primarily driven by the solid growth in PNG loans. Sustaining this trend are the growing contributions of offshore branches and subsidiary contributions towards total Group NPAT. For FY20, these segments contributed to 25.7% of the Group's NPAT, up from 20.3% in FY16, with the PNG Bank contributing to the remaining 74.3%.

BSP continues to deliver uninterrupted year-on-year growth in loans, deposits and assets growth, achieving a CAGR for these segments of 6.0%, 5.1% and 5.7%, respectively, from FY16 to FY20.

BSP's diversification strategy initiated in 2015 by way of business expansion outside PNG is gaining momentum as shown through the positive profit growth (+2.3%) from the Group's non-bank subsidiaries, despite the unprecedented downturn in 2020 brought on by the COVID-19 pandemic.

The Group's NPAT reduction from FY19 to FY20 was a result of:

- Significant COVID-19 pandemic related challenges faced by the business in every country the business operates in and the consequential year-on-year increase in loan impairment expenses of PGK102m to PGK201m (+102.9% from the prior comparative period); and

- Interest rate reduction of 1% for all PNG Bank loan products at the Bank of PNG's request, in conjunction with the provision of appropriate relief packages in the face of the COVID-19 pandemic.

These costs were partly offset by strong cost containment measures implemented across all business segments, which resulted in a reduction in cost to income levels (37.4% for FY20 from 42.9% in FY16).

Key financial metrics and growth trends

	FY16	FY17	FY18	FY19	FY20	FY20 v FY19	CAGR	5-Year Avg.
Profit & Loss (PGKm)								
Interest Income	1,268	1,433	1,562	1,586	1,592	0.4%	4.7%	1,488
Interest expense	(160)	(155)	(181)	(194)	(145)	(25.3%)	(2.0%)	(167)
Net interest income	1,108	1,278	1,381	1,392	1,447	4.0%	5.5%	1,321
FX income	254	276	314	328	288	(12.1%)	2.6%	292
Non-interest income	430	445	470	451	411	(8.9%)	(1.0%)	441
Impairment on financial assets	(99)	(78)	(82)	(99)	(201)	102.9%	15.3%	(112)
Other operating expenses	(770)	(852)	(887)	(819)	(803)	(2.0%)	0.8%	(826)
Profit before income tax	923	1,069	1,196	1,253	1,142	(8.9%)	4.3%	1,116
Income tax expense	(280)	(312)	(352)	(363)	(336)	(7.4%)	3.7%	(328)
Net profit for the year	643	757	844	890	806	(9.5%)	4.6%	788
Dividends (toea)								
Dividends paid per share	88	111	127	139	121			
Earnings per share	137.7	162.0	180.6	190.6	172.6	-9.4%	4.6%	168.7
Balance Sheet (PGKm)								
Net loans and advances	10,103	11,209	12,531	13,201	13,507	2.3%	6.0%	12,110
Total assets	20,832	22,370	23,081	24,527	27,523	12.2%	5.7%	23,667
Deposits	16,912	17,902	18,233	19,339	21,654	12.0%	5.1%	18,808
Net assets/Equity	2,314	2,628	2,872	3,117	3,434	10.2%	8.2%	2,873
Performance ratios								
Return on assets	3.3%	3.5%	3.7%	3.7%	3.1%			3.5%
Return on equity	29.6%	30.6%	30.7%	29.7%	24.6%			29.0%
Expense/income	42.9%	42.6%	41.0%	37.7%	37.4%			40.3%
Loans to deposits	59.7%	62.6%	68.7%	68.3%	62.4%			64.3%
Key Prudential Ratios								
Capital adequacy ratio	23.1%	24.5%	22.9%	22.0%	23.2%			23.1%
Tier 1 Capital	19.8%	21.3%	19.8%	19.5%	20.8%			20.2%
Liquid asset ratio	35.8%	36.9%	33.6%	30.0%	32.6%			33.8%
Leverage ratio	9.3%	10.0%	10.3%	10.5%	10.3%			10.1%
Prudential Capital and risk weighted assets								
Tier 1 Capital	1,917	2,212	2,339	2,527	2,788	10.3%	7.8%	2,356
Total Capital	2,233	2,549	2,695	2,849	3,096	8.7%	6.7%	2,685
Risk weighted assets	9,682	10,395	11,788	12,960	13,370	3.2%	6.7%	11,639

5.3 Commentary on 2020 financial year

BSP Group had a strong FY20, despite difficult conditions persisting throughout the year. PNG foreign exchange earnings decreased in FY20, due to the reduction in export flows associated with the closure of the gold mine in Pogera and lower energy related commodity prices. Despite this trend, BSP's PNG foreign exchange market share increased by 0.5% to 44%. BSP Group foreign exchange turnover fell by 0.5% throughout FY20, due largely to travel restrictions limiting international visitor expenditure across the South Pacific. Domestically in PNG, BSP continued to invest surplus domestic kina liquidity into government securities, resulting in a year on year increase of 12.9% in investment income to PGK392m for FY20.

The key profit and loss items driving BSP FY20 financial performance are set out below:

- Net interest income: FY20 net interest income increased by 4.0% over the prior year. This was due to improved liquidity which enabled BSP to reduce its cost of funds with lower interest expenses, while surplus liquidity invested in government securities contributed to higher interest income and partially mitigated the impact of the reduction in PNG Bank indicator lending rates (as detailed above).
- Cost to income: FY20 cost to income continued to reduce reaching 37.4% (-33bps on the prior comparative period), as cost containment measures mitigated the impact of income reductions.
- Impairment expenses: FY20 impairment expense of PGK201m increased by PGK102.1m (+102%) on the prior comparative period. The increase in impairment expenses was largely driven by higher forward looking general provisions (+PGK61.5m) taken up to cater for the potential impact of COVID-19 on the loan portfolio in line with IFRS 9 requirements. Write-offs net of recoveries increased by PGK16.7m while individually assessed provisions increased marginally by PGK3.3m. Impairment expenses on government securities increased by PGK20.6m due to an increase in the balance of the portfolio and also a slight increase in provision rates applicable during the year. Note 15 and Note 22 of BSP's FY20 Financial Statements, which are attached to this Information Memorandum at Appendix B, detail the methodology, calculation and outcomes of expected credit losses.

BSP's abovementioned strong FY20 profit result, which was achieved while maintaining capital discipline and prudent balance sheet management, ensured BSP's commitment to financial strength across all capital, funding and liquidity metrics. BSP finished 2020 with a capital adequacy ratio of 23.2% (2019 = 22.0%) and leverage ratio of 10.3% (2019 =10.5%), both of which remain well in excess of the respective 12% and 6% PNG prudential requirements. Further, despite adverse COVID-19 impacts on FY20 results, BSP's 5-year return on equity and return on assets averaged 29.0% and 3.5%, respectively.

5.4 Segment results

BSP's operations comprise various segments, namely the provision of banking services and products, funds management and insurance services, and asset financing.

Segments reporting reflects the way BSP's businesses are managed rather than the legal structure of the Group. The main business lines/segments for management purposes are banking services, split into PNG Bank, Offshore Banks and non-banking services which comprise insurance operations, fund management and asset financing activities.

BSP's business segments operate in Papua New Guinea, Fiji, Solomon Islands, Cook Islands, Tonga, Samoa, Vanuatu, Laos and Cambodia. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

Segment results

	NPAT					Total income and expenses				
(K'm)	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY20
Continuing operations										
PNG banks	517	623	674	719	642	1,384	1,553	1,651	1,658	1,645
Offshore bank	109	125	151	170	153	365	405	461	485	460
Non-banking services	21	35	44	52	54	50	75	80	84	89
Adjust inter segments	(4)	(26)	(25)	(51)	(43)	(7)	(35)	(26)	(56)	(48)
Group total	643	757	844	890	806	1,792	1,998	2,166	2,171	2,146
Operating expenses						(770)	(852)	(887)	(819)	(803)
Impairment on financial assets						(99)	(78)	(83)	(99)	(201)
Income tax expense						(280)	(311)	(352)	(363)	(336)
Net profit for the year						643	757	844	890	806

5.5 Directors' Statement

Each Director confirms that they have made enquiries and nothing has come to their attention to suggest that BSP is not continuing to earn profit from continuing operations up to the date of this Information Memorandum.

[competitive]

As a local bank of the South Pacific we are well placed to understand our customers needs.

6. Key Risks

6.1 Introduction

This section describes what BSP believes to be the key potential risks associated with an investment in the Shares and the industry in which BSP operates, as well as the general risks associated with an investment in Shares.

This section does not purport to be an exhaustive list of every risk that may be associated with BSP's business or the industry in which it operates, or an investment in Shares, now or in the future. The occurrence or consequences associated with each risk are partially or completely outside the control of BSP, the Directors and management. Any or a combination of these risks may have a material adverse impact on BSP's reputation, business, operational performance and financial results.

The selection of risks included in this section has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk on BSP's business or an investment in the Shares if it did occur. The assessment is based on the knowledge of the Directors as at the date of this Information Memorandum, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge. Individually or in combination, the risks identified may materially affect the future operating and financial performance of BSP, its investment returns and the value of an investment in BSP.

You should satisfy yourself that you have a sufficient understanding of the risks described in this section and consider whether the Shares are a suitable investment for you, having regard to your own investment objectives, financial circumstances and taxation position. If you do not understand any part of this Information Memorandum, or have any questions about whether to invest in the Shares, it is recommended that you seek professional advice from an independent and appropriately licensed or authorised professional adviser before deciding whether to invest.

6.2 Risks specific to an investment in BSP

6.2.1 Concentration in PNG

BSP's core businesses primarily operate in PNG, which comprised approximately 76% of revenues in FY20. The percentage of BSP's total loan portfolio and deposit base in PNG amounted to 62.3% and 68.1% respectively, in FY20. Therefore, the business is susceptible to adverse events beyond BSP's control that may occur in PNG, where BSP's key operations are concentrated and most of its customers are located. BSP has implemented a diversification strategy to reduce this concentration and the contribution of PNG to total revenue has since decreased from 100% in FY05 to 76% in FY20, a trend that is expected to continue.

In addition to the political environment, BSP is also affected by PNG's macro-economic performance. In 2020, PNG's economic performance was impacted by both broader global trends and regional factors, including the direct and indirect impacts of the COVID-19 pandemic. PNG's economy is highly dependent on the mining and oil and gas sectors and is impacted by both commodity price changes and future development of PNG's natural resources. Government tax revenues are impacted by commodity prices and activity in the mining and quarrying, manufacturing and wholesale and retail trade sectors. Economic downturns or political and social instability in PNG, or any other factors that may cause BSP to be unable to maintain or increase the level of its revenues derived from operations in PNG, could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.2 Foreign exchange risk

BSP is exposed to risks arising from changes in foreign exchange rates, the volume of foreign exchange transactions, the margins that banks can charge on foreign exchange transactions and the availability of foreign currency to satisfy customer and dividend requirements.

In FY20, BSP generated PGK288 million in income, or 13.4% of total operating income, from executing foreign exchange transactions for customers. Any changes in the volume of those transactions or the margins charged could have a material adverse effect on BSP's business, results of operations, financial condition and prospects. For example, due to COVID-19 impacts and reduced currency inflows, BSP income generated by foreign exchange transactions fell from PGK328m (15% of total operating income) in 2019 to PGK288m (13.4% of total operating income) in 2020.

BSP is also subject to foreign exchange translation risk given its business operations in other jurisdictions, which operate in their respective local currencies. Those local currencies are translated into PGK at the applicable exchange rates for inclusion in the consolidated financial statements. Upon translation, operating results may differ materially from expectations, and significant shifts in foreign currencies can impact BSP's short-term results and long-term forecasts and targets. Any depreciation in the PGK, or any other currencies BSP generates earning in such as FJD, against the AUD could negatively impact the value of AUD-denominated Shares and any dividends received.

BPNG's gross international reserves have remained broadly steady at USD2.14bn, or 5.5 months of imports, in August 2020, compared with USD2.05bn, or 5.3 months of imports, in June 2019. However, PNG continues to face shortages of US dollars. While BPNG has tried to alleviate the situation through currency controls and various other measures, the situation has been, and continues to be, affected by volatility in commodity prices. Lack of access to foreign currency, potential difficulties in obtaining foreign currency or unfavorable foreign exchange rates could have a material adverse effect on BSP's business, operating results, financial condition and prospects. Further, restrictions on the foreign exchange market and on capital movements from and into PNG may hamper foreign investors' ability to receive payments and dividends, or more severely restrict customers' access to foreign capital, both of which could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.3 Dividend risk

As noted above in Section 8.2.5, BSP's current expectation is for dividends to be paid in accordance with the dividend policy set by the Board and expects to pay AUD denominated dividends for Shares held by non-PNG (including Australian) residents on BSP's Australian sub-register. BSP is subject to potential limitations on the availability of foreign currency. Despite BSP having procedures in place to mitigate this risk, for example through accessing foreign currency through non-PNG based operations, there is a risk that BSP may be unable to source sufficient AUD to pay the full value of any dividend declared in AUD to investors holding Shares on BSP's Australian sub-register.

6.2.4 Relationship with the PNG government and government-related entities

Like many leading banks in emerging markets, BSP has an established historic relationship with various levels of the PNG government, which is a depositor, lender and through the regulator BPNG, a counterparty for BSP's holding of liquid securities and investments. The PNG government is also an indirect shareholder of BSP through KCH, a corporation established by statute. As of 31 December 2020, all levels of PNG government (local and national) and government related entities comprised 29% of BSP's total deposits and 32% of BSP's total loans. KCH, which holds certain assets for the benefit of the State of PNG, is BSP's largest shareholder and owns 18.2% of BSP Shares as of 31 December 2020. In addition, Motor Vehicle Insurance Limited (a subsidiary of KCH) holds 6.7% of BSP's Shares. However, BSP remains fully independent from the PNG government, which has no Board representation and no influence over the policies or strategies of BSP.

This relationship means BSP's business can be materially affected by the financial position of the PNG government and any adverse changes in the macroeconomic environment. Any deterioration in either the government's financial position or its general relationship with BSP could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.5 Deterioration in macroeconomic conditions

Macroeconomic factors including the impacts of the global pandemic, unemployment, interest rates, the amount of consumer spending, business investment, government spending, the volatility and strength of the global and domestic capital markets, currency value and inflation all affect the business and economic environment and ultimately the volume and profitability of BSP's businesses.

The financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility and uncertainty as to the outlook for global economic conditions including the impacts of COVID-19. Any market and economic disruptions could have an adverse effect on financial institutions such as BSP, for example by reducing the ability of BSP's borrowers to repay their loans or the ability of BSP's counterparties to meet their obligations. These events may result in the undermining of confidence in the financial system, reducing liquidity and impairing BSP's access to funding and impacting BSP's customers and counterparties and their business.

The nature and consequences of any such event are difficult to predict and there can be no guarantee that BSP could respond effectively to any such event. If BSP failed to respond effectively, its business, results of operations, financial condition and prospects could be materially adversely affected.

6.2.6 Political risk

BSP operates within developing economies, which exposes the organisation to political and commercial risk. Political instability, local disputes and community issues as well as expropriation, war, civil unrest and terrorism may adversely impact profitability. BSP's future revenue and expenditure may also be affected by a number of political and social issues, such as differing political agendas and decision-making, environmental and social policy and the impact of bribery, corruption and money laundering.

Future revenue and expenditure of BSP may be affected by changes in laws, regulations or policies or in taxation legislation. Government legislation and policies are subject to review and change from time to time. Such changes are likely to be beyond the control of BSP and may affect profitability. The possible extent of such changes cannot be predicted with any certainty. The effects of any such actions may result in, amongst other things, increased costs, taxes (whether direct or indirect) or the prevention of the group being able to execute certain activities.

6.2.7 Funding and liquidity risk

Funding and liquidity risk is the risk of being unable to meet financial obligations as they fall due. This risk is mitigated to some extent through the strategies implemented by BSP's Asset and Liability Committee, which sets liquidity policy to ensure that BSP has sufficient funds 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. As of 31 December 2020, approximately 85% of BSP's deposits had a maturity of less than 12 months. Historically, a substantial portion of these deposits are rolled over upon maturity and this has served as a stable source of long-term funding, but BSP cannot guarantee that this will continue to be the case. If a substantial number of depositors fail to roll over deposited funds upon maturity or if BSP faces a high volume of deposit withdrawals, BSP's liquidity position could be materially adversely affected and BSP may be required to seek more expensive sources of short-term or long-term funding to finance its business and operations. To the extent BSP is unable to obtain sufficient funding on acceptable terms, its business, results of operations, financial condition and prospects could be materially adversely affected. Furthermore, if the amount of BSP's loans were to increase, its loans to deposit ratio could rise and therefore have a material adverse effect on its liquidity position. BSP has no reliance on or funding from the wholesale international capital markets.

In addition, BSP accepts a high level of deposit-taking from various levels of PNG government and government-related entities, which comprised 26% of total PNG deposits as of 31 December 2020, and contributed to BSP's conservative group loan to deposit ratio of 56.8%. BSP generally invests any excess deposits in a range of liquid assets including PNG government securities, which comprised 22.4% of total PNG assets.

To the extent that the amount of government deposits with BSP substantially decreases, or if BSP is unable to achieve sufficient levels of return on its investments, BSP's business, results of operations, financial condition and prospects could be materially adversely affected.

6.2.8 Decline in collateral values

The recoverability and/or value of assets that have been pledged to BSP as collateral could be reduced as a result of adverse changes arising from any deterioration in global and regional economic conditions or asset values, or

adverse changes in the credit quality of BSP's borrowers and counterparties. For example, a sizeable portion of BSP's loan portfolio is secured by property, plant and equipment in the mining and quarrying, transport and real estate sectors, and in the event of a decline in any of these or other key sectors, some of BSP's loans may exceed the value of their underlying collateral. Changes in asset prices may cause the value of BSP's collateral to decline and BSP may not be able to realise the full value of its collateral as a result of:

- Delays in bankruptcy and foreclosure proceedings, delays in the creation of security interests;
- Defects or deficiencies in the perfection of collateral (including due to an inability to obtain approvals that may be required from various persons, agencies or authorities), fraudulent transfers by borrowers and other factors (including depreciation in the value of the collateral and an illiquid market for disposal of and volatility in the market prices for the collateral); or
- Legislative provisions or changes thereto and past or future judicial pronouncements.

A decline in the value of the collateral securing BSP's loans or an inability to obtain additional collateral or realise the value of collateral may require BSP to increase its write-offs for credit and other losses, which could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.9 Credit risk

Credit risk is the risk of future financial loss resulting from the failure of BSP's customers and/or counterparties to meet contractual obligations to BSP. BSP has exposure to many different products, sectors, counterparties and obligors whose credit quality can have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

BSP estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process requires complex judgments, including forecasts of how changing macro-economic conditions might impair the ability of customers to repay their loans. There is no assurance that BSP will be able to adequately identify all the relevant factors or accurately estimate the impact and/or magnitude of identified factors, which could materially adversely affect its business, results of operations, financial condition and prospects.

If BSP fails to manage the credit quality of its debtors within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels, this could have a material adverse effect on its business, results of operations, financial condition and prospects. Although BSP has credit monitoring policies in place, there can be no assurance that these will always be properly designed, regularly updated or implemented. BSP may not correctly assess the creditworthiness of credit applicants or other counterparties (or their financial conditions may change) and, as a result, BSP could suffer material credit losses. While BSP seeks to mitigate credit risk, including through diversification of assets and requiring collateral for many loans, such efforts may be insufficient to protect BSP against material credit losses.

A downturn in macro-economic conditions or less favourable business or economic conditions could cause counterparties and customers to experience an adverse financial situation. This exposes BSP to the increased risk that those customers will fail to meet their obligations.

There is a risk that BSP's customers may be unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic factors or other external factors. A number of factors affect a customer's ability to repay their loan or other obligations to BSP. Some of these factors, including adverse changes in consumer confidence levels due to local, national and global factors, consumer spending, unemployment levels, bankruptcy rates and increased market volatility, may be difficult to anticipate and may also be outside of BSP's control.

The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on the fair value in BSP's lending portfolio.

6.2.10 Implementation of BSP's growth strategy

BSP has developed a number of strategic initiatives to enter new markets, offer new products and services, and to increase sales of existing products and services, which are set out in Section 4.7. These initiatives may not succeed if:

- Current market conditions change significantly;
- Market opportunities develop more slowly than expected;
- The identified strategic initiatives have less potential than were envisioned originally; or
- The profitability of products and services is undermined by competitive pressures.

BSP may encounter difficulties in obtaining new customers in the less accessible rural areas of PNG due to lack of knowledge of traditional banking products and services by the population in those areas. BSP may also face challenges in deploying infrastructure and systems in those areas.

In addition, BSP's continued ability to achieve sustained loan growth will depend, to a large extent, on the macro-economic conditions and economic performance of PNG and its trade counterparties. BSP will continue to implement strategies and policies aimed at enhancing loan growth. However BSP could face significant challenges including a more stringent application of enhanced credit risk management controls, any changes in laws, rules and regulations concerning credit borrowing limits and restrictions imposed on lenders and borrowers or customers refinancing their outstanding loans via alternative financing means.

BSP's growth is expected to place significant demands on its resources, operations and management, and require it to continuously evolve and improve operational, financial and internal controls across the organisation. This exposes BSP to increased levels of operational risk, places further stress on operational and technological systems and controls and raises the possibility of operational errors being committed. An inability to manage growth as a result of the occurrence these risks could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.11 Competitive landscape

Many competitive pressures exist in the market for banking and financial services in PNG. These pressures could increase in response to factors including competitive behaviour, consumer expectations, technological changes, the impact of market consolidation and new market entrants and regulatory actions.

Despite its market-leading position in PNG, BSP continues to face competition from foreign owned commercial banks and non-bank finance companies which may exert pricing pressure, with increased competition for loan growth. The PNG banking industry is also competitive across each banking segment and sector, which may increase pressure to expand the range and sophistication of products and services currently offered and to reduce margins. Any failure to maintain customer loyalty or to offer customers a wide range of high quality products with high levels of service could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

The competition in each of BSP's key areas of operation may limit its ability to increase its client base and expand operations, reduce asset growth rate and profit margins on services provided and increase competition for investment opportunities. There is no assurance, therefore, that increased competition will not have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.12 Mergers, acquisitions and divestments

BSP may engage in merger, acquisition or divestment activity which facilitates BSP's strategic direction. This may involve entering new markets or expanding BSP's current product suite. While BSP recognises that benefits may arise from merger, acquisition or divestment activities, significant risks exist in both the execution and implementation of such activities.

Mergers and acquisitions may require assimilation of new operations, new personnel and may cause dissipation of BSP's management resources. Changes in ownership and management may result in impairment of relationships with employees and customers of the acquired businesses. Depending on the type of transaction, it could take a substantial period of time for BSP to realise the financial benefits of the transaction, if any. During the period immediately following this type of transaction, BSP's business, results of operations, financial condition and prospects may be materially adversely affected.

Where BSP decides to divest a business or asset, this may involve a loss against book value, particularly of any goodwill or other intangibles.

BSP's failure to adequately manage the risks associated with any mergers, acquisitions or divestments could have a material adverse effect on BSP's businesses, results of operations, financial condition and prospects.

6.2.13 Reputational risk

BSP benefits from the "BSP", "BSP Capital", "BSP Life" and "BSP Finance" brands and any event or circumstances that causes damage to the BSP Group, or its brands, could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

BSP's brands may be damaged by its actions, behaviour or performance, its employees, affiliates, suppliers, customers, agents, counterparties, regulators or the financial services industry generally. A risk event, such as compliance breaches or a significant operational or technology failure, may have a material adverse effect on the perception of BSP held by the public, shareholders, investors, customers, employees, regulators or rating agencies. The risk event itself may expose BSP to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impact on BSP's share price. Reputational risk could also stem from the failure to effectively mitigate any such risk event that may arise. Reputational damage may adversely impact BSP's ability to retain existing customers, attract prospective customers and pursue new business opportunities. It may also result in a higher risk premium being applied to BSP, which could adversely impact the cost of funding operations and BSP's financial condition.

6.2.14 Risks with respect to the COVID 19 pandemic

The ongoing COVID-19 pandemic has had a significant impact on the global economy and the ability of individuals, businesses and governments to operate. Across Australia, the South Pacific Region and the world, travel trade, business, working arrangements and consumption have been materially impacted by the pandemic. In addition, events relating to COVID-19 have resulted in significant volatility across financial, commodity and other markets, including in the prices trading on global securities exchanges.

As noted above in Sections 6.2.1 and 6.2.5, the pandemic has already impacted BSP. Should a further outbreak occur in the South Pacific region this may have a detrimental impact on

BSP's customers' ability to meet their obligations to BSP and may have a broader impact on BSP's operational and financial performance.

BSP's strategy to deal with the COVID-19 pandemic has been coordinated via the Group Crisis Management Team and the Bank's Pandemic and Business Continuity Plan has been invoked. The business continuity plan for every business unit has been reviewed due to COVID-19 including: identifying the key contacts, critical persons and their alternatives for every role; determining which critical roles require VPN access, internet access and laptops in the event that the need to work from home or an alternate site arises; and setting up and testing VPN connectivity in all bank branches.

If the economic disruption caused by the COVID-19 pandemic is prolonged this may have a negative impact on BSP. Governments and central banks around the world have taken various steps to address the economic crisis caused by the pandemic, including implementing stimulus and liquidity programs and cutting interest rates. It is unclear whether these actions or any future actions taken by governments and central banks will be successful in mitigating the economic impact of the pandemic.

6.2.15 Litigation risk

Like all entities in the banking or finance sectors, BSP is exposed to the risk of litigation (including civil and criminal) and/or such other legal or regulatory proceedings brought by or on behalf of customers, government agencies or other potential claimants. The majority of these cases arise in the ordinary course of business and generally do not involve the risk of a material adverse impact on financial performance or Shareholders' equity. As at 31 December 2020, a number of legal proceedings remain outstanding to which a contingent liability of PGK17.7 million is estimated. Information about the existence of current litigation and claims against BSP is provided in Section 8.4.

There is no assurance that there will not be any disputes or litigation in the future that, if decided against BSP or if not resolved in a timely manner, will not have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.16 Downgrade in the credit rating of PNG

Credit ratings are an important reference for market participants in evaluating BSP and its products, services and securities. Credit ratings affect the cost and availability of funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating products and services offered by banks and financial institutions. Therefore, maintaining high quality credit ratings is important.

However, BSP does not currently raise any significant funds from the wholesale or international markets as its assets are mostly funded by customer deposits.

Credit rating agencies conduct ongoing review activity which can result in changes to the PNG government's credit ratings and outlooks. Any downgrade in the sovereign rating of PNG generally could:

- Undermine confidence in BSP;
- Hinder BSP's ability to finance operations and expand the business; or
- Limit BSP's access to the capital markets or range of willing counterparties,

and consequently, have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.17 Capital base and capital ratios

BSP is required to comply with various prudential standards issued by BPNG as the official authority for the prudential supervision of banks and similar financial institutions in PNG. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu are required to adhere to prudential standards issued by the Reserve Bank of Fiji, Central Bank of Solomon Islands, the Cook Islands Financial Supervisory Commission, Central Bank of Samoa, the National Reserve Bank of Tonga, the Reserve Bank of Vanuatu, National Bank of Cambodia and Bank of Lao P.D.R., respectively. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. BSP is required to comply with the prevailing prudential requirements for total capital and leverage capital.

There is a risk that BSP's capital ratios may be impacted by a number of factors including lower profitability, higher asset growth and changes in business strategy (including any acquisitions or an increase in capital intensive businesses). Additional regulatory capital requirements arising as a consequence of increased loan provisions may be exacerbated during times of financial stress, particularly if there are lower profit levels. As a result, greater volatility in capital ratios may arise and may require BSP to raise additional capital. There can be no certainty that any additional capital required would be available or could be raised on reasonable terms. BPNG has currently adopted the Basel 1 framework for the purposes of capital adequacy assessment, and though BSP does not expect this to change in the near to medium-term and implementation details remain uncertain, moving to Basel 2 is expected to moderately increase risk weighted assets and therefore reduce Tier 1 and total capital ratios. BSP currently expects that despite this reduction, BSP's Tier 1 and total capital ratios will remain well above BPNG regulatory minimum levels.

6.2.18 Effectiveness of risk management policies and procedures

The management of credit, market, liquidity, interest and operational risks requires, amongst other things, robust policies and procedures for the accurate identification and control of a large number of transactions and events. Although substantial time and effort is invested in risk management policies and procedures, there is no assurance that the risk management system will be effective and adequate.

Some of the methods of managing risk are based on the use of historical data or patterns, which may not predict future risk exposures that could be significantly greater than historical measures indicate. Historical data may also not adequately allow prediction of circumstances arising due to government interventions and stimulus packages, which increase the difficulty of evaluating risks. If the measures to assess and mitigate risk prove insufficient, BSP may experience unexpected losses which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Other methods for risk management are based on the evaluation of information regarding markets, customers or other information that is publicly known or otherwise available. Though BSP requires that accurate and reliable information be provided to management on a timely basis in order to monitor and manage risks and respond to market and other developments, such information may not always be correct, updated or correctly evaluated.

BSP cannot give assurances that all staff have adhered to or will adhere to policies and procedures. Internal processes could fail, employees may perform unauthorised transactions or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems, and employees or outsiders could expose BSP to fraud, forgeries or corruption. BSP's information systems may also not be adequate or robust enough to deliver timely and comprehensive information to support its risk management capabilities.

Any material deficiency in risk management policies or procedures may expose BSP to significant credit, liquidity, market or operational risk or other risks, which may in turn have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.19 Compliance with existing and future laws and regulation and regulatory policy

BSP operates in a highly regulated industry and is subject to a number of banking and other regulations, which have become increasingly complex and govern a wide variety of issues. This results in BSP being directly affected by legal and regulatory changes, including but not limited to specific lending activities, capital adequacy, provisioning requirements, interest rate and fee policies, contract terms and interest rate review, accounting standards, liquidity requirements, ethical issues, AML and CTF, record keeping

and market and selling practices, with sometimes overlapping jurisdictional or enforcement authorities. Ensuring adherence to and compliance with the increasingly complex dynamics of such laws and regulations may increase BSP's cost of doing business and/or limit its ability to engage in the relevant activities. Furthermore, new laws and regulations might also be adopted or existing regulations may change, which could be implemented, enforced or interpreted in a manner that could have a material adverse effect on BSP's business, results of operations, financial condition and prospects. Finally, non-compliance with regulatory guidelines could expose BSP to potential liabilities and fines.

Although BSP has implemented procedures to comply with the applicable regulatory requirements, there may be instances where BSP may breach the ratios and limits set by the relevant regulators or where certain policies, procedures and/or regulations may not be followed strictly. Regulators have the power to bring administrative or judicial proceedings against BSP, which could result, amongst other things, in suspension or revocation of one or more of its licences, fines, civil penalties and other disciplinary action.

Providing banking products and services in multiple jurisdictions also exposes BSP to a variety of regulatory challenges and risks arising from managing inconsistent legal and regulatory requirements and maintaining an integrated system of internal controls. In addition, over time, BSP may continue to expand into countries outside of the South Pacific. While this may be positive for its long-term position and may enhance revenue diversification, entry into new markets may subject BSP to new risks and in particular, increase operational and asset quality risks as certain markets may be less developed and the business environment may be volatile.

6.2.20 Talent attraction and retention

BSP's success depends on the continued service and performance of key employees, particularly its executives and senior management, and the ability to attract, retain, motivate and develop suitably skilled and qualified staff. However, competition in the banking industry in PNG for personnel with the relevant expertise is significant. This is a result of the relatively short supply of available qualified individuals compared with the demand and the opportunities offered by foreign competitors and markets, particularly at more senior levels.

In addition, external factors such as macro-economic conditions and/or regulatory restrictions on incentivisation may also adversely affect employee retention, sentiment and engagement.

The loss of key personnel or any inability to manage attrition levels may have a material adverse effect on BSP's ability to grow and increase employee training and development costs, and in turn materially affect BSP's business, results of operations, financial condition and prospects.

6.2.21 Risk of IT system failure, security breaches or cyber-crime, and inability to adapt to technological advances

Given the large contribution to income from retail products and services and transaction banking services, systems

technology is critical to BSP's operation and the delivery of products and services to customers. Any disruption in customers' experience or a failure of online or mobile banking platforms could have a material adverse effect on BSP's reputation, reduce the quality of customer service and lead to potentially large costs in having to rectify issues and to reimburse losses incurred by customers. In addition, as technological efficiency and automation increases, there is a risk any defect in standard documentation will be replicated across a large number of transactions before such defect is discovered and corrected.

BSP is also subject to the risk of actual or attempted IT security breaches from parties with criminal or malicious intent. Though BSP continues to invest in information security controls and controls for known threats, the risks associated with cyber-attacks are material and any control failure could result in significant financial losses and could have a material adverse effect on operational performance and reputation.

BSP is currently implementing the replacement of its core banking system. The development and implementation of such technology entails significant technological and business risks, and may impact BSP's ability to conduct daily operations. In addition, there is no assurance BSP will successfully implement and integrate the new technology within the proposed budget and timeframe, or that it will deliver the benefits envisaged. To mitigate the implementation risk of the core banking system, the program structure has been amended to reduce the business risk through stakeholder engagement, training and transition of functionality into separate business units. Regular reporting of progress continues including a risk and issue committee to manage the potential and emerging risks within the overall management program. The cost of implementation is reviewed at every steering committee meeting and whilst additional costs could emerge (including foreign exchange impacts) these are not expected to require any material increase to the approved budget.

IT systems may need to be upgraded in the future to meet unexpected or extraordinary increases in demand, which may cause delays to customers and adversely affect customer service. In addition, the power and communications infrastructure in PNG is less developed than in some other markets, which can result in power outages and put a strain on the ability of IT systems to continue to meet the expected customer demand.

In addition, existing technology will need to evolve and respond to technological advances and emerging banking industry standards and practices on a cost-effective and timely basis. A critical element of BSP's strategy is the ability to deliver products and services through technology- dependent alternative methods, such as through mobile and branchless banking, as well as via automation and computerisation. If BSP is unable to adapt to changing market conditions, customer requirements or technological changes in a timely manner, BSP's business, results of operations, financial condition and prospects could be materially adversely affected.

6.2.22 Corruption, money laundering and terrorism

As an emerging market, PNG is exposed to elevated corruption risk. Though the government has recently adopted several legislative, enforcement and judicial measures and has significantly progressed the AML and CTF, anti-corruption and anti-bribery agenda, the actual and perceived risk of corruption, bribery and money laundering remains material.

BSP is subject to laws, rules and regulations regarding money laundering, corruption and the financing of terrorists, and the associated compliance and oversight can be costly and complex to implement. In recent years, these regulations have been tightened to provide a legislative framework that aims to detect and deter money laundering and terrorist financing activities through the setting of specific obligations for Financial Institutions and Designated Non-Financial Bodies and Professions. These laws may be further tightened and more strictly enforced in the future, and the nature, scope or effect of future regulatory requirements or the manner in which existing laws might be administered or interpreted is uncertain.

The PNG government has also taken a strong stance against bribery and corruption by adopting a National Anti-Corruption Strategy 2010–2030 to drive reform and innovation. In addition, PNG has been a state party to the United Nations Convention Against Corruption since 16 July 2007 and PNG's Criminal Code criminalises active and passive domestic bribery.

PNG's Constitution and the Organic Law on the Duties and Responsibilities of Leadership of 1975 provides the framework for regulating conflicts of interest for ministers, civil servants and members of Parliament, preventing them from engaging in any enterprise that might give rise to a conflict of interest. It contains provisions regarding ministers and members of Parliament, as well as their families, in relation to government contracts, previous employment and receipt of gifts and hospitality. PNG's legal framework requires members of the government, parliamentarians and civil servants to disclose their assets to facilitate the detection of conflicts of interest and illicit enrichment.

Furthermore, political financing in PNG is regulated through the Organic Law on the Integrity of Political Parties and Candidates of 2003, creating the Commission on the Integrity of Political Parties and Candidates. Political parties receive public funding through this commission, which is provided from the national budget and donations from citizens, non-citizens and international organisations, the last of which are allowed to contribute directly to political parties.

Against this regulatory backdrop, BSP has implemented numerous AML/CTF and anti-corruption compliance policies and procedures with continued staff reinforcement on AML/CTF through risk awareness workshops and enhanced oversight. It has also established an AML/CTF program to identify, manage and mitigate the exposure to the risk of money laundering and terrorist financing.

BSP's Code of Conduct requires all staff to act with honesty and integrity and in compliance with laws and regulations of both the countries BSP operates in and its own internal policies and procedures. Employees are not permitted to give or receive gifts and entertainment without disclosing the nature and cost of the gift or entertainment, nor should they receive bribes or kickbacks for the purpose of facilitating payments or awarding contracts. Employees are made aware of these requirements at induction and through ongoing staff training and awareness sessions. A Conflict of Interest Policy and an Anti-Bribery and Anti-Corruption Policy have been implemented to give employees appropriate guidance on what the requirements are and the consequences of non-compliance.

BSP believes its current policies and procedures are adequate and is making continuous improvements consistent with international practice. However, there is no assurance that the operational execution of policies and procedures will be adequate or consistently applied by employees, and such operational weakness could result in a failure to prevent or identify situations of money laundering, corruption and terrorism financing. See Section 6.2.18 for a further description of risks related to the implementation and effectiveness of risk management policies and procedures.

There is no assurance that BSP's policies and procedures will continue to remain in compliance with applicable laws, rules and regulations, which can be complex and costly to implement, or that they will be effective in completely preventing situations of money laundering, corruption and terrorism financing. Any such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on BSP's business, results of operations, financial condition and prospects.

6.2.23 Dependence on agent network and third-party service providers

If BSP loses key agents, or is unable to maintain its agent network and arrangements with other third-party service providers on terms consistent with those currently in place, BSP's business, results of operations, financial condition and prospects could be materially adversely affected.

Agent loss may occur for a number of reasons, including competition from other similar banking service providers, an agent's dissatisfaction with its relationship with BSP or the revenue earned from the relationship, or an agent's unwillingness or inability to comply with BSP's standards or legal requirements, including those related to compliance with anti-money laundering regulations, anti-fraud measures or agent monitoring.

Agents may also generate fewer transactions or reduce locations for reasons unrelated to BSP's relationship with them, including increased competition in their business, general economic conditions, regulatory costs or other reasons. BSP is also exposed to the risk that fraud, theft or other misconduct by agents could occur. BSP does not have control over the actions of its agents and may not be able to maintain its agent network under terms consistent with those already in place.

BSP also depends on third-party service providers for a variety of functions including leased space for offices and ATMs, as well as for IT software and platforms, utilities, ATM services, payment system services, mobile application services, card production services and cheque processing services. If the contractual arrangements with any of these providers are terminated or any third-party service provider can no longer provide service to the required standard, BSP will be required to identify and implement alternative arrangements. There is no assurance that BSP will be able to find an alternative third-party service provider or supplier for the services, on a timely basis, on equivalent terms or without incurring a significant amount of additional costs or at all.

BSP also has correspondent relationships with banks in a variety of other countries, including the United States, the United Kingdom, the European Union, China, Japan, Hong Kong, Singapore, Australia and New Zealand. These banks provide services including operation of correspondent bank accounts through which BSP can make foreign currency payments on behalf of clients, negotiate foreign currency cheques and issue foreign currency drafts. Should BSP fail to maintain or replace any correspondent banking relationships, particularly those in key jurisdictions, the Company will lose the ability to undertake foreign currency transactions for customers, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

6.2.24 Climate change related risk

Climate change may create risks for BSP and its customers. These may be associated with the physical impact of climate change (physical risks) and transitioning to a lower carbon economy (transition risks).

Physical risks resulting from climate change may be event driven or the result of longer term shifts in climate patterns. Transition risks include policy, legal, technology and market shifts linked with transitioning to a lower carbon economy. Both physical and transition risks may impact BSP's clients to meet their obligations to BSP. For example, credit risk that results in losses from failures of counterparties to pay their debts to BSP and may be caused by customers suffering losses due to increased instances of extreme weather events such as droughts (physical risks) or market shifts that lower demand for their outputs (transition risks).

6.3 General investment risks

6.3.1 Price of Shares

There are risks associated with any investment in listed securities. The Shares are subject to general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in BSP's Share price that are not explained by the fundamental operations and activities of BSP.

The price of Shares quoted on ASX and PNGX may rise or fall due to a number of factors. Some of the factors which may impact the price of the Shares include:

- General economic conditions, including interest rates, exchange rates, inflation rates and commodity prices;
- Fluctuations in the local and global market for listed stocks, including the fluctuations evidenced during the onset of the COVID-19 pandemic;
- Changes to government policy, legislation or regulation;
- Inclusion in or removal from market indices;
- The nature of markets in which BSP operates;
- General and operational business risks; and
- Global hostilities, tensions and acts of terrorism.

Share markets tend to move in cycles, and individual share prices may fluctuate and underperform other asset classes over extended periods of time. As a consequence, the Shares carry no guarantee with respect to the payments of dividends, returns of capital or the market value of those Shares.

6.3.2 Trading in Shares may not be liquid

Prior to the Listing, there has been no public market in the Shares of BSP on ASX. Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for the shares will develop on the ASX or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

6.3.3 Risk of future shareholder dilution

In the future, BSP may elect to issue additional Shares or engage in fundraisings and also to fund, or raise proceeds, for acquisitions that BSP may decide to make. While BSP will be subject to the constraints of ASX Listing Rules (and is currently, and will continue to be, subject to PNGX Listing Rules), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

6.3.4 International financial reporting standards

IFRS which have been adopted by the Accounting Standards Board of PNG are set by the International Accounting Standards Board (**IASB**) and are outside the control of either BSP or its Directors.

The IASB can from time to time introduce new or refined IFRS, which may affect future measurement and recognition of key income statement and balance sheet items.

There is also a risk that interpretations of existing IFRS, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to IFRS issued by the IASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in BSP's consolidated financial statements.

6.3.5 Changes in tax policy

There is the potential for further changes to PNG's tax laws. Any change to the current rates of taxes imposed on BSP is likely to affect returns to Shareholders. An interpretation of taxation laws by the relevant tax authority that is contrary to BSP's view of those laws may increase the amount of tax to be paid. BSP obtains external expert advice on the application of the tax laws to its operations.


quality
We are committed to excellence and strive
for continuous improvement

7. Key People, Interests and Benefits

7.1 Board of Directors

The Directors of the Company bring to the Board relevant skills and experience, including industry and business knowledge, financial management and corporate governance experience.

Sir Kostas Constantinou, OBE

Chairman since 2011 and Non-Executive Director since 2009

Sir Kostas is a prominent business figure in PNG, holding a number of high-level public sector and private sector appointments. Sir Kostas joined BSP in April 2009 as a non-executive director and was appointed as the chairman of the Board in February 2011.

Sir Kostas is the chairman of various companies, including BSP, Airways Hotel and Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, and Air Niugini Limited.

Sir Kostas is a director of Oil Search Ltd, Alotau International Hotel, Gazelle International Hotel in Kokopo, Loloata Island Resort Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, OPH Ltd, Heritage Park Hotel in Honiara, Taumeasina Island Resort in Samoa, and Good Taste Company in New Zealand. Sir Kostas is also Vice President of the Employers Federation of Papua New Guinea, Honorary Consul for Greece and Cyprus in Papua New Guinea and the Trade Commissioner of Solomon Islands to PNG.

Robin Fleming, CSM, MBA, MMGT

Group Chief Executive Officer and Managing Director since 2013

Robin Fleming was appointed CEO of BSP in April 2013. Before his appointment as Group CEO, Mr Fleming was the Deputy CEO and the Chief Risk Officer of BSP and held those roles from 2009. Prior to that, Mr Fleming held senior executive roles as General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNGBC, Mr Fleming held senior management roles with PNGBC.

Mr Fleming has worked in Papua New Guinea for over 40 years and holds an MBA and a Master of Management from Charles Sturt University.

Mr Fleming was made a Companion of the Star of Melanesia (CSM) in 2015 by the Papua New Guinea Government for services to banking and the community.

Arthur Sam, CPA, MAICD

Non-Executive Director since 2016

Arthur Sam was appointed to the BSP Board in July 2016. Mr Sam has also been a member of the BSP Board Audit & Compliance Committee and Chairman of the Board Risk Committees.

Mr Sam is a qualified and experienced accountant, registered under CPA Papua New Guinea. He holds a Bachelor of Commerce from the University of Papua New Guinea, and is a Graduate of the Australian Institute of Company Directors. He is the Audit and Managing Partner of Sam Kiak Tubangliu Certified Practising Accountants. Mr Sam previously worked with global accounting firms PricewaterhouseCoopers, Deloitte and Ernst & Young in managerial roles specialising in external and internal audit and risk management.

Prior to joining the Board of BSP, he served on the NASFUND (the national superannuation fund of Papua New Guinea) Board Audit and Risk Committee and the Papua New Guinea Accountants Registration Board.

Ernest Gangloff, CPA, MAICD

Non-Executive Director since 2013

Ernest Gangloff was appointed to the BSP Board in November 2013. Mr Gangloff is Chairman of BSP's Board Audit & Compliance Committee and a member of the Board Risk Committee.

Mr Gangloff is an accountant, registered with CPA Papua New Guinea and the Accountants' Registration Board. Ernest has extensive experience in the areas of risk management, internal audit and corporate governance. He has over 30 years of professional experience with over 15 years in senior management positions. Mr. Gangloff retired as Partner with Deloitte in May 2013, and established Gangloff Consulting in June 2013.

In addition to his BSP directorship, Mr Gangloff is a director of New Britain Palm Oil Ltd, and Highlands Pacific Limited.

Mr Gangloff is President of the Institute of National Affairs Inc., an Adjunct Professor of Accounting at the University of Papua New Guinea and specialises in Risk Management and Governance. He holds a Bachelor of Technology (Accountancy), from the PNG University of Technology.

Dr Fa'amausili Matagialofi Lua'iufi, PhD, MSc

Non-Executive Director since 2016

Dr Fa'amausili M. Lua'iufi was appointed to the BSP Board in December 2016. Dr Fa'amausili is a member of the BSP Board Remuneration and Nominations Committee.

Dr Fa'amausili is an experienced public sector practitioner and consultant. Dr Fa'amausili holds a PhD in Management, an MSc in Management Sciences and a BA in Sociology and Political Science. Prior to establishing her own consultancy firm in late 2008, Dr Fa'amausili worked in the Samoa Public Service Commission Office for 25 years, with almost 12 of those years in the role of CEO. Under her stewardship, the Samoa Public Service undertook various change management programmes to improve service delivery.

Dr Fa'amausili served in many Government state owned enterprise boards in her capacity as CEO of the Samoa Public Service Commission. Since becoming a consultant in late 2008, She has performed more than 50 consultancy assignments in the domains of Human Resources Management, Organisational Development, Performance Management and Governance and currently a Councilor, member of the Executive Committee and member of the Finance Committee of the National University of Samoa.

Dr Fa'amausili is a member of the Australian Institute of Company Directors, member of the Papau New Guinea Institute of Directors, Samoa Institute of Director and Samoa Human Resource Institute. From 2007 to 2012, Dr Fa'amausili was the Pacific Residential Scholar of the Australia New Zealand School of Government and was responsible for the development of emerging young Pacific public sector leaders.

Robert Bradshaw, LLB, MAICD
Non-Executive Director since 2017

Robert Bradshaw was appointed to the BSP Board in September 2017. Mr Bradshaw is Chairman of the BSP Board Remuneration and Nominations Committee.

Mr Bradshaw holds a Bachelor of Laws from the University of Papua New Guinea and has practised law for over 20 years. He was formerly a Partner in the firm Blake Dawson Waldron (now Ashurst) and commenced practice in his own firm, Bradshaw Lawyers, in 2005. Mr Bradshaw has been involved in different areas of law, particularly in resource development, industrial relations, banking and finance and commercial litigation.

Mr Bradshaw is the Chairman of Post PNG Limited and Deputy Chairman of the Jiwaka Provincial Health Authority.

Stuart Davis LLB, GAICD
Non-Executive Director since 2017

Stuart Davis was appointed to the BSP Board in August 2017 and is currently a member of the Board Audit & Compliance and Board Risk Committees of BSP.

Mr Davis is also currently a Non-Executive director and Chairman of the Audit and Risk Committee of ASX 200 company NextDC Ltd, which builds and operates Data Centres in Australia and a Non-Executive Director and Chairman of the Risk Committee of PayPal Australia Ltd.

Mr Davis previously was CEO of HSBC Bank in India from 2009 to 2012, one of the largest foreign banks in India with staff of 8,000 and pretax earnings in excess of USD800 million. Prior to that appointment, he was CEO of HSBC Bank in Australia from 2002 to 2009 and CEO of HSBC in Taiwan from 1999 to 2002, having joined the HSBC Group in 1981.

Mr Davis previously served as a member of the Australia Bankers Association from 2003 to 2009, being Deputy Chairman from 2006 to 2009, was Chairman of the British India Chamber of Commerce in Mumbai and Chairman of the Taiwan British Chamber of Commerce in Taipei. He holds a Bachelor of Law Degree from the University of Adelaide and is a Graduate of the Australian Institute of Company Directors.

Priscilla Kevin, BSc, MAICD
Non-Executive Director since 2020

Priscilla Kevin was appointed to the BSP Board in April 2019. Since her appointment to the Board she has joined as a Member of the Remuneration & Nomination Committee.

Ms Kevin is an IT professional and entrepreneur specialising in Enterprise Resource Planning (ERP) Support Advisory. Ms Kevin has over 15 years ICT industry experience providing ICT consultancy and support to a range of businesses as well as government bodies. Since 2018, Ms Kevin served as an Independent Committee Member of the BSP Board Risk Committee.

Ms Kevin is a board member of PNG Digital ICT Inc and a member of the PNG University of Technology's Advisory Board. Ms Kevin is also working group committee member of the Centre of Excellence for Financial Inclusion.

Ms Kevin holds a Bachelor's Degree in Computer Science from Papua New Guinea University of Technology and is an advocate and founder for Papua New Guinea Women in STEM & Digital ICT Cluster Org promoting local talent, entrepreneurship, investment and innovation.

Frank Bouraga, CPA
Non-Executive Director since 2020

Frank Bouraga was appointed to the BSP Board in December 2020. Mr Bouraga was an Independent Committee Member of BSP's Board Audit Committee since October 2018. Since his appointment to the Board, he has joined as a Member of the Board Audit & Compliance Committee.

Mr Bouraga is a CPA Papua New Guinea qualified professional accountant with over 25 years in accounting practice and is currently a partner in Assurance and Business Advisory with SBC Solutions. Prior to SBC Solutions, Mr Bouraga was the Country Managing Partner for Ernst & Young Papua New Guinea for 5 years as an audit and business advisory services partner. He also worked with PricewaterhouseCoopers for over 7 years and worked with Star Business Consultants between 2004 and 2011.

Mr Bouraga is also a director of the PNG Cancer Foundation, and is a member of Certified Practising Accountants (CPA PNG) and the Australian Institute of Company Directors (AICD). He holds a Bachelor of Business from Central Queensland University.

Symon Brewis-Weston, MAppFin
Non-Executive Director since 2021

Symon Brewis-Weston was appointed to the BSP Board in April 2021.

Mr Brewis-Weston possess extensive international experience in financial services and a deep understanding of consumer and business markets in the Asia-Pacific region. He is a director on the board of Money3 Corp. Ltd, StockCo Australia Pty Ltd. and Timelio Pty Ltd. Mr Brewis-Weston was formerly CEO of FlexiGroup from 2016 to 2018. Prior to joining FlexiGroup, he previously held the position of CEO & Executive Director at Humm Group Ltd, Executive GM-Corporate Financial Services at Commonwealth Bank of Australia (CBA), Chief Executive Officer at Sovereign Services Ltd (NZ). and Chief Executive Officer at Sovereign Assurance Co. Ltd (NZ). (both are subsidiaries of CBA).

Mr Brewis-Weston held various senior leadership positions at CBA for 15 years. He spent 6 years leading CBA's Indonesia operations and also in China developing the company's Chinese banking strategy. In 2015, Mr Brewis-Weston received the United Nation's Global CEO Women Empowerment Principle's Leadership Award for his contribution to the enhancement of diversity and women's empowerment in the workplace. Mr Brewis-Weston holds a Bachelor of Economics (Hons) and a Master of Applied Finance from Macquarie University.

7.2 Director disclosures

Each Director has confirmed to the Company that he or she anticipates being available to perform his or her duties as a Director without constraints from other commitments. The Directors will continually evaluate their other commitments, including the number of boards on which they serve, to ensure that proper time and attention is given to their appointment, and role, as a director of BSP.

No Director has been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Australia or elsewhere in the last 10 years which is relevant or material to the performance of their duties as a Director. No Director has been an officer of a company that has entered into any form of external administration, as a result of insolvency during the time that they were an officer, or within a 12 month period after they ceased to be an officer.

7.3 Senior management

Profiles of BSP's senior management team are set out below. Further information on the terms of employment of certain members of the senior leadership team, including the Group CEO and Group CFO, are set out in Section 7.3.

See section 7.1

Robin Fleming, CSM, MBA, MMGT

Group Chief Executive Officer and Managing Director since 2013

Ronesh Dayal | Group Chief Financial Officer

Ronesh Dayal was appointed as Group CFO of BSP in June 2020. Prior to this, Mr Dayal held the role of CFO for BSP's Fiji Branch and was the first local CFO for the bank until 2014, when he moved across to Papua New Guinea as Deputy CFO for BSP and progressed to the role of CFO Papua New Guinea in 2017.

Mr. Dayal has a Bachelor of Arts Degree with double Majors in Accounting and Financial Management and Information Systems from the University of South Pacific. He is currently the President of CPA Australia, Papua New Guinea Branch and acts as mentor to a number of BSP's Leadership and Management Development program participants. He is a member of Chartered Accountants of CPA Australia, Chartered Accountant of CPA Papua New Guinea and Chartered Accountant of The Fiji Institutes of Accountants.

Mike Hallinan | Group Chief Risk Officer

Mike Hallinan was appointed Group Chief Risk Officer of BSP in July 2018, having commenced employment with BSP in 2013 as BSP's Chief Credit Officer.

Mr Hallinan's professional career has spanned over 40 years in banking and finance, holding various senior positions in risk management and senior relationship executive roles with Commonwealth Bank of Australia, specifically managing corporate and institutional relationships including government departments, both domestically and internationally.

Prior to joining BSP Mr Hallinan was involved in the financial industry group and infrastructure project financing. Mr Hallinan is familiar with Papua New Guinea having previously worked for the former Papua New Guinea Banking Corporation holding the position of Executive Manager Lending Division.

Mr Hallinan is a qualified CPA and is a Fellow of the Australian Bankers Institute. He holds a Bachelor of Business (Banking and Finance) from Monash University and is a Member of Australian Institute of Company Directors.

Frank van der Poll | Group Chief Operating Officer

Frank Van Der Poll was appointed as Group Chief Operating Officer of BSP in October 2020. Mr Van Der Poll started his career in the Information Technology field with various director roles at ICL/ Fujitsu and Gandalf Technologies (Data communication) where he served as Vice President East, Middle East & Africa. In 1997 Mr Van Der Poll moved into the financial services industry, starting at Maduro & Curiel's Bank in the West Indies, Banque Populaire du Rwanda and Standard Chartered Southern Africa.

Prior to joining BSP, Frank was the CEO for the First Micro Finance Bank Afghanistan. He holds a Bachelor of Science (Economy & Law, Kennemer Institute, Haarlem the Netherlands) and Master of Business Administration (Economy, Hogeschool Haarlem, The Netherlands).

Daniel Faunt | Group General Manager Retail Banking

Daniel Faunt was appointed Group General Manager Retail Banking in December 2020 with responsibility for BSP's Retail, Marketing, SME and Paramount Banking divisions. Prior to this role, Mr Faunt ran BSP's Pacific Banking operations in Fiji, Solomon Islands, Tonga, Samoa, Vanuatu and Cook Islands as General Manager Offshore Branches.

Mr Faunt has 20 years of banking experience in Papua New Guinea, Australia and the Pacific and has held senior management roles in Corporate and Commercial Banking, Retail Banking and Operations.

Mr Faunt holds a Masters of Business Administration in Economics from Deakin University and a Bachelor of Business in Banking from the Queensland University of Technology.

Peter Beswick | Group General Manager Corporate Banking

Peter Beswick was appointed Group General Manager Corporate Banking in June 2011. Mr Beswick has over 20 years of banking and finance experience, covering Australia and South East Asia with the Commonwealth Bank of Australia, National Australia Bank and Bank of New Zealand, holding senior executive positions in risk management and business development.

Prior to joining BSP, Mr Beswick was the CEO of a national wholesale, import and retail business in Australia.

Mr Beswick has extensive experience in the finance, government, retail, wholesale, telecommunications and property sectors, with extensive knowledge in foreign exchange, risk management and governance.

Mr Beswick qualified as a Chartered Accountant with PricewaterhouseCoopers and most recently completed an MBA with Macquarie University in Australia. Mr Beswick is a CA (Chartered Accountants Australia & New Zealand) and holds a Master of Business Administration (Macquarie University Graduate School of Management), and a Bachelor of Commerce - Accounting (Macquarie University).

Vandhna Narayan | Group General Manager Compliance

Vandhna Narayan was appointed as Group General Manager Compliance in February 2021. Ms Narayan oversees BSP's anti-money laundering & compliance, internal audit and credit inspection business units to ensure that BSP continues to meet its ongoing regulatory obligations and advancements in industry standards.

Ms Narayan was formerly the Group Head of Compliance and AML for BSP and has also held roles as General Manager Legal & Compliance for BSP Life and Colonial National Bank Fiji (now BSP Fiji).

Ms Narayan is a qualified solicitor (admitted in Fiji, New Zealand and New South Wales) with over 25 years of diverse professional and leadership experience, including 10 years in the banking and insurance sector.

Ms Narayan successfully completed the Commonwealth Bank of Australia's Executive Development Program in 2010 and holds a Bachelors Degree in Law from Victoria University of Wellington, New Zealand, and a Masters Degree in Human Rights Law and Policy from the University of New South Wales.

Nuni Kulu | General Manager Digital

Nuni Kulu was appointed as General Manager Digital in January 2019. Ms Kulu joined the former Papua New Guinea Banking Corporate (PNGBC) as a graduate and has undertaken numerous roles in Treasury and Retail Banking during the course of her career.

Ms Kulu was a member of BSP's Leadership Development Program and has undertaken leadership and management training at the Melbourne Business School and INSEAD College in France. Ms Kulu holds a Bachelor of Commerce from the Australian National University and is the President of the Business Council of Papua New Guinea.

Kili Tambua | General Manager Offshore Branches

Kili Tambua was appointed as General Manager Offshore Branches in December 2020. Mr Tambua commenced his banking career in August 1991 at BSP's Goroka Branch in Papua New Guinea and has held senior management roles within Retail Banking, including as the Deputy General Manager Retail Sales & Customer Service.

Mr. Tambua's holds a Master's degree in Business Administration from the University of Papua New Guinea and is an affiliate to the Australian Institute of Banking & Finance. As part of BSP's Leadership and Management Development Program (LMDP), Mr Tambua completed the General Managers Programs at the Melbourne Business School and the prestigious INSEAD school of Executive Business in France.

Andy Roberts | General Manager and Director BSP Finance

Andy Roberts was appointed General Manager of BSP Finance Ltd in August 2020. Prior to joining BSP, Mr Roberts held various management positions in equipment finance and corporate banking with Westpac and the National Australia Bank in Australia in a career spanning 25 years and was the General Manager Finance at Credit Corporation in Papua New Guinea.

Mr Roberts is currently completing his Master of Business Administration at Torrens University in Australia and holds a Diploma in Accounting from TAFE Queensland.

Rohan George | Group General Manager Treasury

Rohan George was appointed General Manager Treasury in February 2015. Mr George has extensive knowledge in developed and emerging financial markets. His experience spans 30 years, covering fixed income, foreign exchange, commodities and structured derivatives markets.

Prior to joining BSP, Mr George worked at Australia and New Zealand Banking Group as Head of Global Markets, Cambodia & Laos (5 years), at Westpac as Treasurer Papua New Guinea and Pacific Islands (8 years), and at BNP Paribas Investment Management in Sydney, as Head of Fixed Income.

Mr George holds a Master of Applied Finance degree from Macquarie University and is accredited by the Australian Financial Markets Association.

Hari Rabura | General Manager Human Resources

Hari Rabura was appointed General Manager Human Resource in April 2016, having joined BSP as a graduate trainee in 2001. Ms Rabura is experienced in implementing and delivering human resources strategies, policies and services that create, support and sustain a high performance culture in BSP.

Ms Rabura is a member of the BSP Leadership & Management Development Program and has undergone training at the INSEAD Business School, Melbourne Business School and most recently on secondment with the Oil Search Head Office in Sydney, Australia.

Ms Rabura holds a Bachelor of Education from Goroka University.

Mary Johns | Company Secretary

Mary Johns is a lawyer by profession and has been in legal practice in Papua New Guinea for 24 years. She worked in private practice for 5 years and then joined Bank South Pacific as a legal officer in July 2002. She was appointed as Company Secretary in 2005.

She has previously served on Port Moresby Chamber of Commerce and the 2015 Pacific Games Organising Committee Board and currently serves on other not for profit Boards such as the PNG Men's National Soccer League, Capital Rugby Union, PNG Women Lawyers Association and Leadership PNG.

In 2015 as part of the Papua New Guinea 40th Independence awards, Mary was awarded the Member of the Order of Logohu (ML) for services to banking, community and sports.

Since 2016 she served for 2 years as an independent committee member of the of People & Nominations Committee of Oil Search Limited, 2 years on the Audit & Financial Risk Committee and is now a member of the Sustainability Committee of Oil Search Ltd.

She is also a Director on the CPL Group of Companies, a company listed on the PNGX and Jack's PNG Limited, a subsidiary JV of the CPL and Jack's Fiji Limited. Ms Johns holds a Bachelor of Laws (LLB) from University of Papua New Guinea.

7.4 Interests and benefits

This Section sets out the nature and extent of the interests and benefits of certain persons involved in the preparation of this Information Memorandum. Other than as set out below or elsewhere in this Information Memorandum, no:

- Director or proposed Director;
- Person named in this Information Memorandum who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Information Memorandum;
- Promoter of BSP; or
- Financial services licensee named in this Information Memorandum as a financial services licensee involved in the preparation of this Information Memorandum,

holds at the date of this Information Memorandum, or has held in the two years before the date of this Information Memorandum, an interest in:

- The formation or promotion of BSP;
- Property acquired or proposed to be acquired by BSP in connection with its formation or promotion, or in connection with the listing on ASX; or
- The listing of BSP on ASX,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of BSP or the listing of BSP on ASX, or to any Director or proposed Director to induce them to become, or qualify as, a Director.

All amounts in this section are expressed in AUD. The majority of executive remuneration and benefits payable by BSP are expressed in AUD but payable in PGK. In this section, amounts payable in PGK have been presented in AUD, converted at a rate of 2.81 PGK to 1 AUD.

7.4.1 Directors' and key executives' interests and remuneration

Group Chief Executive Officer and Managing Director

BSP has entered into a fixed term employment contract with Robin Fleming that governs his employment as Group Chief Executive Officer.

Mr. Fleming's annual fixed remuneration is the PGK equivalent of AUD1.5 million per annum. This is reviewed annually by the Board. Mr. Fleming is also entitled to an annual performance bonus of up to 113% of the PGK equivalent of his annual fixed remuneration, at the discretion of the Board. Mr. Fleming may elect to receive up to 100% of any annual performance bonus in cash with the balance payable as share rights to vest in the following year. See section 7.4.3 for further details on BSP's employee incentive schemes.

Mr. Fleming is also entitled to various benefits paid for by BSP in addition to his salary, including repatriation expenses for himself and his spouse on termination of his employment, medical and life insurance coverage, one annual business class airfare each for himself and his spouse from Port Moresby to Brisbane and accommodation, car and club membership.

Mr. Fleming's employment contract will continue until 31 December 2022, unless terminated earlier. Either party may terminate this contract by giving:

- In the case of Mr. Fleming, 3 months' written notice to BSP; or
- In the case of BSP, 3 months' written notice to Mr. Fleming, which may be shortened to any period including immediately if BSP elects to make a payment in lieu of notice within 28 days.

BSP may direct Mr. Fleming to undertake alternative duties, or only perform specific duties, during any notice period of termination. During such time, Mr. Fleming will remain an employee of BSP and remain entitled to receive remuneration and all other contractual benefits in line with his employment contract.

BSP may terminate Mr. Fleming's employment with immediate effect and without payment in lieu of notice for gross misconduct.

In the event of termination of Mr. Fleming's employment contract by Mr. Fleming, he will be subject to a restraint of trade period of 6 months. The enforceability of this restraint is subject to all usual legal requirements.

Mr. Fleming receives no additional remuneration for his services as a Director or as a director any of BSP's subsidiaries.

Group Chief Financial Officer

BSP has entered into an ongoing employment contract with Ronesh Dayal that governs his employment as Group Chief Financial Officer. Mr. Dayal's annual fixed remuneration is the PGK equivalent of AUD566,170 per annum.

Mr. Dayal is also entitled to participate in BSP's employee incentive schemes. See Section 6.3.3 for further details on these schemes. Mr. Dayal is also entitled to various benefits in addition to his salary, including repatriation expenses for himself and his family on termination of his employment, medical and life insurance coverage, one annual airfare each for himself, a spouse and children under the age of 18 from Port Moresby to Fiji and Australia, and accommodation and utilities, telephone, car and club membership paid for by BSP and an annual domestic allowance.

Either party may terminate Mr. Dayal's employment contract by giving:

- In the case of Mr. Dayal, 3 months' written notice to BSP; or
- In the case of BSP, 3 months' written notice to Mr. Dayal, which may be shortened if BSP elects to make a payment in lieu of notice within 28 days.

Mr. Dayal's employment may also be terminated by BSP without notice in certain circumstances, including as a result of serious or persistent breaches of the employment contract and in certain circumstances involving misconduct or breaches of law.

On termination of Mr. Dayal's employment contract by Mr. Dayal, he will be subject to a restraint of trade period of 3 months. The enforceability of this restraint is subject to all usual legal requirements. Mr. Dayal receives no additional remuneration for his services as a director of any of BSP's subsidiaries.

Non-Executive Director appointment letters

Prior to the date of this Information Memorandum, each of the non-executive Directors has entered into appointment letters with BSP, confirming the terms of their appointment, their roles and responsibilities and BSP's expectations of them as Directors.

Non-Executive Director remuneration

Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool approved periodically by Shareholders. Under the Constitution, the Board determines the total amount paid to each non-executive Director as remuneration, subject to the aggregate amount not exceeding the amount fixed by the Company in general meeting. Shareholders are required to approve any change to this annual aggregate amount. The current pool of non-executive Director fees is PGK 4.5 million.

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

Non-Executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share or share option programs or the employee incentive schemes described in Section 7.4.3.

The total remuneration expected to be paid to each non-executive Director in FY21 is follows:

Director	Remuneration (PGK)
Sir Kostas Constantinou, OBE	861,304
Ernest Brian Gangloff, CPA, MAICD	403,152
Stuart Davis, LLB, GAICD	330,652
Dr Fa'amausili Matagialofi Lua'iufi, PhD, MSc	365,652
Geoffrey J Robb, MBA, OAM, GAICD (Resigned April 2021)	225,326
Symon Brewis-Weston, MAppFin (Appointed April 2021)	337,989
Robert Bradshaw, LLB	318,152
Arthur Sam, CPA	343,152
Priscilla Kevin, BSc, MAICD	305,652
Frank Bouraga, CPA	305,652
TOTAL	3,796,683

Deeds of access, insurance and indemnity for Directors

BSP has entered into a deed of access, indemnity and insurance (**Deed**) with each Director which confirms that Director's right of access to Company records and Board papers for a period of seven years after the Director ceases to hold office as a director of BSP or its subsidiaries. This period may also be extended where certain proceedings or investigations commence before that period expires. The Deed also requires the Company to indemnify the Director, to the extent permitted by law, against all liability incurred as a director of the Company and its subsidiaries.

Under each Deed, the Company must arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law.

Directors' holdings

Directors are not required under the Constitution to hold any shares in the Company.

As at the date of this Information Memorandum, the Directors have the following interests in the Shares in the Company (either directly or through beneficial interests or entities associated with the Director).

Director	Number of Shares held
Robin Fleming, CSM, MBA, MMGT	93,000
Other Directors	Nil

7.4.2 Leadership team interests and remuneration

BSP's senior management team are employed under ongoing individual employment contracts that establish:

- Notice and termination provisions, including that either party may terminate the contract by giving:
  - in the case of the employee, 3 months' written notice to BSP; or
  - in the case of BSP, 3 months' written notice to the employee, which may be shortened if BSP elects to make a payment in lieu of notice within 28 days; and
- Restraint of trade periods of 3 months on termination of employment by the employee. The enforceability of these restraints is subject to all usual legal requirements.

BSP's remuneration policy for senior management (including the Group Chief Executive Officer and the Group Chief Financial Officer) is comprised of a fixed component and an at risk component that is a combination of short term rewards and long term incentives. Remuneration packages are approved by the Board's Remuneration and Nomination Committee and details are provided by the Committee to the Board. Fixed remuneration is reviewed at the time of contract renewal taking into account the nature of the role, comparable market pay levels, and individual and business performance. Members of senior management who serve as directors of subsidiaries of BSP receive no fees for their services as a director.

7.4.3 Employee incentive schemes

BSP has established incentive arrangements to assist in the recruitment, retention and motivation of senior management and employees, and to directly link performance and behaviour to long term financial results and Shareholder value. These arrangements are not equity based and therefore have no potential dilutive effects on the issued capital of BSP.

BSP also has a Long Term Incentive Plan (**LTIP**) for certain senior employees. The LTIP is currently in use and provides for eligible participating employees to be issued with performance rights. The vesting of the performance rights issued under the LTIP is determined by reference to earnings per share (**EPS**) targets. Participants in the LTIP are entitled to receive an amount up to 10%, 15% or 30% of their fixed annual remuneration, depending on their level of seniority, upon vesting of performance rights. The LTIP runs on a two year performance cycle, commencing on 1 January in the first year and ending on 31 December the following year.

The LTIP is administered by the Remuneration and Nomination Committee, who reviews and endorses the proposed EPS performance target, employee participation, employee awards and any planned changes to the Board for approval. If the EPS target for a cycle is achieved, the matrix set out below is used to determine the award at the end of that cycle. Exercising the performance rights is subject to the condition that BSP's NPAT for the vesting year is above BSP's NPAT in the issuing year.

Participants are personally responsible for any income tax liability in respect of payments made under the LTIP. If a participant resigns their employment for health reasons or retires prior to vesting, awards may be made in full or on a pro rata basis at the time of exit, at the discretion of the Board. If a participant resigns or their employment is terminated on disciplinary grounds prior to the vesting, awards are not granted.

#	Approved EPS Hurdles	EPS target to achieve	Target NPAT	Percentage of performance rights to exercise
1	107.5% >	As recommended by the Remuneration and Nomination Committee and approved by the Board each LTIP cycle.	As recommended by the Remuneration and Nomination Committee and approved by the Board each LTIP cycle.	150% of Performance rights
2	102.5% >			100% of Performance rights
3	97.5% >			50% of Performance rights

7.4.4 Related party transactions

BSP in the ordinary course of business conducts transactions with its Key Management Personnel (including Directors), their family members and/or parties which any of them control or have significant influence over (Related Parties). These transactions include loans, deposits, and foreign currency transactions. Such transactions with Related Parties are carried out on commercial terms at market rates and do not require shareholder approval under PNG company law. Where they involve loans, approval procedures follow BSP's standard credit approval and review processes which do not have any involvement of Directors, and excludes Key Management Personnel involved in the credit approval process in respect of loans to such Key Management Personnel, and BSP holds security in accordance with its standard procedures. Accordingly, the risks associated with transactions with Related Parties are no different from the transactions entered into by BSP with entities that are not related parties. BSP has policies and procedures in place to avoid any conflicts of interest which may arise in connection with these transactions. Collectively, these policies restrict Key Management Personnel with a conflict of interest from being involved in the approval process for a related party transaction and voting on them.

The Financial Statements for BSP contained in Appendix B include information about transactions with Related Parties prepared in accordance with applicable accounting standards. The following table summarizes the relevant type and amount of Related Party transactions for each member of the Key Management Personnel (including Directors) as at 31 December 2020.

Key Management Personnel	Position	Type of Related Party Transaction	Amount (K'000 as at 31.12.2020)
Sir Kostas Constantinou OBE	**Chairman**	Bank accounts and deposits of his or entities of which he has directorship and control	5,154
		Loans to and receivables from him and entities of which he has directorship and control	394,760
		Bank accounts and deposits of his or entities of which he has directorship, but not control	16,282
		Loans to and receivables from entities of which the related party has directorship, but not control	178,808
Arthur Sam	**Director**	Bank accounts and deposits of his or entities of which he has directorship and control	5
		Loans to and receivables from him and entities of which he has directorship and control	244
Ernie Gangloff	**Director**	Bank accounts and deposits of his or entities of which he has directorship, but not control	5,702
		Loans to and receivables from entities of which he has directorship, but not control	50
Other Key Management Personnel	**Directorships in subsidiary companies within the BSP Group held by BSP management**	Bank accounts and deposits of which the related party has directorship and control	156
		Loans to and receivables from them or entities of which the related party has directorship and control	20,584
		Bank accounts and deposits of which the related party has BSP nominee directorship, but not control	-
		Loans to and receivables from entities of which the related party has BSP nominee directorship, but not control	44,348
Total loans and receivables			638,794
Total bank accounts and deposits			27,299

BSP has also provided finance on commercial terms and market rates to other entities that these and other Directors have an interest in where such entities are not Related Parties of those Directors.

7.4.5 Benefits to employees

Subsidised transactions are provided to staff (including Group executives, but not Directors). These include marginal discounts on interest rates and specific fee concessions. Further information is set out in the financial statements in Appendix B at note 34.

7.4.6 Interests of advisers

The Company has engaged the following professional advisers in relation to the listing of BSP on ASX:

- BSP Capital has acted as the financial adviser to BSP in relation to the listing of BSP on ASX. BSP has paid, or agreed to pay, the Kina equivalent of AUD500,000 as a success fee for the services up to the closure of the transaction; and
- Ashurst Australia and Ashurst Papua New Guinea have acted as Australian and PNG legal advisers to BSP respectively, in relation to the listing of BSP on ASX. BSP has paid, or agreed to pay, approximately AUD740,000 (excluding disbursements and GST) for these services up to the date of this Information Memorandum. Further amounts may be paid to Ashurst Australia and Ashurst Papua New Guinea for other work in accordance with their normal time-based charges.

7.5 Corporate governance

7.5.1 Corporate governance principles

BSP has adopted an approach to corporate governance that is underpinned by its core values of Integrity, Professionalism, Leadership, Quality, People, Teamwork and Community. This approach is supported by a comprehensive framework of corporate governance principles, policies and charters. The Board is committed to establishing and implementing a standard of corporate governance to match international best practice.

7.5.2 The role of the Board in corporate governance

The Board is responsible to the shareholders of BSP for the overall corporate governance of BSP to optimise the company's performance and increase shareholder value. To discharge that function the Board: sets the overall corporate strategy for BSP, including operating, financial, capital management and risk management strategies; reviews the performance of the Board and senior management; ensures that BSP complies with relevant laws and complies with the highest standards of financial and ethical behavior.

7.5.3 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established a Board Audit and Compliance Committee (**BACC**), a Board Risk Committee (**BRC**), a Remuneration and Nomination Committee (**RNC**) and a Disclosure Committee. Copies of the charters for these committees are available on BSP's website.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of BSP, relevant legislative and other requirements and the skills and experience of individual Directors.

Board Audit and Compliance Committee

The BACC assists the Board to discharge its responsibilities of oversight and governance in relation to financial, audit and compliance matters. The responsibilities of the BACC include reviewing and monitoring:

- The integrity of BSP's financial statements and their independent audit;
- The financial reporting principles and policies, controls and procedures;
- BSP's internal audit process;
- The effectiveness of internal controls;
- The controls and effectiveness of BSP's compliance obligations;
- The systems for ensuring operational efficiency and cost control;
- The systems for approval and monitoring of expenditure including capital expenditure; and
- The processes for monitoring compliance with laws and regulations (both in PNG and in overseas jurisdictions, where BSP operates) and the implementation of Board decisions by management.

Membership of the BACC is formed amongst the Non-Executive Directors, excluding the Chairman. The BACC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BACC additional individuals who are not executives or members of the Board who have specialised skills to assist the BACC. The chairman of the BACC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman). The BACC must meet at least four times annually and special meetings may be convened as required. All meetings must be minuted and tabled at the subsequent BACC meeting. The BACC regularly reports to the Board at the earliest possible Board meeting after each BACC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

As at the date of this Information Memorandum, the members of the BACC are Ernest Gangloff (Chairman), Arthur Sam, Stuart Davis, and Frank Bouraga.

Board Risk Committee

The BRC assists the Board to discharge its responsibilities of oversight and governance in relation to the implementation of BSP's risk management framework and for the management of BSP's compliance obligations. The responsibilities of the BRC are to:

- Review and monitor the principles, policies, strategies, processes and control frameworks for the management of risk (such as credit risk, market risk, liquidity risk, operational risk, reputational risk, cyber risk and other risks); and
- Oversee BSP's risk profile and risk management strategy, and recommend BSP's risk appetite statement to the Board for approval.

Membership of the BRC is formed amongst the Non-Executive Directors, excluding the Chairman. The BRC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BRC additional individuals who are not executives or members of the Board who have specialised skills to assist the BRC. The chairman of the BRC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BRC must meet at least four times annually and special meetings may be convened as required. All meetings must be minuted and tabled at the subsequent BRC meeting. The BRC regularly reports to the Board at the earliest possible Board meeting after each BRC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

As at the date of this Information Memorandum, the members of the BRC are Arthur Sam (Chairman), Ernest Gangloff, Stuart Davis and Priscilla Kevin.

Remuneration and Nomination Committee

The RNC assists BSP in fulfilling its oversight responsibilities regarding the remuneration, succession and recruitment of Directors, Executives and other BSP employees. The responsibilities of the RNC are:

- To oversee the fit and proper assessments of existing Directors, candidates for nomination as a Director and of the Group Chief Executive Officer, and setting of an appropriate remuneration and benefits package for recommendation to the Board;
- To determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- In conjunction with the Group Chief Executive Officer, evaluate the performance of, and identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly; and
- To ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfill its responsibilities to shareholders while maintaining a world class corporate governance regime.

The RNC is comprised of three Non-Executive Directors. The Chairman of the RNC must be an independent Director, other than the Chairman of the Board. Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the Board. A review of the performance of Committee members will form part of the Board's performance review.

As at the date of this Information Memorandum, the members of the RNC are Robert Bradshaw (Chairman), Dr Fa'amausili Matagialofi Lua'iufi and Priscilla Kevin.

Disclosure Committee

The Board has established a disclosure committee comprising of the Chairman (or in his absence another Non-Executive Director), the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Risk Officer and the Company Secretary (**Disclosure Committee**). The chairman of the Disclosure Committee is the most senior Director present. The members of the Disclosure Committee may vary from time to time, but will consist of at least one Non-Executive Director, two executive employees (not including the Company Secretary) and the Company Secretary. The Disclosure Committee is responsible for, among other things:

a) Approving the release of any announcement to the PNGX and the ASX, other than: (i) an announcement that relates to a matter which is both material and strategically important, which will require approval by the Board; or (ii) procedural matters such as notice of changes to equity securities or Directors' holdings, which will require approval by the Disclosure Officer;

b) Considering whether BSP is obliged or is required to respond to a market rumour or media speculation; and

c) Overseeing the Disclosure Officer's administration of the Continuous Disclosure Policy.

7.5.4 Board independence

The Board considers that each of its Non-Executive Directors, being Sir Kostas Constantinou, Stuart Davis, Ernest Gangloff, Dr Fa'amausili Matagialofi Lua'iufi, Priscila Kevin, Symon Brewis-Weston, Arthur Sam, Robert Bradshaw and Frank Bouraga, are independent Directors for the purposes of the ASX Recommendations referred to in Section 7.5.6. This is on the basis that the Board considers each of these Directors to be free from any material or other business relationships with BSP that would compromise their independence, and have the capacity to bring independent judgment to bear on all issues before the Board and to act in the best interests of BSP.

Sir Kostas Constantinou (**Sir Kostas**) is a Director of BSP who is also the sole shareholder of companies (**Relevant Borrowers**) with borrowings of a material amount (**Material Interests**) from BSP. The Board has considered the independence of Sir Kostas and has determined that the Material Interests do not compromise the independence of Sir Kostas as a Director because Sir Kostas does not participate in any way in any Board resolutions or discussions regarding the Relevant Borrowers or the Material Interests. Accordingly, Sir Kostas has no opportunities to vote on or otherwise influence the decisions of the Board relating to the Relevant Borrowers. In view of this, the Board considers Sir Kostas has the capacity to bring independent judgment to bear on all issues before the Board and to act in the best interests of BSP.

The Board considers each of the non-executive Directors brings objective and independent judgement to the Board's deliberations and that each of the non-executive Directors makes a valuable contribution to BSP through the skills they bring to the Board and their understanding of BSP's business.

The length of service of each Director of BSP is as follows:

Director	Date Appointed	Last Elected / Re-elected	Number of terms
Sir Kostas Constantinou	Apr-09	May-20	In final term (BPNG approval held)
Ernie Gangloff	Nov-13	May-19	Serving second term
Dr Fa'amausili Mataglialofi Lua'iufi,	Dec-16	May-19	Serving second term
Arthur Sam	Dec-16	May-19	Serving second term
Robert Bradshaw	Sep-17	May-18	Serving first term
Stuart Davis	Aug-17	May-20	Serving second term
Frank Bouraga	Dec-20	To be May-21	Serving first term
Priscilla Kevin	Apr-20	May-20	Serving first term
Symon Brewis-Weston	Apr-21	To be May-21	Serving first term
Robin Fleming	Jun-13	May-14	Not applicable

7.5.5 BSP policies

Corporate Governance Principles

The Board has adopted Corporate Governance Principles (**Principles**) which outline the approach it has adopted to corporate governance. The Principles are referred to in BSP's annual reports and are available on BSP's website. These Principles assist the Board in ensuring BSP complies with the corporate governance requirements of the ASX and the PNGX. The Principles are benchmarked against corporate governance principles and practice in Australia and the Pacific, including the ASX Recommendations referred to in section 7.5.6.

Continuous Disclosure Policy

The BSP Continuous Disclosure Policy is available on the BSP website.

The objectives of the Continuous Disclosure Policy are to:

- Ensure all BSP Directors and staff are aware of their obligations to disclose information in accordance with the continuous disclosure obligations under the PNGX Listing Rules and ASX Listing Rules;
- Establish procedures for identifying and assessing information that may require disclosure under BSP's continuous disclosure obligations;
- Establish procedures to ensure BSP complies with its continuous disclosure obligations; and
- Set out requirements for protecting BSP's confidential information from unauthorised disclosure.

Securities Dealing Policy

BSP has adopted a Securities Dealing Policy that applies to Directors and officers (including the Group Chief Executive Officer), persons who directly report to the Group Chief Executive Officer and their direct reports, any other personnel designated by the Board, and closely related parties of all of them (**Restricted Persons**).

The Securities Dealing Policy is intended to explain the types of conduct in relation to dealings in securities that are prohibited under the Australian Corporations Act and PNG Capital Market Act and to establish procedures in relation to dealings in securities by Restricted Persons.

Restricted Persons will only be permitted to deal in Shares during the following trading windows:

- Within eight weeks from the day on which BSP's full year results are released to ASX and PNGX;
- Within eight weeks from the day on which BSP's half-yearly results are released to ASX and PNGX; and
- Any other period that the Board specifies from time to time.

Restricted Persons will also not be permitted to deal in Shares during any period specified by the Board from time to time.

Restricted Persons must receive clearance for any proposed dealing in Shares, including within the above trading windows (subject to certain limited exceptions). In all instances, buying or selling Shares is not permitted at any time by any person who possesses inside information in a manner contrary to the Australian Corporations Act or PNG Capital Market Act. Any dealing in Shares by Restricted Persons pursuant to a margin lending arrangement is not permitted without the prior approval of the Chairman. Restricted Persons are not permitted to hedge their exposure to Shares.

This Policy is available on the BSP website.

Fraud and Whistleblower Policy

BSP has adopted a Fraud and Whistleblower Policy to minimise risks associated with fraudulent activities. BSP has in place principles and mandatory requirements for the prevention of fraud which includes requirements applicable to general managers, department heads, employees, temporary staff, contractors and service providers of BSP.

Employees are encouraged to report to management when they believe someone may be breaching BSP's policies, procedures and values. Employees can also anonymously report suspected violations and wrongdoing by emailing or phoning a fraud hotline.

This Policy is available on the BSP website.

Social Environmental Management System

BSP has an established procedure that allows BSP customers and the public to make enquiries or express concerns related to BSP's products and services or general complaints. The procedure is documented and is made available on BSP's website.

Code of conduct

BSP has established a Code of Conduct that must be adhered to by all employees (including casuals and temporary employees) of BSP. This Code of Conduct details the standards of ethics, conduct and behaviour that each person must comply with as a condition of their employment or appointment with BSP.

The four pillars of this Code of Conduct are:

- Honesty and integrity;
- Professional behaviour;
- Respecting each other; and
- Social responsibility.

The Code of Conduct does not contain a complete list of specific behaviours or conduct but sets out the minimum standards of responsibility and conduct expected.

Employees are also required to agree to and sign a code of conduct when they commence employment with BSP, which outlines the standards of conduct that BSP requires of its employees.

This Policy is available on the BSP website.

Shareholder Communications Policy

The Shareholder Communications Policy supplements the Continuous Disclosure Policy.

BSP is committed to dealing fairly, transparently and openly with its current and prospective shareholders, using available channels and technologies to reach widely and communicate promptly.

BSP publishes market announcements on BSP's website immediately after release to the market. Recent market announcements made by BSP are available on BSP's website. BSP's website will also contain other information about it, including media releases, key policies and the charters of the Board committees. In addition, where BSP provides financial results presentations to analysts, or the media, these presentations are released by the PNGX at the time of the presentation and made available on BSP's website as soon as possible after the event.

This Policy is available on the BSP website.

Board Charter

The BSP Board Charter sets out the roles and responsibilities of the Board and management, describes the respective roles of the Board and the Group Chief Executive Officer and describes their respective relationships with management.

The Board Charter also covers (among other matters) the required structure of the Board and Board Committees, how Board performance is to be evaluated and the requirements for senior executive appointments.

Remunerations & Nominations Committee Charter (RNCC)

The RNCC defines the objectives, responsibilities and operation of the RNC.

This Policy is available on the BSP website.

Anti-Bribery and Anti-Corruption Policy

The purpose of BSP's Anti-Bribery and Anti-Corruption Policy (the **ABC Policy**) is to set in place appropriate guidelines that will assist BSP, staff and associates to understand their responsibilities, and to help them deal with, issues of bribery and corruption. The ABC Policy complements BSP's other related policies, in particular the Code of Conduct and Core Values that emphasise the principles of professionalism, fairness and integrity in BSP's relationships and business dealings with both its internal and external stakeholders.

This ABC Policy applies to the Board of Directors, all BSP employees, including executive management, business associates, agents and representatives (individuals and businesses doing business on behalf of BSP).

BSP expects all third parties, including business partners, service providers and contractors, to act with integrity and to undertake their business without bribery or corruption. In addition to the above, BSP will investigate reported allegations of bribery, corruption and abuse of position for personal gain, involving, or in any way connected to it. If necessary, action will be taken as a result of such investigations, including termination of relationships with third parties and reports to relevant governmental authorities or regulators

This Policy is available on the BSP website.

7.5.6 ASX Corporate Governance Principles and Recommendations

The Board has reviewed its current corporate governance policies, principles and charters (**Corporate Governance Policies**) to compare those documents with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, fourth edition (**ASX Recommendations**). The Board considers its Corporate Governance Policies comply with the ASX Recommendations, except in the following two cases:

ASX Recommendation 1.5 – Diversity Policy

BSP's Diversity Policy is published on its website.

BSP currently has ten Directors, two of whom are women. BSP's objective (consistent with the reference to the gender diversity objectives of the S&P / ASX 300 Index made in the ASX Recommendation) is to have at least 30% of its Board comprising female Directors by 31 December 2023.

ASX Recommendation 6.4 – A listed entity should ensure that all substantial resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.

BSP does not comply with this ASX Recommendation because to do so would be contrary to the requirements of the PNG Companies Act 1997. The PNG Companies Act provides, in summary, as follows:

a) Section 105 and Schedule 2 of the Companies Act requires voting at a meeting of shareholders to be by voice or show of hands (as determined by the Chairman), unless a poll is demanded;

b) A poll may be demanded at a meeting of shareholders by not less than five shareholders entitled to vote at the meeting or by shareholders representing not less than 10% of the total voting rights of all shareholders entitled to vote at the meeting.

It is noted that the thresholds at which shareholders may demand a poll are low and provide assurance to shareholders wishing to invoke the "one security one vote" principle and wishing to have substantial resolutions decided by a poll.

8. Additional Information

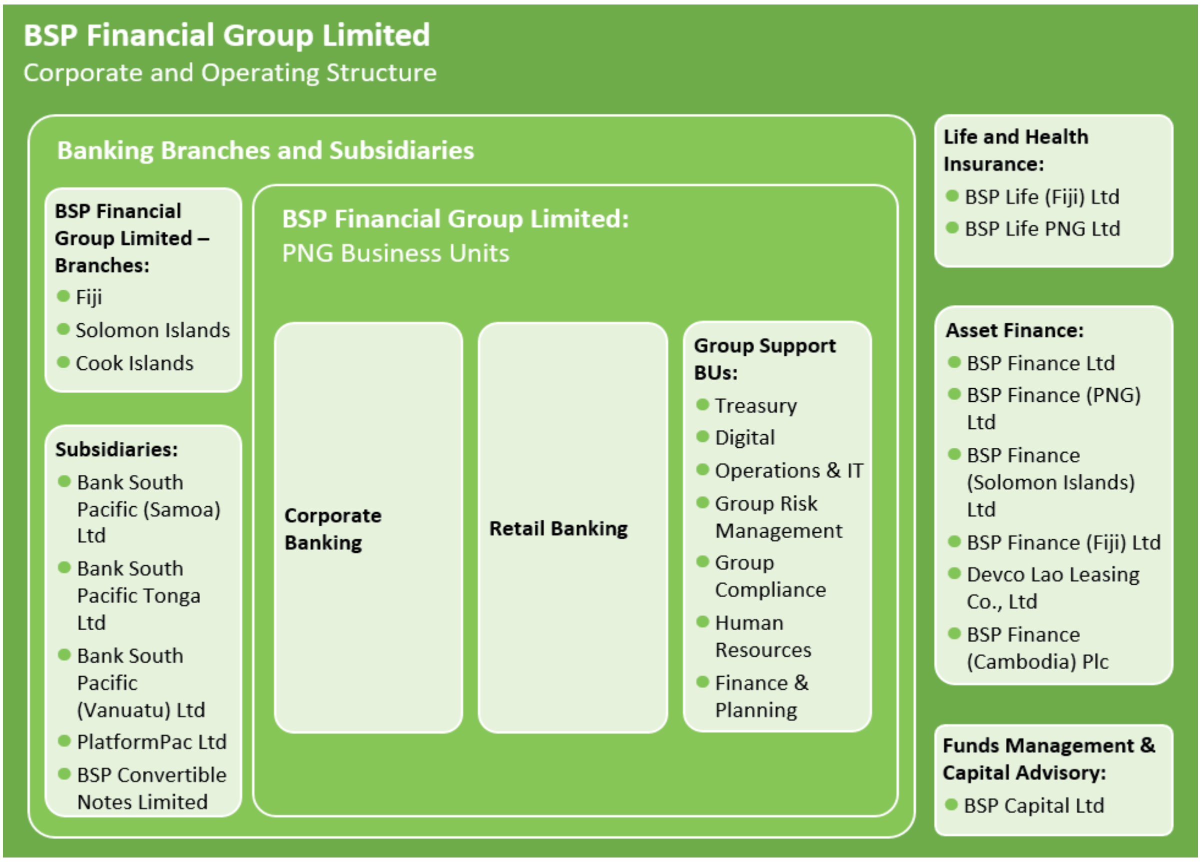
8.1 Applicable law

8.1.1 Incorporation, share capital and corporate structure

BSP is a company incorporated in PNG and is principally governed by PNG law, rather than Australian law. As BSP is not established in Australia, its general corporate activities (apart from any offering of securities in Australia) are not regulated by the Australian Corporations Act or by ASIC, but instead are regulated by the PNG Companies Act, the PNG Capital Market Act, the Investment Promotion Authority of PNG and the PNG Securities Commission.

A simplified version of BSP's corporate structure is set out below. Unless otherwise noted, all entities are wholly owned by BSP or its subsidiaries.

Corporate structure diagram (simplified)



Note: 1 With the exception of BSP Finance (Cambodia) Plc, Devco Lao Leasing Co., and PlatformPac Ltd, which are 50:50 joint ventures, all other entities are wholly owned (100%) by BSP.

2 BSP Life (Fiji) Ltd holds a 61.25% interest in Richmond Pte Ltd, which owns and operates the Sofitel Resort in Nadi, Fiji, as part of its insurance investments portfolio and BSP's Fiji Branch holds a 50% interest in Suva Central Ltd, which is an owner and lessor of retail and commercial property in Fiji.

On listing of BSP on the ASX, BSP will have approximately 467 million Shares on issue. The top 20 Shareholders of BSP, as at 31 March 2021, are set out below.

Top 20 Shareholders - 31 March 2020			
#	Shareholder %	No. of Shares	% Holding
1	Kumul Consolidated Holdings	84,811,597	18.2%
2	Nambawan Super Limited	55,672,261	11.9%
3	Petroleum Resources Kutubu Limited	46,153,840	9.9%
4	NASFUND	45,318,417	9.7%
5	Fiji National Provident Fund	40,547,063	8.7%
6	Credit Corporation (PNG) Limited	33,294,081	7.1%
7	Motor Vehicles Insurance Limited	31,243,736	6.7%
8	PNG Sustainable Development Program Limited	23,827,156	5.1%
9	Teachers Savings and Loans Society	15,317,366	3.3%
10	Comrade Trustee Services Limited	12,456,052	2.7%
11	IFC Capitalization (Equity) Fund LP	4,213,877	0.9%
12	International Finance Corporation	4,213,877	0.9%
13	Lamin Trust Fund	3,518,132	0.8%
14	Capital Nominees Limited	3,341,892	0.7%
15	Credit Corporation (PNG) Limited	3,000,000	0.6%
16	Samoa National Provident Fund	2,984,804	0.6%
17	Mineral Resources OK Tedi No. 2 Limited	2,890,000	0.6%
18	Solomon Islands National Provident Fund	2,500,001	0.5%
19	Nominees Niugini Limited	2,369,495	0.5%
20	Catholic Diocese of Kundiawa	2,217,798	0.5%
	Total Top 20	419,891,445	89.9%
	Other Shareholders	47,333,228	10.1%
	Total	**467,224,673**	**100.0%**

8.1.2 Fiji Class Shares

In 2010, BSP Convertible Notes Limited (**BCN**), a subsidiary of BSP incorporated in Fiji, issued Fiji Dollar denominated mandatory convertible notes in Fiji. In 2013, these notes mandatorily converted to shares in BCN that are listed on the South Pacific Stock Exchange (**SPX**) under the code "BCN" (**Fiji Class Shares**).

As at 31 December 2020, there were 116 holders of Fiji Class Shares holding 3,064,968 Fiji Class Shares in total, with the Fiji Class Shares having a total book value of FJD16,090,806.

The Fiji Class Shares may be exchanged for ordinary shares in BSP in certain circumstances. Other key rights of the holders of Fiji Class Shares include the right to receive dividends equal to the dividends paid on BSP's Shares and the same voting rights as BSP's Shareholders through a special voting share held by the Chairman of BSP.

The official listing rules of SPX will continue to apply to the Fiji Class Shares following the Listing.

8.1.3 Share buyback scheme

In May 2014, the Directors introduced a share-buyback scheme of up to PGK15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated PGK15 million buyback was utilised, or if the Board wished, until any time before that.
As at 31 December 2020, BSP has bought back 1,184,789 Shares at a cost of PGK9.3 million, with PGK5.7 million of the PGK15 million cap remaining for future use.

8.1.4 Company tax status and financial year

The Company is a tax resident of PNG. The proposed Listing in itself does not have a direct effect on the tax residency of BSP.

BSP will be taxed in PNG as a public company. The financial year for BSP ends on 31 December annually.

8.1.5 Key differences between PNG Companies Act and Australian Corporations Law

Generally, the rights of a shareholder in a PNG company like BSP are the same as the rights of a shareholder in a company registered in Australia. The rights available to Shareholders under the PNG Companies Act would in many cases need to be enforced under PNG law although some rights could be enforced under Australian law (for example, rights arising from non-compliance with the ASX Listing Rules).

Set out below is a summary of the key features of the laws that apply to BSP as a PNG company (under PNG law, including as modified by exemptions or waivers) compared with the laws that apply to Australian publicly listed companies generally. It is important to note that this summary does not purport to be a complete review of all matters of PNG law applicable to publicly listed companies or to highlight all provisions that may differ from the equivalent provisions in Australia.

	PNG Law	Australian law
The types of transactions that require shareholder approval	The PNG Companies Act restricts the power of the Board in that BSP must not, without the approval of a special resolution of Shareholders, enter into a "major transaction" which includes acquiring or disposing of assets (or the incurring of liabilities) the value of which is more than half the value of BSP's total assets before the acquisition or disposal. Shareholder approval is also required: • to adopt or alter the constitution of the company; • appoint or remove a director or auditor; • for amalgamations (other than between the company and its wholly owned subsidiaries); • to put the company into liquidation; and • to change the rights attached to the shares in the company. Under the PNGX Listing Rules, shareholder approval is required for: • increases in the total amount of directors' fees; • directors' termination benefits; • certain transactions with related parties; • certain issues of shares; and • if a company proposes to make a significant change to the nature or scale of its activities or proposes to dispose of its main undertaking.	Under the Corporations Act, the principal transactions or actions requiring shareholder approval include: • adopting or altering the constitution of the company; • appointing or removing a director or auditor; • certain transactions with related parties of the company; • putting the company into liquidation; and • changes to the rights attaching to shares. Shareholder approval is also required for certain transactions affecting share capital such as share buy-backs and share capital reductions. Similar approvals to those under the PNGX Listing Rules are also required under the ASX Listing Rules
The rights of shareholders to request or requisition a meeting of security holders	A special meeting of Shareholders must be called by the Board when requisitioned by Shareholders representing at least 5% of total voting rights entitled to be exercised on the issue.	The Corporations Act requires the directors to call a general meeting on the request of members with at least 5% of the votes that may be cast at the general meeting. Shareholders with at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting at their own expense.

	PNG Law	Australian law
The rights of shareholders to appoint proxies to attend and vote at meetings on their behalf	At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a resolution put to the meeting by voice or show of hands. On a poll, every Shareholder who is present in person or by proxy, attorney or representative has one vote for every fully paid Share registered in the Shareholder's name. A proxy shall be appointed by notice in writing signed by the shareholder and the notice shall state whether the appointment is for a particular meeting or a specified term not exceeding one year. In accordance with the Constitution, an appointment of proxy is not effective unless it is received by the company at least 48 hours prior to the time notified for the relevant meeting.	This position is comparable under the Corporations Act.
Changes in the rights attaching to shares	Under the PNG Companies Act, a company cannot take any action that would affect the rights attached to shares unless that action has been approved by a special resolution of each affected interest group. An "interest group" in relation to an action or proposal affecting the rights attached to the shares means a group of shareholders whose affected rights are identical and whose rights are affected by the action or proposal in the same way.	The Corporations Act allows a company to set out in its constitution the procedure for varying or cancelling rights attached to shares in a class of shares. If a company does not have a constitution, or has a constitution that does not set out a procedure, such rights may only be varied or cancelled by: • a special resolution passed at a meeting for a company with a share capital of the class of shareholders holding shares in the class; or • a written consent of shareholders with at least 75% of the votes in the class.
Rights of shareholders to seek relief for oppressive conduct	Under the PNG Companies Act, a shareholder or former shareholder of a company, or any other entitled person, has statutory remedies for oppressive, unfairly discriminatory, or unfairly prejudicial conduct of the company's affairs. The court can make orders where it considers that it is just and equitable to do so, including: • requiring the company or any other person to acquire the shareholder's shares; • requiring the company or any other person to pay compensation to a person; • altering or adding to the company's constitution; and • setting aside action taken by the company or the board in breach of the PNG Companies Act or the constitution of the Company.	This position is comparable under the Corporations Act.

	PNG Law	Australian law
Rights of shareholders to bring or intervene in legal proceedings on behalf of the company	A shareholder or director of a company may bring an action on behalf of the company or may intervene in an action to which the company is a party for the purposes of continuing, defending or discontinuing proceedings if leave is granted by the court. In determining whether to grant leave, the court must have regard to: • the likelihood of the proceedings succeeding; • the costs of the proceedings in relation to the relief likely to be obtained; • any action already taken by the company to obtain the relief; and • the interests of the company in the proceedings. Leave may only be granted where the court is satisfied that either the company does not intend to bring, diligently continue or defend, or discontinues, the proceedings or it is in the interests of the company that the conduct of the proceedings should not be left to the directors or to the determination of shareholders as a whole.	The Corporations Act permits a shareholder to apply to the court for leave to bring proceedings on behalf of the company, or to intervene in proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for those proceedings, or for a particular step in those proceedings. The court must grant the application if it is satisfied that: • it is probable that the company will not itself bring the proceedings or properly take responsibility for them, or for the steps in them; • the applicant is acting in good faith; • it is in the best interests of the company that the applicant be granted leave; • if the applicant is applying for leave to bring proceedings, there is a serious question to be tried; and • either at least 14 days before making the application, the applicant gave written notice to the company of the intention to apply for leave and of the reasons for applying, or the court considers it appropriate to grant leave. Proceedings brought or intervened in with leave must not be discontinued, compromised or settled without the leave of the court.
"Two strike" rule	Shareholders do not have the right to vote on the remuneration payable to the Directors. However, shareholder approval is required for any increase in the total remuneration cap for non-executive Directors, the provision of termination benefits to directors equal to 5% of shareholders equity (or a higher cap with the approval of Shareholders) and for Directors to participate in equity based incentive plans.	The Corporations Act requires that a company's annual report must include a report by the directors on the company's remuneration framework (called a remuneration report). A resolution must be put to shareholders at each annual general meeting of the company's shareholders seeking approval for the remuneration report. The approval is advisory only, however, if more than 25% of shareholders vote against the remuneration report at two consecutive annual general meetings (ie. two strikes) an ordinary resolution must be put to shareholders at the second annual general meeting proposing that a further meeting be held within 90 days at which all of the directors who approved the second remuneration report must resign and stand for re-election.

<table>
<tr><th></th><th>PNG Law</th><th>Australian law</th></tr>
<tr><td>Disclosure of substantial holdings</td><td>A substantial shareholder is defined in the PNG Capital Market Act as a person who has a defined relevant interest in 5% or more of BSP shares. A substantial shareholder must give notice to the company, the PNG Securities Commission and, where applicable, the PNGX in a prescribed form as soon as the person knows (or ought reasonably to know) of:

• Acquiring a 5% relevant interest in shares; and
• A 1% change occurring in a relevant interest.</td><td>The Corporations Act requires every person who is a substantial holder to notify a listed company and the ASX that they are a substantial holder and to give prescribed information in relation to their holding if:

• the person beings to have or ceases to have a substantial holding in the company;
• the person has a substantial holding in the company and there is a movement of at least 1% in their holding; or
• the person makes a takeover bid for securities of the company.

A person has a substantial holding if the total votes attached to voting shares in the company in which they or their associates have a relevant interest in is 5% or more of the total number of votes attached to voting shares in the company, or the person has made a takeover bid for voting shares in the company and the bid period has started and not yet ended.

These provisions do not apply to BSP as an entity established outside Australia. However BSP will be required to release to the ASX any substantial holder notices that are released to the PNGX.</td></tr>
<tr><td>Regulation of takeovers</td><td>When the PNG Capital Market Act came into effect, there was no transitional provision for the Takeovers Code that was in operation under the former Securities Act 1997 and at present there is no specific corporate regulation of the acquisition of shares in BSP, other than the substantial shareholder reporting regime (as mentioned above under the heading “Disclosure of substantial holdings”), and BPNG’s regulation of the ownership and control of BSP as described in section 8.3.2. The PNG Securities Commission has general powers to intervene, including through the giving of directions or the imposition of penalties, in relation to matters concerning trading in shares which could be relevant in the event that a buyer of shares in PNG makes statements that are false or misleading, or seeks to create a false market, in relation to BSP shares.</td><td>The Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if any person’s voting power in the company will increase from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%.

Exceptions to the prohibition apply (for example acquisitions with shareholder approval, 3% creep over six months and rights issues that satisfy prescribed conditions).

Substantial holder notice requirements apply (as mentioned above under the heading “Disclosure of substantial holdings”).

Compulsory acquisitions are permitted by persons who hold 90% or more of securities or voting rights in a company.

The Australian takeovers regime will not apply to BSP.</td></tr>
</table>

	PNG Law	Australian law
Related party transactions	Under the PNG Companies Act, details of transactions in which a Director has a material financial interest (either personally or through a parent, child or spouse, or has an indirect material financial interest) must be disclosed to the Board and entered into an "interests register". A transaction in which a Director has a material personal interest of this kind may be avoided by BSP at any time within three months after the transaction is disclosed to Shareholders (but not where BSP receives fair value under it). The right of Shareholders to request that BSP withdraw from a transaction in which a Director has a direct or indirect material financial interest is not based on a requirement for shareholder approval, unlike the Australian Corporations Act regime for related party transactions. The effect is that only those transactions that require approval under the ASX Listing Rules, which are summarised in section 8.2.18, are subject to Shareholder approval. For other kinds of transactions in which Directors have a direct or indirect material financial interest, the rights of shareholders are limited to requesting that BSP avoid the relevant transaction or, in the absence of action being taken by the Board, to commence legal proceedings against (or in the name of) BSP to avoid the transaction and recover compensation from the relevant director.	Under the Corporations Act, related party transactions, being transactions between a public company and a director, an entity controlled by a director, or a parent company of the public company, require shareholder approval from non-associated shareholders, unless the transaction is on 'arm's length terms', represents no more than reasonable remuneration or complies with other limited exemptions. The ASX Listing Rules also contain restrictions on certain related party transactions and require a listed company to seek shareholder approval for the related party transaction.
Amalgamations	Unlike Australia, the PNG Companies Act provides for the amalgamation of PNG companies, which is a statutory merger procedure, which is subject to shareholder approval by special resolution.	The Corporations Act does not provide for the amalgamation of companies.
Voting threshold for schemes of arrangement	Although the PNG Companies Act provides for court-approved schemes of arrangement (which can be used as form of merger structure with shareholder approval of the target by special resolution (75% approval), the additional Australian Corporations Act 50% "headcount" test is not automatic, although the offeror or the PNG Securities Commission could agree to its application in the case of PNG company participating in a merger by scheme of arrangement.	Under the Corporations Act, for a scheme of arrangement to be approved, a resolution in favour must be passed at the scheme meeting by each class of target shareholders by both 75% of the votes cast on the resolution and at least 50% of the number of shareholders voting on the resolution.

In summary, the key differences between the rights of a BSP Shareholder and those of a shareholder in an Australian registered company, are as follows.

8.1.5.1 Major transactions

Approval of BSP Shareholders by special resolution must be obtained for BSP to enter into a major transaction, as described in the table above. There is no such requirement under the Australian Corporations Act.

8.1.5.2 Minority buy-out

If BSP proposes:

- A shareholder resolution to enter into a major transaction as described in the table above;
- An amendment to its constitution that imposes or removes a restriction on its activities; or
- A variation of the rights attached to shares as described at Section 8.2.17, if the resolution is approved by the necessary majority,

any Shareholder voting against the resolution may have an entitlement to have their shares bought out under procedures defined in the PNG Companies Act.

8.1.5.3 Selective share buy-backs

The PNG Companies Act enables the Board to approve a selective share buy-back (which is where offers are made to buy-back some, but not all, shares) without Shareholder approval. To do so, the Board must resolve that the terms are fair and reasonable to BSP, and also fair to shareholders to whom the offer is not made. In Australia, this type of selective buy-back would be subject to shareholder approval in a meeting at which Shareholders whose shares are to be bought back (and their associates) are unable to vote. Consultation with ASX would be required on in the case of an on-market buy-back.

8.1.5.4 Amalgamations

Unlike Australia, the PNG Companies Act provides for the amalgamation of PNG companies, which is a statutory merger procedure, which is subject to shareholder approval by special resolution.

8.1.5.5 Voting threshold for schemes of arrangement

Although the PNG Companies Act provides for court-approved schemes of arrangement (which can be used as form of merger structure with shareholder approval of the target by special resolution (75% approval), the additional Australian Corporations Act 50% "headcount" test is not automatic, although the offeror or the PNG Securities Commission could agree to its application in the case of PNG company participating in a merger by scheme of arrangement.

8.2 Description of the Shares

The rights attaching to Shares are detailed in the Constitution and in certain circumstances, regulated by the PNG Companies Act, Listing Rules, the Operating Rules and general law. The Constitution may be inspected during normal business hours at the registered office of BSP at Section 34, Allotments 6 & 7, Klinki Street, Hohola, National Capital District, PNG (or on BSP's website).

If granted admission to the official list of ASX, BSP will become listed on ASX and will therefore will be subject to the ASX Listing Rules and the ASX Settlement Operating Rules. The rights and obligations of Shareholders under ASX Listing Rules will apply in addition to the provisions of the PNG Companies Act and the PNGX Listing Rules, with the consequence that for some matters the rights and obligations of Shareholders will be identical to those applicable to an Australian company listed on ASX, including:

- Periodic and continuous disclosure obligations, including reporting on corporate governance matters;
- Issue of shares, or reorganisation of share capital;
- Transactions with persons in a position of influence (such as Directors or other related parties and substantial holders);
- Significant changes to the nature or scale of BSP's activities; and
- Voting at meetings of Shareholders.

The following is a summary of the principal rights of the holders of Shares. This summary is not intended to be exhaustive and is qualified by the terms of the Constitution. This summary does not constitute a definitive statement of the rights and liabilities of Shareholders.

This summary assumes that BSP is admitted to the official list of ASX.

8.2.1 General meetings of shareholders

Shareholders are entitled to receive notice of, attend and vote at general meetings of BSP and to receive all notices, financial reports and other documents required to be sent to members under the Constitution, the PNG Companies Act or the Listing Rules.

The PNG Companies Act gives Shareholders the right to exercise their powers in general meeting. BSP is required to hold an annual meeting in each year (and not more than 15 months from the date of the previous annual meeting), to consider, among other things, the financial statements (and the directors reports on those) and the appointment of auditors.

Special meetings of Shareholders may be held when considered necessary by the Board or when requisitioned by Shareholders representing at least 5% of total voting rights entitled to be exercised on the issue.

An ordinary resolution requires the affirmative vote of Shareholders present in person or by proxy, attorney or representative and holding shares conferring in aggregate at least a majority of the votes actually cast on the resolution. A special resolution requires the affirmative vote of Shareholders present in person or by proxy, attorney or representative and holding shares conferring in the aggregate at least 75% of the votes actually cast on the resolution.

At least 14 days' notice must be given of meetings of Shareholders. The notice convening a meeting must state the nature of the business to be considered in sufficient detail to enable the Shareholder to form a reasoned judgment in relation to it, include the text of any special resolution to be submitted and include a form of proxy.

Shareholders may submit proposals for discussion or resolution at a general meeting (including a written statement of not more than 1,000 words), provided they do so within time periods defined in the Constitution and the PNG Companies Act. Any resolution passed arising out of a proposal of this kind is advisory, and not binding on BSP or the Board.

8.2.2 Voting Rights

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a resolution put to the meeting by voice or show of hands. On a poll, every Shareholder who is present in person or by proxy, attorney or representative has one vote for every fully paid Share registered in the Shareholder's name. Where there are two or more joint holders of a Share and more than one joint holder tenders a vote, the vote of the holder named first in the register who tenders the vote will be accepted to the exclusion of the votes of the other joint holders. Unless a poll is demanded, every question submitted to a meeting of Shareholders is decided voting by voice or show of hands of the Shareholders present and entitled to vote. A poll may be demanded by at least five members entitled to vote on the resolution, or members with at least 10% of the votes that may be cast on the resolution of the poll. The chairperson has a casting vote if there is an equality of votes on an ordinary resolution, unless the chairperson is not entitled to vote (in which case the matter is decided in the negative).

8.2.3 Issue of shares

Subject to the Constitution, the Listing Rules and the Operating Rules, the Directors have the right to issue, grant options over or otherwise dispose of unissued shares on the terms, with the rights, and at the times that the Directors decide.

8.2.4 Transfer of shares

Subject to the Constitution, the PNG Companies Act, the Listing Rules and the Operating Rules, Shares are freely transferable. Unless permitted by the Listing Rules, BSP must not charge any fee on the transfer of a Share.

All transfers must comply with the Constitution, the Listing Rules, the Operating Rules and the PNG Companies Act as applicable and, subject to these requirements, the Directors may refuse to register a transfer of Shares in circumstances permitted by the Listing Rules, Operating Rules or the PNG Companies Act. If the Board refuses to register a transfer, BSP must give the lodging party written notice of the refusal and the reasons for it within five business days after the transfer is delivered to BSP. The Board must refuse to register a transfer of Shares if the PNG Companies Act, the Listing Rules or the Operating Rules forbid registration.

8.2.5 Dividends and Distributions of Profit

Subject to the provisions of the PNG Companies Act, other requirements in the Constitution and the terms of issue of shares, the Board may resolve to pay a distribution in any amount, at any time, and to any Shareholders as it thinks fit, if the Board is satisfied on reasonable grounds that BSP will, immediately after the distribution, satisfy the solvency test. Directors who vote in favour of the distribution must sign a certificate stating that BSP will satisfy the solvency test (immediately following the distribution) and the basis for that decision. The payment of a distribution does not require any confirmation by a general meeting.

As its Shares will be listed on both ASX and PNGX, BSP maintains a share register in each of Australia and PNG. The Constitution confirms the ability of the Directors to make rules and policies about its share register and payment of dividends, including rules and policies regarding:

(a) provision of information including residential address by Shareholders;

(b) compliance with laws applicable to the removal of Shares from one register to another, such as exchange control or tax requirements;

(c) the basis and timing for Shares to be removed from one register to another; and

(d) the currency in which dividends are paid according to location of register or details recorded on the Register.

Rules and policies of this kind are subject to the provisions of this Constitution, the Companies Act and the Listing Rules and are subject to amendment by the Board from time to time.

BSP has adopted the practice of paying an interim dividend in October of each year, based on half year results, and paying a final dividend based on audited full year results, after the end of the financial year, and no later than the end of the second quarter of the succeeding year. The Board has maintained its dividend policy of 70% to 75% of prior year earnings, to the extent that this does not impact on capital adequacy requirements, or otherwise put BSP's growth at risk.

8.2.6 Dividend Reinvestment & Share Plans

The Board may adopt and implement dividend reinvestment plans (under which any member may elect that dividends payable by BSP be reinvested by way of subscription for Shares) and any other share plans (under which any member may elect to forego any dividends that may be payable on all or some of the Shares held by that member and to receive instead some other entitlement, including the issue of fully-paid Shares). In 2004, BSP adopted a dividend reinvestment plan, which is currently suspended and has not been utilised since 2008. A copy of this plan is available on BSP's website.

8.2.7 Unmarketable Parcels

In accordance with the Listing Rules, the Directors may sell the Shares of a member if that member holds less than a marketable parcel of Shares, provided that the procedures set out in the Constitution are followed. An unmarketable parcel of shares is defined in the Listing Rules and is, generally, a holding of shares with a market value of less than AUD 500.

8.2.8 Powers of the Directors

Subject to the Constitution, the PNG Companies Act, any other law and the Listing Rules, the Directors have all necessary powers for managing, and for directing and supervising the management of, the business and affairs of BSP.

8.2.9 Appointment and Removal of Directors

Under the Constitution, the minimum number of Directors that may comprise the Board is three and the maximum is 10, unless the Shareholders pass a resolution varying that number. A Director may be appointed by ordinary resolution passed at a meeting of Shareholders where BSP receives a nomination by a Shareholder and a consent to nomination by the proposed Director at least 30 business days in advance of the meeting. The Board may appoint a Director to fill a vacancy or as an addition to the existing Directors, who will then hold office until the next annual general meeting of BSP and is then eligible for re-election. Retirement occurs on a rotational basis so that no Director holds office without re-election for three or more years, or beyond the third annual general meeting following their appointment.

8.2.10 Directors Voting

Questions and resolutions arising at a meeting of the Board will be decided by a majority of votes of Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting may exercise a casting vote in addition to any other vote the chairperson may have.

8.2.11 Managing Director

Under the Constitution, the Managing Director may be appointed on terms and conditions approved by the Board. The Managing Director is not subject to retirement by rotation.

8.2.12 Directors Remuneration

The Directors, other than the Managing Director or any other executive Director, are entitled to be paid by way of Directors' fees for services, provided that the total fees do not exceed the maximum aggregate sum approved from time to time by BSP in general meeting and the remuneration does not include costs of a commission on, or percentage of, operating revenue. The Constitution also makes provision for BSP to pay all expenses of Directors in attending meetings and carrying out their duties.

8.2.13 Alteration of Share Capital

Subject to the Listing Rules, the Constitution and the PNG Companies Act, BSP may alter its share capital.

8.2.14 Preference shares

BSP may issue preference shares including preference shares, which are liable to be redeemed. The rights attaching to preference shares are those set out in the Constitution. There are currently no preference shares on issue.

8.2.15 Variation of the Constitution

The Constitution can only be amended by a special resolution, which requires the affirmative vote of Shareholders present in person or by proxy, attorney or representative and holding shares conferring in the aggregate at least 75% of the votes actually cast on the resolution.

A special meeting of Shareholders was held on Friday, 26 March 2021, for the purposes of Shareholders approving BSP changing its name to BSP Financial Group Limited and approving certain amendments to the Constitution in connection with the Listing. The changes to Constitution approved by Shareholders were undertaken to align the constitution with the ASX Listing Rules in anticipation of the Listing and primarily addressed matters to reflect that BSP would be a dual listed entity, provide for the Board to implement register rules in relation to the management of the Australian and PNG share registers of the Company, and technical and administrative amendments for the purposes of the ASX Listing Rules.

8.2.16 Share Buybacks

BSP is authorised to purchase or acquire its shares under procedures defined in the PNG Companies Act and the Listing Rules. Before BSP offers or agrees to purchase its own shares the Board must resolve that the acquisition is in the best interests of BSP, the terms of the offer are fair and reasonable, and that they are not aware of any information that has not been disclosed to Shareholders which is material to an assessment of value of the shares and which may cause the terms or consideration of the offer to be unfair to Shareholders accepting the offer. The Board must also resolve that the making of the offer is fair to those to whom the offer is not made or with whom no agreement is entered into before BSP makes an offer, or agrees to, acquire shares.

The difference between this procedure and the equivalent in Australia is discussed in Section 8.1.5.3.

8.2.17 Variation of Rights

Under the PNG Companies Act, BSP cannot take any action that would affect the rights attached to shares unless that action has been approved by a special resolution of each affected interest group. An "interest group" in relation to an action or proposal affecting the rights attached to the shares means a group of Shareholders whose affected rights are identical and whose rights are affected by the action or proposal in the same way.

8.2.18 Transactions involving Directors with material personal interest

Under the PNG Companies Act, details of transactions in which a Director has a material financial interest (either personally or through a parent, child or spouse, or has an indirect material financial interest) must be disclosed to the Board and entered into an "interests register". Entries in the interests register are subject to disclosure to Shareholders through the publication of that register, which must occur at least on an annual basis (through inclusion in the annual report, which is sent to Shareholders). The interests register is also open to inspection by Shareholders at any time. A transaction in which a Director has a material personal interest of this kind may be avoided by BSP at any time within three months after the transaction is disclosed to Shareholders (but not where BSP receives fair value under it).

Under the ASX Listing Rules, certain related party transactions require Shareholder approval. Such related party transactions include:

- The acquisition of a substantial asset from a related party or person who, individually or together with associates, holds a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to the voting securities;
- The disposal of a substantial asset to a related party or person who, individually or together with associates, holds a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to the voting securities; and
- Issuing (or agreeing to issue) securities to a related party.

8.2.19 Substantial shareholder notice

A substantial shareholder is defined in the PNG Capital Market Act as a person who has a defined relevant interest in 5% or more of BSP shares. A substantial shareholder must give notice to ASX, BSP, PNGX and the PNG Securities Commission in a prescribed form as soon as the person knows (or ought reasonably to know) of:

- Acquiring a 5% relevant interest in shares; and
- A 1% change occurring in a relevant interest.

8.2.20 Rights upon liquidation

Shares rank equally in the event of liquidation of BSP. Upon liquidation, any surplus assets after payment of creditors in accordance with the provisions of the PNG Companies Act are to be distributed to Shareholders in proportion to the numbers of shares held. For this purpose, a partly paid Share is counted as a fraction of a fully paid Share equal to the proportion which the amount paid on it bears to the total issue price of the Share.

8.2.21 Indemnity and insurance

To the fullest extent permitted by law, BSP must indemnify each Director and employee of BSP and its related companies against any liability incurred by that person in their capacity as a Director or employee, and costs incurred in defending an action for liability.

BSP, to the extent permitted by law, may enter into and pay premiums on a contract insuring any current or former Director or employee of BSP or a related company against any liability incurred by that person in that capacity, including legal costs.

8.3 Regulatory environment

8.3.1 Licensing and control

Financial institutions in PNG are principally regulated by the Banks and Financial Institutions Act 2000 (**BFIA**). Generally, the BFIA provides for the licensing of financial institutions engaged in a "banking business". BPNG is the regulator charged with the enforcement of the BFIA. The Central Banking Act 1973 (now the Central Banking Act 2000) established BPNG as the central bank of PNG. BPNG is responsible for formulating and implementing monetary policy and regulating the financial system of PNG. BPNG is generally independent of Government.

Only a licensed bank or financial institution (Authorised Institution) may carry on a banking business in PNG. A body corporate desiring to carry on a banking business is required to apply in writing to BPNG for a license as a financial institution. BPNG is empowered to impose conditions or additional conditions on a licensed financial institution. BPNG can revoke the license of a financial institution for failure to comply with license conditions or failure to comply with the provisions of the BFIA. BPNG has a wide range of investigative and control powers.

8.3.2 Restrictions on ownership and control of licensed financial institutions

A "shareholder controller" is defined under the BFIA to mean a person who, either alone or with any associate or associates, has a stake in an Authorised Institution or a holding company of an Authorised Institution of more than 15%. Under the BFIA an "indirect controller" is a person or persons in accordance with whose directions or instructions the directors of the Authorised Institution or any holding company of the Authorised Institution or any shareholder controller of the Authorised Institution are accustomed to act or are under an obligation, whether formal or informal, to act, or a person or persons declared by BPNG to be an indirect controller for the purposes of the BFIA.

No person may become a shareholder controller of an Authorised Institution, a holding company of an Authorised Institution, an indirect controller of an Authorised Institution incorporated in PNG, or increase their stake in an Authorised Institution beyond the maximum specified by BPNG, unless the person has first notified BPNG in writing of their intention to do so and BPNG has notified the person in writing that there is no objection to the person becoming a shareholder controller of, or increasing their stake in, the Authorised Institution.

8.3.3 Prudential supervision of licensed financial institutions

As well as exercising prudential supervision of banks and financial institutions, BPNG has the power to determine prudential standards to be complied with by all licensed financial institutions, and their shareholder controllers or indirect controllers, generally in relation to matters relating to the conduct by the financial institution and any group of which the financial institution is a member, of any of their affairs in such a way as to keep the financial institution in a sound financial position and not to cause or promote instability in the PNG financial system, such that their affairs are conducted with integrity, prudence and professional skill and in a manner which ensures compliance with the relevant obligations placed on the financial institution by or under the BFIA.

If a financial institution breaches any provision of a prudential standard in a manner, which results, or threatens to result, in an unsafe or unsound condition, or fails to comply with instructions and reporting requirements, BPNG may pursue corrective actions and sanctions by imposing or varying conditions on a financial institution's license. BPNG may revoke a license of a financial institution if that financial institution fails to comply with corrective measures imposed as conditions on a financial institution's license.

8.3.4 Anti-money laundering and counter terrorist financing

The anti-money laundering and counter-terrorist financing regime is based on the following legislation:

- Anti-Money Laundering and Counter Terrorist Financing Act 2015;
- Criminal Code (Money Laundering and Terrorist Financing) (Amendment) Act 2015;
- Mutual Assistance in Criminal Matters (Amendment) Act 2015;
- Proceeds of Crime (Amendment) Act 2015; and
- United Nations Financial Sanctions Act 2015, (together, the **AML/CTF Legislation**).

The AML/CTF Legislation came into operation on 3 February 2016. It generally requires banks and financial institutions to put in place measures to detect and deter the flow of illicit funds through PNG's financial system, including the need for financial institutions to identify and know their customers, conduct regular review of accounts, and monitor and report on suspicious transactions.

PNG is a member of the Asia/Pacific Group on Money Laundering, a regional body mandated to work with countries in the Asia and Pacific regions to strengthen their AML/CTF systems. Consequently, PNG was subject to assessment by reference to international standards for combating AML/CTF activities determined by the Financial Action Task Force (**FATF**). On 24 June 2016, FATF announced that PNG had made significant progress in improving its AML/CTF regime and was therefore no longer subject to FATF's monitoring process under its on-going global AML/CTF compliance process. A further review by FATF will be undertaken in 2021.

8.3.5 Competition law and practice

The Independent Consumer and Competition Commission Act 2002 (**ICCC Act**) seeks to promote competition and consumer protection in PNG. It is a simplified version of the (Australian) Trade Practices Act 1974 (Cth), which preceded the (Australian) Competition and Consumer Act 2010 (Cth). Its scope is directed to markets and activities in PNG. The ICCC Act establishes and is administered by the Independent Consumer and Competition Commission (**ICCC**), whose objectives are to enhance consumer welfare, promote economic efficiency and protect the long term interests of consumers.

The ICCC Act prohibits certain anti-competitive practices and also contains consumer protection provisions. The following anti-competitive provisions in Part VI of the ICCC Act are relevant to the extent that they affect the market for the provision of financial services in PNG:

- The making, or giving effect to, covenants, contracts, arrangements or understandings that have the purpose, effect or likely effect of substantially lessening competition in a market (Section 50);
- Making, or giving effect to, a provision of a contract, arrangement or understanding between parties who are in competition with each other, that has the purpose of preventing, restricting or limiting the supply of goods or services, to or the acquisition of goods or services from, any person or class of persons who are in competition with at least one of those parties (Section 51);
- Making, or giving effect to, covenants, contracts, arrangements or understandings that have the purpose, or likely effect, of fixing, controlling or maintaining the price for goods or services that are supplied or acquired by the parties to the covenant, contract, arrangement or understanding where those parties are in competition with each other (Section 52); and
- Where a person has a substantial degree of power in a market, taking advantage of that power for the purpose of restricting: (i) the entry of another person into that or any other market; (ii) preventing or deterring that person from engaging in competitive conduct in that or any other market; or (iii) eliminating a person from that or any other market (Section 58).

Application can be made to the ICCC for an authorisation of conduct that would otherwise contravene any of the above anti-competitive practices on the grounds of "public benefit".

The ICCC can prosecute contraventions of the Act and can seek penalties or other remedies. Individuals can also seek remedies, which include injunctions, damages and a variety of other orders. Corporations may be liable to pay up to PGK10,000,000 for each contravention of Part VI of the ICCC Act. Individuals may be liable to pay up to PGK500,000 for each contravention. Persons that are involved in contraventions as accessories may also be liable to pay pecuniary penalties as the PNG court thinks fit.

8.4 Litigation and claims

BSP is from time to time, party to various disputes and legal proceedings incidental to the conduct of its business, which generally are for amounts that would not be expected to have a material adverse effect upon BSP's financial results. In 2015 legal proceedings were commenced by Peter Yama and eight companies controlled by him (**Yama Group**) that involve claims for material amounts, the background to which is summarised below.

The amount of loans made to the Yama Group by BSP's predecessor, PNGBC, was approximately K7 million up to 1999, at which time default by the Yama Group occurred followed by recovery action commenced by BSP in 2000. Yama Group commenced various legal proceedings at that time opposing the recovery proceedings, which included complaints about receivership of some of the businesses and assets, sale of assets, and the manner in which funds and charges were administered. These proceedings did not result in any adverse monetary judgment against BSP.

New legal proceedings were commenced by the Yama Group in 2015 arising out of the original loans and recovery actions. The individual damages claims in the new proceedings range from specific items of property (such as vehicles and real property items with value claims in the range PGK60,000 to PGK30 million) through to more general claims for future loss of profit for amounts of up to PGK750 million. The gross total of claims for items of property is approximately PGK1.2 billion (which includes the amounts referred to above). The gross total of claims for future loss of profit is approximately PGK1.5 billion (which is in addition to the amounts referred to above). BSP has previously obtained a judgment against one of the members of the Yama Group in the National Court for amounts which now total PGK73 million. This judgment has not been satisfied by the defendant, and BSP has made a claim against Mr Yama and certain other members of the Yama Group to recover the outstanding loans together with interest, which now totals PGK128 million and is supported by specific evidence. It is expected that these specific amounts would be able to be offset against any claims, which may be ultimately established by the Yama Group.

BSP considers that the claims made by the Yama Group in 2015 do not have merit and BSP has vigorously defended the proceedings. The Yama Group has not put forward evidence to justify the amounts claimed. The trial of the matter was conducted on 4 October 2017 and the parties have not yet been notified when the judgment will be delivered. For these reasons, and in light of BSP's own claims against the Yama Group, BSP has made no specific provision for liability to the Yama Group.

As at the date of this Information Memorandum, there are no legal proceedings to which BSP is a party that it believes may have a material adverse impact on its future financial results and BSP is not aware of any such legal proceedings that are pending or threatened.

8.5 Regulatory relief

8.5.1 APRA

APRA has consented to BSP using the restricted words or expressions "bank", "banker" and "banking" (or words of like import) (**Restricted Words**) in Australia only for the purposes of facilitating and maintaining its listing of ordinary shares on the ASX. This consent was subject to the following conditions:

- BSP was required to change its name so as not to use the Restricted Words. This has been satisfied;
- BSP must not, at any time, change its company name to include a Restricted Word;
- The Restricted Words may only be used for the purpose of describing BSP's offshore banking business in the context of information, documents and communications (including promotional, marketing, disclosure and other similar material) for distribution to investors or potential investors in Australia and their advisers, in connection with the listing on the ASX;
- The Restricted Words may also be used for the purpose of describing BSP's offshore banking business in the context of information, documents and communication (including investor communication, annual reports, financial statements, and company announcements) to shareholders of BSP in Australia;
- All promotional, marketing, disclosure and other similar material, whether in paper, electronic, website or other form, distributed in Australia by BSP or its representatives or advisers in connection with the listing on the ASX must prominently display statements that:
  - BSP is not authorised under the Banking Act and is not supervised by APRA;
  - BSP's products are not covered by the depositor protection provisions in section 13A of the Banking Act; and
  - BSP's products will not be covered by the financial claims scheme under Division 2AA of the Banking Act;
- BSP must not carry on business in Australia by persons directly engaged by it, either as employee, contractor or agent, or do anything at all to establish a continuing presence in Australia other than through subsidiaries which are appropriately licensed, regulated or otherwise permitted to carry on business in Australia in accordance with applicable law. This condition does not preclude BSP from carrying on business for the purpose of facilitating and maintaining a listing on the ASX and from engaging in activity with Australian customers in accordance with guidelines published by APRA in relation to foreign banks undertaking cross-border activity; and
- BSP must continue to be a bank authorised and regulated in PNG.

8.5.2 ASX and PNGX

ASX has made an in principle decision to grant BSP a waiver from ASX Listing Rule 15.7 to permit BSP to give information simultaneously to PNGX and ASX.

8.6 Summary of tax issues for Shareholders

The following information summarises the PNG tax consequences for investors of holding and disposing of shares in BSP.

Shareholders that are not resident in PNG should seek their own advice on their home country tax consequences.

The information below is based on current relevant income tax legislation and established interpretations of that legislation, but is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every Shareholder. This summary does not purport to provide advice to any particular Shareholder, as the taxation position of each Shareholder may vary dependent on the specific circumstances of the Shareholder. Each Shareholder is urged to obtain independent professional advice in respect of the income tax consequences of an investment in shares applicable to the Shareholder's particular circumstances.

This summary considers the tax consequences for Shareholders who hold their investment on capital account. This summary does not (except where noted) consider the tax consequences for those Shareholders that are insurance companies or banks, or who hold their investment as trading stock or on revenue account.

8.6.1 Taxation of Shareholders not resident in PNG

8.6.1.1 Taxation of dividends

Dividends paid by the Company will generally be subject to PNG dividend (withholding) tax at the rate of 15% of the gross dividend paid. This is a final tax in PNG for non-resident shareholders.

8.6.1.2 Taxation of gains

The PNG tax consequences arising on the sale of shares by a non-resident Shareholder will depend on whether the shares are held on capital account or on revenue account, the source of the gain, and the country of residence of the non-resident Shareholder.

There is currently no capital gains tax in PNG. Consequently, if the shares are held on capital account, and were not acquired for the purpose of resale at a profit, no PNG income tax will be payable in PNG on any capital gain realised by a non-resident Shareholder on the sale of the shares and no deduction will be available in respect of any capital loss realised by a non-resident Shareholder on the sale of the shares.

8.6.2 Taxation of PNG Resident Shareholders

8.6.2.1 Taxation of dividends

Dividends paid by the Company to a PNG resident Shareholder will generally be included in the assessable income of the Shareholder and may be subject to PNG dividend (withholding) tax at the rate of 15% of the gross dividend paid.

Corporate Shareholders

Dividends paid by the Company to a PNG resident corporate Shareholder are not subject to PNG dividend withholding tax.

Dividend income received by a PNG resident corporate Shareholder will be subject to income tax in PNG. This tax is fully rebatable and provided the Shareholder has not incurred any expenses which relate directly to the dividend income, and does not have deductions greater than its non-dividend income, the dividend income is effectively free of PNG income tax.

Individual Shareholders

Dividends paid by the Company to a PNG resident individual Shareholder will generally be subject to 15% dividend withholding tax.

A dividend received by a PNG resident individual that has been subject to PNG dividend withholding tax will generally be exempt from income tax in PNG in the hands of the PNG resident individual.

Superannuation Fund Shareholders

Dividends paid by the Company to a PNG resident superannuation fund Shareholder are not subject to PNG dividend withholding tax.

Dividend income received by a PNG superannuation fund Shareholder will be subject to income tax in PNG. This tax is fully rebatable and, provided the Shareholder has not incurred any expenses which relate directly to the dividend income and does not have deductions greater than its non-dividend income, the dividend income is effectively free of PNG income tax.

8.6.2.2 Taxation of gains

The PNG tax consequences arising on the sale of shares by PNG resident Shareholders will depend on whether the shares are held on capital account or on revenue account.

There is currently no capital gains tax in PNG. Consequently, if the shares are held on capital account, no PNG income tax should be payable on any capital gain realised by a PNG resident Shareholder on the sale of shares and no deduction should be available in respect of any capital loss realised by a PNG resident Shareholder on the sale of shares.

If the shares are held on revenue account, either because the Shareholder is a trader in ordinary shares or otherwise acquired them for the purpose of resale at profit, any gain arising in these circumstances will be liable to tax in PNG, even where derived outside PNG, and any loss arising in these circumstances will be an allowable deduction.

The rate of PNG tax applicable to such a profit derived by a PNG resident individual is the individual's marginal tax rate and a PNG resident corporation is liable for tax at the standard corporate tax rate of 30%.

8.6.2.3 PNG stamp duty

The transfer of shares will not be subject to PNG stamp duty provided the shares are listed on the PNGX and the sale is effected through a stock broker registered to operate on the PNGX under PNG law. The transfer of shares listed on the ASX will not be subject to PNG stamp duty.

8.6.2.4 PNG Goods and Services Tax

The sale of shares in PNG is a 'financial service' and is exempt from PNG Goods and Services Tax (**GST**). Accordingly, GST should not be charged on the sale / acquisition of shares. GST incurred on outgoings connected with the acquisition of a financial service is not creditable.

8.6.2.5 Levy on Securities Transactions

A new levy has been imposed from 8 March 2021 on all transfers of shares on the PNGX. The levy is equivalent to 0.75% of the value of transactions enacted through a stockbroker or participating organisation. The levy is imposed on either the purchaser or seller, and the stockbroker or participating organisation is then responsible for reporting on the transaction and remitting the levy to the Securities Commission on a monthly basis.

8.6.3 Tax reform

PNG is currently undergoing a rewrite of its Income Tax Act (the Act) which may impact the information above. The rewritten Act is undergoing consultation and could apply to income years commencing on or after 1 January 2022. The information above has been prepared based on the current operation of taxation laws in PNG and does not take account of potential changes that may arise from the rewrite of the Act. In particular, the rewrite includes a proposal for introduction of a capital gains tax in PNG and the scope of the proposed capital gains tax is currently uncertain.

In the event tax laws subsequently change in PNG the PNG tax treatment of dealing in shares should be revisited.

8.7 Governing law

This Information Memorandum is governed by the laws applicable in PNG.

8.8 Consents

Each of the parties referred to in the following table (except as discussed below):

- Has given, and has not withdrawn prior to the lodgement of this Information Memorandum with ASX, its written consent to be named in this Information Memorandum in the form and context in which it is named;
- Has not made, and does not purport to make, any statement or representation in the Information Memorandum or any statement or representation on which a statement or representation made in the Information Memorandum is based; and
- Does not cause or authorise the issue of the Information Memorandum, and to the maximum extent permitted by law (together with its affiliates), expressly disclaims, makes no representation regarding, and takes no responsibility for any statements or material in or omissions from the Information Memorandum and excludes and disclaims all liability or damage, loss (whether direct, indirect or consequential), cost or expense that may be incurred by an applicant for, or investor in, the Shares as a result of the Information Memorandum being inaccurate or incomplete in any way for any reason.

Role	Consenting Party
Financial Adviser	BSP Capital
Australian Legal Adviser	Ashurst Australia
PNG Legal Adviser	Ashurst PNG
Auditor	PricewaterhouseCoopers, PNG
PNG Share Registry	PNG Registries Limited
Australian Share Registry	Link Market Services Limited

8.9 Statement of Directors

This Information Memorandum is authorised by each Director of the Company, each of whom has consented to its lodgement with ASX and its issue.

8.10 Directors' signatures

A copy of this Information Memorandum is authorised and has been signed for and on behalf of each Director of BSP by Robin Fleming.

Robin Fleming
Managing Director and Group Chief Executive Officer
BSP Financial Group Limited
Dated: 27th April, 2021

Appendix A – Glossary

Term	Meaning
ABC Policy	BSP's Anti-Bribery and Anti-Corruption Policy.
Act	Income Tax Act (PNG).
AML	Anti-money laundering.
AML/CTF Act	Anti-Money Laundering and Counter-Terrorist Financing Act 2015 (PNG).
AML/CTF Legislation	refers to the following pieces of legislation enacted by the PNG Parliament: • Anti-Money Laundering and Counter Terrorist Financing Act 2015 (PNG); • Criminal Code (Money Laundering and Terrorist Financing) (Amendment) Act 2015 (PNG); • Mutual Assistance in Criminal Matters (Amendment) Act 2015 (PNG); and • Proceeds of Crime (Amendment) Act 2015 (PNG); and United Nations Financial Sanctions Act 2015 (PNG).
ANZ PNG	ANZ Papua New Guinea.
APRA	Australian Prudential Regulatory Authority.
ASIC	Australian Securities and Investments Commission.
ASX	ASX limited ABN 98 008 624 961 and, where the context requires, the market operated by ASX.
ASX Listing Rules	the official listing rules of ASX.
ASX Recommendations	the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, fourth edition.
ASX Settlement Operating Rules	the operating rules of ASX Settlement Pty Limited (ABN 49 008 504 532).
AUD, A$ or $	Australian dollars.
Australian Share Register	the share register of BSP in Australia.
Authorised Institution	has the meaning given to it in Section 8.3.1.
BACC	the Board Audit and Compliance Committee of BSP.
Banking Act	Banking Act 1959 (Cth).
BCN	BSP Convertible Notes Limited
BFIA	Banks and Financial Institutions Act 2000 (PNG).
Board	the board of Directors of BSP.
BPNG or Central Bank	Bank of Papua New Guinea, being PNG's central bank.
BRC	the Board Risk Committee of BSP.
BSP or Company	BSP Financial Group Limited (PNG Company No. 1-4815) (formerly Bank of South Pacific Limited).
BSP Capital	BSP Capital Ltd.
BSP Finance	BSP Finance Ltd.

Term	Meaning
CAGR	compound annual growth rate.
CHESS	the Clearing House Electronic Sub-register System operated by ASX Settlement Pty Limited.
Companies Office of PNG	the Office of the Registrar of Companies established by the PNG Companies Act.
Constitution	the Constitution of BSP.
Corporate Governance Policies	the corporate governance policies, principles and charters adopted by the Board.
Corporations Act or Australian Corporations Act	Corporations Act 2001 (Cth).
CTF	counter-terrorist financing.
Director	a director of BSP.
Disclosure Committee	the BSP disclosure committee established under BSP's Continuous Disclosure Policy.
EFTPOS	electronic funds transfer at point of sale.
EPS	earnings per share.
FATF	the Financial Action Task Force.
Fiji Class Shares	shares issued by BCN that are listed on the SPX.
FJD	Fijian dollars.
FX or foreign exchange	foreign exchange.
FY	financial year ended/ending 31 December (as applicable).
GDP	gross domestic product.
Group	BSP and each of its subsidiaries.
GST	PNG Goods and Services Tax.
ICCC	Independent Consumer and Competition Commission
ICCC Act	Independent Consumer and Competition Commission Act 2002 (PNG).
IFRS	International Financial Reporting Standards.
IMF	International Monetary Fund.
Information Memorandum	this document (including the electronic form of this Information Memorandum) and any supplementary or replacement information memorandum.
KCH	Kumul Consolidated Holdings.
Kina Securities	Kina Securities Limited.
Listing	the admission of BSP to the official list of ASX.
Listing Rules	the ASX Listing Rules and PNGX Listing Rules.
LNG	liquified natural gas.
LTIP	the Long Term Incentive Plan adopted by BSP.
Material Interests	has the meaning given to it in Section 7.5.4.
NPAT	net profit after tax.
Operating Rules	the business rules of the PNGX and the ASX Settlement Operating Rules.
PGK, K or Kina	Papua New Guinean Kina.

Term	Meaning
PNG	Papua New Guinea.
PNG Capital Market Act	Capital Market Act 2015 (PNG).
PNG Companies Act	Companies Act 1997 (PNG).
PNG Securities Commission	the Securities Commission of Papua New Guinea.
PNG Share Register	the share register of BSP in PNG.
PNGX	PNGX Markets Limited, the operator of the Papua New Guinea Stock Exchange and, where the context requires, the market operated by PNGX.
PNGX Listing Rules	the official listing rules of PNGX.
Principles	the Corporate Governance Principles adopted by the Board.
Related Parties	has the meaning given to it in Section 7.4.4.
Relevant Borrowers	has the meaning given to it in Section 7.5.4.
Restricted Persons	has meaning given to it in Section 7.5.5.
Restricted Words	has the meaning given to it in Section 8.5.1.
RNC	the Board Remuneration and Nomination Committee of BSP.
RNCC	the charter of the RNC.
Scheme	EMV scheme.
Share	a fully paid ordinary share of BSP.
Shareholder	a person holding Shares.
Sir Kostas	Sir Kostas Constantinou.
SME	small or medium enterprise.
SPX	South Pacific Stock Exchange Pte Limited (incorporated in Fiji), the operator of the South Pacific Stock Exchange and, where the context requires, the market operated by SPX.
Tier 1 Capital	Tier 1 Capital as defined by BPNG prudential standards from time to time.
USD	United States dollars.
Westpac PNG	Westpac Papua New Guinea.
Yama Group	has the meaning given to it in Section 8.4.

Appendix B – BSP Group Financial Statements - 31 December 2020

Bank of South Pacific Limited

Financial Statements

31 December 2020

Contents of Financial Statements

Directors' Report

for the Year Ended 31 December 2020

The Directors take pleasure in presenting the Financial Statements of the Bank of South Pacific Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2020. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

Principal activities

The principal activity of the Bank of South Pacific Limited (BSP) is the provision of commercial banking and finance services throughout Papua New Guinea 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), incorporated under the Companies Act of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Group is also licensed to operate in the Solomon Islands, Fiji, 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 2020, the Group's profit after tax was K806.218 million (2019: K890.363 million). The Bank's profit after tax was K759.452 million (2019: K845.828 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.

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 current assets in the financial statements misleading.

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

Dividends

Dividends totalling K569.355 million were paid in 2020 (2019: K653.940 million). A detailed breakup of this is provided in Note 28.

Directors and officers

The following were directors of the Bank of South Pacific Limited at 31 December 2020:

Sir K Constantinou, OBE	Mr. R Fleming, CSM	Mr. S Davis	Ms. P Kevin
Mr. E B Gangloff	Mr. F Bouraga	Mr. R Bradshaw	Mr. A Sam
Mr. G Robb, OAM	Dr. F Lua'iufi		

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 Robin Fleming is the only executive director.

The company secretary is Mary Johns.

Independent auditor's report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 62. Details of amounts paid to the auditors for audit and other services are shown in Note 37 of the Notes to the Financial Statements.

Donations and sponsorships

Donations and sponsorship by the Group during the year amounted to K4.582 million (2019: K5.581 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 24th day of February 2021.

Sir Kostas Constantinou, OBE	**Robin Fleming, CSM**
Chairman	Group Chief Executive Officer/ Managing Director

Statements of Comprehensive Income

for the Year Ended 31 December 2020

All amounts are expressed in K'000	Note	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
Interest income	3	1,591,992	1,585,773	1,477,343	1,477,235
Interest expense	3	(144,980)	(193,989)	(126,059)	(180,464)
Net interest income		**1,447,012**	**1,391,784**	**1,351,284**	**1,296,771**
Net fee and commission income	4	345,179	384,761	311,619	346,951
Other income	4	323,934	364,130	330,214	373,366
Net insurance operating income	31	29,525	30,675	-	-
Net operating income before impairment and operating expenses		**2,145,650**	**2,171,350**	**1,993,117**	**2,017,088**
Impairment on financial assets	6	(201,273)	(99,183)	(189,011)	(88,092)
Operating expenses	5	(802,542)	(819,248)	(730,885)	(740,729)
Profit before income tax		**1,141,835**	**1,252,919**	**1,073,221**	**1,188,267**
Income tax expense	7	(335,617)	(362,556)	(313,769)	(342,439)
Net profit for the year		**806,218**	**890,363**	**759,452**	**845,828**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency	29	97,995	10,620	53,381	5,493
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve movement	29	6,190	3,642	6,190	3,664
Fair value gain / (loss) on re-measurement of investment securities	29	72	(14)	72	(14)
Net movement in asset revaluation	29	(18,914)	(5,719)	(20,055)	(5,714)
Other comprehensive income, net of tax		**85,343**	**8,529**	**39,588**	**3,429**
Total comprehensive income for the year		**891,561**	**898,892**	**799,040**	**849,257**
Earnings per share - basic and diluted (toea)	8	**172.6**	**190.6**	**162.5**	**181.0**

The attached notes form an integral part of these financial statements

Statements of Financial Position

As at 31 December 2020

All amounts are expressed in K'000	Note	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
ASSETS					
Cash and operating balances with Central Banks	10	2,897,195	1,816,564	2,379,542	1,510,406
Amounts due from other banks	11	1,187,461	1,022,469	1,130,805	997,816
Treasury and Central Bank bills	12	2,841,006	2,459,497	2,801,339	2,420,088
Cash reserve requirement with Central Banks	13	1,559,284	1,766,601	1,475,103	1,693,300
Other financial assets	14	3,242,225	2,121,071	2,653,577	1,572,755
Loans and receivables from customers	15	13,506,660	13,200,807	12,058,241	11,819,970
Property, plant and equipment		895,476	879,942	691,634	698,755
Asset subject to operating lease		36,434	48,133	36,434	48,133
Investment in subsidiaries		-	-	385,078	378,263
Deferred tax assets	7	290,484	250,846	284,605	246,086
Other assets	16	1,067,212	961,188	537,186	505,281
Total assets		**27,523,437**	**24,527,118**	**24,433,544**	**21,890,853**
LIABILITIES					
Amounts due to other banks	17	126,270	83,931	229,098	162,145
Customer deposits	18	21,654,024	19,339,056	20,104,351	17,981,756
Insurance policy liabilities	31	1,043,990	890,147	-	-
Other liabilities	19	1,230,172	1,065,409	1,066,198	946,329
Deferred tax liabilities	7	35,376	31,542	-	-
Total liabilities		**24,089,832**	**21,410,085**	**21,399,647**	**19,090,230**
SHAREHOLDERS' EQUITY					
Ordinary shares	28	372,189	372,310	372,189	372,310
Retained earnings	29	2,622,249	2,394,382	2,360,983	2,173,836
Other reserves	29	438,516	346,513	300,725	254,477
Equity attributable to the members of the company		3,432,954	3,113,205	3,033,897	2,800,623
Minority interests		651	3,828	-	-
Total shareholders' equity		**3,433,605**	**3,117,033**	**3,033,897**	**2,800,623**
Total equity and liabilities		**27,523,437**	**24,527,118**	**24,433,544**	**21,890,853**

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

Sir Kostas Constantinou, OBE

Chairman

Robin Fleming, CSM

Group Chief Executive Officer/

Managing Director

Statements of Changes in Shareholders' Equity

for the Year Ended 31 December 2020

All amounts are expressed in K'000	Note	Share capital	Reserves	Retained earnings	Minority Interests	Total
Bank						
Balance as at 1 January 2019		**372,364**	**252,384**	**1,976,138**	**-**	**2,600,886**
Net profit		-	-	845,828	-	845,828
Other comprehensive income		-	3,429	-	-	3,429
Total comprehensive income		-	3,429	845,828	-	849,257
Dividends paid during the year	28	-	-	(649,466)	-	(649,466)
Share buyback	28	(54)	-	-	-	(54)
Total transactions with owners		(54)	-	(649,466)	-	(649,520)
Transfer from asset revaluation reserve	29	-	(4,933)	4,933	-	-
BSP Life policy reserve	29	-	3,597	(3,597)	-	-
Balance at 31 December 2019		**372,310**	**254,477**	**2,173,836**	**-**	**2,800,623**
Net profit		-	-	759,452	-	759,452
Other comprehensive income		-	39,588	-	-	39,588
Total comprehensive income		-	39,588	759,452	-	799,040
Dividends paid during the year	28	-	-	(565,354)	-	(565,354)
Share buyback	28	(121)	-	-	-	(121)
Total transactions with owners		(121)	-	(565,354)	-	(565,475)
Transfer from asset revaluation reserve	29	-	(1,032)	741	-	(291)
BSP Life policy reserve	29	-	7,692	(7,692)	-	-
Balance at 31 December 2020		**372,189**	**300,725**	**2,360,983**	-	**3,033,897**
Group						
Balance as at 1 January 2019		**372,364**	**339,320**	**2,156,873**	**3,578**	**2,872,135**
Net profit		-	-	890,363	-	890,363
Other comprehensive income		-	8,529	-	-	8,529
Total comprehensive income		-	8,529	890,363	-	898,892
Dividends paid during the year	28	-	-	(653,940)	-	(653,940)
Share buyback	28	(54)	-	-	-	(54)
Gain attributable to minority interests		-	-	(250)	250	-
Total transactions with owners		(54)	-	(654,190)	250	(653,994)
Transfer from asset revaluation reserve	29	-	(4,933)	4,933	-	-
BSP Life policy reserve	29	-	3,597	(3,597)	-	-
Balance at 31 December 2019		**372,310**	**346,513**	**2,394,382**	**3,828**	**3,117,033**
Net profit		-	-	806,218	-	806,218
Other comprehensive income		-	85,343	-	-	85,343
Total comprehensive income		-	85,343	806,218	-	891,561
Dividends paid during the year	28	-	-	(569,191)	(164)	(569,355)
Share buyback	28	(121)	-	-	-	(121)
Gain attributable to minority interests				(2,209)	2,209	-
Acquisition of minority interest		-	-	-	(5,222)	(5,222)
Total transactions with owners		(121)	-	(571,400)	(3,177)	(574,698)
Transfer from asset revaluation reserve	29	-	(1,032)	741	-	(291)
BSP Life policy reserve	29	-	7,692	(7,692)	-	-
Balance at 31 December 2020		**372,189**	**438,516**	**2,622,249**	**651**	**3,433,605**

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

Statements of Cash Flows

for the Year Ended 31 December 2020

All amounts are expressed in K'000	Note	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,556,496	1,605,387	1,443,885	1,480,232
Fees and other income		697,930	779,565	641,246	719,567
Interest paid		(89,307)	(167,913)	(71,615)	(153,354)
Amounts paid to suppliers and employees		(886,940)	(776,812)	(756,232)	(646,339)
Operating cash flow before changes in operating assets & liabilities	9	**1,278,179**	**1,440,227**	**1,257,284**	**1,400,106**
Net (increase)/ decrease in:					
Loans and receivables from customers		(448,960)	(737,195)	(371,177)	(644,594)
Cash reserve requirements with the Central Banks		207,317	(81,058)	218,197	(71,265)
Bills receivable and other assets		(39,982)	(201,387)	33,310	(98,089)
Net increase/ (decrease) in:					
Customer deposits		2,314,968	1,106,290	2,122,595	1,022,586
Bills payable and other liabilities		218,669	(184)	(36,312)	(207,231)
Net cash flow from operations before income tax		**3,530,191**	**1,526,693**	**3,223,897**	**1,401,513**
Income taxes paid	7	(372,872)	(383,287)	(346,003)	(363,837)
Net cash flow from operating activities		**3,157,319**	**1,143,406**	**2,877,894**	**1,037,676**
CASH FLOW FROM INVESTING ACTIVITIES					
Sale/(purchase) of government securities		(1,502,663)	429,961	(1,462,073)	561,386
Expenditure on property, plant and equipment		(63,945)	(82,780)	(45,994)	(79,249)
Expenditure on software development costs		(46,530)	(52,108)	(46,330)	(49,979)
Proceeds from disposal of property, plant and equipment		1,787	7,076	1,787	7,076
Additional funding of subsidiaries	32	-	-	(6,815)	(30,666)
Net cash flow from/ (used in) investing activities		**(1,611,351)**	**302,149**	**(1,559,425)**	**408,568**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	28	(121)	(54)	(121)	(54)
Dividends paid	28	(569,355)	(653,940)	(565,354)	(649,466)
Principal repayments of borrowings		(113,418)	(61,153)	(113,418)	(61,153)
Proceeds from borrowings	19	242,215	33,670	242,215	33,670
Subordinated debt securities matured		-	(75,525)	-	(75,525)
Net cash flow used in financing activities		**(440,679)**	**(757,002)**	**(436,678)**	**(752,528)**
Net (decrease)/increase in cash and cash equivalents		**1,105,289**	**688,553**	**881,791**	**693,716**
Exchange rate movements on cash and cash equivalents		97,995	10,620	53,381	5,493
Cash and cash equivalents at the beginning of the year	9	2,755,102	2,055,929	2,346,077	1,646,868
Cash and Cash Equivalents at the end of the year	9	**3,958,386**	**2,755,102**	**3,281,249**	**2,346,077**

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

1. Financial Statements Preparation

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

A. Basis of Presentation and General Accounting Policies

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

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

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

Standards, amendments and interpretations effective in the year ended 31 December 2020

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2020.

- Amendments to IFRS 3 – definition of a business. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- Amendments to IAS 1 and IAS 8 on the definition of 'material'. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
    - use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting
    - clarify the explanation of the definition of material; and
    - incorporate some of the guidance in IAS 1 about immaterial information
- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform. These Phase 1 amendments provide relief in relation to hedge accounting and interest rate benchmark reform and have the effect that IBOR reform should not generally cause hedge accounting to terminate. Any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the relief will affect companies in all industries who do hedge accounting.
- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. This amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2020 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 2021 or later periods, but the entity has not early adopted them:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective1 January, 2021) - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1 January, 2022).
  - Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in the income statement.
  - Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.
- IFRS 17 'Insurance contracts" (effective 1 January 2023) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2020, 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 fair value of assets transferred, equity issued and liabilities assumed;
- identifiable net assets are recorded initially at acquisition, at their fair values;
- any excess of the acquisition cost over the relevant share of identifiable net assets acquired is treated as goodwill, and any deficiency is recognised directly in the Statement of Comprehensive Income.

All intercompany transactions and balances are eliminated.

C. Foreign currency

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

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

Foreign operations

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

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 and 15
- Estimated insurance liability – note 31
- Estimation of fair value of financial and non-financial assets and liabilities – note 27

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, which also sets out key sensitivities of the ECL to 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 are set out in note 15.

Impact of COVID-19

The COVID-19 pandemic and the measures put in place domestically and globally to control the spread of the virus have had a significant impact on global economies and financial markets. As a result, this has increased the uncertainty and judgement required in relation to our critical accounting assumptions and estimates, primarily relating to expected credit losses as there is a higher than usual degree of uncertainty associated with these assumptions and estimates, the actual economic conditions are likely to be different from those forecast which may significantly impact accounting estimates included in these financial statements. The impact of COVID-19 is discussed further in each of the related notes.

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, Laos and Cambodia. 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**	**Offshore Banks**	**Non-Bank Entities**	**Adjust Inter Segments**	**Total**
Analysis by segments					
Year ended 31 December 2020					
Net interest income	1,148,684	263,807	32,289	2,232	1,447,012
Other income	496,137	196,194	24,344	(47,562)	669,113
Net insurance income	-	-	32,246	(2,721)	29,525
Total operating income	**1,644,821**	**460,001**	**88,879**	**(48,051)**	**2,145,650**
Operating expenses	(581,448)	(207,639)	(18,755)	5,300	(802,542)
Impairment expenses	(146,472)	(48,845)	(5,956)	-	(201,273)
Profit before income tax	**916,901**	**203,517**	**64,168**	**(42,751)**	**1,141,835**
Income tax	(274,985)	(50,191)	(10,441)	-	(335,617)
Net profit after income tax	**641,916**	**153,326**	**53,727**	**(42,751)**	**806,218**
Assets	18,579,915	8,566,675	1,921,829	(1,544,982)	27,523,437
Liabilities	(16,104,050)	(7,463,833)	(1,418,414)	896,465	(24,089,832)
Net assets	**2,475,865**	**1,102,842**	**503,415**	**(648,517)**	**3,433,605**
Year ended 31 December 2019					
Net interest income	1,115,454	241,808	30,772	3,750	1,391,784
Other income	542,027	243,347	18,496	(54,979)	748,891
Net insurance income	-	-	34,999	(4,324)	30,675
Total operating income	**1,657,481**	**485,155**	**84,267**	**(55,553)**	**2,171,350**
Operating expenses	(582,740)	(220,439)	(20,393)	4,324	(819,248)
Impairment expenses	(58,555)	(36,244)	(4,384)	-	(99,183)
Profit before income tax	**1,016,186**	**228,472**	**59,490**	**(51,229)**	**1,252,919**
Income tax	(297,480)	(58,085)	(6,991)	-	(362,556)
Net profit after income tax	**718,706**	**170,387**	**52,499**	**(51,229)**	**890,363**
Assets	16,841,489	7,527,333	1,728,459	(1,570,163)	24,527,118
Liabilities	(14,495,105)	(6,565,047)	(1,274,339)	924,406	(21,410,085)
Net assets	**2,346,384**	**962,286**	**454,120**	**(645,757)**	**3,117,033**

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 discount and premium 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	**2020**	**2019**	**2020**	**2019**
Interest income				
Loans and receivables from customers[1]	1,199,823	1,238,453	1,084,444	1,125,395
Other financial assets - inscribed stock	220,328	198,484	219,956	198,164
Treasury and Central Bank bills	163,332	141,573	162,287	140,086
Cash and balances with Central Banks	6,138	6,189	8,005	9,714
Other	2,371	1,074	2,651	3,876
	1,591,992	**1,585,773**	**1,477,343**	**1,477,235**
Less: **Interest expense**				
Customer deposits	136,688	178,053	116,387	162,912
Other banks	8,292	12,396	9,672	14,012
Subordinated debt securities	-	3,540	-	3,540
	144,980	**193,989**	**126,059**	**180,464**
	1,447,012	**1,391,784**	**1,351,284**	**1,296,771**

[1]Group interest income includes K20.511m (Bank K18.915m) recognized on impaired loans (Stage 3) to customers, 2019: K13.079m (Bank K12.957m). 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 include 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.

4. Non-Interest Income (continued)

Accounting policy (continued)

Fee and commission income (continued)

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 method and recorded in interest income (for example, loan origination fees).

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	**2020**	**2019**	**2020**	**2019**
Net Fee and commission income				
Product related	178,512	182,220	163,186	169,131
Trade and international related	19,320	21,259	18,185	20,366
Electronic banking related	116,514	143,801	112,572	132,861
Other	30,833	37,481	17,676	24,593
	345,179	**384,761**	**311,619**	**346,951**
Other income				
Foreign exchange related[1]	288,203	327,705	260,181	291,308
Operating lease rentals	7,503	7,503	7,503	7,503
Other	28,228	28,922	62,530	74,555
	323,934	**364,130**	**330,214**	**373,366**

[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 recognized 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 recognized 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.

5. Operating Expenses (continued)

Accounting Policy (continued)

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.

Operating expenses

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Administration	109,703	95,246	99,115	90,694
Computing	109,719	125,412	93,899	111,245
Depreciation	75,202	80,959	68,257	63,405
Amortisation of computer development costs	25,597	28,173	25,375	22,577
Non-executive directors costs	4,234	3,639	3,538	3,044
Non-lending losses	10,775	2,318	10,349	1,654
Fixed asset impairment expenses	640	1,975	640	1,975
Premises and equipment	86,179	87,940	80,424	83,442
	422,049	**425,662**	**381,597**	**378,036**
Staff costs				
Wages and salaries	301,887	312,239	275,676	286,004
Defined contribution plans	14,787	15,531	13,358	14,133
Statutory benefit contributions	10,890	10,929	10,061	10,320
Other staff benefits	52,929	54,887	50,193	52,236
	380,493	**393,586**	**349,288**	**362,693**
	802,542	**819,248**	**730,885**	**740,729**

6. Impairment of Financial Assets

Accounting Policy

Impairment

All 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, provision is recognised equivalent to lifetime ECL. All bad debts are written off against available specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries are credited to the provision for loan losses in the Statement of Comprehensive Income.

6. Impairment of Financial Assets (continued)

Accounting Policy (continued)

***Impairment** (continued)*

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;
- 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 on financial assets by asset class is as follows:	**Consolidated**		**Bank**	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Loans and receivables from customers (note 15)	183,352	101,882	171,200	90,861
Treasury and Central Bank Bills (note 12)	8,125	(1,865)	7,949	(1,865)
Other financial asset (note 14)	9,796	(834)	9,862	(904)
	201,273	**99,183**	**189,011**	**88,092**

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.

7. Income Tax (continued)

Accounting Policy (continued)

Deferred tax (continued)

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

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

Current and deferred tax for the period

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

Critical accounting assumptions and estimates

The Group operates in multiple tax jurisdictions and significant judgement is required in determining the current tax liability in the multiple tax jurisdictions. There are many transactions with uncertain tax outcomes and provisions are determined based on the expected outcomes.

	Consolidated		**Bank**	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Income tax expense				
Current tax	366,976	368,467	343,853	348,760
Deferred tax	(36,156)	(8,675)	(32,452)	(9,510)
Current year	330,820	359,792	311,401	339,250
Adjustment to prior year estimates	4,797	2,764	2,368	3,189
	335,617	**362,556**	**313,769**	**342,439**
Tax calculated at 30% of bank profit before tax	321,966	356,480	321,966	356,480
Tax calculated at respective subsidiary tax rates	14,664	10,759	-	-
Expenses not deductible for tax	7,233	6,072	845	995
Tax loss not recognised	1,024	5,548	-	-
Income not recognized for tax purposes	(14,067)	(19,067)	(11,410)	(18,225)
Adjustment to prior year estimates	4,797	2,764	2,368	3,189
	335,617	**362,556**	**313,769**	**342,439**
Tax recoverable				
At 1 January	27,588	12,753	30,275	17,020
Income tax provision	(366,976)	(368,467)	(343,853)	(348,760)
Adjustment to prior year estimates	(138)	579	-	1,004
Other tax related items	(459)	(564)	(6)	(2,826)
Foreign tax paid	20,321	18,412	-	-
Tax payments made	352,551	364,875	346,003	363,837
At 31 December	**32,887**	**27,588**	**32,419**	**30,275**

7. **Income Tax** (continued)

All amounts are expressed in K'000	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
Specific allowance for losses on Loans and receivables from customers	67,101	56,215	64,594	53,558
General allowance for losses on Loans and receivables from customers	162,889	137,768	155,764	131,960
Employee related provisions	25,361	26,721	23,785	25,944
Prepaid expenses	(1,156)	(1,349)	(1,213)	(1,323)
Other provisions	42,279	47,422	46,649	45,396
Property, plant and equipment	(65,333)	(70,969)	(23,300)	(30,223)
Unrealised foreign exchange gains	(957)	(1,876)	(957)	(1,876)
Accruals	24,924	25,372	19,283	22,650
At 31 December	**255,108**	**219,304**	**284,605**	**246,086**
Represented by:				
Deferred tax asset	290,484	250,846	284,605	246,086
Deferred tax liability	(35,376)	(31,542)	-	-
At 31 December	**255,108**	**219,304**	**284,605**	**246,086**
Deferred taxes movement:				
At 1 January	219,304	208,444	246,086	234,391
Current year movement	36,156	8,675	32,452	9,510
Adjustment to prior year estimates	4,935	2,185	2,368	2,185
Other movements	(5,287)	-	3,699	-
At 31 December	**255,108**	**219,304**	**284,605**	**246,086**

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 2020	Consolidated 2019	Bank 2020	Bank 2019
Net profit attributable to shareholders (K'000)	806,218	890,363	759,452	845,828
Weighted average number of ordinary shares in use (000)	467,235	467,242	467,235	467,242
Basic and diluted earnings per share (expressed in toea)	**172.6**	**190.6**	**162.5**	**181.0**

Basic earnings per ordinary share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Bank of South Pacific Limited has no dilutive potential ordinary shares. Consequently, basic earnings per ordinary share equals diluted earnings per share.

9. Reconciliation of Operating Cash Flow

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	806,218	890,363	759,452	845,828
Add: Tax expense	335,617	362,556	313,769	342,439
Operating profit before income tax	**1,141,835**	**1,252,919**	**1,073,221**	**1,188,267**
Major non cash amounts				
Depreciation	75,202	80,959	68,257	63,405
Amortisation of computer development costs	25,597	28,173	25,375	22,577
Net (Gain)/loss on sale of fixed assets	(707)	(2,088)	(587)	33
Impairment on financial assets	201,273	99,183	189,011	88,092
Movement in payroll provisions	(3,795)	9,956	8,104	8,391
Impairment of fixed assets	640	1,975	640	1,975
Net changes in assets and liabilities	(161,866)	(30,850)	(106,737)	27,366
Operating cash flow before changes in operating assets & liabilities	**1,278,179**	**1,440,227**	**1,257,284**	**1,400,106**

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)	2,897,195	1,816,564	2,379,542	1,510,406
Amounts due from other banks (note 11)[1]	1,187,461	1,022,469	1,130,805	997,816
Amounts due to other banks (note 17)	(126,270)	(83,931)	(229,098)	(162,145)
	3,958,386	**2,755,102**	**3,281,249**	**2,346,077**

[1]The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks includes deposit of K51.609 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 recognized 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 profit or loss 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 in profit or loss. 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).

Financial Instruments: Financial Assets (continued)

Accounting Policy (continued)

Classification and measurement (continued)

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 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.

Financial Instruments: Financial Assets (continued)

Accounting Policy (continued)

Equity securities (continued)

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.

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	**2020**	**2019**	**2020**	**2019**
Notes, coins and cash at bank	466,069	513,241	412,729	496,694
Balances with Central Banks other than statutory deposit	2,431,126	1,303,323	1,966,813	1,013,712
At 31 December	**2,897,195**	**1,816,564**	**2,379,542**	**1,510,406**

11. Amounts Due from Other Banks

Items in the course of collection	11,944	29,692	11,944	29,693
Placements with other banks	1,175,517	992,777	1,118,861	968,123
At 31 December	**1,187,461**	**1,022,469**	**1,130,805**	**997,816**

12. Treasury and Central Bank Bills

Treasury and Central Bank bills – face value	2,940,164	2,513,084	2,908,416	2,478,589
Unearned interest	(91,413)	(50,788)	(91,414)	(50,787)
Less allowance for impairment	(15,839)	(7,714)	(15,663)	(7,714)
	2,832,912	2,454,582	2,801,339	2,420,088

12. Treasury and Central Bank Bills (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Financial assets carried at fair value through profit and loss:				
Treasury bills at fair value	8,094	4,915	-	-
At 31 December	**2,841,006**	**2,459,497**	**2,801,339**	**2,420,088**
Allowance for impairment				
At 1 January	7,714	9,579	7,714	9,579
Provision/(release) for impairment	8,125	(1,865)	7,949	(1,865)
At 31 December	**15,839**	**7,714**	**15,663**	**7,714**

13. Cash Reserve Requirement with Central Banks

The Bank and the Group complies 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 complies with this requirement on an ongoing basis. CRR requirements applicable for each jurisdiction at balance date were: PNG 7% (2019: 10%), Fiji 10% (2019: 10%), Solomon Islands 5% (2019: 7.5%), Samoa 4.5% (2019: 4.5%), Tonga 10% (2019: 10%) and Vanuatu 5.25% (2019: 5.25%).

14. Other Financial Assets

Inscribed stock – issued by Central Bank	2,696,749	1,357,845	2,668,385	1,577,701
Less allowance for impairment	(14,966)	(5,170)	(14,808)	(4,946)
	2,681,783	**1,352,675**	**2,653,577**	**1,572,755**
Financial assets carried at fair value through profit and loss:				
Government inscribed stock	291,042	513,024	-	-
Equity securities	269,400	255,372	-	-
At 31 December	**3,242,225**	**2,121,071**	**2,653,577**	**1,572,755**
Allowance for impairment				
At 1 January	5,170	6,004	4,946	5,850
Provision/(release) for impairment	9,796	(834)	9,862	(904)
At 31 December	14,966	5,170	14,808	4,946

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.

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Overdrafts	812,271	1,008,876	737,484	933,819
Lease financing	278,813	295,381	246,595	258,659
Term loans	10,340,695	9,903,563	9,503,636	9,114,411
Mortgages	2,813,399	2,605,311	2,350,019	2,159,668
Policy loans	105,193	88,280	-	-
Gross loans and receivables from customers net of reserved interest	**14,350,371**	**13,901,411**	**12,837,734**	**12,466,557**
Less allowance for losses on loans and receivables from customers	(843,711)	(700,604)	(779,493)	(646,587)
At 31 December	**13,506,660**	**13,200,807**	**12,058,241**	**11,819,970**

The spread of the loans are detailed in the maturity analysis table in Note 22. The loans are well-diversified across various sectors and are further analysed in Note 22. Allowance for losses includes K50.082m (Bank K44.963m), 2019: K29.976m (Bank K28.192m) provision taken up for interest recognized on stage 3 loans.

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:

Gross investment in finance lease receivable				
Not later than 1 year	54,550	23,152	49,863	19,241
Later than 1 year and not later than 5 years	253,168	309,154	220,139	269,514
	307,718	**332,306**	**270,002**	**288,755**
Unearned future finance income				
Not later than 1 year	(2,290)	(1,319)	(2,115)	(1,116)
Later than 1 year and not later than 5 years	(26,615)	(35,606)	(21,292)	(28,980)
	(28,905)	(36,925)	(23,407)	(30,096)
Present value of minimum lease payments receivable	**278,813**	**295,381**	**246,595**	**258,659**

15. Loans and receivables from customers (continued)

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	52,260	21,833	47,748	18,125
Later than 1 year and not later than 5 years	226,553	273,548	198,847	240,534
At 31 December	**278,813**	**295,381**	**246,595**	**258,659**

Allowance for Expected Credit Losses

Accounting Policy

Impairment under IFRS 9 applies to all financial assets at amortised costs, 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;
- Credit commitments: as a provision

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.

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.

15. Loans and receivables from customers (continued)

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 lifetime 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 our 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.

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

15. Loans and receivables from customers (continued)

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 but the deferral of payments under the current COVID-19 relief packages has not, in isolation, been treated as an indication of SICR. The Group has classified these relief packages into different categories of risk, which have been assessed for an increased likelihood of a risk of default to determine whether a SICR has occurred.

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.
- Upside scenario
  This scenario represents a modest improvement on the base case scenario.
- Downside scenario
  This scenario represents a moderate recession.

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.

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.

15. Loans and receivables from customers (continued)

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	**2020**	**2019**	**2020**	**2019**
Provision for impairment				
Movement in allowance for losses on loans and receivables from customers:				
Balance at 1 January	700,604	633,567	646,587	589,238
Net new and increased provisioning	143,823	79,064	132,807	65,049
Loans written off against provisions / (Write back of provisions no longer required)	(716)	(12,027)	99	(7,700)
At 31 December	**843,711**	**700,604**	**779,493**	**646,587**
Provision for impairment is represented by:				
Collective provision for on balance sheet	517,456	429,932	477,553	394,382
Individually assessed or specific provision	272,821	223,299	250,278	206,721
Total provisions for on balance sheet exposure	**790,277**	**653,231**	**727,831**	**601,103**
Collective provision for off balance sheet exposure	53,434	47,373	51,662	45,484
At 31 December	**843,711**	**700,604**	**779,493**	**646,587**
Loan impairment expense				
Net collective provision funding	79,045	17,552	77,377	13,478
Net new and increased individually assessed provisioning	64,778	61,512	55,430	51,571
Total new and increased provisioning	**143,823**	**79,064**	**132,807**	**65,049**
Recoveries during the year	(56,495)	(64,042)	(54,633)	(58,178)
Net (write back) / write off	96,024	86,860	93,026	83,990
At 31 December	**183,352**	**101,882**	**171,200**	**90,861**

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;
- 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;
- Management temporary adjustments taken up during the reporting period relating to the impact of COVID-19 on ECL have been reflected as transfers from State 1 to Stage 2.

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

15. Loans and receivables from customers (continued)

All amounts are expressed in K'000

EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2019	**11,560,656**	**1,253,275**	**350,285**	**13,164,216**
Transfers to/(from)				
Stage 1	(413,939)	334,851	56,142	(22,946)
Stage 2	135,032	(187,033)	36,394	(15,607)
Stage 3	-	697	(847)	(150)
Net financial assets originated	858,825	(32,641)	(50,286)	775,898
Total movement in EAD during 2019	**579,918**	**115,874**	**41,403**	**737,195**
31 December 2019	**12,140,574**	**1,369,149**	**391,688**	**13,901,411**

ECL - Loans and receivables from customers				
1 January 2019	**185,687**	**231,124**	**179,222**	**596,033**
Transfers to/(from)				
Stage 1	(11,328)	52,332	16,866	57,870
Stage 2	5,278	(25,077)	13,013	(6,786)
Stage 3	-	71	(54)	17
Net financial assets originated	33,979	911	2,063	36,953
Movements due to risk parameter and other changes	(25,868)	(17,177)	24,216	(18,829)
Total net P&L charge during 2019	**2,061**	**11,060**	**56,104**	**69,225**
Loans written off against provision/(write back of provision no longer required)	-	-	(12,027)	(12,027)
31 December 2019	**187,748**	**242,184**	**223,299**	**653,231**

EAD - Loans and receivables from customers				
1 January 2020	**12,140,574**	**1,369,149**	**391,688**	**13,901,411**
Transfers to/(from)				
Stage 1	(1,087,236)	979,312	89,196	(18,728)
Stage 2	81,201	(153,301)	57,290	(14,810)
Stage 3	-	1,158	(1,422)	(264)
Net financial assets originated	576,289	(45,644)	(47,883)	482,762
Total movement in EAD during the year	**(429,746)**	**781,525**	**97,181**	**448,960**
31 December 2020	**11,710,828**	**2,150,674**	**488,869**	**14,350,371**

ECL – Loans and receivables from customers				
1 January 2020	**187,748**	**242,184**	**223,299**	**653,231**
Transfers to/(from)				
Stage 1	(31,099)	122,691	19,936	111,528
Stage 2	1,296	(20,265)	13,204	(5,765)
Stage 3	-	93	(108)	(15)
Net financial assets originated	38,744	(6,917)	5,694	37,521
Movements due to risk parameter and other changes	(12,912)	(4,107)	11,512	(5,507)
Total net P&L charge during 2019	**(3,971)**	**91,495**	**50,238**	**137,762**
Loans written off against provision/(write back of provision no longer required)	-	-	(716)	(716)
31 December 2020	**183,777**	**333,679**	**272,821**	**790,277**

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	**2020 Stage 1**		**2019 Stage 1**	
	Gross exposure	**Loss allowance**	**Gross exposure**	**Loss allowance**
Balance 1 January	2,567,433	47,373	2,232,389	37,534
Net increase/(decrease)	416,711	6,061	335,044	9,839
Balance at 31 December	**2,984,144**	**53,434**	**2,567,433**	**47,373**

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

	Consolidated		**Bank**	
	2020	**2019**	**2020**	**2019**
Financial Assets				
Funds in transit and other assets[1]	140,638	194,315	102,794	146,054
Accrued interest – Government inscribed stock	61,272	37,446	60,688	36,709
Accrued interest – loans and receivables from customers	75,289	63,620	66,305	56,826
Intercompany account	-	-	3,026	6,960
Outstanding premiums	21,030	17,681	-	-
Prepayments	38,723	32,524	33,921	27,815
Accounts receivable	4,642	3,571	2,938	2,254
Tax receivable	32,887	27,588	32,419	30,275
	374,481	**376,745**	**302,091**	**306,893**
Non-Financial Assets				
Inventory	11,649	17,837	-	-
Investment in Joint Ventures	202,546	202,040	27,879	20,787
Intangible Assets	220,846	196,206	207,216	177,601
Investment properties	257,690	168,360	-	-
	692,731	**584,443**	**235,095**	**198,388**
At 31 December	**1,067,212**	**961,188**	**537,186**	**505,281**

[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);
- 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 are 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. Amount Due to Other Banks

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Vostro account balances	57,529	47,083	76,185	66,786
Other borrowings	68,741	36,848	152,913	95,359
At 31 December	**126,270**	**83,931**	**229,098**	**162,145**

18. Customer Deposits

On demand and short term deposits	17,990,094	15,322,280	17,097,544	14,605,182
Term deposits	3,663,930	4,016,776	3,006,807	3,376,574
At 31 December	**21,654,024**	**19,339,056**	**20,104,351**	**17,981,756**

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

19. Other Liabilities

Insurance liabilities				
Premiums received in advance	29,144	6,329	-	-
Outstanding claims	23,894	18,679	-	-
Claims incurred but not reported (IBNR)	2,146	2,297	-	-
Other insurance liabilities	151,491	132,768	-	-
At 31 December	**206,675**	**160,073**	**-**	**-**
Creditors and accruals	104,891	184,941	70,801	122,218
Items in transit and all other liabilities	463,555	399,916	554,437	520,720
Borrowings[1]	245,614	116,817	245,614	116,817
Other provisions	209,437	203,662	195,346	186,574
At 31 December	**1,230,172**	**1,065,409**	**1,066,198**	**946,329**

[1]A loan amounting to K242.215 million (USD 70 million) was drawn down in 2020 with quarterly interest repayments commencing in the third quarter. The Bank pre-paid an existing obligation of K78.215 million (USD 22.5 million) at the same time.

20. Contingent Liabilities and Commitments

Commitments for capital expenditure

Amounts with firm commitments, and not reflected in the accounts	44,120	55,829	29,753	51,313
Off balance sheet financial instruments				
Letters of credit	97,420	121,600	96,366	117,057
Guarantees and indemnities issued	289,579	366,170	290,123	341,373
Commitments to extend credit	2,599,995	2,088,924	2,509,139	2,003,881
	2,986,994	**2,576,694**	**2,895,628**	**2,462,311**

Contingent liabilities includes forward exchange contracts of K2.880m which is not part of the credit exposure.

20. Contingent Liabilities and Commitments (continued)

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 20. Based on information available at 31 December 2020, the Group estimates a contingent liability of K17.7 million (2019: K15.8 million) in respect of these proceedings.

The Bank operates in a number of regulated markets and is subject to regulatory reviews and inquiries. From time to time these may result in fines or other regulatory enforcement actions. As at reporting date there are no matters of this nature for which the Bank expects to result in a material economic outflow of resources.

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 by ensuring risk is diversely spread by personal and commercial customer. Individual exposures are measured using repayment performance, reviews and statistical techniques. Comprehensive credit standards and approval limits have been formulated and approved by the Credit Committee. The Credit Committee (which reports to the Board through the Executive and Chief Executive Officer) is responsible for the development and implementation of credit policy and loan portfolio review methodology. The Credit Committee is the final arbiter of risk management and loan risk concentration.

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-	

22. Credit Risk and Asset Quality (continued)

22.1.1 Credit risk measurement (continued)

Group Internal Scale	S&P Letter Grade	Description
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:

- 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

22. Credit Risk and Asset Quality (continued)

22.1.2.1 Significant increase in credit risk (continued)

- 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 BSPs 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 RGs 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 ending 31 December 2020.

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. Credit Risk and Asset Quality (continued)

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).

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 2020 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

22. Credit Risk and Asset Quality (continued)

Economic variable assumptions (continued)

		2020	2021	2022	2023	2024
GDP Growth (%)	Base	3.40%	3.40%	3.40%	3.40%	3.40%
	Upside	3.65%	3.65%	3.65%	3.65%	3.65%
	Downside	1.20%	1.20%	2.90%	3.00%	2.80%
Change in Unemployment (% total lab force) (%)	Base	-3.00%	-3.00%	-2.00%	-2.00%	-2.00%
	Upside	-4.00%	-4.00%	-3.00%	-3.00%	-3.00%
	Downside	0.00%	0.00%	0.00%	0.00%	0.00%
Change in Equity Index (%)	Base	-3.51%				
	Upside	-3.54%				
	Downside	-3.51%				
Change in Energy Index (%)	Base	7.75%	10.07%	2.45%	2.39%	2.34%
	Upside	8.14%	10.58%	2.57%	2.51%	2.45%
	Downside	7.36%	9.57%	2.33%	2.27%	2.22%
Change in Non-Energy Index (%) *(Per World Bank commodities price forecast)*	Base	0.12%	-0.24%	-0.24%	-0.24%	-0.24%
	Upside	0.13%	-0.25%	-0.25%	-0.25%	-0.25%
	Downside	0.11%	-0.23%	-0.23%	-0.23%	-0.23%
Change in the Proportion of Downgrades (%)	Base	3.32%				
	Upside	-2.00%				
	Downside	10.00%				

The weightings assigned to each economic scenario at 31 December 2020 were as follows:

Scenario	Base	Upside	Downside
Weight	50.00%	10.00%	40.00%

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

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

i) GDP given the significant impact on business performance and collateral valuations; and

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.

iii) Change in scenario weighting given the uncertainty surrounding the economic impact of COVID-19.

22. Credit Risk and Asset Quality (continued)

***Sensitivity Analysis** (continued)*

Set out below are the changes to the ECL as at 31 December 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

All amounts are expressed in K'000	2020		2019	
	[-25%]	[+10%]	[-20%]	[+10%]
GDP Growth Rate	37,287	(11,041)	42,060	(19,342)

(GDP growth rate assumptions tested at 75% and 110% for all 3 scenarios)

	[-7%]	[+20%]	[-5%]	[+20%]
Change in proportion of downgrades	(945)	8,533	(1,088)	5,662

(Upside scenario increased from -2% to-7% (2019:-5%), downside scenario increased from 10% to 20%)

	2020	2019
Change in Scenario weighting	(39,735)	(32,714)

(Upside scenario increased from 10% to 20%, downside scenario decreased from 40% to 20% and base scenario increased from 50% to 60%).

Change in Scenario weighting	11,090	-

(Upside scenario decreased from 10% to 5%, downside scenario increased from 40% to 45% and base scenario remaining at 50%).

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:

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

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

	2020				2019
ECL staging	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**	**Total**
Credit grade					
Standard monitoring	11,710,828	1,676,312	-	13,387,140	13,006,714
Special monitoring	-	474,362	-	474,362	503,009
Default	-	-	488,869	488,869	391,688
Gross carrying amount	**11,710,828**	**2,150,674**	**488,869**	**14,350,371**	**13,901,411**
Loss allowance	(183,777)	(333,679)	(272,821)	(790,277)	(653,231)
Net Carrying amount	**11,527,051**	**1,816,995**	**216,048**	**13,560,094**	**13,248,180**

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 gross carrying amount includes off balance sheet items which are in scope for impairment.

The total balance of investment securities measured at amortised cost (K5,936.049 million) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K30.805 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	2020	2019
Trading assets		
• Equity Securities	269,400	255,372

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.

22. Credit Risk and Asset Quality (continued)

22.1.3.2 Collateral and other credit enhancements (continued)

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 2020 **Consolidated** *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	7,730	1,758	5,972	13,685
• Credit cards	389	198	191	-
• Term loans	21,399	9,252	12,147	25,031
• Mortgages	100,294	40,996	59,298	159,690
Loans to corporate entities:				
• Large corporate customers	274,994	179,981	95,013	215,659
• Small and medium-sized enterprises (SMEs)	83,475	40,464	43,011	137,283
• Others	588	172	416	1,351
Total credit-impaired assets	**488,869**	**272,821**	**216,048**	**552,699**
31 December 2019				
Total credit-impaired assets	**391,688**	**223,299**	**168,389**	**413,838**

22.1.4 Credit Quality – Prudential guidelines

The Bank of Papua New Guinea has maintained a revised prudential standard for asset quality since October 2003. The revised standard specifies more detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those gradings.

An analysis by credit quality of loans outstanding at 31 December 2020 is as follows:

22. Credit Risk and Asset Quality (continued)

22.1.4 Credit Quality – Prudential guidelines (continued)

31 December 2020

Consolidated

All amounts are expressed in K'000	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
Neither past due nor impaired	**747,218**	**9,699,015**	**2,441,397**	**264,445**	**105,193**	**13,257,268**
Past due but not impaired						
- Less than 30 days	48,722	244,109	133,554	4,594	-	430,979
- 30 to 90 days	3,727	167,932	92,966	2,734	-	267,359
	52,449	**412,041**	**226,520**	**7,328**	**-**	**698,338**
Individually impaired loans						
- Less than 30 days	5,226	4,216	7,113	109	-	16,664
- 30 to 90 days	-	20,684	8,118	238	-	29,040
- 91 to 360 days	776	88,930	16,431	976	-	107,113
- More than 360 days	6,602	115,809	113,820	5,717	-	241,948
	12,604	**229,639**	**145,482**	**7,040**	**-**	**394,765**
Total gross loans and receivables from customers	**812,271**	**10,340,695**	**2,813,399**	**278,813**	**105,193**	**14,350,371**
Less impairment provisions	(43,962)	(737,439)	(50,801)	(11,509)	-	(843,711)
Net loans and receivables from customers	**768,309**	**9,603,256**	**2,762,598**	**267,304**	**105,193**	**13,506,660**

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:

All amounts are expressed in K'000

Consolidated **As at 31 December**	**2020**	**%**	**2019**	**%**
Commerce, finance and other business	7,123,057	53	7,159,863	54
Private households	3,232,599	24	2,987,459	23
Government and public authorities	157,811	1	252,134	2
Agriculture	434,215	3	327,151	2
Transport and communication	1,218,790	9	1,311,306	10
Manufacturing	383,725	3	332,344	3
Construction	956,463	7	830,550	6
Net loan portfolio balance	**13,506,660**	**100**	**13,200,807**	**100**

22.1.7 Loan segment concentration

Concentration by customer loan segments are as follows:

Consolidated **As at 31 December**	**2020**	**%**	**2019**	**%**
Corporate / Commercial	8,025,709	59	7,703,341	58
Government	2,247,793	17	2,510,817	19
Retail	3,233,158	24	2,986,649	23
Net loan portfolio balance	**13,506,660**	**100**	**13,200,807**	**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	**2020**	**2019**
Modelled provision for ECL	433,620	401,704
Overlays	137,270	74,445
Total	**570,890**	**476,149**

22.1.8.1 COVID-19 overlay

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 used to address areas of potential risk not captured in the underlying modelled ECL.

22. Credit Risk and Asset Quality (continued)

22.1.8.1 COVID-19 overlay

The COVID-19 pandemic has had, and continues to have, an impact on businesses around the world and the economic environments in which they operate. There also exists significant uncertainty regarding the duration and severity of COVID-19 impacts and the associated disruption to the economy and our customers. While the impacts on the broader economy are included in the assumptions used in the economic scenarios and the weightings applied to these scenarios, these general economy wide impacts may not fully reflect the specific impact on individual customers, and therefore the potential risk is not captured in the underlying modelled ECL. As overlays require the application of expert judgment, they are documented and subject to comprehensive internal governance and oversight.

The Group's COVID-19 overlay as of 31 December 2020 is K138.08 million.

The repayment holiday and interest only arrangements are normally treated as an indication of a significant increase in credit risk but the repayment holidays under the current COVID-19 relief packages in isolation have not been treated as an indication of SICR.

As highlighted by the IASB in its guidance document 'IFRS 9 and COVID-19' issued on 27 March 2020, in these changed circumstances it may not be appropriate to apply previously established approaches to assessing significant increase in credit risk for payment holidays in a mechanistic manner.

These relief packages are available to customers who require assistance because of COVID-19 and who otherwise had up to date payment status prior to the onset of COVID-19. The relief packages allow for repayment holidays for up to 6 months. During this period, the deferred interest will be capitalized and the deferred principal along with the capitalized interest, will be repaid over the remaining term of the loan. These packages have been designed to provide short-term cash flow support while the most significant COVID-19 restrictions are in place. Further extensions were based on local Central Banks approvals. The extension will not be automatic and will require up-to-date financial information on each borrower to confirm that there is a reasonable prospect to repay the loan.

As the situation has evolved since March 2020, the Group has classified the relief packages into different categories of risk. Each of these categories are assigned a corresponding IFRS 9 staging level based on whether SICR is deemed to have occurred because of the increased likelihood of a risk of default. The group has identified a proportion of relief packages as higher credit risk and has identified a SICR event to have occurred on these customers. An overlay estimation has been done on this base of customers.

The Group continues to monitor our lending portfolios closely and reassess our provisioning levels as the situation around COVID-19 evolves. At the cessation of the COVID-19 support packages, it is likely that some customers will move into Stage 2.

22.1.8.2 COVID-19 relief packages

The customers under COVID-19 relief packages at 31 December 2020 is K1.626 billion. These loans and the related provision for ECL are as follows:

All amounts are expressed in K'000	**Total Credit Exposures**	**Expected Credit Loss**
Stage 1	659,147	48,021
Stage 2	966,858	44,003
Stage 3	-	-
Total	**1,626,005**	**92,024**

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 2020

The maturity profile of material Assets and Liabilities as at 31 December 2020 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Group, and does not impair the ability of the Group to meet its financial obligations as they fall due.

Maturity of assets and liabilities

All amounts are expressed in K'000

Consolidated As at 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Banks	3,973,012	-	-	-	483,467	4,456,479
Treasury and Central Bank bills	611,384	616,990	1,702,704	2,533	4,277	2,937,888
Amounts due from other banks	1,092,892	59,819	34,750	-	-	1,187,461
Loans and receivables from customers	2,038,752	324,571	2,360,167	5,917,381	5,875,628	16,516,499
Other financial assets	2,390,783	351,479	736,769	2,027,860	1,897,463	7,404,354
Total assets	**10,106,823**	**1,352,859**	**4,834,390**	**7,947,774**	**8,260,835**	**32,502,681**
Liabilities						
Amounts due to other banks	12,478	89,738	24,054	-	-	126,270
Customer deposits	18,616,789	971,280	1,583,504	413,582	346,655	21,931,810
Lease liability	-	-	-	44,968	164,038	209,006
Other liabilities	2,379,124	428	5,287	9,725	106,883	2,501,447
Other provisions	198,939	875	4,311	249	5,063	209,437
Total liabilities	**21,207,330**	**1,062,321**	**1,617,156**	**468,524**	**622,639**	**24,977,970**
Net liquidity gap	**(11,100,507)**	**290,538**	**3,217,234**	**7,479,250**	**7,638,196**	**7,524,711**

As at 31 December 2019						
Total assets	8,109,293	2,070,054	5,164,106	6,685,164	6,261,178	28,289,795
Total liabilities	16,040,140	1,194,142	1,802,509	719,961	2,021,445	21,778,197
Net liquidity gap	**(7,930,847)**	**875,912**	**3,361,597**	**5,965,203**	**4,239,733**	**6,511,598**

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 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.

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

All amounts are expressed in K'000

Consolidated **As at 31 December 2020**	**PGK**	**FJD**	**SBD**	**USD**	**Other**	**Total**
Assets						
Cash and balances with Central Banks	2,150,591	1,059,431	636,025	2,370	608,062	**4,456,479**
Treasury and Central Bank bills	2,778,202	12,116	19,114	-	31,574	**2,841,006**
Amounts due from other banks	115,956	330,746	14,000	384,461	342,298	**1,187,461**
Loans and receivables from customers	7,917,985	3,305,723	513,556	528,501	1,240,895	**13,506,660**
Other financial assets	2,662,225	551,794	159	-	28,047	**3,242,225**
Other assets	1,388,100	733,124	57,722	1,594	109,066	**2,289,606**
Total assets	**17,013,059**	**5,992,934**	**1,240,576**	**916,926**	**2,359,942**	**27,523,437**
Liabilities						
Amounts due to other banks	(75,598)	(36,677)	(10,031)	-	(3,964)	**(126,270)**
Customer Deposits	(14,225,150)	(3,712,304)	(926,891)	(549,558)	(2,240,121)	**(21,654,024)**
Other liabilities	(527,650)	(1,416,424)	(30,238)	(265,584)	(69,642)	**(2,309,538)**
Total liabilities	**(14,828,398)**	**(5,165,405)**	**(967,160)**	**(815,142)**	**(2,313,727)**	**(24,089,832)**
Net on-balance sheet position	**2,184,661**	**827,529**	**273,416**	**101,784**	**46,215**	**3,433,605**
Off-balance sheet position	*25,393*	*-*	*-*	*(155,724)*	*137,131*	*6,800*
Credit commitments	*2,267,067*	*556,094*	*46,965*	*-*	*116,868*	*2,986,994*
31 December 2019						
Total Assets	15,207,153	4,941,049	1,193,401	740,480	2,445,035	24,527,118
Total Liabilities	(13,326,239)	(4,424,064)	(946,797)	(655,738)	(2,057,247)	(21,410,085)
Net on-balance sheet position	**1,880,914**	**516,985**	**246,604**	**84,742**	**387,788**	**3,117,033**
Off-balance sheet position	*798*	*-*	*-*	*(139,868)*	*140,009*	*939*
Credit commitments	*1,879,065*	*517,433*	*60,433*	*-*	*119,763*	*2,576,694*

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	**2020**		**2019**	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 5% (2019 – 1%)	7,664	7,664	356	356
USD dollar weakening by 15% (2019 – 1%)	(2,068)	(2,068)	(349)	(349)
AUD strengthening by 5% (2019 – 1%)	(399)	(399)	(36)	(36)
AUD dollar weakening by 15% (2019 – 1%)	108	108	35	35

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.

Forward exchange contracts outstanding at 31 December 2020 stated at the face value of the respective contracts are:

All amounts are expressed in K'000

As at 31 December 2020		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Other**	**Total**
	FCY	(47,232)	(3,567)	(1,069)	(5)	(86,102)	(844)	-
Selling	**Kina**	(165,728)	(9,641)	(4,610)	(22)	(2,929)	(2,962)	(185,892)
	FCY	2,851	18,660	30	40	60,100	29,780	-
Buying	**Kina**	10,004	50,438	129	191	2,045	104,491	167,298

As at 31 December 2019		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Other**	**Total**
	FCY	(49,183)	(2,529)	(900)	(21)	(181,179)	(2,110)	-
Selling	**Kina**	(167,576)	(6,039)	(3,437)	(88)	(5,525)	(7,188)	(189,853)
	FCY	8,132	14,800	20	1,200	137,500	34,444	-
Buying	**Kina**	27,708	35,338	76	5,125	4,193	117,357	189,797

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.

26. Interest Rate Risk (continued)

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

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

All amounts are expressed in K'000

Consolidated As at 31 December 2020	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**
Assets						
Cash and Central Banks assets	711,765	-	-	-	-	2,185,430
Treasury and Central Bank bills	609,603	590,534	1,631,207	5,386	4,276	-
Amounts due from other banks	341,561	51,540	2,181	-	-	792,179
Statutory deposits - Central Banks	-	-	-	-	-	1,559,284
Loans and receivables from customers	10,874,738	112,213	397,917	321,126	1,705,563	95,103
Other Financial Assets	642,205	209,532	577,043	1,258,350	757,641	-
Other assets	11,463	98,510	583	-	-	1,976,504
Total assets	**13,191,335**	**1,062,329**	**2,608,931**	**1,584,862**	**2,467,480**	**6,608,500**
Liabilities						
Amounts due to other banks	28,387	11,382	24,053	-	-	62,448
Customer deposits	8,545,533	878,736	1,375,840	146,657	-	10,707,258
Other liabilities	238	-	-	74,872	85,527	1,944,399
Other provisions	5,507	200	-	-	-	198,795
Total liabilities	**8,579,665**	**890,318**	**1,399,893**	**221,529**	**85,527**	**12,912,900**
Interest sensitivity gap	**4,611,670**	**172,011**	**1,209,038**	**1,363,333**	**2,381,953**	**(6,304,400)**

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

As at 31 December 2019	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**
Total assets	13,007,025	1,114,574	2,781,083	1,461,656	376,863	5,785,917
Total liabilities	8,709,354	1,082,072	1,628,037	299,468	73,019	9,618,135
Interest sensitivity gap	**4,297,671**	**32,502**	**1,153,046**	**1,162,188**	**303,844**	**(3,832,218)**

Given the profile of assets and liabilities as at 31 December 2020 and prevailing rates of interest, a 100bps increase in market rates will result in a K46.4 million increase in net interest income, whilst a 100bps decrease in rates will result in a K54.4 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.

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

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 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	265,727	3,673	269,400
Treasury bills	-	8,094	-	8,094
Government inscribed stock	-	291,042	-	291,042
Non-financial assets				
Land & Buildings	-	-	701,627	701,627
Assets subject to operating lease	-	-	36,434	36,434
Total assets	**-**	**564,863**	**741,734**	**1,306,597**
b) Financial liabilities				
Policy liability	-	-	1,043,990	1,043,990
Total liabilities	**-**	**-**	**1,043,990**	**1,043,990**
As at 31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	252,277	3,095	255,372
Treasury bills	-	4,915	-	4,915
Government inscribed stock	-	513,024	-	513,024
Non-financial assets				
Land & Buildings	-	-	708,284	708,284
Assets subject to operating lease	-	-	48,133	48,133
Total assets	-	**770,216**	**759,512**	**1,529,728**
b) Financial liabilities				
Policy liability	-	-	890,147	890,147
Total liabilities	-	-	**890,147**	**890,147**

Consolidated

Financial asset at fair value through profit & loss	**2020**	**2019**
Opening balance	3,095	2,696
Total gains and losses recognized in:		
- Profit & loss	578	399
- Other comprehensive income	-	-
Closing balance	**3,673**	**3,095**

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

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2020. Property, plant and equipment represents commercial land and buildings owned by the Group based on valuations provided by independent valuers.

The valuation is based on the capitalisation method with an assessment of the property based on its potential earning capacity. There is an increased level of uncertainty with the valuation obtained for the financial year 2020 accounts given the volatile economic climate driven by COVID-19. A higher degree of caution should be attached to the valuation than would normally be the case, noting that the value is current at the date of the valuation only. The assessed value may change materially and unexpectedly over a relatively short period of time due to the impact of COVID-19.

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 31 December 2018/1 January 2019	**467,246**	**372,364**
Share buyback	(6)	(54)
At 31 December 2019/1 January 2020	**467,240**	**372,310**
Share buyback	(11)	(121)
At 31 December 2020	**467,229**	**372,189**

In May 2014, the Directors introduced a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, any time before that. As at 31 December 2020, a total of K9.313m has been bought back under this scheme.

Dividends on ordinary shares

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

Dividends for the year, declared after the balance sheet date, are dealt with in the subsequent events note.

	Consolidated		**Bank**	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Dividends paid on ordinary shares				
Interim ordinary dividend (2020: 25 toea; 2019: 38 toea)	117,604	177,551	116,808	177,551
Final ordinary dividend (2019: 96 toea; 2018: 101 toea)	451,751	476,389	448,546	471,915
	569,355	**653,940**	**565,354**	**649,466**

29. Retained Earnings and Other Reserves

Retained earnings

All amounts are expressed in K'000	Consolidated 2020	Consolidated 2019	Bank 2020	Bank 2019
At 1 January	2,394,382	2,156,873	2,173,836	1,976,138
Net profit for the year	806,218	890,363	759,452	845,828
Dividends paid	(451,587)	(476,389)	(448,546)	(471,915)
Interim Dividends paid	(117,604)	(177,551)	(116,808)	(177,551)
Disposal of assets – Asset revaluation	741	4,933	741	4,933
BSP Life policy reserve	(7,692)	(3,597)	(7,692)	(3,597)
(Gain) attributable to minority interest	(2,209)	(250)	-	-
At 31 December	**2,622,249**	**2,394,382**	**2,360,983**	**2,173,836**
Other reserves comprise:				
Asset revaluation reserve	129,063	142,819	115,828	130,725
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	52,267	44,503	52,267	44,503
Foreign currency translation reserve	234,973	136,978	131,995	78,614
	438,516	**346,513**	**300,725**	**254,477**

Retained earnings

Movement in reserves for the year:				
Revaluation reserve				
At 1 January	142,819	149,829	130,725	137,708
Asset revaluation increment/(decrement)	(18,914)	(5,719)	(20,055)	(5,714)
Transfer asset revaluation reserve to retained earnings	(1,032)	(4,933)	(1,032)	(4,933)
Deferred tax on disposal of properties	6,190	3,642	6,190	3,664
At 31 December	**129,063**	**142,819**	**115,828**	**130,725**
Capital reserve				
At 1 January	635	635	635	635
At 31 December	**635**	**635**	**635**	**635**
General reserve				
At 1 January	44,503	40,920	44,503	40,920
BSP Life policy reserve	7,692	3,597	7,692	3,597
Fiji Government green bond revaluation	72	(14)	72	(14)
At 31 December	**52,267**	**44,503**	**52,267**	**44,503**
Exchange reserve				
At 1 January	136,978	126,358	78,614	73,121
Movement during the year	97,995	10,620	53,381	5,493
At 31 December	**234,973**	**136,978**	**131,995**	**78,614**

29. Retained Earnings and Other Reserves (continued)

Equity component of convertible notes

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

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

(i) The right to receive dividend equal to the amount of dividend to be paid on BSP Ordinary 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 Lao 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 applies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2020, 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.

30. Capital Adequacy (continued)

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

All amounts are expressed in K'000	**Balance sheet / notional amount** 2020	2019	**Risk-weighted amount** 2020	2019
Balance sheet assets (net of provisions)				
Currency	4,456,479	3,583,165	95,677	69,942
Loans and receivables from customers	13,506,660	13,230,783	10,824,914	10,539,279
Investments and short term securities	6,083,231	4,580,568	229,235	224,510
All other assets	3,477,067	3,132,602	1,978,591	1,839,673
Off-balance sheet items	2,986,994	2,576,694	242,027	286,666
Total	**30,510,431**	**27,103,812**	**13,370,444**	**12,960,070**

Capital Ratios	**Capital (K'000)** 2020	2019	**Capital Adequacy Ratio (%)** 2020	2019
a) Tier 1 capital	2,787,626	2,526,509	20.8%	19.5%
Total Capital	3,095,927	2,848,773	23.2%	22.0%
b) Leverage Capital Ratio			10.3%	10.5%

Group Structure

31. Insurance

Life and General Insurance Business

The Group's consolidated Financial Statements include the assets, liabilities, income and expenses 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.

(a) Recognition and Measurement

Short Term Insurance Contracts

These contracts include the Term Life and Medical policies sold and underwritten by BSP Health Care (Fiji) Limited and Term life policies sold by BSP Life (PNG) Limited.

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

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

Premiums are shown before deduction of commission.

31. **Insurance** (continued)

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or beneficiary. They include direct and indirect claims settlement costs and arise from events that have occurred up to the Statement of Financial Position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are based on the sum insured or cost of approved medical services plus an allowance for claims incurred but not reported based on statistical analysis and related claim expenses. Case estimates are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long Term Insurance Contracts

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

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

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

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

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

(b) Methods and Assumptions

Key assumptions used in determining the Policy Liabilities for policies for the insurance business are as follows:

(i) Discount Rates

For contracts in Statutory Fund 1 which have a DPF, the discount rate used is linked to the assets which back those contracts. For 31 December 2020 this was 5.95% per annum. For contracts without DPF and Accident Business, the Fiji Insurance business at 31 December 2020 used a rate of 5.95% per annum. The pricing rates were used given market subjectivity. The PNG life insurance business at 31 December 2020 used the accumulation methodology for contracts without DPF.

ii) Investment and Maintenance Expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 4.00% per annum for determining future expenses for both the Fiji and life business.

iii) Taxation

The rates of taxation enacted at the date of the valuation are assumed to continue into the future for both the Fiji and life business.

31. Insurance (continued)

(iv) Mortality and Morbidity

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the BSP Life (PNG) and BSP Life (Fiji). Estimates are made as to the expected number of deaths for each of the years in which the BSP Life (PNG and Fiji) are exposed to risk. The BSP Life (Fiji) bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted, where appropriate, to reflect the

Group's own experience. The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which BSP Life (Fiji) has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where BSP Life (Fiji) is exposed to longevity risk. For contracts without fixed mortality risk charges, it is assumed that BSP Life (Fiji) will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male, modified for local experience.

As there is no reliable mortality table available for PNG, BSP Life PNG bases these estimates on an internal mortality table that has regard to population and insured mortality in Fiji and the limited information relating to mortality in PNG that is publicly available. This is reassessed each year having regard to the company's own experience. The estimated number of deaths determines the value of the benefit payments. Mortality in PNG is subject to considerable uncertainty from wide-ranging lifestyle changes, such as in eating, smoking and exercise habits and epidemics that could result in future mortality being significantly different than assumed

(v) Rates of Discontinuance

Pricing assumptions for the incidence of withdrawal and discontinuance vary duration.

(vi) Basis of Calculation of Surrender Values

Surrender values are based on the provisions specified in the policy contracts and legislation. For the PNG life business, surrender values are determined by the Company in accordance with the provisions specified in the policy contracts and legislation.

(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%.

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.

(c) Reinsurance

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

31. Insurance (continued)

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

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

Insurance

The accounting policies of the consolidated entity, which have been applied in determining the financial information shown below, 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 respective subsidiary accounts. The consolidated profit includes insurance profit and investment earnings on shareholders fund.

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Net insurance premium income	199,172	158,390
Outward reinsurance expense	(4,142)	(3,221)
Net premium income	**195,030**	**155,169**
Investment income	220,666	210,325
Other income	995	2,723
Total operating income	**416,691**	**368,217**
Claims, surrenders and maturities	(121,396)	(120,287)
Claim recoveries	194	550
Net claims incurred	**(121,202)**	**(119,737)**
Commission	(15,776)	(14,312)
Increase in policy liabilities	(74,324)	(59,746)
Interest expenses	(564)	(513)
Other operating expenses	(148,765)	(148,710)
Total operating expenses	**(239,429)**	**(223,281)**
Share of profit of associates and jointly controlled entities	(26,535)	5,476
Profit from ordinary activities before tax	**29,525**	**30,675**
Income tax expense/ (benefit) attributable to profit from ordinary activities	(6,642)	(3,471)
Profit after Income tax expense	**22,883**	**27,204**

The balance sheets as at 31 December 2020 categorised by Shareholder Fund and Assets Supporting Policy Liability are shown below. The allocation between the two funds is maintained notionally as the funds are invested as a single pool of assets.

31. Insurance (continued)

	Consolidated					
	2020			2019		
All amounts are expressed in K'000	**Policy Related Fund**	**Share-holder Fund**	**Total**	**Policy Related Fund**	**Share-holder Fund**	**Total**
Assets						
Cash and Cash Equivalents	128,709	24,260	**152,969**	49,424	7,558	**56,982**
Equity security investments	338,148	65,754	**403,902**	337,933	67,819	**405,752**
Debt security investments	395,671	77,751	**473,422**	399,493	83,750	**483,243**
Property investments	303,052	59,116	**362,168**	211,382	42,554	**253,936**
Other assets	76,863	15,042	**91,905**	71,888	12,043	**83,931**
Total assets	**1,242,443**	**241,923**	**1,484,366**	**1,070,120**	**213,724**	**1,283,844**
Liabilities						
Policy liabilities	1,043,990	-	**1,043,990**	890,147	-	**890,147**
Other liabilities	127,170	24,321	**151,491**	112,888	19,880	**132,768**
Total liabilities	**1,171,160**	**24,321**	**1,195,481**	**1,003,035**	**19,880**	**1,022,915**
Shareholders' equity						
Equity & retained earnings	71,283	217,602	**288,885**	67,085	193,844	**260,929**
Total shareholders' equity	**71,283**	**217,602**	**288,885**	**67,085**	**193,844**	**260,929**
Total equity and liabilities	**1,242,443**	**241,923**	**1,484,366**	**1,070,120**	**213,724**	**1,283,844**

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Policy Liabilities		
Opening balance	890,147	818,198
Translation movement	73,433	11,221
Increase in policy liabilities	74,324	59,746
Increase in policy liabilities on revaluation of land	6,086	982
Total policy liabilities	**1,043,990**	**890,147**

Insurance reserves are maintained in accordance with levels prescribed by the Regulators.

Insurance and Financial Risk Management

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

The Group is exposed to financial as well as insurance risks. The Group's risk management strategy is set by the Board of Directors. Implementation of 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 Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

31. Insurance (continued)

Insurance Risk (continued)

This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual numbers and quantum of claims and benefits will vary from year to year from the level established using actuarial methods.

The Group's objectives in managing risks arising from 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; and
- To use reinsurance as a component of insurance risk management strategy.

Terms and conditions of insurance contracts

The nature of 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	**Detail 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 − Morbidity − Discontinuance rates − Expenses − 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 − Morbidity − Market risk − Discontinuance rates − Expenses − Market rates on underlying assets

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.

31. **Insurance** (continued)

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. The largest single exposure for the Life business is K11.701m of which K11.185m is reinsured (2019: K11.121m of which K9.533m is reinsured). This relates to life insurance lines.

- The largest single lump sum exposure for the health insurance business is K8.604m, of which K8.431m is reinsured. The largest single net exposure is K1.067m. This relates to health insurance lines.

- Geographic concentrations due to employee Company schemes. The largest single scheme exposure is K121.654m, of which K58.848m is reinsured. BSP Life (PNG) participates in the Term Life reinsurance programme.

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 Group'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 %	2020	2019
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%	89,318	82,503
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,610	71,610
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,712	70,712
Bank South Pacific Vanuatu Ltd	Bank	Vanuatu	100%	38,020	38,020
At 31 December				**385,078**	**378,263**
Represented by:					
At 1 January				378,263	347,597
Additional capital				6,815	30,666
At 31 December				**385,078**	**378,263**

Other

33. 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

34. Related Party Transactions

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

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

A number of banking transactions are entered into with these related parties in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates. For the year ended 31 December 2020, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

	Consolidated	
All amounts are expressed in K'000	**2020**	**2019**
Customer Deposits		
Opening balances	45,220	30,925
Net movement	(17,921)	14,295
Closing balance	**27,299**	**45,220**
Interest paid	7	17
Loans and receivables from customers		
Opening balances	914,468	899,451
Loans issued	173,405	61,750
Interest	22,358	66,032
Charges	2,379	3,869
Loan repayments	(160,040)	(116,634)
Outgoing Director	(313,776)	-
Closing balance	**638,794**	**914,468**

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 2020, staff account balances were as follows:

Housing loans	220,407	192,749
Other loans	80,979	68,197
	301,386	**260,946**
Cheque accounts	6,159	6,643
Savings accounts	15,671	20,824
	21,830	**27,467**

35. Events Occurring After Balance Sheet Date

There have been no adjusting events after the end of the reporting period.

36. Directors and Executive Remuneration

Directors' remuneration

Directors of the company received remuneration including benefits during 2020 as detailed below:

All amounts are expressed in Kina

			Total remuneration			
Name of Director	**Meetings attended / total held**	**Appointed/ (Resigned)**	**2020 Bank**	**2020 Subsidiaries**	**2020 Total**	**2019 Total**
Sir K. Constantinou, OBE	10/10	-	561,304	300,000	861,304	921,304
R. Fleming, CSM*	10/10	-	-	-	-	-
G. Robb, OAM	10/10	-	340,027	120,000	460,027	463,152
F. Talao	0/10	(Dec 2019)	-	-	-	378,152
E. B Gangloff	10/10	-	343,152	60,000	403,152	403,152
A. Mano	3/10	(Jun 2020)	214,239	45,000	259,239	340,652
A. Sam	10/10	-	333,777	-	333,777	330,652
Dr. F Lua'iufi	9/10	-	305,652	60,000	365,652	305,652
S. Davis	10/10	-	330,652	-	330,652	330,652
R. Bradshaw	10/10	-	318,152	-	318,152	305,652
P. Kevin	8/8	Apr 2020	239,339	-	239,339	-
F. Bouraga	0/0	Dec 2020	40,400	-	40,400	-
			3,026,694	**585,000**	**3,611,694**	**3,779,020**
Shareholder Approved Cap					**4,500,000**	**4,500,000**

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

Executive Remuneration

The specified executives as at 31 December 2020 were:

Robin Fleming, CSM	Frank van der Poll	Ronesh Dayal	Mike Hallinan
Nuni Kulu	Peter Beswick	Rohan George	Kili Tambua
Hari Rabura	Andy Roberts	Daniel Faunt	

All amounts are expressed in K'000

Year	Salary	Short term incentive	Value of benefits	Long term incentive	Leave encashment	Final entitlements[1]	Total
2020 executive remuneration	16,016	2,213	1,466	-	97	2,037	**21,829**
2019 executive remuneration	14,375	3,787	979	4,509	489	-	**24,139**

[1]Final entitlements paid were for executives who exited the Bank in 2020 and constitutes statutory leave pay outs.

36. Directors and Executive Remuneration (continued)

Executive remuneration

The number of employees or former employees whose income from the Bank was equal to or greater than K100,000 during the year, are classified in income bands of K10,000 as follows:

Remuneration K'000	2020 No.	2019 No.	Remuneration K'000	2020 No.	2019 No.	Remuneration K'000	2020 No.	2019 No.
100 – 110	122	53	530 – 540	2	2	1030 – 1040	1	-
110 – 120	71	61	540 – 550	4	-	1050 – 1060	2	-
120 – 130	76	47	550 – 560	1	1	1060 – 1070	2	2
130 – 140	43	31	560 – 570	1	-	1070 – 1080	1	1
140 – 150	47	29	570 – 580	2	2	1080 – 1090	2	-
150 – 160	33	17	580 – 590	-	1	1090 – 1100	1	-
160 – 170	19	20	590 – 600	1	2	1100 – 1110	1	-
170 – 180	25	23	600 – 610	1	1	1110 – 1120	1	1
180 – 190	26	16	610 – 620	2	3	1120 – 1130	-	1
190 – 200	21	11	620 – 630	2	1	1130 – 1140	-	1
200 – 210	13	15	630 – 640	2	-	1140 – 1150	2	1
210 – 220	20	14	640 – 650	1	1	1150 – 1160	1	-
220 – 230	13	9	650 – 660	3	2	1170 – 1180	1	-
230 – 240	9	8	660 – 670	1	2	1180 – 1190	-	1
240 – 250	12	16	680 – 690	1	1	1190 –1200	1	1
250 – 260	10	4	690 – 700	1	-	1200 – 1210	-	1
260 – 270	11	4	700 – 710	-	1	1210 – 1220	-	1
270 – 280	4	5	710 – 720	2		1220 – 1230	-	1
280 – 290	5	-	720 – 730	-	1	1240 – 1250	1	-
290 – 300	3	5	730 – 740	1	1	1250 – 1260	1	-
300 – 310	12	4	740 – 750	-	1	1260 – 1270	-	1
310 – 320	1	5	750 – 760	-	1	1270 – 1280	1	-
320 – 330	9	-	760 – 770	1		1280 – 1290	-	1
330 – 340	3	2	770 – 780	-	2	1350 – 1360	1	1
340 – 350	1	1	780 – 790	1	3	1360 – 1370	1	-
350 – 360	4	2	790 – 800	1	3	1370 – 1380	1	-
360 – 370	1	2	810 – 820	2	-	1390 – 1400	1	-
370 – 380	4	5	820 – 830	2	1	1400 – 1410	1	1
380 – 390	3	-	840 – 850	2	1	1410 – 1420	1	
390 – 400	5	1	850 – 860	2		1420 – 1430	1	-
400 – 410	7	2	860 – 870	1	1	1430 – 1440	-	1
410 – 420	3	1	870 – 880	1	2	1470 – 1480	-	1
420 – 430	5	11	880 – 890	1	1	1480 – 1490	1	-
430 – 440	4	2	890 – 900	3	1	1590 – 1600	-	1
440 – 450	3	3	900 – 910	-	1	1610 – 1620	1	-
450 – 460	3	1	910 – 920	2	-	1650 – 1660	-	1
460 – 470	2	4	930 – 940	-	2	1680 – 1690	-	1
470 – 480	4	3	960 – 970	-	1	1720 – 1730	-	1
480 – 490	3	2	970 – 980	2	-	1980 – 1990	2	-
490 – 500	6	4	980 – 990	-	1	2070 – 2080	-	1
500 – 510	2	3	990 – 1000	1	-	2410 – 2420	-	1
510 – 520	-	2	1000 – 1010	-	1	2240 – 2250	1	-
520 – 530	6	4	1020 – 1030	-	1	4840 – 4850	1	-
						7480 – 7490	-	1
						Total	**756**	**523**

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. Remuneration of Auditor

	Consolidated		Bank	
All amounts are expressed in K'000	**2020**	**2019**	**2020**	**2019**
Financial statement audits	5,054	4,347	3,749	3,126
Other services	434	514	434	463
	5,488	**4,861**	**4,183**	**3,589**

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 Bank of South Pacific Limited

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

Our opinion

We have audited the financial statements of Bank of South Pacific Limited (the Bank), which comprise the statements of financial position as at 31 December 2020, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2020 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020, 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 opinion.

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

Independence

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

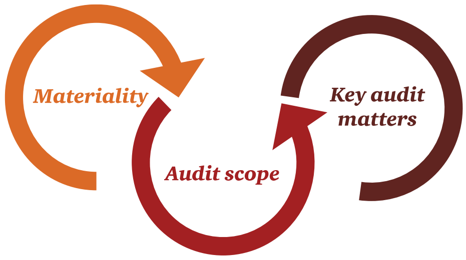
Our firm carries out other services for the Group in the areas of audit-related and tax advice services. The provision of these other services has not impaired our independence as auditor of the Bank and the Group.

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

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	Audit scope	Key audit matters

• 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 related thresholds.
	• We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea (PNG) which is 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, Cambodia, Cook Islands, and Vanuatu the audit work was performed by other PwC network firms or other 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.
		• Amongst other relevant topics, we communicated the following key audit matters to the Board Audit & Compliance Committee:
		  • Loan loss provisioning
		  • IT General Control Environment
		• 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 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. IFRS 9 *Financial Instruments* (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application. The key areas of judgement included: • The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables (refer to Note 15 and Note 22) • The identification of exposure for which there has been a significant increase in credit risk • Assumptions used in the expected credit loss model such as valuation of collateral and assumptions made on future values, financial condition of counterparties, expected future cash flows and forward looking macroeconomic factors • The need to apply additional model adjustments to reflect current or future external factors that are not appropriately captured by the expected credit loss model The developing COVID 19 pandemic has meant assumptions regarding economic outlook and the consequential impact on the Bank's customers is uncertain, increasing the degree of judgement required in calculating the loan loss provisions. This includes judgements regarding the impact of COVID 19 on forward looking information, including variables used in macroeconomic scenarios and their associated weightings.	The procedures we performed to support our audit conclusions, included: • Consideration of the appropriateness of accounting policies and assessment of the loan impairment methodology applied, compared to the requirements of IFRS 9. This included obtaining an understanding and assessment of the reasonableness of the key outputs of the model, as well as key judgements and assumptions used by management in implementation of the model, the mathematical accuracy of the IFRS 9 provisioning model and a particular focus on the impact of COVID 19. • Reviewing the design and operating effectiveness of key controls around the credit origination processes, the credit monitoring processes and the credit inspection unit's customer loan file reviews. • Review of the impairment methodology to establish the critical fields used in the computation of Stage 1 and Stage 2 provisions. On a sample basis testing the critical fields identified to have an impact on the expected credit loss provision by agreeing this back to source documentation. • For loans and advances in Stage 1 and Stage 2, critically examining the model methodology for consistency and appropriateness. This included evaluation of the appropriateness of the estimates made on the Probability of Default, Loss Given Default and Exposure at Default. This also included assessing the appropriateness of probability-weighted and staging criteria. • For Stage 3 loans and advances, audit procedures were carried out over the completeness of the credit watch list and delinquencies, assumptions made in the valuation of collateral and recovery cash flows. • For model adjustments, we considered the basis for and data used to determine the adjustments. This included making an independent assessment of both the credit environment and the macro-environment in which the Group operates. • For IFRS 9 related disclosures in the financial statements, we reviewed the accuracy and completeness in line with the Bank's accounting policies and IFRS 9 requirements.
IT General Control Environment 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.	For significant financial statement line items, we gained an understanding of the business processes, key controls and IT systems used to generate and support those line items.

Key audit matter	How our audit addressed the key matter
There are some areas of the audit where we seek to place reliance on system functionality including certain automated controls, system calculations and reports. 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. 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. 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 International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of the 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2020:

- 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

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
24 February 2021

For information or feedback

BSP FINANCIAL GROUP LIMITED
P O Box 78 Port Moresby, NCD, Papua New Guinea
Telephone: +675 320 1212 | +675 7030 1212
Email: servicebsp@bsp.com.pg
Website: www.bsp.com.pg