Bank of South Pacific Limited and Subsidiaries

Half-year financial report

For the half-year ended

30 June 2013

Contents of Financial Statements

Directors' Report

The Directors of Bank of South Pacific Limited ("the Bank") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2013.

Directors and officers

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

Mr K Constantinou, OBE	Mr R Fleming (Appointed 1 June 2013)
Mr G Aopi, CBE	Sir N Bogan, KBE
Mr T E Fox, OBE	Mr I B Clyne (Resigned 31 May 2013)
Mr C C Procter	Mr J G Jeffery, CBE (Resigned 23 May 2013)
Mr G Robb, OAM	Ms F Talao
Dr I Temu	

Principal activities

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

Review of operations

The net profit of the Group for the half year ended 30 June 2013, after tax and non-controlling interests was K204.525 million (Half year ended 30 June 2012: K204.013 million).

Dated and signed at Port Moresby this 30th day of August 2013

K Constantinou, OBE
Chairman

R Fleming
Group Chief Executive Officer/Managing Director

Deloitte.

Deloitte Touche Tohmatsu

Deloitte Tower, Level 12
Douglas Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com/pg

Independent Auditor's Review Report

to the members of Bank of South Pacific Limited and its subsidiaries

We have reviewed the accompanying half-year financial report of Bank of South Pacific Limited and its subsidiaries, which comprise the condensed consolidated statement of financial position as at 30 June 2013, and the condensed consolidated statement of profit & loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in shareholders equity for half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the Bank and the entities it controlled at the end of the half-year or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with International Financial Reporting Standards IAS 34 Interim Financial Reporting. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Auditing Standard on Review Engagements (ISRE) *2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bank of South Pacific Limited and its subsidiaries is not in accordance with the Companies Act 1997, including:

(a) giving a true and fair view of the Bank of South Pacific Limited and its subsidiaries financial position as at 30 June 2013 and of their performance for the half-year ended on that date in accordance with International Accounting Standard 34 Interim Financial Reporting; and

(b) proper accounting records have been kept by the company

Other information

We also have provided other advisory services during the period.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

By: Paul Barber

Registered under the Accountants Act 1996

Partner, Chartered Accountants

Port Moresby, this 30th day of September 2013

STATEMENT BY THE DIRECTORS
FOR THE HALF YEAR ENDED 30 JUNE 2013

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and

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

Dated and signed in accordance with a resolution of the directors at Port Moresby this 30th day of August 2013.

K Constantinou, OBE
Chairman

R Fleming
Group Chief Executive Officer/Managing Director

CONDENSED CONSOLIDATED STATEMENT OF PROFIT & LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 JUNE 2013

		Group		Bank	
		Half Year Ended		Half Year Ended	
	Note	30 June		30 June	
All amounts are expressed in K'000		2013	2012	2013	2012
Interest income	2(a)	382,955	371,009	382,955	371,009
Interest expense	2(a)	(26,339)	(34,207)	(25,923)	(33,566)
Net interest income		**356,616**	**336,802**	**357,032**	**337,443**
Fee and commission income	2(b)	130,947	119,192	130,947	119,192
Other income	2(c)	193,673	160,486	158,516	123,195
Net banking operating income		**681,236**	**616,480**	**646,495**	**579,830**
Net insurance premium income		70,413	63,466	-	-
Decrease in policy liabilities		(6,101)	(8,643)	-	-
Claims, surrender and maturities		(25,418)	(22,360)	-	-
Net insurance operating income		**38,894**	**32,463**	-	-
Total net operating income before impairment and operating expenses		**720,130**	**648,943**	**646,495**	**579,830**
Loan impairment expense	2(d)	(48,533)	(29,904)	(48,533)	(29,904)
Other operating expenses	2(e)	(390,443)	(345,533)	(318,950)	(278,315)
Operating profit before tax		**281,154**	**273,506**	**279,012**	**271,611**
Income tax expense		(76,629)	(69,493)	(76,440)	(69,356)
Profit for the period		**204,525**	**204,013**	**202,572**	**202,255**
Other comprehensive income					
Exchange difference - translation of foreign operations/subsidiaries		(5)	(1,063)	(5)	(1,061)
Net value gain on revaluation of assets subject to operating lease		-	12,296	-	12,296
Net value gain on revaluation of share options		900	845	900	845
Other comprehensive income, net of tax		**895**	**12,078**	**895**	**12,080**
Total comprehensive income for the period		**205,420**	**216,091**	**203,467**	**214,334**
Earnings per share (toea per share)					
Earnings per share – Basic and diluted (toea per share)		43.7	43.1	43.2	42.8

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

		Group		Bank	
		Half Year Ended	Year Ended 31 December	Half Year Ended	Year Ended 31 December
All amounts are expressed in K'000	Note	30 June 2013	2012	30 June 2013	2012
ASSETS					
Cash and balances with Central Bank		1,693,021	1,806,597	1,650,020	1,764,275
Treasury & Central Bank bills		3,516,702	3,237,517	3,516,702	3,237,517
Amounts due from other banks		786,796	327,563	786,796	327,563
Loans and advances to customers	4	5,238,189	4,804,626	5,182,398	4,750,793
Property, plant and equipment		678,745	744,292	652,183	718,279
Assets subject to operating lease		65,365	69,226	65,365	69,226
Other financial assets		1,772,522	1,557,950	1,555,343	1,354,659
Investment in associates & joint ventures		70,612	65,729	12,563	12,563
Investment in subsidiaries		-	-	215,517	215,517
Intangible asset		257	2,243	-	-
Investment properties		60,498	56,755	-	-
Asset held for sale		-	3,706	-	-
Deferred tax assets		128,204	111,141	121,605	110,401
Other assets		802,673	545,757	704,772	452,600
Total assets		**14,813,584**	**13,333,102**	**14,463,264**	**13,013,393**
LIABILITIES					
Amounts due to other banks		149,886	72,775	168,876	90,828
Amounts due to customers		11,927,462	10,860,522	12,000,870	10,920,691
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		989,903	714,735	516,775	285,157
Provision for income tax		38,294	13,112	38,200	13,022
Deferred tax liabilities		39,672	34,560	33,379	28,358
Other provisions		95,010	95,980	91,039	91,198
Total liabilities		**13,315,752**	**11,867,209**	**12,924,664**	**11,504,779**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

		Group		Bank	
		Half Year Ended	Year Ended	Half Year Ended	Year Ended
		30 June	31 December	30 June	31 December
All amounts are expressed in K'000	Note	2013	2012	2013	2012
SHAREHOLDERS EQUITY					
Ordinary shares		381,532	384,814	381,532	384,814
Assigned Capital-Fiji	5	-	-	24,883	24,883
Retained earnings		904,474	870,148	870,665	838,292
Other reserves		211,826	210,931	261,520	260,625
Total shareholders' equity		**1,497,832**	**1,465,893**	**1,538,600**	**1,508,614**
Total equity and liabilities		**14,813,584**	**13,333,102**	**14,463,264**	**13,013,393**

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2013

All amounts are expressed in K'000	Notes	Share capital	Assigned capital	Reserves	Retained earnings	Total
GROUP						
Balance at 1 January 2013		**384,814**	**-**	**210,931**	**870,148**	**1,465,893**
Other comprehensive income		-	-	895	-	895
Profit for the period		-	-	-	204,525	204,525
Dividend paid		-	-	-	(170,199)	(170,199)
Share buy back		(3,282)	-	-	-	(3,282)
Balance at 30 June 2013		**381,532**	**-**	**211,826**	**904,474**	**1,497,832**
GROUP						
Balance at 1 January 2012		**426,444**	**-**	**196,346**	**721,398**	**1,344,188**
Other comprehensive income		-	-	12,078	-	12,078
Profit for the period		-	-	-	204,013	204,013
Dividend paid		-	-	-	(157,687)	(157,687)
Share buy back		(27,099)	-	-	-	(27,099)
Balance at 30 June 2012		**399,344**	**-**	**208,425**	**767,723**	**1,375,491**
BANK						
Balance at 1 January 2013		**384,814**	**24,883**	**260,625**	**838,292**	**1,508,614**
Other comprehensive income		-	-	895	-	895
Profit for the period		-	-	-	202,572	202,572
Share buy back		(3,282)	-	-	-	(3,282)
Dividend paid		-	-	-	(170,199)	(170,199)
Balance at 30 June 2013		**381,532**	**24,883**	**261,520**	**870,665**	**1,538,600**
BANK						
Balance at 1 January 2012		**426,444**	**24,882**	**250,579**	**697,698**	**1,399,603**
Other comprehensive income		-	-	12,080	-	12,080
Profit for the period		-	-	-	202,255	202,255
Share buy back	5	(27,099)	-	-	-	(27,099)
Dividend paid		-	-	-	(157,687)	(157,687)
Balance at 30 June 2012		**399,345**	**24,882**	**262,659**	**742,266**	**1,429,152**

See accompanying Notes to the condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE HALF-YEAR ENDED 30 JUNE 2013

		Group		Bank	
		Half Year Ended 30 June		Half Year Ended 30 June	
All amounts are expressed in K'000	Notes	2013	2012	2013	2012
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		372,861	377,754	372,861	377,099
Fees and other income		349,888	297,660	289,379	243,152
Interest paid		(24,746)	(38,797)	(24,058)	(38,152)
Amounts paid to suppliers and employees		(288,815)	(251,308)	(244,559)	(215,883)
Operating cash flow before changes in operating assets		**409,188**	**385,309**	**393,623**	**366,216**
Increase in loans		(478,537)	(256,024)	(480,138)	(263,856)
Increase in bills receivable and other assets		(127,739)	(98,318)	(127,739)	(98,318)
Increase in deposits		1,070,675	1,210,207	1,080,179	1,278,238
Decrease in bills payable and other liabilities		201,160	271,605	201,160	271,605
Net cash flow from operations before income tax		**1,074,747**	**1,512,779**	**1,067,084**	**1,553,885**
Income taxes paid		(56,254)	(52,031)	(57,460)	(51,921)
Net cash flow from operating activities		**1,018,493**	**1,460,748**	**1,009,625**	**1,501,965**
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in Government securities		(482,384)	(463,664)	(479,869)	(439,532)
Payments for property, plant & equipment		(90,063)	(78,693)	(86,620)	(77,164)
Costs for disposal of property, plant & equipment		(18)	1,236	(33)	1,034
Costs from other investments		(1,590)	-	-	-
Investments in associates		-	(16,545)	-	(16,545)
Movement in share trading activities		(14,503)	6,311	-	-
Net cash flow used in investing activities		**(588,558)**	**(551,355)**	**(566,522)**	**(532,207)**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF-YEAR ENDED 30 JUNE 2013

		Group		Bank	
		Half Year Ended		Half Year Ended	
		30 June		30 June	
All amounts are expressed in K'000	Notes	2013	2012	2013	2012
CASH FLOW FROM FINANCING ACTIVITIES					
Share buy back		(3,282)	(27,099)	(3,282)	(27,099)
Proceeds of amount due to holding company		-	417	-	-
Client Management Trust		15,085	-	-	-
Dividends paid		(170,500)	(157,687)	(170,199)	(157,687)
Others		-	(3,140)	-	-
Net cash flow used in financing activities		**(158,697)**	**(187,509)**	**(173,481)**	**(184,786)**
Net Increase in cash and cash equivalents		**271,238**	**721,883**	**269,622**	**784,971**
Effect of exchange rate movements on cash and cash equivalents		(2,692)	1,434	(2,692)	1,258
Cash and cash equivalent at the beginning of the period		2,061,385	1,423,569	2,001,010	1,304,356
Cash and Cash Equivalents at the end of the year	10	**2,329,931**	**2,146,886**	**2,267,940**	**2,090,585**

See accompanying Notes to the condensed consolidated financial statements

1. Statement of significant accounting policies

Statement of compliance

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

Basis of preparation

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

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Papua New Guinea Kina (K), unless otherwise noted.

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2013 financial report for the financial year ended 31 December 2012. These accounting policies are consistent with International Financial Reporting Standards (IFRS).

Change in accounting policy

The Group recognised its current and deferred tax balance at interim based on IAS 12, Income Tax.

In the past interim period, the Group recognised the income tax for the reporting period is deferred on the basis of the tax expected to apply for the full financial year.

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

	Group Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts expressed are in K'000	2013	2012	2013	2012
Interest Income				
Domestic loans and advances	276,391	240,511	276,391	240,511
Public securities: Treasury bills/inscribe stock	102,578	123,554	102,578	123,554
Other loans and advances	2,963	5,821	2,963	5,821
Other	1,023	1,123	1,023	1,123
	382,955	371,009	382,955	371,009
Interest Expense				
Current and term deposits	(15,972)	(25,313)	(15,972)	(25,313)
Other borrowings	(3,713)	(4,642)	(3,713)	(4,642)
Deposits from other banks	(6,654)	(4,252)	(6,238)	(3,611)
	(26,339)	(34,207)	(25,923)	(33,566)
	356,616	336,802	357,032	337,443

(b) Fee and commission income

Fees and commissions	130,947	119,192	130,947	119,192

(c) Other income

Foreign exchange earnings	137,737	103,738	137,737	103,738
Other	55,936	56,748	20,779	19,457
	193,673	160,486	158,516	123,195

(d) Loan impairment expense

New write off	(14,781)	(10,050)	(14,781)	(10,050)
Net new and increased individually assessed and collective provisioning	(44,439)	(28,410)	(44,439)	(28,410)
Recoveries during the period	10,687	8,556	10,687	8,556
	(48,533)	(29,904)	(48,533)	(29,904)

(e) Other operating expenses

Staff	(150,934)	(147,882)	(148,370)	(137,629)
Depreciation	(53,176)	(32,620)	(53,162)	(31,142)
Computing	(17,483)	(18,258)	(17,478)	(18,258)
Premises and equipment expenses	(30,210)	(25,300)	(29,974)	(25,300)
Administration and other expenses	(138,640)	(121,473)	(69,966)	(65,986)
	(390,443)	(345,533)	(318,950)	(278,315)

3. Dividends

On 24 May 2013, the directors declared a final dividend of 38 toea per share. The final gross dividend amount of K178.001m was declared. Net dividend paid after dividend withholding tax was K170.199m.

4. Loans and advances to customers

	Group		Bank	
All amounts expressed are in K'000	Half year ended 30 June 2013	Year Ended 31 December 2012	Half year ended 30 June 2013	Year Ended 31 December 2012
Gross loans and advances net of reserved interest	5,488,640	5,025,159	5,431,679	4,965,514
Allowances for losses on loans and advances	(250,451)	(220,533)	(249,281)	(214,721)
Net loans and advances to customers	5,238,189	4,804,626	5,182,398	4,750,793
Industry concentration of loans and advances to customers				
Commerce, finance and other business	2,521,744	2,046,913	2,466,251	2,001,913
Private households	1,000,841	946,132	1,000,543	938,832
Government and public authorities	44,788	101,621	44,788	100,088
Agriculture	248,432	295,082	248,432	295,082
Transport and communication	611,827	597,891	611,827	597,891
Manufacturing	323,370	358,509	323,370	358,509
Construction	487,187	458,478	487,187	458,478
	5,238,189	4,804,626	5,182,398	4,750,793

5. Assigned capital

Assigned capital of K24,883 is maintained by BSP Fiji branch to comply with the statutory requirements of the Reserve Bank of Fiji.

6. Capital adequacy and liquid assets ratio

The Bank and Group are required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. In all months, the Bank and the Group complied with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2013, the Bank and Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for well-capitalised. The minimum requirement as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

	Half year ended		**Year ended**	
	30 June 2013	30 June 2013	31 Dec 2012	31 Dec 2012
Risk weighted capital ratios	K'000	%	K'000	%
Tier 1 Capital	1,199,268	15.6	1,185,382	17.4
Tier 1 & Tier 2 Capital	1,541,161	20.0	1,516,086	22.3

- The Bank and Group complies with the Minimum Liquid Assets Ratio ("MLAR") and Cash Reserve Requirement ("CRR") set by the regulatory authority, the Bank of Papua New Guinea ("BPNG"). The MLAR is the minimum ratio of liquid assets to total customer deposits considered by the regulator as sufficient to support exceptional liquidation by depositors, of their funds. The requirement to hold a minimum of 25% of the value of total customer deposits in the form of prescribed liquid assets is now reduced to zero percent in accordance with Bank of Papua New Guinea ("BPNG") monetary policy statement issued in September 2010. As at 30 June 2013, the Bank and the Group's Liquid Asset Ratio was approximately 38.53% (2012: 45.97%).

- The CRR specifies that a Bank must hold an amount equal to 8% of its total customer deposits in the form of cash in an account maintained at the BPNG. The Bank and Group complies with this daily requirement on an ongoing basis.

7. Contingent liabilities and commitments

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

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

Off-balance-sheet financial instruments

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

	Group		Bank	
All amounts expressed are in K'000	Half Year Ended 30 June 2013	Year Ended 31 December 2012	Half Year ended 30 June 2013	Year Ended 31 December 2012
Standby letters of credit	48,381	18,051	48,381	18,051
Guarantees and indemnities issued	277,722	179,073	277,432	179,073
Trade letters of credit	43,159	86,963	41,144	86,963
Commitments to extend credit	559,015	1,233,631	559,015	1,178,340
	928,277	1,517,718	925,972	1,462,427

Commitments for capital expenditure

Commitments for Capital Expenditure not included in the accounts as at 30 June 2013 amounted to K174.1 million (31 December 2012: K239.2 million).

Legal proceedings

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Bank and Group were outstanding as at 30 June 2013. No provision has been made as existing management information and professional advice indicate that it is unlikely that any significant loss will arise. Based on information available at 30 June 2013, the Bank and Group estimates a contingent liability of K56.790 million in respect of these proceeding (31 December 2012: K74.780 million).

Statutory deposit

Cash reserve requirement – from 8% of all amounts due to customers in PNG	963,851	873,198	813,904	742,495

Operating lease commitments

	Group		Bank	
All amounts expressed are in K'000	Half Year Ended 30 June 2013	Year Ended 31 December 2012	Half Year Ended 30 June 2013	Year Ended 31 December 2012
Not later than 1 year	13,341	23,048	13,341	23,048
Later than 1 year and not later than 5 years	73,781	80,914	73,781	80,914
Later than 5 years	-	-	-	-
	87,122	103,962	87,122	103,962

8. Derivative financial instruments

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

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

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

Forward exchange contracts				
Buying	(119,389)	(47,370)	(119,389)	(47,370)
Selling	279,791	97,755	279,791	97,755
	160,402	50,385	160,402	50,385

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

9. Related party

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

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

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

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

	Group		Bank	
All amounts expressed are in K'000	Half Year Ended 30 June 2013	Half Year Ended 30 June 2012	Half Year Ended 30 June 2013	Half Year Ended 30 June 2012
Loans to :				
Parties where the related party interest is primarily in shares	163,133	205,813	163,133	205,813
Parties where the related party interest is primarily in an executive capacity	176,825	223,090	176,825	223,090
General staff	64,791	74,769	64,791	74,769
	404,749	503,672	404,749	503,672

10. Notes to condensed consolidated statements of cash flows

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

	Group		Bank	
	Half Year Ended 30 June		Half Year Ended 30 June	
All amounts expressed are in K'000	2013	2012	2013	2012
Cash and balances with Central Bank	1,693,021	1,987,714	1,650,020	1,948,698
Due from other banks	786,796	180,611	786,796	180,611
Due to other banks	(149,886)	(21,439)	(168,876)	(38,726)
	2,329,931	2,146,886	2,267,940	2,090,583

11. Segment information

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

All amounts expressed are in K'000

Half year ended

30 June 2013	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	248,815	348,995	72,613	1,618	4,624	43,465	720,130
Costs	(231,299)	(99,465)	(68,691)	(3,398)	(34,372)	(1,751)	(438,976)
Operating results	17,516	249,530	3,922	(1,780)	(29,748)	41,714	281,154
Income tax expense							(76,629)
Profit after tax							204,525

All amounts expressed are in K'000

Half year ended

30 June 2012	Retail	Wholesale	Insurance	BSP Capital	Others	Adjust Inter Segments	Total
Revenue	177,260	305,742	62,786	1,686	14,716	86,753	648,943
Costs	(101,473)	(163,072)	(58,888)	(3,031)	(60,952)	11,979	(375,437)
Operating results	75,787	142,670	3,898	(1,345)	(46,236)	98,732	273,506
Income tax expense							(69,493)
Profit after tax							204,013

12. Subsequent events

On 30 August 2013, the board approved an interim dividend of 20 toea per share on 2013 half year profits.