

2017

ANNUAL REPORT

BANK OF SOUTH PACIFIC LIMITED



When we were considering concepts for the Annual Report 2017, we looked at many annual reports that we have produced over the years.

One of these, was an iconic cover that showed our then General Manager, Human Resources, Aho Baliki. The image merged customary dress and our work uniform.

30 years on, we illustrate the growth and change in the Bank, and the cover design is a remake of the 1983 Annual Report cover.



1983 ANNUAL REPORT COVER

HARI RABURA

General Manager, Human Resources

The traditional attire hails from the Motu Koitabuan area within Port Moresby, Papua New Guinea.

The tattoos are significant, as they identify clans, family lines and status in society. The face tattoos suggest that she comes from Kirakira village, that of a chief's family and the markings on the neck signifies marital status.

The necklace is made from wild banana seeds (black) and a pearl shell worn in the centre, signifying wealth. The grass skirt is made from nipa palm leaves, while the headdress is made from parrot and cassowary feathers.



WE ARE YOU, WE ARE BSP

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Our Vision

To be the leading financial services provider in our chosen markets helping customers, staff, shareholders and communities prosper.

Our Mission

To create value for our stakeholders by delivering innovative and cost effective financial services.

Key Features of BSP Strategy

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

OUR CORE VALUES

INTEGRITY

We are honest, committed, trustworthy and reliable in our dealings with our customers and each other.

LEADERSHIP

We inspire, we change, and we live our values, and lead by example.

PROFESSIONALISM

We commit ourselves to continual self-development to achieve standards of excellence in our performance.

PEOPLE

We respect and value our people and our customers.

QUALITY

We are committed to excellence whilst striving for continuous improvement in products and services.

COMMUNITY

We respect, value and support the communities in which we operate.


TEAMWORK


We work with, and for, each other; we progress together.





BSP Cook Islands Team





 79 Branches

 52 Sub-Branches

 351 Agents

 499 ATMs

 11,343 EFTPoS

 4,261 Staff

APRA Disclaimer:

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





Sir Kostas G. Constantinou, OBE
Chairman

CHAIRMAN'S REPORT

BSP Group has once again achieved a record financial result for 2017 on the back of an excellent growth that was noted in 2016. Audited net profit after tax for 2017 was PGK757 million, an increase of 17.6% (or K113.55 million) over 2016. Total assets have grown by 7% to PGK22.37 billion. Nearly all BSP businesses have performed well throughout a year that presented various macroeconomic challenges.

In 2017, BSP embarked on two strategically important initiatives that will substantially shape the business of banking in the countries in which we operate in for many years to come. The implementation of a new Core Banking system (which I will touch on later) and Digital Banking, the growth and technological development of which will be an area of increasing focus for the BSP Group.

While global growth has strengthened over the year, business conditions were challenging, given the modest economic growth in most of the countries in which BSP operates. The Pacific region forecast growth is at 2.9% for 2017, primarily reflecting slow recovery in international commodity prices and flow-on impacts of natural disasters. Commodity prices for LNG and gold increased moderately, while agricultural commodities declined over the course of the year. PNG's economy grew by an estimated 2.2% in 2017, due to the impact of low commodity prices on government revenue and continued fiscal challenges. In the non-PNG economies, growth has been mixed with Cambodia, Cook Islands and Vanuatu expecting relatively strong levels of growth, while Tonga, Solomon Islands and Fiji reported moderate growth in 2017, and Samoa experienced minimal growth. Notwithstanding this, demand fundamentals and activity indicators remain positive hence BSP is cautiously optimistic about its future growth prospects.

The latest Standard and Poor's assessment of BSP continues to be at the maximum rating possible for a Papua New Guinea based entity (B+/negative/B).

BSP's 2017 results reflect the continued realisation of its strategic initiative of rebalancing the proportionate concentration of profit from our home market of PNG, with approximately 21% of profit and 27% of balance sheet assets now generated from outside of PNG. Our branches and subsidiaries continue to make good progress, and I am pleased to repeat my previous statement that BSP is truly a South Pacific Bank in every sense, committed to partnering with people, businesses and governments in supporting economic opportunity and development across the region's communities.

The diversification of our financial service lines continues with BSP Life PNG commencing its operations in early 2018. This is again another milestone for BSP, which will permit us to offer life cover for our Personal Loan customers initially and in the second half of 2018 to be able to sell an endowment product across our network in PNG. The existing Life Insurance business in Fiji has once again produced good results in 2017, with continued profitability improvements and balance sheet management. BSP's Asset Finance operations continue to grow with operations commencing in both Cambodia and Solomon Islands during 2017.

In 2017, BSP also introduced a new EMV Chip Card with contactless "Touch and Go" capability which has been well received by our customers who appear to be adapting well to the "Touch and Go" feature. Our objective is to provide as many customers as possible with the new cards and our branch and operation staff are ensuring we are delivering these as efficiently and promptly as possible.

This year BSP embarked on a project to implement a new Core Banking system across our regional network, using Oracle's FlexCube product. The new FlexCube system implementation will result in BSP having one common operating system, including ancillary systems for Treasury, loan origination, Mobile Banking, Internet Banking, etc. for the very first time since BSP commenced its expansion strategy over 10 years ago. Another focal point for the Group is "Digital Banking", its growth, technological developments and how such developments will affect the way our customers interact with BSP and what that means for the branch of the future and our customers.

In 2017, two long serving and highly respected Directors retired from the BSP Group Board. Dr Ila Temu retired in August after 14 consecutive years of service on the Board, while Gereia Aopi retired in September after 15 years of uninterrupted contribution. Both also served on Board sub-committees throughout their tenures. Their professional contributions and support for BSP over many years deserve special mention and we wish both gentlemen every future success. The Board has welcomed new members to fill these vacant positions.

Stuart Davis, a former HSBC India CEO joined the board in August 2017 and prominent PNG lawyer, Robert Bradshaw also joined the board in September 2017. They are two very capable replacements.

BSP Group has managed to produce yet another year of record results in 2017, at a time when economic conditions across its markets have been subdued. The BSP Group has once again outperformed its major competitors. Our key metrics of ROE, ROA and cost to income continue to trend positively. Staff and management are commended for their efforts in producing these results and maintaining BSP Group's leading position in the South Pacific region.

The coming year will continue to present challenges, however notwithstanding less buoyant economic conditions, I remain confident that BSP will perform resolutely. The support of its stakeholders, its competitive operations, and the effective execution of our strategy will enable BSP Group to produce another successful year in 2018.

Sir Kostas G. Constantinou, OBE
Chairman

A BRIEF HISTORY OF BSP

BSP is the leading bank in PNG and has a long and proud 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 Bank of Australasia Ltd. 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 (PNGBC) in 2002, creating the largest bank in PNG. 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 Ltd in 2009. In 2015 and 2016, BSP completed the acquisition of Westpac's operations in Cook Islands, Samoa, Solomon Islands, Tonga and Vanuatu, significantly expanding and strengthening BSP's geographic reach. Today, BSP continues to be a leading force in PNG and the South Pacific markets with the largest branch network, and is a pioneer in bringing financial innovation and technology to the region.

KEY MILESTONES IN BSP'S DEVELOPMENT

1957

Commenced operations in Port Moresby on 1 May 1957 as a branch of National Bank of Australasia Ltd.

1974

BSP incorporated as Bank of South Pacific Ltd, a wholly owned subsidiary of the Australian parent.

1993

National Investment Holdings Ltd, a nationally owned company, acquired BSP from National Australia Bank.

2002

Merged with the state owned Papua New Guinea Banking Corporation.

2003

BSP is listed on the Port Moresby Stock Exchange.

2005

Standard & Poor's issued an inaugural credit rating for BSP of B+.

2006

Established a presence in Fiji through the acquisition of Habib Bank Ltd's Fiji operations, which were rebranded to BSP.

2007

Acquired the National Bank of Solomon Islands Ltd and rebranded to BSP.

2009

Acquired Colonial Bank and Colonial Fiji Life Insurance Ltd from Commonwealth Bank of Australia and rebranded to BSP and BSP Life, respectively.

2014 - 2015

Commenced BSP Finance (Fiji) Ltd in 2014 and commenced BSP Finance (PNG) Ltd in 2015.

2015 - 2016

Acquired Westpac's operations in Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu for A\$125 million.

2017

Commenced Asset Finance operations in May 2017, in Cambodia (rebranded to BSP Finance Cambodia Ltd in January 2018) and commenced BSP Finance (Solomon Islands) Ltd in September 2017. Provisional licence issued in November 2017 for a life insurance company (BSP Life (PNG) Ltd).



Diana Guria - Branch Manager, Port Moresby
and David Mead - BSP Brand Ambassador

BOARD OF DIRECTORS



SIR KOSTAS G. CONSTANTINOU, OBE

Chairman. Director since April 2009. Appointed Chairman February 2011.

Sir Kostas is a prominent business figure in Papua New Guinea (PNG), holding a number of high level public sector and private sector appointments. He is Chairman of various companies, including Airways Hotel and Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Alotau International Hotel and Bank of South Pacific Ltd. He is a Director of Oil Search Ltd, Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo, City Centre Development Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, OPH Ltd, Rangeview Heights Ltd, Grand Pacific Hotel in Fiji, Taumeasina Island Resort in Samoa, Good Taste Company in New Zealand and Loloata Island Resort Ltd in Papua New Guinea. Sir Kostas is also Vice President of the Employers Federation of PNG, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to PNG.



ROBIN FLEMING, CSM, MBA, MMTG

Chief Executive Officer. Director since April 2013.

Robin Fleming was appointed CEO of Bank of South Pacific Ltd in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr. Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNG-BC, Mr. Fleming held senior management roles with PNGBC. He has worked in PNG for over 35 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 PNG Government for services to banking and the community.



FREDA KANEK TALAO, LL.M, MPhil, MAICD

Non - Executive Director. Director since April 2012.

Freda Talao is a lawyer and development specialist and is currently a consultant to Australian Law Firm Holding Redlich in Brisbane. Previously she was a member of the External Stakeholders Advisory Panel (ESAP) to the Hidden Valley Joint Venture (HVJV) Mine owned by Newcrest Ltd and Harmony Gold in Wau, PNG, Deputy Registrar National Court, Executive Director, PEACE Foundation Melanesia and Senior Development Specialist with AUSAID. Ms Talao's previous Board roles includes Director on former Civil Aviation Authority (CAA), PNG Mama Graun Conservation Trust Fund, National Airports Corporation (NAC), Airport City Development Limited (ACDL) Board and the Individual and Community Rights Advocacy Forum (ICRAF). She was one of six PNG women nominated for the Nobel Peace Prize in 2005 as part of the 1000 Peace Women Project and awarded for her work with women, children, youth and communities. Ms Talao holds a Law Degree from University of Papua New Guinea, a Masters in Law from Bond University, Qld (LLM), a Master of Philosophy in Law from University of Queensland (MPHIL) and a Diploma in Business from the Southern Cross University. She is also a member of the Australian Institute of Company Directors (AICD).



GEOFFREY J. ROBB, BA, MBA, OAM, MAICD, GAICD

Non - Executive Director. Director since April 2012.

Geoffrey Robb is a highly qualified and experienced banker having occupied several senior executive positions including Head of Resource Finance at Bank of America, Global Head of Acquisition Finance and Head of Complex and Strategic Transactions with ANZ Banking Group. As Head of Bank of America in Melbourne, he led resource financings with BHP, CRA, Elders Resources, Bougainville Copper, Ok Tedi and Porgera. He holds MBAs from the International Management Institute Geneva and Macquarie University. Mr. Robb has travelled extensively in emerging markets and has received the Medal of the Order of Australia for his services to mountaineering and charity. He is also on the Board of BSP Capital Ltd and Bank South Pacific Tonga Ltd.



ERNEST BRIAN GANGLOFF, CPA, MAICD, MIIA, PNGID

Non - Executive Director. Director since November 2013.

Ernest Gangloff is an Accountant, registered with CPA PNG 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 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. He is also a Director of Gangloff Consulting Limited, and New Britain Palm Oil Ltd. He is the President of the Institute of National Affairs, the Vice President of the SME Business Council and member of Australian Institute of Company Directors. He is also Adjunct Professor of the School of Business, University of Papua New Guinea.



AUGUSTINE MANO, BEcon, MSc

Non - Executive Director. Director since August 2014.

Augustine Mano is an economist and has been the Managing Director of the Mineral Resource Development Corporation (MRDC) for the last 9 years. MRDC is the entity responsible for managing landowner investments and Mr. Mano has lead the organisation in undertaking some major investments such as the Papua New Guinea (PNG) Liquefied Natural Gas (LNG) project, property development and hospitality within PNG, Fiji and Samoa. He has extensive skills and experience in the mining and petroleum sector. He is also involved with construction, transportation and the Insurance industry. He holds a Master of Science Petroleum Economics from the Dundee University, Scotland and Bachelor degrees in Economics and Environmental Science from the University of PNG. Mr. Mano currently holds Chairman and Directorships in a number of entities, including MRDC and its subsidiary companies, Hevilift Group, Insurance Pacific, Pearl Resort, PNG Air, GFS and Handy Group.



ARTHUR SAM, BComm, CPA, MAICD

Non- Executive Director. Director since 2016.

Arthur Sam is a qualified and experienced accountant, registered under CPA PNG. He holds a Bachelor of Commerce from the University of Papua New Guinea and is the Audit and Managing Partner of Sam Kiak Tubangliu Certified Practising Accountants. Mr. Sam previously worked with global accounting firms - PriceWaterhouseCoopers, Deloitte and Ernest & Young, in managerial roles specialising in external and internal audit and risk management. He has held roles with NASFUND Board Audit and Risk Committee and is a Member of the PNG Accountants Registration Board. Mr. Sam has also been a member of the BSP Board Audit & Risk Compliance Committee since June 2013.



FAAMAUSILI DR. MATAGIALOFI LUA'IUFI, BA, MSC, PhD

Non-Executive Director. Director since December 2016.

Faamausili Dr Lua'iufi holds a Doctorate in Philosophy in Management, a Master of Science (Management Sciences), a Bachelor of Arts, in Sociology and Political Science and Diplomas in Training and Management. She served in the Samoa Public Service for 28 years and close to 12 of those years as the Chief Executive Officer of the Public Service Commission. Dr Lua'iufi is currently the Principal Director of Paradise Consulting established in 2008 after resigning from the CEO position of the Samoa Public Service Commission. As a full time consultant she specialises in the fields of Public Sector governance, organisation development and human resources management and to date has undertaken more than 50 assignments in Samoa, Solomon Islands, Niue, Tonga, Cook Island, Tuvalu, Tokelau, Papua New Guinea and Nigeria. Faamausili Dr Lua'iufi has extensive board experience and is a member of the Council and the Executive Committee of the National University of Samoa, Samoa Institute of Directors and the British Institute of Consulting. She has actively participated in many public sector Councils and Policy Committees in Samoa, Asia Eastern Region and the Commonwealth. She was the Pacific Residential Fellow of the Australia New Zealand School of Government (ANZSOG), responsible for the development of emerging young Pacific Public Sector leaders (PACE).



STUART DAVIS, LLB, GAICD

Non-executive Director. Director since August 2017

Stuart Davis is 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, Non-Executive Director and Chairman of the Risk Committee of PayPal Australia Ltd, and Non-Executive Director and member of the Audit and Risk Committee of Bank South Pacific, and Treasurer and Board Member of the Avondale Golf Club Ltd in Pymble, New South Wales. 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 AICD.



ROBERT BRADSHAW, LLB

Non-executive Director. Director since September 2017

Robert Bradshaw was appointed to the BSP Board in September 2017. He is a Lawyer by profession, admitted to practice law in Papua New Guinea (PNG) in 1995. Mr. Bradshaw holds a Bachelor of Laws from the University of PNG and has practised law for over 20 years. He was formerly a Partner in the firm Blake Dawson Waldron (now Ashurst). He commenced practice on his own as 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.



Robin Fleming, CSM
Group Chief Executive Officer

GROUP CEO'S REPORT

I am most delighted to report on another successful year for the BSP Group. Our Chairman, Sir Kostas Constantinou OBE, in his report to shareholders highlighted our exceptional profit outcome for 2017 of K757 million, which represents an increase of 17.6% from 2016. This is a most pleasing result, recognising that Papua New Guinea's 2017 economic conditions were not as buoyant as prior years.

BSP achieved a number of significant milestones in 2017. Our group net profit before tax exceeded K1 billion for the first time, BSP extended its business operations outside of the Pacific region with completion of participation in the BSP Finance Cambodia Plc joint venture with our partners RMA Group, and BSP obtained provisional approval from the Bank of Papua New Guinea to commence a life insurance business in PNG, BSP Life (PNG) Ltd.

Our board recognised some years ago that strategically there was a need for BSP to broaden its revenue base and catchment from our traditional PNG banking market to across the Pacific region and potentially outside of the Pacific. BSP Finance, a wholly owned asset finance business was therefore established towards the end of 2014, with operations commencing in Fiji that year, and PNG in 2015. BSP Finance Solomon Islands was opened in September 2017, which provides BSP Finance with presence in each of the larger South Pacific markets.



BSP Group CEO with BSP Finance staff in Cambodia

BSP Finance's move into South East Asia has been a partnership model with the RMA Group who have undertaken business in the region for over 50 years. The 50% purchase of RMA Financial Services in Cambodia was concluded in May 2017, with formal rebranding to BSP Finance (Cambodia) Plc in January 2018. Whilst small in the overall context of BSP's group operations, BSP Finance Cambodia has the potential to develop its business in a very fast growing and developing economy.

The BSP Group has owned and operated a life insurance business in Fiji since the purchase of Commonwealth Bank's Fiji Colonial Bank and Life assets in 2010. BSP Life is the largest Fiji life insurance business, the second largest funds management business and its endowment products remain popular in the Fiji market.

Noting the ongoing success and profitability of BSP Life Fiji, our board had determined that in developing markets such as PNG, there was consumer demand for this type of life insurance product, and following a detailed assessment and analysis process, embarked on a project to establish a life insurance business in PNG. The Bank of PNG approved our life insurance application towards the end of 2017, and in January 2018 BSP Life PNG commenced operations, initially with risk based products for BSP bank's retail customers, and later in 2018 endowment products.



Bank of PNG issued operating license for BSP Life PNG

The business of banking and our business in PNG remain of course BSP's priority, and the focus of much of our strategic and operational activities. Our new Head Office at Waigani in Port Moresby was completed during the year. All head office and back office staff moved into this building at the end of 2017. This relocation of teams from Finance and Planning, Support Services, Operations, IT, Human Resources, Operational Risk, Audit, International and Retail provides an opportunity for more effective collaboration across the Group, productivity improvements, over and above cost savings from exiting external commercial property leases.

In his report to shareholders, Sir Kostas talked about the initiation of our core banking system replacement project, which will see the introduction of Oracle's FlexCube solution across each of our businesses in the Pacific. BSP currently has three legacy operating systems in our various banking businesses and the deployment of FlexCube in each country will permit increased operating efficiency, common training and product development, and lower operational costs with the use of fewer preferred Oracle vendors for some of the ancillary solutions that will support the new system.



Launch of EMV chip card

The introduction of Euro-Mastercard Visa or EMV Chip enabled Visa and MasterCard at the end of 2017, was also a significant accomplishment for BSP. The chip enabled cards will be rolled out in all other countries by the

third quarter of 2018. As well as continuing to offer our customers world class products, the mandatory upgrades to our EFTPoS, ATM hardware and switching systems, that was required to satisfy stringent EMV compliance requirements, introduces a higher level of risk mitigation within BSP for e-banking products that continue to be exploited world-wide by predominantly off shore criminals.

BSP's financial performance during 2017 was most pleasing with the Group reporting a profit after tax of K757 million (17.6% above 2016), PNG Bank reporting a profit of K598 million (16.4% above 2016), Cook Islands, K4.8 million (63.6% above 2016), Fiji Bank K59.7 million (-0.1% below 2016), Samoa K7.9 million (9.3% above 2016), Solomon Islands K33.5 million (23.5% above 2016), Tonga K12.5 million (16.6% above 2016), Vanuatu K6.8 million (352.9% above 2016-6 months for 2016), BSP Finance K3 million (425% above 2016), and BSP Life Fiji K31.1 million (50.9% above 2016).

Each of our General Managers and Country Managers provide some of their respective highlights of 2017 in this report. A common theme throughout though is understanding our customers' needs and meeting or exceeding those expectations, recognition of capabilities and roles across every strategic business unit, country and subsidiary that assist us deliver a "whole of BSP" outcome for our customers, and a desire to bring financial services to as many people as possible, regardless of their socio-economic status.

Our Corporate team with the support of its Credit and Treasury colleagues continued to perform strongly in lending, assisting growth of our market share in PNG from 54% to 59%, deposit acquisition using our relationship team and branch network for maximum leverage to attract new deposits, and also actively promoting BSP as the preferred bank for foreign exchange transactions in PNG. During the year Corporate also provided specialist lending support to our teams across the Pacific.

In PNG, our Retail team opened 13,552 Kids Savings, 33,468 Sumatin or youth accounts, 151,266 Kundu transaction accounts and 19,933 Plus Saver accounts. In total almost 220,000 new savings / transaction accounts opened for new customers in PNG, many of which are for customers outside of Port Moresby. To encourage savings the Kids Savings, Sumatin and Plus Saver are fee free accounts with higher rates of interest and in total we now have 211,184 fee free accounts with a balance of just over K25 million. Pleasingly almost 60,000 of these fee free accounts with a balance of K15 million are for children.

Recognising the increasing importance of digital banking, continued emphasis is placed on enrolling as many customers as possible onto our Mobile Banking platforms, which in addition to a BSP Card for card based transactions, provides access to mobile phone banking using USSD, smart phone banking using our BSP app, and Internet Banking. We now have 419,000 customers enrolled on Mobile Banking with approximately 35% using these digital banking services at least once a month. This extended to our Corporate customers as well, with a structured plan to have as many of this customer segment enrolled and using our business internet banking solution.

The table below also illustrates the contribution BSP is making to growing the economies of the other countries in which we operate. As with our PNG strategic business units, in addition to growing the business of BSP in these countries, emphasis is also placed on bringing new customers into the financial system.

	Tonga	Samoa	Vanuatu	Solomon Islands	Fiji	Cook Islands
New Kids accounts	63	454	0	73	4,326	78
New savings accounts	5,926	2,733	1,241	2,352	9,019	534
New transaction accounts	3,799	3,066	5,331	11,888	42,949	728
Number of housing loans funded	310	93	40	20	2,196	107
Value of housing loans funded (LCY000s)	24,000	22,263	438,000	15,421	67,800	9,100
Number of SME deposits	101	346	361	N/A	11,655	168
(LCY000s)	6,000	6,475	1,057,000	N/A	212,321	32,800
Number of SME loans	46	86	59	N/A	1,155	433
Value of SME loans (LCY000s)	6,200	1,612	873,000	N/A	163,233	33,700
New mobile banking	N/A	N/A	N/A	18,063	26,996	N/A
Active users of mobile banking	N/A	N/A	N/A	17,248	53,511	N/A

The operational effort to maintain the largest branch and electronic banking network across the South Pacific cannot be underestimated, and our Operations team has to be congratulated for their performance. In addition to project managing the commissioning of our Waigani Head Office in Port Moresby, branches were refurbished in Port Moresby, Boroko, Waigani Banking Centre, Lihir, and Lae in PNG. A new sub branch was constructed and opened at Simberi in New Ireland province in PNG. Our premier branch in Apia, Samoa was substantially refurbished and contracts executed for a similar upgrade of the Honiara Central branch in Honiara, Solomon Islands. In Vanuatu, a new branch was opened at Tanna and plans progressed for a second branch in Port Vila, Vanuatu.



Smart Business Loans has helped SMEs to grow.

BSP's investment in customers of the future extends beyond developing a savings culture with children and youth, but also Small to Medium Enterprise (SME) businesses. Our Smart Business products for SME's has successfully attracted 30,000 SME deposit customers with balances of K466 million and 1,200 Micro, Small and Medium Enterprise (MSME) borrowers with a portfolio of K55 million.

A determined approach to making finance for housing available in PNG has also been a clear commitment of BSP and we have funded almost 1,800 housing loans at a value of K414 million. Over and above the macro economic benefits of housing in a developing economy such as PNG, home ownership is an important enabler of wealth creation for an emerging middle class.



Opening of Tanna Branch, Vanuatu.

BSP also understands the importance of investing in our staff as well as physical assets and systems. Our Leadership Management Development Program (LMDP) which involves 45 leaders from every country is integral to the development of the future executives of the BSP Group. The program of activities includes study overseas, secondments internally across the group, guest speaker sessions, mentoring, attendance at Executive Committee meetings and Board meetings on a rotational basis, and participation in projects associated with our various strategic initiatives.

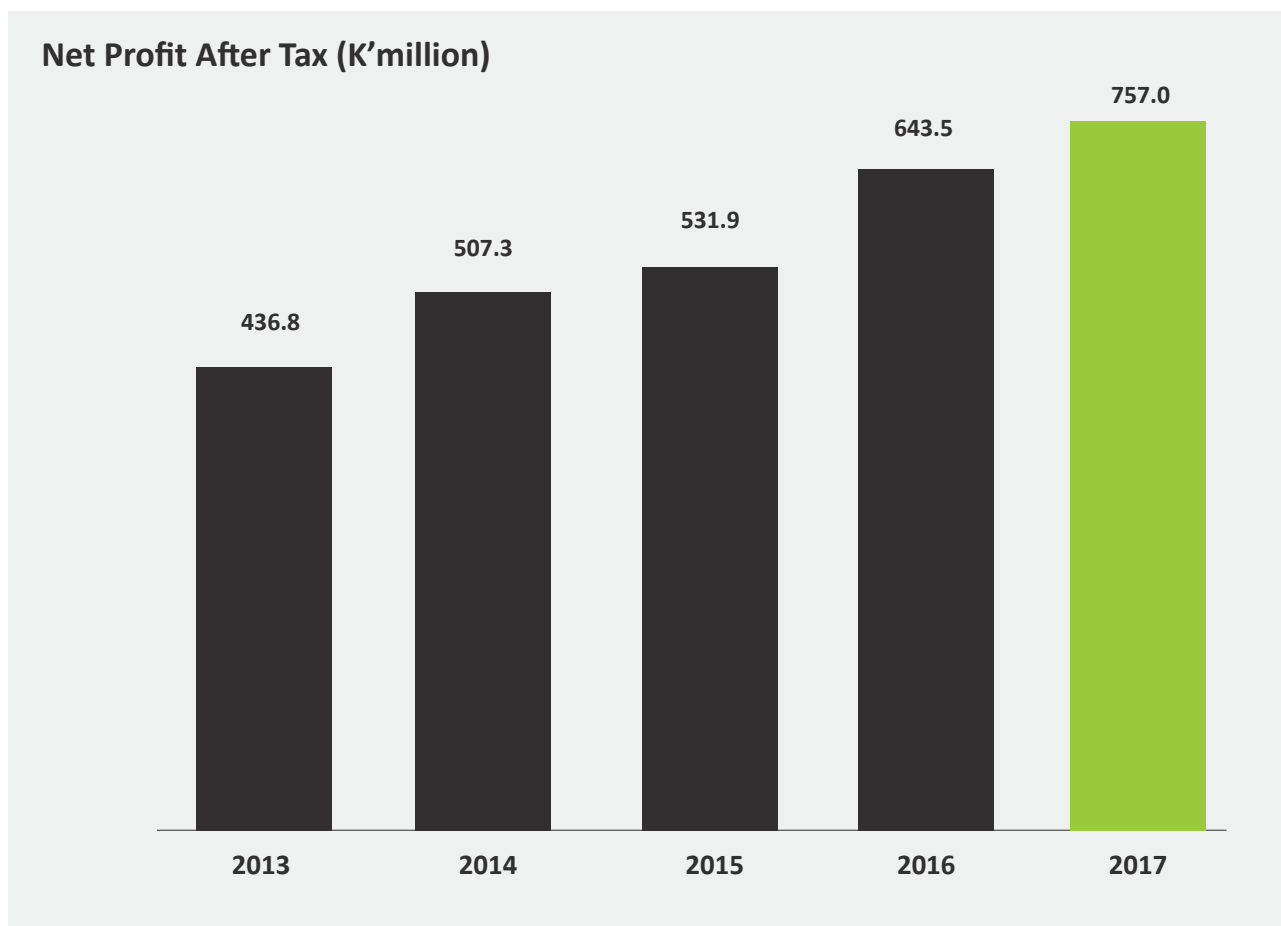
The program was initiated in 2015 and a measure of the success of the program is that two of the 2015 cohort have been promoted to very senior roles within the BSP executive with Ms Hari Rabura being promoted to General Manager Human Resources in the middle of 2016 and Mrs Nuni Kulu being promoted to Deputy General Manager Digital towards the end of 2017. Equally pleasing, is that their merit based promotions provides more gender balance within the Executive of BSP, an ongoing objective of BSP both within the executive and the board.

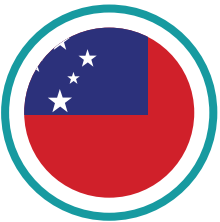
As we look forward to 2018, much focus will be directed towards improving our customer service standards, generating productivity improvements across BSP and increasing customer use of our digital banking offerings. This involves both ongoing enhancement of the technologies we use, but more importantly changing the behaviours of our customers by illustrating to them the benefits of banking outside of the traditional branch network.

Our board led by our Chairman, Sir Kostas Constantinou continued its board renewal process and we welcomed Stuart Davis and Robert Bradshaw in 2017, and farewelled Dr Ila Temu and Gereia Aopi, both of whom contributed to the success of BSP with a combined 29 years of service on the board. The Board places much emphasis on developing and refining the strategic objectives for BSP, which are directed to continuous improvement of customer service outcomes, achieving organic growth targets and maximising non organic growth opportunities aligned to our vision.

In closing, our staff in all of our businesses and each of the countries in which we operate, are to be congratulated for their efforts and support in delivering these record results for our shareholders, and I look forward to their ongoing commitment in 2018.

Robin Fleming, CSM
Group Chief Executive Officer





STRATEGIC BUSINESS UNIT REPORTS

The daily execution of BSP’s business operations is the responsibility of the Strategic Business Units (SBUs). The SBUs are Retail Banking, Corporate, Treasury, Paramount Banking, Group Risk Management, Human Resources, Operations and Information Technology, and Finance and Planning. Here are reports and highlights of each SBU performance in 2017.

CORPORATE

Corporate delivers an extensive range of financial solutions to small corporates, commercial, institutional and Government customers operating in Papua New Guinea and internationally. The core of our business is delivered by experienced relationship and products specialists in Papua New Guinea and the South Pacific, with expert knowledge in transactional banking, lending, infrastructure, e-channels and foreign exchange. Our relationship teams are where our customers are located in Port Moresby, Lae, Mt Hagen, Madang and Kokopo. Corporate customers are supported across the South Pacific by dedicated relationship teams in Fiji, Samoa, Tonga, Cook Islands, Vanuatu and Solomon Islands.

Corporate operates in an integrated way with all of BSP’s internal partners under our “whole of BSP” culture, leveraging the largest retail branch networks across Papua New Guinea and the South Pacific. BSP is the leading business partner in the region.

Our teams across Papua New Guinea and the South Pacific provide BSP with a distinct competitive advantage, combined with our “whole of BSP” solutions. We continue our focus to invest in attracting, retaining and motivating the best relationship teams and product specialists working collaboratively with all stakeholders.

Customer satisfaction remains our top priority and we have delivered improved customer satisfaction scores for the last five years. Our “icare” customer service culture is our constant focus and a key driver for Corporate’s strong results in 2017, but as always we strive for continuous improvement across the entire team. During the year we completed our fifth independent market research customer satisfaction survey, involving feedback from over 400 of our customers. The survey results highlighted a solid increase in customer satisfaction across the key drivers of Service, Relationship Management, Products, Fees, Charges and Rates and Treasury and Foreign Exchange.

BSP’s corporate business performed well in 2017 growing market shares delivering a significant uplift in deposits, foreign exchange market share, customer satisfaction and profitability. We continue to focus on total business performance with direct costs decreasing by 3.7% year on year.

BSP’s strong credit culture within Corporate has a focus on prudent credit risks and maintains a strong partnership with the Group Risk Management team. Together we visit our customers, proactively monitor and control the quality of the loan portfolio and promptly respond to any sector or customer demonstrating stress in the slowing economic and currency liquidity environment.

Corporate is well positioned to deliver on its objectives for 2018 with the prospect of growth in infrastructure, oil and gas and mining projects.

RETAIL BANKING

The strong growth experienced in our Retail operations over the past few years continued in 2017. Lending income increased by K36.6 million during the 12 months with Consumer loans, Housing Finance and Micro, Small and Medium Enterprise (MSME) lending all contributing to this growth. Outstanding loan balances for Housing Finance increased by K121 million largely as a result of serviced land becoming available and the uptake of BSP’s First Home Ownership Scheme (FHOS) loan product. In 2017, BSP introduced a new micro loan product aimed at smallholder farmers with this and our continued push to support Small to Medium Entrepreneur (SME) customers with loan finance, payment processing facilities and transaction banking services all contributing to a growing and vibrant MSME segment. We advanced more than K60 million to MSME borrowers during 2017.

BSP’s effort for greater financial inclusion continued during 2017 and as a result 218,000 new customers were acquired. Our Retail customers made more than 115 million transactions in 2017 which is a 5% increase on the

2016 volume. This was a significant achievement when considering 2017 was a more challenging year due to the prevailing economic conditions. 88% of customer transactions during 2017 were performed using Electronic Channels.

Given this continued heavy weighting of customer activity being performed through our Electronic Channels, a new division – BSP Digital – was established within the Retail Strategic Business Unit. Mrs Nuni Kulu was appointed Deputy General Manager - BSP Digital with a Whole of Group responsibility for the development and promotion of Digital Financial Services. Also during 2017, we completed an upgrade of our Electronic Funds Transfer Point of Sale (EFTPoS) fleet in Papua New Guinea using Ingenico terminals and throughout the Non-PNG Countries (NPCs) using Verifone terminals. An upgrade of the fleet in Fiji is scheduled to be completed in 2018.

BSP also launched its EMV Visa and MasterCard chip cards in 2017 and we are currently in the process of replacing all Visa and MasterCard cards with the new EMV chip cards. The EMV chip cards are being rolled out in all BSP operating environments. As part of this development, BSP is offering a “Touch and Go” option on our EFTPoS terminals. The EMV chip cards and associated technology offers our customers, both cardholders and merchants, with convenience and a higher level of card security.



BSP staff assisting customer with BSP products and services enquiries

Our Mobile Banking product continued to be well embraced by our customers and we are seeing that this service is bringing about changes in the way customers are making payments particularly to third parties. We commenced an upgrade of our Mobile Banking platform in 2017 to take advantage of enhanced security and risk monitoring features available with newer generation platforms.

The continuous training of Retail staff across a number of themes remained a priority during 2017 and resulted in improved Customer Satisfaction results.

PARAMOUNT BANKING

Paramount Banking’s partnership with the National Government and its banking relationship has been and will continue to be of major focus. Paramount Banking will ensure this relationship is maintained for 2018 and the future.

Paramount Banking’s Community Liaison officer employed to maintain Landowner groups banking relationships in conjunction with Retail staff visited the following areas: - Ramu Nickel project area, Wabag, Kainantu, Kimbe/Bialla and Lae, which included beneficiaries of Ramu Agri Industries Ltd. About 139 new landowner group bank accounts were established with another 40 related accounts, with over 200 senior landowner people attending financial literacy programs.

STRATEGIC BUSINESS UNIT REPORTS

Overall, Paramount Banking continued to embark on a consistent and sustainable growth strategy and maintained operations within budget forecast.

TREASURY

The BSP Group operates across the South Pacific in seven countries. Each country has their own local currency, discrete foreign exchange regulations and operates in financial markets where foreign exchange (FX) liquidity is derived from a narrow base of export industries and sources, and the dependence on imports are relatively high.

The role of BSP Treasury remains to support client relationships, act as BSP Group's banker, and be a key part of the risk management process in terms of market, liquidity and capital risk.

In its client relationship role, Treasury fosters and enhances relationships with clients, providing Financial Markets services, solutions and ensuring clients remain aware of the regulatory environment and its implications. As "banker to the bank", Treasury is also involved in managing foreign exchange flows, managing local and foreign currency liquidity flows, investing surplus funds prudently in the interbank, Treasury Bill and Inscribed Stock markets, funding foreign currency balance sheet operations across seven jurisdictions, and complying with all regulatory and internal guidelines and limits.

The risk management role is discharged through management of market risk, liquidity risk, capital and capital planning, in line with prudential requirements, ALCO directives and delegated Board authorities.

PNG Treasury foreign exchange (FX) earnings were above prior year levels even though 2017 was again challenging, as import demand far exceeded export supply of foreign currency. These difficult trading conditions continued throughout the year.

The official Bank of Papua New Guinea (BPNG) rate of exchange was stable for the first half of the year (falling 10 bps to USD 0.3145), before experiencing a decreased adjustment of 45 bps from August onwards to end the year at USD 0.3095.

BSP's FX market share in PNG increased from 41.83% in 2016 to 43.41% in 2017. The Bank's FX turnover rose 1.1% in 2017, while PNG's FX market turnover fell by 2.6%. The gain in market share came predominantly from the Mining and Agricultural sectors.

Operationally, PNG Treasury continues to mitigate risk and is actively focused on providing technical training, empowering staff to continue their development journey. Treasury dealing staff training encompasses weekly technical training (Australian Financial Markets Association Foreign Exchange Markets Accreditation), regulatory and internal compliance training, on the job cross training and sales training. The strong focus on training will continue in 2018. The customer centric Treasury team will continue to provide thorough leadership in the PNG FX and Interest Rate Markets, providing the best financial market solutions to responsibly satisfy customer needs, within the current and evolving PNG regulatory framework.

OPERATIONS AND INFORMATION TECHNOLOGY

The year commenced with the finalisation of selection for the new Core Banking system vendor. After a rigorous process lasting more than one year where five world class systems were benchmarked to an exhaustive list of BSP requirements, the choice was made to proceed with the purchase of FlexCube from one of the premier global software providers, Oracle Corporation. The process to build and customise is expected to take three to four years and will be implemented for all our banking operations throughout the Pacific. The benefits of this work will include reduction of the IT infrastructure and Core Banking systems from three different operating systems to one integrated solution, maximisation of centralisation potential across both the infrastructure and operational processes, increased straight through processing, a greater level of digitalisation and seamless customer functionality across channels as well

as rationalisation in the number of technology providers through vertical integration. This will result in a technology infrastructure which will enable a greater level of customer centricity, operational control, product flexibility and operating efficiency whilst reducing the overall cost of maintaining that infrastructure.

Following the execution of contracts in March 2017, we assembled a team of Subject Matter Experts (SME) from the various businesses that have been provided training in the new system and workflows. This has enabled the SME team to identify any customisation of the standard FlexCube module. At the end of 2017, Oracle was in the process of assessing these customisation requests to determine potential resource, time and cost impacts after which BSP will distinguish the critical requirements from those which could be relegated to post Go Live. Once that is determined, the bulk of the work for 2018 will be hardware build, software customisation, interfaces across applications including local Kina Automated Transfer System (KATS) and commencement of system and user testing.



A major technology achievement of 2017 was the build and implementation of EMV (chip enabled cards) acquiring and issuing for both Visa and MasterCard for transactions at both EFTPoS and ATM channels in PNG. In addition to a greater level of security for customers, this will enable BSP to shift liability for any fraudulent transactions to other banks not providing EMV processing. Given the difference in IT infrastructures, this same functionality is still in process of being rolled out in Fiji and NPCs and is expected to be completed within mid-year 2018.

Another area where BSP has improved its security stance is in the area of USSD Mobile Banking. We have begun migration to a new vendor who has installed a security layer which reduces significant risk for some frauds which have been experienced. We are now in process of finalising implementation of the application layer which will be rolled out to all locations except Fiji as well as making use of behavioural analysis tools to improve transaction filtering to identify transactional anomalies.

In addition to the above projects, significant other projects affecting customers were implemented such as:

- EFTPoS integration to the most used customer point of sale system (Pronto) used in PNG. This process is continuing for other systems and it is expected that this will improve our market positioning significantly.
- Replacement of EFTPoS fleet in Non PNG Countries (NPC) as well as significant refresh of ATM fleet in these countries.
- Migration of internet payment gateway provider from Doku to Wirecard, a world class gateway provider for PNG and NPCs.
- Microfinance switching for non-bank financial institutions such as People's Micro Bank Limited allowing their customers access to the ATM and EFTPoS networks within PNG.

During 2017, BSP also implemented a BSP Intranet for improvement of communications, documentation, workflows and ultimately monitoring of key performance processes.

Continuation of work for Payment Card Industry Compliance (PCI) which

includes implementation of best practice information security policies, regular internal vulnerability scanning of all computing equipment for PCI risks as well as implementation of a new system for event and security incident monitoring and collection.

Lastly, and very significantly, we have consolidated most head office staffing from three different locations in Port Moresby into our new Waigani Head Office (WHO). Having overcome numerous challenges, we now have almost 900 staff within one location which creates the possibility for improved communications and working relationships across the businesses. In addition, the centralised location will allow for efficiencies in centralised support services which will be worked on during the course of this coming year. Moreover, we will also be introducing a medical clinic for staff in partnership with one of the local hospitals which will provide immediate access to first level diagnosis and treatment.



Staff in front of the new Waigani Head Office (WHO)

GROUP RISK MANAGEMENT

Effective risk management is necessary for the achievement of BSP's vision. BSP has a Board approved Group Risk Appetite Statement (GRAS) that reflects the level of aggregated risk that BSP is willing to assume and manage in the pursuit of its business objectives. The GRAS reflects BSP's business and risk strategies which are measured by internal risk-return benchmarks.

The CEO and the Executive team are responsible for implementing BSP's Risk Management Strategy and frameworks, and for developing policies, controls, procedures and processes for identifying and managing risk in all activities.

Various Business Units (BUs) within the Group Risk Management strategic business unit oversee risk measurement, monitoring and management against the group's risk appetite benchmarks.

Credit

Credit Business Unit undertakes key activities to manage credit risk. It is responsible for the overall credit quality of the Bank's loan portfolio, implementing and reviewing credit policies and industry underwriting standards, monitoring sector concentration limits and portfolio management responsibilities.

Credit in collaboration with Corporate and Retail Banking, manages credit risk by developing and undertaking an ongoing review of the credit risk

strategy that identifies the Bank's target market providing a platform to grow the business within defined parameters to build and maintain a quality loan portfolio across a diversified range of sectors and countries where BSP operates.

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

Moderate lending growth across all sectors of the PNG economy was achieved in 2017. Diversification of the loan portfolio across key economic sectors continues to be closely monitored, providing a mitigant to the overall loan portfolio exposures, to ensure that no significant concentration risk develops that may impact the stability of the asset portfolio performance. The property and transport markets continue to be sectors experiencing a re-adjustment with supply outstripping demand leading to lower rental yields, capital growth and margins.

Overall performance of the loan portfolio remains sound in PNG. The Bank's market share in PNG has increased to circa 59%. Loan growth was achieved in all other countries as well. The total loan portfolio for the Group was recorded at K11.2bn as at 31 December, 2017.

The Bank, with the assistance of Standard & Poor's (S&P) Capital IQ, has recalibrated and revalidated the internal Risk Grade system aligning the resulting Probability of Defaults to S&P Global rating.

During 2017, various lending policies and procedures were reviewed and will continue to be reviewed on an ongoing basis in response to changes in the banking, regulatory and industry environment. Changing market and product trends require corresponding changes in controls and reporting, to keep the Bank aligned with industry best practice for credit risk management standards.

Training remained a key focus in 2017 and will continue into 2018. The Moody's online training was completed for all Credit staff during the year. Weekly in-house training sessions consisting of 45 specific credit related learnings, were delivered for Credit and Corporate staff. In addition, weekly training sessions are held with Retail Credit and Staff Lending teams.

Operational Risk

The Operational Risk and Compliance Business Unit has broad and independent operational risk management responsibilities across the Group. Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events. Operational risks are inherent in the Bank's business activities and processes performed within the Group. To manage and mitigate these risks, this second line of defence provides oversight and challenge to the business through an operational risk framework. Tools to manage this include risk and control assessments and mitigation planning at both Business Unit and enterprise levels, risk event management processes and new product approval processes. Risk events are managed through identification, reporting and resolution in order to prevent risk events from recurring.

BSP has an independent Operational Risk and Compliance function in PNG, covering the Banking and Asset Finance operations respectively. It also has Operational Risk Management (ORM) teams in Fiji, Solomon Islands, Tonga, Samoa, Cook Islands and Vanuatu.

BSP is cognisant that both domestic and foreign regulations shape the risk environment in which it operates hence, significant focus has been placed on the Compliance and Anti-Money Laundering (AML) function throughout the year to ensure BSP's continuous adherence to laws, regulations, prudential standards and guidelines that govern its conduct.

Compliance and AML is a second line of defence function and its primary role is to identify and translate relevant compliance risk-related laws, regulations and standards into compliance obligations and assist Management to identify compliance risks and mitigate them based on BSP Group's risk appetite.

STRATEGIC BUSINESS UNIT REPORTS

During 2017, there has been great focus by international and supra-national agencies on the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) regimes globally including Papua New Guinea, Vanuatu, Cook Islands and Samoa. With the issuance of new and amended AML/CTF laws, BSP has had to translate those laws into specific compliance obligations and implement robust policies and procedures to manage the associated compliance risk.

The Compliance and AML unit continues to work with other second line of defence functions to provide objective challenge and support, escalating matters when necessary to help optimise the trade-off between risk and reward.

Risk awareness workshops across BSP targeted general operational risks, compliance, sanctions, anti-money laundering and fraud detection. The Operational Risk & Compliance Business Unit continued to provide support to the Operational Risk Committee and Board Risk and Compliance Committee, facilitating analysis and regular reporting of operational risk issues.

Asset Management

Asset Management manages the non-performing asset portfolio. Non-accrual loans volume remained steady at circa 1.1% of the Bank's overall lending volumes in PNG and decreased from 1.4% to 1.3% for the Group. We have seen a circa 2% increase in defaulting unsecured consumer loans for 2017. This is a result of several larger employer groups reducing staff levels underpinned by a softening economy plus teachers having been put off the payroll due to non-filing of renewal certificates. Previous tightening of the approval process and further experience gained with the new automated collection system has limited the impact. Debt recovery for unsecured consumer loans has been encouraging with recovery rate of 84% for the year compared to 71% in 2016.

Careful monitoring on business/corporate loan segment continues with immediate remedial action being taken for any business/companies showing signs of stress. Early warning signs and adverse account patterns are identified with remedial plans in place for Watch List customers.

Credit Inspection

Credit Inspection provides an independent assessment of the Bank's compliance with credit policy and also of portfolio quality. Functionally, it has an independent and direct reporting line to the Board Risk & Compliance Committee and administratively to the Group Chief Risk Officer and Group Chief Executive Officer.

The primary role of the Credit Inspection Business Unit is to provide a professional, independent risk management function of the best practice standard and portfolio quality assurance which assists Senior Management and the Board via the Board Risk and Compliance Committee (BRCC) in the effective discharge of their responsibilities. The Unit performs independent analysis and objectively concludes on the quality of credit risk assessment, credit approval, credit risk management, compliance, risk control and credit portfolio reporting. It also makes recommendations to address weaknesses and improve compliance.

The unit's independent assessment activities are executed through "on-site" inspections, and where applicable, "off-site" inspections of the credit risk portfolio within the Bank and related entities, in all jurisdictions. The main aim is to achieve early detection of material shortcomings of credit risk and compliance with Group policies.

In 2017, Credit Inspection completed 12 monthly reports for Retail Banking (Personal Lending) and 13 reports for Corporate and Commercial Banking Relationship Portfolios including BSP Finance (PNG) Ltd (BSPF – PNG). For Corporate Banking including Commercial, approximately 62% of the Loan Portfolio was reviewed by Credit Inspection. In addition BSPF (PNG) loan portfolio was reviewed covering approximately 22% of the portfolio.

Audit

Audit undertakes regular risk based internal audits of processes and

procedures to maintain compliance with regulations and BSP standards and retains an independent and direct reporting line to the Board Audit Committee (BAC). It literally provides the third element of defence in the business unit structure of Group Risk Management, and acts as the last line in BSP Group's Risk Management framework.

BSP has independent internal audit functions for the Group reporting, through the Head of Group Internal Audit, functionally to BAC administratively to the Group Chief Risk Officer and Group Chief Executive Officer.

Key audits during 2017 included Operational Risk, BSP Capital Ltd, BSP Finance (PNG) Ltd, Information Security, Human Resources, Treasury and all Retail branches. The Internal Audit team also conducted audits in Vanuatu, Samoa, Tonga and Cook Islands.



BSP's Alu Kala explains the new security features of BSP Visa Debit Cards

Legal

The Legal Services Unit provides or sources the legal services and advice required by the Bank in conducting its business, principally in the area of banking, commercial and securities law, litigation (both for and against the Bank), regulatory compliance, employment law and property. To the extent possible, these services are provided by the five in house lawyers with external lawyers being engaged where deemed necessary or prudent.

2017 saw a higher level of engagement with Tonga, Cook Islands, Samoa, Vanuatu and Solomon Islands primarily in the areas of banking, property, construction and other general commercial law matters. Litigation matters are outsourced to external lawyers in country.

HUMAN RESOURCES

Human Resources (HR) Strategic Business Unit (SBU) continued its support role for BSP's operations through its core HR Management functions for employees in Papua New Guinea (PNG) and the other countries within the Pacific. A major highlight for the year was HR receiving the award for "Best Private Sector Employer" from the Papua New Guinea Human Resources Institute Inc. (PNGHRI), for the fourth year in a row. The award recognises BSP as a model organisation with best human resource practices in PNG. This award is a testament of BSP's commitment to continuously supporting the employees across our network with people initiatives that matter. One of the examples of this people initiative in 2017 was the successful rollout of the new HR and Payroll system called iChris and the employee self-service HR21 across PNG and the NPCs (Non-PNG Countries).

Talent Management

The Talent Management Business Unit (BU) in 2017 continued implementation of the HR Best Practice project first rolled out in 2016. Since 2016 and in 2017, the Talent Management BU was able to deliver critical project deliverables such as job profiling, coaching and mentoring for our Leadership and Management Development Program (LMDP), Performance Enhancement Process and the roll out of the Assessment Centre for the Graduate Development Program. Our Career Development in the Talent Management BU continues to give its endless support to the LMDP to ensure that our promising leaders are trained and developed for the future.

Employee Relations

Employee Relations had a very successful 2017 with the signing of the ten year old Union Award in PNG. The Team completed the negotiations of BSP and Union Award with the Award itself signed by both parties and registered with the Department of Labour in October, 2017. The successful negotiation was a result of the harmonious relationship, BSP and the Union had on matters concerning industrial relations. The BSP Code of Conduct was also reviewed and improved with nationwide awareness conducted in PNG and further awareness to be conducted outside of PNG during 2018. The code of conduct sets out the foundation of BSP's guiding principles for appropriate workplace behaviour.

Training and Development

Training and Development delivered soft skills and computing courses to the NPCs for the first time as part of HR's focus in supporting the workforce in the NPCs. HR in-country training also provided the opportunity for our Head Office trainers to engage with and understand the training needs of the NPCs. In addition to this, a more structured BSP Graduate Development Program (GDP) was re-introduced to support the future needs of BSP in relation to management and leadership roles for the future. Ten new graduates from various disciplines will join BSP in 2018 to undergo the 18 month GDP.

In 2017, we also welcomed eight new high potential employees who joined BSP's elite LMDP cohort. We also celebrate the milestone of Mrs Nuni Kulu, a LMDP participant, appointed to the role of Deputy General Manager Retail Digital Banking. The appointment of Mrs Kulu is a strong testament of BSP achieving its objective of LMDP in grooming and preparing a pool of high potential employees who can take up Senior Leadership roles in the organisation.



2017 LMDP Cohorts at the Leadership Forum

HR Strategy and Change

Strategy and Change Business Unit continued to coordinate the Group's icare program, BSP's in-house customer service culture program. We successfully supported most of our Business Units/Branches who completed their Business Process Blackspots initiative. The iCare program will continue in 2018 with an aim to reinforce the Minimum Service Standards principles as it is a very important part of developing BSP's culture of service excellence and continuous improvement. The team also administered the first ever BSP Group Employee Engagement Survey covering the BSP Group. The results assess the engagement levels of our employees in different countries of which the results will guide us to improving engagement at the Group level.

Remuneration and Benefits

Remuneration and Benefits (R&B) Business Unit successfully assisted 24 employees to participate in the National Staff Home Ownership Scheme (NSHOS) in PNG. This was made possible through the schemes competitive suspensory loan assistance, equity contribution and the choice to select an approved local contractor for house construction.

The R&B team together with the HR Projects team and the Payroll team were also responsible for the successful roll out of the HR and Payroll system, iChris in PNG and the NPCs.

Human Resources Projects and BSP Overseas Operations

The Human Resources Projects team also supported the successful implementation of the new HR/Payroll system (iChris) in PNG and the NPCs. The HR system provides employees the self-service portal whilst the Payroll system improved processing and turnaround time for employees. The Pacific Support team also identified key HR transactions that can be done in country and implemented a HR Transaction guide for the NPCs. The guide was developed to support the NPCs with much improved turnaround time at the same time empowering respective NPCs to take ownership of their key HR transactions.

FINANCE AND PLANNING

A key focus area for the Finance and Planning (F&P) team in 2017 was the Core Banking System (CBS) replacement project. Three members of our team were seconded to the CBS project on a full time basis. Their role; the conduit between the business requirements, the implementation consultants, development of Subject Matter Experts (SME) in the fields of General Ledger, Treasury and Analytical Applications.

The design of a new general ledger, while requiring a complete re-numbering of the chart of accounts, has provided the opportunity to optimise the chart of accounts, significantly reducing the number of General Ledger (GL) accounts whilst maintaining the current reporting structures. Given that the GL impacts almost all areas of the bank, there has been a lot of cross Strategic Business Units (SBUs) interaction with other SMEs during this phase.

Apart from the Core Banking System project, the banks General Ledger system was rolled out to our banking entities in Samoa, Cook Islands, Vanuatu and Tonga. Having a common and dedicated general system has enabled a number of reports to be streamlined and the additional financial controls that accompany a dedicated general system makes financial reporting more efficient.

The Middle Office team has worked hard to embed the requirements of the Market Risk policy across all banking entities. Compliance monitoring for non PNG entities have been streamlined and turnaround time for End of Month (EOM) reporting reduced. Improvements were made to reporting of foreign exchange (FX) and liquids income as well as compliance monitoring of BSP PNG operations. Changes were made to the reporting to Group Asset and Liability Committee (GALCO) with greater involvement in disseminating relevant information from the Group's operations to the Group ALCO.

The payroll team reporting to F&P were instrumental in the successful implementation of the new payroll system for BSP PNG, Tonga, Samoa, Cook Islands and Vanuatu. The new system has automated certain functions that were previously manual which has assisted the team greatly. Rollout to Solomon Islands and Fiji will be completed in 2018.

Our Strategy team continues to manage the strategic planning and reporting cycles across the Group. Processes for planning, monitoring and reporting of strategic initiatives have been enhanced in 2017. The team's analytical capabilities are continuously improving, in areas such as monitoring BSP's financial data integrity and the extraction and analysis of operational and financial data to assess the performance of our business units. A notable achievement was the introduction of refreshed branch and channel profitability reporting in 2017.

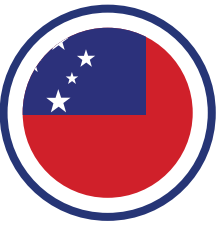
F&P look forward to another exciting year in 2018.



Kay Moripi

Document & Sharepoint
Assistant, Retail Banking, PNG

Kay is from Kukipi in the Gulf Province, Papua New Guinea. Her head piece is made from the feathers of a cassowary. The necklaces are made from small sea shells and betel nuts. The arm bands are selected and woven from bush canes decorated with leaves. The grass skirt is called "ma'te" in the local Toaripi language, and made from palm leaves and dyed to various colors.



CORPORATE GOVERNANCE

BSP has adopted an approach to corporate governance that is underpinned by our Core Values of Integrity, Leadership, People, Professionalism, Quality, Teamwork and Community.

This approach is supported by a comprehensive framework of corporate governance principles and policies. The BSP Board has demonstrated its commitment to developing and maintaining a standard of corporate governance that seeks to match global practice. The Board ensures that it complies with the requirements of the Port Moresby Stock Exchange (POMSoX) and the Australian Securities Exchange (ASX).

The Board, management and staff of BSP are very much aware of their responsibilities to the people of Papua New Guinea and the various countries that BSP operates in. The Board has adopted a statement of Corporate Governance Principles which outlines the approach BSP has adopted to corporate governance. These Corporate Governance Principles provide a framework that helps to ensure that BSP deals fairly and openly with all its stakeholders – Shareholders, customers and staff alike.

BSP's Corporate Governance Principles are available in the Investor Relations section of BSP's website at www.bsp.com.pg.

BSP also complies with the Prudential Standards/Statements dealing with corporate governance issued by the regulators/central banks in the various countries that it operates in. These Prudential Standards/Statements currently include: -

- The Bank of Papua New Guinea (BPNG) introduced its new Banking Prudential Standard BPS300: Corporate Governance (issued under Section 27 of the Banks and Financial Institutions Act 2000) in August 2016. The Effective Date of this Prudential Standard was 1 January, 2017, with full compliance by 31 December, 2018.
- The Reserve Bank of Fiji Banking Supervision Policy Statement No. 11: Governance (Oct 2007).
- The National Reserve Bank of Tonga Prudential Statement No. 9 (revised 2014): Governance.

The sections below explain how BSP complies with the Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations. These sections have been adopted by the Board as BSP's Corporate Governance Statement.

THE BOARD OF DIRECTORS

Roles and Responsibility of the Board

The roles and responsibilities of the Board are defined in the Board Charter. This document also details the matters reserved for the Board and matters that have been delegated to management with oversight by the Board.

The Board, with the support of its Committees, is responsible to the Shareholders for the overall performance of BSP's including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with a view to optimising BSP performance and increasing shareholder value. The key functions of the Board are:

- setting overall strategy of BSP, including operating, financing, dividends, and risk management;
- appointing the Chief Executive Officer and setting an appropriate remuneration package;
- appointing General Managers and setting appropriate remuneration packages;
- appointing the Company Secretary and setting an appropriate remuneration package;
- endorsing appropriate policy settings for management;
- reviewing Board composition and performance;
- reviewing the performance of management;
- approving an annual strategic plan and an annual budget for BSP and monitoring results on a regular basis;
- ensuring that appropriate risk management systems are in place, and are operating to protect BSP's financial position and assets;
- ensuring that the company complies with the law and relevant regulations, and conforms with the highest standards of financial and ethical behaviour;

- approving acquisitions and disposals material to the business;
- establishing authority levels;
- setting Directors' remuneration via the Remuneration and Nomination Committee;
- selecting, with the assistance of the Board Audit Committee, and recommending to Shareholders, the appointment of external auditors; and
- approving financial statements.

A number of these responsibilities have been delegated by the Board to various Committees. The Committees and their responsibilities are detailed in Section 2, Board Committees.

The Board has delegated to management responsibility for:

- developing the annual operating and capital expenditure budgets for Board approval, and monitoring performance against these budgets;
- developing and implementing strategies within the framework approved by the Board, and providing the Board with recommendations on key strategic issues;
- appointing management below the level of General Manager and preparing and maintaining succession plans for these senior roles;
- developing and maintaining effective risk management policies and procedures; and
- keeping the Board and the market fully informed of material developments.

Membership, Expertise, Size and Composition of the Board

The Corporate Governance Principles affirm that the majority of the Board should be independent.

Directors of BSP are meticulous in handling situations where there could potentially be conflicts of interest, by declaring their interest in advance, and absenting themselves from any consideration of matters where a conflict might arise. The BSP's Corporate Governance Principles require Directors to disclose any new directorships and equity interests at each Board Meeting.

The maximum number of Directors, as prescribed by the Constitution approved by Shareholders, is ten. At the date of this report there are ten Directors, with nine Non - Executives all of whom (including the Chairman) are considered by the Board to be independent; and the Chief Executive Officer who is not considered to be independent by reason of being an Executive of BSP. BSP in the ordinary course of business conducts transactions with Directors, their spouses, parents and children and/or parties which any of them control. These transactions include loans, deposits, and foreign currency transactions. Such transactions are carried out on commercial terms at market rates and do not require shareholder approval under Papua New Guinea company law. Where they involve loans, procedures follow BSP's standard credit approval and review processes which do not have any involvement of Directors, and BSP holds security in accordance with its standard procedures. As a result, BSP considers that Directors are able to maintain their independence even where a Director is a party to a transaction of this kind because they would not have been involved in the approval process for that transaction.

Under the Constitution, at each Annual General Meeting (AGM) one-third of the BSP's Directors, in addition to any Director appointed during the year, excluding the Chief Executive Officer, must offer themselves for re-election by the Shareholders.

A Director is normally appointed for an initial term of three years. At the end of the term of three years, the Director will become eligible for reappointment by the Shareholders for a further term of three years and, if not reappointed, retires automatically. A Director is not permitted to hold office for a period exceeding three terms of three years or nine years, whichever is the lesser. Details regarding the length of service of each Director are set out in the "Board of Directors" section.

The Board has undertaken a renewal and succession planning process in recent years with the aim of maintaining a proactive and effective Board in line with the directions of the BSP Group. The Board already has implemented an independent Board evaluation process to underpin the assessment of its performance.

Consistent with Recommendation 2.2, BSP has a Board skills matrix process. These skills include Risk Management, Regulatory/ Government Policy, business and financial acumen, experience as a Non-Executive Director, remuneration and corporate governance.

The Board, therefore, has a broad range of skills, experience and expertise that enables it to meet its objectives. Details of the Directors' business backgrounds and experience are provided on pages 8 - 9. The Board accepts that it has a responsibility to Shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership.

Consequently, the Board gives careful consideration to setting criteria for new appointments it may recommend to Shareholders in accordance with the Constitution. It has delegated the initial screening process involved to its Remuneration and Nomination Committee which, in accordance with its Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

Consistent with Recommendation 1.2, BSP undertakes appropriate checks before appointing a person as a Director or offering them to Shareholders as a candidate for election, and has appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in notices of meeting provided to Shareholders.

Nominees of the Board and/or Shareholders must meet the 'fit and proper person' criteria outlined in BPNG Banking Prudential Standard BPS310: Fit and Proper Requirements before they can take their place on the Board.

Consistent with Recommendation 2.6, BSP has a program for inducting new Directors and providing appropriate professional development opportunities for Directors.

On joining the Board, new Directors are provided with an Appointment Letter setting out the terms of the appointment, a Board induction pack and undertake a comprehensive induction program. In particular, the Appointment Letter specifies the term of appointment, BSP's expectations in relation to time commitment and Committee work, the Director's remuneration arrangements, the Director's disclosure and confidentiality obligations, the Director's insurance and indemnity entitlements, and BSP's key corporate governance policies.

BSP's Senior Management also enter into employment contracts which set out their terms of employment, including their position, duties, reporting lines, remuneration and termination arrangements.

Role and Selection of the Chairman

The Chairman is elected by the Directors and holds the position for a maximum of six consecutive years unless in a certain exceptional instance. The role includes:

- ensuring all new Board members are fully aware of their duties and responsibilities;
- providing effective leadership on BSP's strategy;
- presenting the views of the Board to the public;
- ensuring the Board meets regularly throughout the year, and that minutes are taken and recorded accurately;
- setting the agenda of meetings and maintaining proper conduct during meetings; and
- reviewing the performance of Non-Executive Directors.

Director Independence and Conflict of Interest

Directors are determined to be independent if they are judged to be free

from any material or other business relationship with BSP that would compromise their independence.

Prior to appointment, Directors are required to provide information to the Board for it to assess their independence.

In assessing the independence of Directors, the Board will consider a number of criteria including:

- the Director is not an executive of the Group;
- the Director is not a substantial shareholder of BSP or otherwise associated directly with a substantial shareholder of BSP;
- the Director has not within the last three years been a material consultant or a principal of a material professional adviser to BSP, or an employee materially associated with a service provider;
- the Director is not a material supplier to BSP, or a material consultant to BSP, or an employee materially associated with a material supplier or customer;
- the Director has no material contractual relationship with BSP other than as a Director of BSP;
- the Director is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of BSP.

This information is assessed by the Board to determine whether on balance the relationship could, or could reasonably be perceived to, materially interfere with the exercise of the Director's responsibilities. Materiality is assessed on a case-by-case basis.

As noted earlier, the Board is cognisant of the need to avoid conflicts of interest and it has in place policies and procedures for the reporting of any matter, which may give rise to a conflict between the interests of a Director and those of BSP. These arrangements are designed to ensure that the independence and integrity of the Board are maintained.

BSP fully complies with the requirements of the BPNG Prudential Standard 4/2003 – Limits on Loans to Related Parties.

Related Party Transactions are summarised in Financial Note 30. The Directors' information on page 86 provides details of the Directors' Interests.

Meetings of the Board and Attendance

Scheduled meetings of the Board are held at least six times a year, and the Board meets on other occasions as necessary to deal with matters requiring attention. Meetings of Board Committees are scheduled regularly during the year. The Board has a policy of rotating its meetings between locations where the Group has a significant presence. On these occasions the Board also visits company operations and meets with local management and key customers.

The Chairman, in consultation with the Chief Executive Officer, determines meeting agendas. Meetings provide regular opportunities for the Board to assess BSP's management of financial, strategic and major risk areas. To help ensure that all Directors are able to contribute meaningfully, papers are provided to Board members one week in advance of the meeting. Broad ranging discussion on all agenda items is encouraged, with healthy debate seen as vital to the decision making process.

Financial Note 27, Directors' and Executive remuneration, provides attendance details of Directors at Board meetings during 2017.

Review of Board Performance

Consistent with Recommendation 1.6, BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The key findings of the 2017 Performance Review are available in Investor Relations section of BSP's website at www.bsp.com.pg.

The Remuneration and Nomination Committee reviews at least annually the processes by which the Board regularly assesses its own performance in meeting its responsibilities. It is intended to extend the assessment

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of the Board as a whole to include an assessment of the contribution of each individual Director. The Board is cognisant of the need to continually identify areas for improvement; to ensure that it meets the highest standards of corporate governance; and for the Board and each Director to make an appropriate contribution to the Group's objective of providing value to all its stakeholders. The performance review is facilitated annually by an external consultant.

The Board with the assistance of the Remuneration and Nomination Committee sets the targets for the Chief Executive Officer and Senior Management members under BSP's employee incentive arrangements described below. These incentive arrangements are administered by the Remuneration and Nomination Committee. Performance against the relevant targets is assessed periodically throughout the year and a formal evaluation is undertaken annually.

Board Access to Information and Advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports to enable them to carry out their duties.

The General Managers of each PNG Strategic Business Unit, Country Managers and General Managers of subsidiaries make regular presentations to the Board on their areas of responsibility.

The Chairman and the other Non-Executive Directors have the opportunity to meet with the Chief Executive Officer, General Managers, Heads of Subsidiaries and Country Managers for further consultation, and to discuss issues associated with the fulfilment of their roles as Directors.

The Board recognises that in certain circumstances, individual Directors may need to seek independent professional advice, at the expense of BSP, on matters arising in the course of their duties. Any advice so received is made available to other Directors. Any Director seeking such advice is required to give prior notice to the Chairman of his or her intention to seek independent professional advice.

Company Secretary

The Company Secretary, through the Chairman, is directly accountable to the Board for proper functioning of the Board. Each Director may seek the advice of the Company Secretary. Under the Constitution, the Company Secretary may only be appointed or removed by the Board.

BOARD COMMITTEES

Board Committees and Membership

During 2017, four Committees of the Board were in operation whose functions and powers were governed by their respective charters. These Committees were the Board Audit Committee (BAC), Board Risk and Compliance Committee (BRCC), the Remuneration and Nomination Committee (RNC) and the Disclosure Committee. Membership of the Committees and a record of attendance at Committee meetings during the year are detailed in table below.

Remuneration details are provided in Financial Note 28.

Membership of Board Committees during 2017:

Board Audit Committee	
Geoff Robb	6/6
Ernest Gangloff	5/6
Arthur Sam	5/6
Charles Lee ¹	2/2
Frank Bouraga ¹	2/2
Sir Kostas Constantinou*	2/2
Augustine Mano*	2/2

Board Risk & Compliance Committee

Geoff Robb	6/6
Ernest Gangloff	5/6
Arthur Sam	5/6
Stuart Davis	2/2
Charles Lee ¹	2/2
Frank Bouraga ¹	2/2

Remuneration and Nomination Committee

Gerea Aopi	2/2
Freda Talao	2/2
Ila Temu	2/2
Faamausili Dr. M. Lua'iufi	1/2

¹ Charles Lee and Frank Bouraga are non executive and non directors, appointed by the board for board development purposes.

* Board members who attend BAC to discuss the year end and half year accounts.

Sir Kostas G. Constantinou and Augustine Mano are not members of any Board committees.

Stuart Davis and Robert Bradshaw were appointed as Directors by the Board to fill casual vacancies in 2017, and are eligible for election at the Annual General Meeting in May 2018.

The names and relevant qualifications and experience of Committee members, and the number of times the Committees met and the number of meetings each member attended, are set out in the "Board of Directors" section.

Board and Committee Charters

BSP's Board and Committee Charters are available in the Investor Relations section of BSP's website at www.bsp.com.pg

Committee Structure

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. At the next Board meeting following each Committee meeting, the Board is given a report by the Chairman of the respective Committees and minutes of the meeting are tabled.

Board Audit Committee

The BAC assists the Board to discharge its responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of the BAC include 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 systems for ensuring operational efficiency and cost control; and
- the systems for approval and monitoring of expenditure including capital expenditure.

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

The BAC 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 BAC meeting. The BAC regularly reports to the Board at the earliest possible Board meeting after each BAC meeting about any

matters that should be brought to the attention of the Board and any recommendations requiring Board action.

Board Risk and Compliance Committee

The BRCC 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 BRCC 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, compliance risk, reputational risk and other risks);
- oversee BSP's risk profile and risk management strategy, and recommend BSP's risk appetite statement; and
- review and monitor 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 BRCC is formed amongst the Non-Executive Directors, excluding the Chairman. The BRCC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The Board may also appoint to the BRCC additional individuals who are not executives or members of the Board who have specialised skills to assist the BRCC. The chairman of the BRCC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

The BRCC 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 BRCC meeting. The BRCC regularly reports to the Board at the earliest possible Board meeting after each BRCC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

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 selection and appointment of a Group Chief Executive Officer, and setting of an appropriate remuneration and benefits package for recommendation to the full 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, to 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 fulfil its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

The Remuneration and Nomination Committee is comprised of three Non-Executive Directors, with the chairman being one of the independent Directors of the Board other than the Chairman.

The Chairman of the Remuneration and Nomination Committee must be one of the independent Directors, other than the Chairman of the Board.

Each member should be capable of making a valuable contribution to the Committee, and membership is reviewed annually by the Board.

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

Disclosure Committee

The Board has established a new disclosure committee comprising of the Chairman (or in his absence another Non-Executive Director), the CEO, the Chief Financial Officer of BSP, the 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 a 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 POMSOX, 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.

Annual Financial Statements

The BAC reviews the annual financial statements to determine whether they are complete and consistent with the information known to Committee members and to assess whether the financial statements reflect appropriate accounting principles. In particular it:

- pays attention to complex and/or unusual transactions;
- focuses on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies;
- meets with management and the external auditors to review the financial statements and the results of the audit; and
- satisfies itself as to the accuracy of the financial accounts, and signs off on the financial accounts of BSP before they are submitted to the Board.

External Audit

The BAC is responsible for making recommendations to the Board on appointment and terms of engagement of BSP's external auditors. The selection is made from appropriately qualified auditors in accordance with Board policy.

The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. In line with the Prudential Standard of the BPNG, the signing partner in the external audit firm must be rotated every five years.

The Committee reviews annually the performance of the external auditors and, where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the BPNG's Prudential Standard No. 7/2005 - External Auditors, while ensuring their independence is in line with Board policy.

There is a review of the external auditor's proposed audit scope and approach, to ensure there are no unjustified restrictions. Meetings are held separately with the external auditors to discuss any matters that the Committee or the external auditors believe should be discussed privately. The external auditor attends meetings of the BAC at which the external audit and half yearly review are agenda items.

The Committee ensures that significant findings and recommendations made by the external auditors are received and discussed promptly, and that management responds to recommendations by the external auditors in a timely manner.

The duly appointed external audit firm may not be engaged by BSP to provide specialist advisory or consultancy services to a bank while that same auditor/audit firm is engaged for services to conduct BSP's annual audit and related services. Services related to the preparation of a bank's corporate tax return are not prohibited. The external auditor is invited to the Annual General Meeting of Shareholders and is available to answer relevant questions from Shareholders.

The BPNG Prudential Standards provide for a tri-partite meeting between BPNG, the external auditors, and BSP, if required.

BSP's external audit firm is currently PricewaterhouseCoopers (PwC). Representatives of PwC will attend the next Annual General Meeting in May 2018, and be available to answer shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. The BAC approves, on the recommendation of management, the appointment of the Head of Internal Audit. The Committee meets regularly with the Head of Internal Audit.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the Internal Audit Business Unit. The BAC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

The BAC meets separately with the internal auditors to discuss any matters that the Committee, or the internal auditors, believe should be discussed privately. The internal auditor has direct access to the BAC and to the full Board. The Committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on a timely basis.

Compliance

The BRCC reviews the effectiveness of the systems for monitoring compliance with all legal and regulatory obligations and the Constitution. It also reviews the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts, or non-compliance.

The Committee obtains regular updates from management and BSP's legal officers regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

Reviews of the findings of any examinations by regulatory agencies are undertaken and the Chairman of the BAC has the right to approach a regulator directly in the event of a prudential issue arising.

RISK MANAGEMENT

Approach to Risk Management

The Group's Risk Management activities are aligned to the achievement of the Group's Objectives, Goals and Strategy. The Board, in consultation with the Executive Committee, determines the Group's risk appetite and risk tolerance and this is expressed in the Group Risk Appetite Statement. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

Consistent with Recommendation 7.2, the Board or a Committee reviews the risk management framework at least annually.

BSP recognises the following major risks:

Credit Risk: The potential for financial loss where a customer or counter party fails to meet its financial obligation to the Group.

Market Risk: The potential financial loss arising from the Group's activities in financial, including foreign exchange, markets.

Liquidity Risk: The risk of failure to adequately meet cash demand in the short term.

Interest Risk: Risk to earnings from movement in interest rates.

Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people, or from external events, including legal and compliance risk.

The Credit Committee monitors credit risk. The Group Asset & Liability Committee monitors market risk, interest risk, and liquidity risk, and operational risk is monitored by the Operational Risk Committee, including the maintenance of a risk register system that has been implemented across the Group. The Executive Committee and the Board overview the

highest tier of risks within these risk registers.

The Group's Risk Management Policy ensures that the Group has in place acceptable limits for the risks identified by employees. The risk management approach encompasses the following:

- defining the types of risks that will be addressed by each functional or policy area (i.e. credit risk, interest rate risk, liquidity risk, operational risk, etc.);
- ensuring that mechanisms for managing (identifying, measuring, and controlling) risk are implemented and maintained to provide for organisation-wide risk management;
- developing information systems to provide early warning, or immediate alert, of events or situations that may occur, or already exist, that could create one or more types of risk for the Group;
- creating and maintaining risk management tools, including those requested by the Board, such as policies, procedures, risk registers, controls and independent testing, management and training, and planning;
- instituting and reviewing risk measurement techniques that Directors and management may use to establish the Group's risk tolerance, risk identification approaches, risk supervision or controls, and risk monitoring processes;
- developing processes for those areas that represent potential risks; and
- establishing appropriate management reporting systems regarding these risks so individual managers are provided with a sufficient level of detail to adequately manage and control the Group's risk exposures.

Risk Management Roles and Responsibilities

The Board accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the Group's activities. Therefore, responsibility for overall risk management in BSP is vested with the Board. However, every employee from Executive Management to the newest recruit has a responsibility and a part to play in the process.

There is a formal system of financial and operational delegations from the Board to the Chief Executive Officer, and from the Chief Executive Officer to the General Managers. These delegations reflect the Group's risk appetite, and are cascaded down to managers who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval/control authorities/limits) and reporting/monitoring requirements for the risk management process. The severity of risks identified in the risk identification, analysis and evaluation processes, and noted in the SBU Risk Registers, is used to determine the approval/control authorities/limits. The Board undertakes an annual review of the Group's Enterprise Risks.

The Board has adopted guidelines, with the help of management analysis, covering the maximum loss exposure the Group is able and willing to assume. These guidelines are detailed in the Group's Risk Appetite Statement and Risk Policy and Procedures Manual which have been approved by the Board. The Board has also delegated to the BRCC responsibility for overview of loss control and for overseeing the risk management function.

The BRCC is responsible for receiving reports and providing regular updates and recommendations to the Board on the risk management activities of the Group, especially relating to risk issues that are outside of the authority of the Group's Executive Committee and other delegated Committees to approve.

Management Assurance

The Board is provided with regular reports about BSP's financial condition and its operating performance. Annually, the Chief Executive Officer and the Chief Financial Officer certify to the Board that:

- in their opinion, the financial records of the Group have been properly maintained;
- in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial

- position and performance of BSP; and
- their opinions above have been formed on the basis of a sound system of risk management and internal control applying to BSP, which is operating effectively;
- Additionally all General Managers and Country Managers provide bi-annual statements attesting that;
- they have assessed and documented the risks and internal control procedures in their Strategic Business Unit;
- they have identified any changes in business, operations and computer systems and the risks that may arise from those changes;
- the risk management and internal compliance and control systems are appropriate and operating efficiently and effectively; and
- any weaknesses in the risk management and internal compliance and control systems have been identified and remedial action taken.

ETHICAL BEHAVIOUR

BSP acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking BSP business. To this end, the Board has adopted:

- a Code of Conduct for both Directors and members of the Executive Management Team of the Group and stipulated that each Director, and relevant employees comply with the Code; and
- a Corporate Mission, Objectives, and Core Values Statement which establishes principles to guide all employees in the day to day performance of their individual functions within the Group.

While BSP's Corporate Governance Principles provides that the Board must ensure it maintains an appropriate mix of skills and experience without gender bias, BSP has not adopted a standalone Board diversity policy, which complies with Recommendation 1.5. BSP will do so in 2018.

To ensure the maintenance of high standards of corporate behaviour on an ongoing basis, the Board encourages Senior Management to periodically issue staff Toksaves to reinforce both the Code and Core Values Statements. All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues.

BSP is committed to a culture in which it is safe and acceptable for employees, customers and suppliers to raise concerns about poor or unacceptable practices, irregularities, corruption, fraud and misconduct. The Group has adopted a whistle-blowing policy that is designed to support and encourage staff to report in good faith matters such as:

- unacceptable practices;
- irregularities or conduct which is an offence or a breach of laws of the countries in which BSP operates in (actions and decisions against the laws of relevant countries including non-compliance);
- corruption;
- fraud;
- misrepresentation of facts;
- decisions made and actions taken outside established BSP policies & procedures;
- sexual harassment;
- abuse of Delegated Authorities;
- misuse of Group assets;
- disclosures related to miscarriages of justice;
- health and safety risks, including risks to the public as well as other employees;
- damage to the environment;
- other unethical conduct;
- failure to comply with appropriate professional standards;
- abuse of power, or use of the Group's powers and authority for any unauthorised purpose or personal gain; and
- breach of statutory codes of practice.

BSP's Code of Conduct for Employees and BSP's Code of Conduct for Directors are available at www.bsp.com.pg in the Investor Relations section.

Directors and management of the Group are subject to Securities Act 1997

restrictions for buying, selling or subscribing for securities in the Group if they are in possession of inside information, i.e. information which is not generally available and, if it were generally available, a reasonable person would expect to have a material effect on the price or value of the securities of the Group.

Further, Directors and management may only trade in the securities of the Group, subject to the foregoing insider trading restrictions, during each of the eight weeks following the announcements of half yearly profit and yearly profit or the date of issue of a prospectus. Management should discuss proposed share trades with the Chief Executive Officer in advance, who in turn will keep the Chairman of the Board apprised of management activities. Directors should discuss proposed share trades with the Chairman in advance.

In addition, Directors and management must not trade in any other entity if inside information on such entity comes to the attention of the Director or management by virtue of holding office as an Officer of the Group.

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

MARKET DISCLOSURE

The Group's continuous disclosure regime is fundamental to the rights of Shareholders to receive information concerning their securities. The most important aspect of the Group's shareholder communication policy is to comply with the continuous disclosure regime and to implement best practice disclosure policy. BSP has adopted a Continuous Disclosure Policy. This is available at www.bsp.com.pg in the Investor Relations section.

Market announcements are posted to BSP's website immediately after release to the market. All market announcements made by BSP since 2012 are currently available on the website. Where BSP provides financial results' briefings to analysts or media, these briefings are published on the website as soon as possible after the event. In any event, no material information which has not been previously released to the market is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

The Group's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that Shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its continuous disclosure policies and the dealing rules applying to its employees and Directors. BSP has adopted a Securities Dealing Policy. This is available at www.bsp.com.pg in the Investor Relations section.

SHAREHOLDER COMMUNICATIONS

BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. BSP commits to facilitating participation in shareholder meetings, and dealing promptly with shareholder enquiries.

Our Shareholder Communication Policy is built around compliance with disclosure obligations and aspiring to be at the forefront of best practice in disclosure. Our framework for communicating with Shareholders is to concisely and accurately communicate:

- the BSP strategy;
- how we implement that strategy; and
- the financial results consequent upon our strategy and its implementation.

The Group uses shareholder forums such as the Annual General Meeting, and quarterly investor briefings, within disclosure policies, to communicate financial performance and strategies.

BSP's Shareholder Communication Policy is available at www.bsp.com.pg in the Investor Relations section.

Consistent with Recommendation 6.4, BSP gives Shareholders the option

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to send and receive communications from BSP and its share registry electronically. From 2017, BSP and its share registry will also use technology to facilitate the participation of Shareholders in meetings consistent with Recommendation 6.3.

To facilitate effective communication between BSP and its Shareholders, potential investors, analysts and other financial markets participants, BSP conducts periodic market briefings, including half and full year results announcements and attendance at conferences. Shareholders, potential investors, analysts and other financial markets participants are given access to BSP Directors and Senior Management at these events, and the presentation material provided at these events announcement to the market prior to commencement and subsequently uploaded to BSP's website.

REMUNERATION

Executive Remuneration

BSP remuneration policy for Senior Management (including the Chief Executive Officer and the 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 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 service as a Director.

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 Shareholders in the Annual General Meeting. Shareholders are required to approve any change to this aggregate amount. In 2014, the Shareholders approved an increase in the pool to PGK 2.5 million.

Directors may also be reimbursed 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 programmes or the employee incentive schemes described below.

A table of fees paid to Directors during 2017 is produced on page 65.

Employee Incentive Schemes

BSP has established the following 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.

BSP does not currently have any equity-based remuneration schemes. Under BSP's employee incentive arrangements below, participants are not currently entitled to receive grants of shares or share options.

Employee Share Option Plan

In 2014, the Board approved an employee share option plan. The options are paid out as cash and are fully taxed. Participants are not entitled to

receive grants of shares or share options. This plan is available for use but is not currently in use.

Long Term Incentive Plan

BSP also has a Long Term Incentive Plan (LTIP) for certain senior employees. The LTIP is currently in use.

While performance rights are calculated by reference to earnings per share (EPS), participants are not entitled to receive grants of shares or share options. Rather, participants are entitled to receive an amount up to 10%, 15% or 30% of their fixed annual remuneration depending on their level of seniority.

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 plan 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 net profit after tax (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.

	EPS target	EPS target achieved	Performance Rights
1	[As recommended by the Remuneration and Nomination Committee and approved by the Board each LTIP cycle]	90–100%	100%
2		80–89%	50%
3		79% and below	0%

If a participant resigns their employment for health reasons or retires prior to vesting, awards may be made in full or pro rata 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.

WEBSITE

Shareholders can access BSP's financial reports, market announcements, corporate governance policies and various other shareholder resources from the "Investor Relations" tab of its website at www.bsp.com.pg.

Shareholders can also access details of BSP's history, business and structure from the "About Us" tab of the website.

SUSTAINABILITY RISKS

BSP identifies and manages its material exposures to economic, environmental and social sustainability risks within the risk management framework described above. In particular, BSP has a separate Social and Environmental Management Systems Policy which identifies and manages these risks. This policy applies to all Directors and employees of BSP.

Under the Social and Environmental Management Systems Policy, BSP has adopted performance standards, completes due diligence and risk assessments, and undertakes incident and grievance reporting. BSP will not support or assist any project that causes or is likely to breach social or environmental regulation in the countries in which it operates.

BSP does not presently disclose whether it has any material exposure to economic, environmental and social sustainability risks but intends to do so in 2018.

HISTORICAL SUMMARY

<i>Profit and Loss (K'000)</i>	2012	2013	2014	2015	2016	2017
Net interest income	681,554	740,857	884,761	1,006,251	1,107,686	1,277,676
Non interest income	614,951	793,487	613,970	540,888	684,371	720,674
Bad and doubtful debt (expense)/recovery	(70,952)	(78,573)	(76,796)	(89,905)	(98,622)	(77,678)
Other operating expenses	(680,257)	(833,849)	(703,085)	(691,084)	(769,641)	(852,148)
Operating Profit	545,296	621,922	718,850	766,150	923,794	1,068,524
Impairment of non-current asset	-	(14,967)	-	-	-	-
Profit before tax	545,296	606,955	718,850	766,150	923,794	1,068,524
Income tax (expense)	(137,552)	(170,127)	(211,511)	(234,271)	(280,343)	(311,521)
Profit/(loss) after tax	407,744	436,828	507,339	531,879	643,451	757,003
Dividends (toea)						
Dividends paid per share ¹	55.0	58.0	66.0	79.0	88.0	111.0
Balance Sheet (K'000)						
Net loans and advances	4,804,626	5,306,362	6,756,997	8,621,514	10,102,909	11,209,493
Total assets	13,333,102	15,761,420	15,816,507	18,196,303	20,831,803	22,369,861
Deposits	10,860,522	12,200,999	12,708,383	14,595,374	16,912,349	17,901,692
Capital	1,465,893	1,619,060	1,800,193	2,029,176	2,314,337	2,628,335
Performance Ratios						
Return on Assets	3.3%	3.0%	3.2%	3.1%	3.3%	3.5%
Return on Equity	29.0%	28.3%	29.7%	27.8%	29.6%	30.6%
Expense/Income	52.5%	54.3%	46.9%	44.7%	42.9%	42.6%
Key Prudential Ratios						
Capital adequacy	22.3%	18.0%	24.0%	23.1%	23.1%	24.5%
Liquid Asset Ratio	38.9%	41.8%	34.3%	31.5%	35.8%	36.9%
Leverage ratio	9.0%	7.6%	9.0%	8.9%	9.3%	10.0%
Exchange rates (One (1) PNG Kina buys):						
US Dollar	0.4755	0.3905	0.3855	0.3325	0.3150	0.3095
AUS Dollar	0.4580	0.4369	0.4708	0.4552	0.4354	0.3965

¹BSP has adopted the practice of paying an interim dividend based on half year results, in October of each year, 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.

CONTRIBUTIONS BY BSP TO PNG

<i>All Amounts are expressed in K'000</i>	2012	2013	2014	2015	2016	2017
Company income taxes paid to PNG Government	212,081	155,391	188,627	249,210	292,443	257,210
Other taxes paid to PNG Government (IWT, FCWT, BWT)	6,204	4,989	2,568	3,701	10,226	8,214
GST paid and not able to be recouped	12,836	14,082	11,024	16,793	21,268	22,101
Donations and Sponsorships	4,192	9,267	9,358	8,219	4,345	5,217
Total	235,313	183,729	211,577	277,923	328,282	292,742



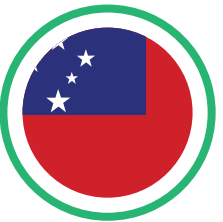
Michael Ah Chong

Senior Dealer

Financial Markets

Michael is from Pesaga, Samoa and is wearing a head piece called Tuiga which is made from dyed chicken feathers, mirrors, human hair, sea shells and tapa cloth.

He is wearing a necklace made from wild boars teeth and is wearing a mat also worn by Tongan's called 'Toga' covering his waist.



OVERSEAS BRANCHES & SUBSIDIARIES

TONGA

Economic growth in Tonga improved in 2017, with GDP increasing by 3.7% in real terms. Sectors underpinning this growth included construction, utilities, fisheries and mining & quarry. Tourist arrivals increased in 2017 reflecting annual church conferences and the commemoration of Mother’s and Father’s Day. Remittance inflows also remained strong despite challenges in the market following the closures of some corresponding banks. GDP growth is projected to decline to 2.6% in 2018, due largely to lower construction activities and tourism inflows, following the decision not to host the 2019 Pacific Games.



Economic growth in Tonga improved in 2017

BSP Tonga produced a strong financial result in 2017, NPAT was TOP8.6 million up 13.9% in 2016. BSP Tonga market share decreased in loans from 38.7% to 37.8% in 2017 and our deposit share remained steady at 83.2%; while the Tongan banking systems continues to see high levels of liquidity. Customer numbers increased from 29,000 to 34,000 and we continued our good work in the SME market.

Our EFTPoS points of representation increased from 303 to 362 during the year and income was up 33%, the roll out of the new Verifone terminals has had a positive impact on the market and BSP is the merchant of choice in the Tongan market.

BSP Tonga’s community work has been excellent, with over 10,000 Tongan people put through BSP’s financial literacy programme in 2017. In addition, we have supplied rubbish bins throughout the islands, donated blood to support Open Heart International, and continued with last year’s community project by completing our children’s playground to complement our Netball court project from 2016.

BSP Tonga’s continued commitment to BSP’s Group’s vision and values has been the key drivers to our continued success in the market, and all the staff are to be commended for the hard work, loyalty and commitment in making BSP Tonga the leading financial service provider in Tonga. 2018 promises to be another exciting year and we are ready to continue to build on our success.

VANUATU

Economic growth in Vanuatu improved in 2017, with GDP increasing by 4.3% in real terms compared to 3.8% in 2016. This was driven by ongoing recovery in tourism and agriculture, cyclone reconstruction and new infrastructure projects. A new strategic plan, ‘Vanuatu 2030’ launched this year will guide the development aspirations of the country going forward. GDP growth is projected to decline to 3.8% in 2018 as construction, recovery in agriculture and tourism balances out.

This year saw the business gain significant momentum and deliver a NPAT of 29% above plan. All areas of the business have shown improved

productivity although excellent performances from Business Banking and the Agency Team cannot go unnoticed. An important measure for any bank is customer numbers and Vanuatu’s is up 35% from 2016, with this growth expected to continue in 2018.

BSP also undertook a placement program via long and short term Government securities that has seen yield improvement on surplus deposit funds.

From a compliance perspective, the business was subject to three different audits, all which illustrated strong management practices and system protocols. The challenge is ensuring we maintain those high standards whilst also growing the business at an accelerated rate.

Marketing and brand awareness has been of critical importance in 2017, with BSP Vanuatu engaging in a number of community focussed events; brand recognition is now very high.

Cost control was a focus for the management team in 2017 and has seen a significant improvement in the businesses Cost to Income ratio (10% below budget). Capital adequacy remains strong at 18.5%, and is within all prudential and internal requirements and is sufficient to fund 2018 balance sheet aspirations.

2017 also saw the business open a new branch on the island of Tanna with plans well advanced for two more in 2018. BSP’s expansion into the islands has been well received by Government and the Reserve Bank. The official opening of the Tanna branch was on 6th February, 2018, with the Chairman and CEO present.

Vanuatu’s economy has stabilised and there is optimism that 2018 beyond will see continued GDP growth, especially off the back of the infrastructure projects that have been on-going throughout 2017.

Vanuatu remains on the Financial Action Task Force (“FATF”) Grey list, however, government have worked extremely hard and in conjunction with private sector to ensure appropriate legislation has passed into law to hopefully see a removal in May/June of 2018.

2018 will have its challenges, however, the leadership team has the capability to ensure another successful year.



Vanuatu Branch Staff celebrating their 1st anniversary of operations

FIJI

The estimated GDP growth rate for Fiji’s economy in 2017 was 4.2%. This is a significant rebound from the 2016 result of 0.4%. This was impacted by Cyclone Winston in February 2016. The statistics now indicate nine consecutive years of positive economic growth.

Inflation has levelled off at 2.6%. Foreign reserves have increased to FJD2.3 billion and 5.5 months import cover. Monetary conditions have eased somewhat with system liquidity hovering around FJD600 million. Private sector credit growth slowed to 9%, due to a contraction in consumption lending.

Financial results for 2017 reported a net profit after tax and before extraordinary items of FJD42.7 million compared to the 2016 result of FJD40.2 million, an improvement of 6%.



BSP Fiji Management Team and Rotary International partners

Our Corporate area performed strongly with portfolio growth of 19% in a highly competitive marketplace. This result was due to strong relationship management by a team of experienced and long term personnel, with highly developed relationships gained over decades of experience in the Fiji market. This stability is valued by our clients.

Foreign Exchange (FX) income grew by 12% continuing from the large increase achieved in 2016. This result once again came from an experienced team in the FX dealing area using established and new relationships, and providing value added advice to our clients.

The Retail bank showed reasonable growth in Housing Loans. The team were challenged by contractions in the Unsecured Personal Loan market due to the need to tighten eligibility guidelines and a softening in demand for car loans due to changes in customs duties. Our team of Personal Bankers continue to provide quality service and meet competitive timeframes to provide the best service to our clients.

Revenues from our Electronic Channels – ATM's, EFTPoS, SMS Banking & Internet Banking - continue to grow and provide our clients with convenience and world class options for their banking.

In 2018, the bank in Fiji expects to deliver a number of new products and service delivery improvements. These initiatives will enhance customer experience and access.

SOLOMON ISLANDS

In 1997, BSP's purchase of The National Bank of the Solomon Islands was the first major overseas acquisition by BSP and we are pleased to say that the business has continued to grow and has proved an excellent investment by BSP. This year saw the 10 year anniversary of the purchase and a number of functions were held across the country to celebrate the anniversary and staff were supplied with a special 10 year anniversary uniform. We were also privileged that the entire BSP Board of Directors visited Solomon Islands to join the celebrations in Honiara.

Solomon Islands economy over 2017 has remained consistent with previous years with year-end growth expected to be approximately 3%. Inflation which was negative in 2016 has seen a return to positive numbers in 2017 and headline inflation is expected to be around 2%.

With economic growth of 3%, we are pleased to advise that BSP Solomon

Islands have far exceeded this growth and recorded a NPAT of SBD82.7 million, which is an increase of 24% on 2016 results. However, this result could not have been achieved without the assistance of many in PNG which is a great example of the BSP value of "Teamwork" and we thank them for playing a major part in our great result.



BSP Solomon Islands in partnership with Noro community renovated classroom

BSP SI has once again far exceeded the industry average and recorded a 21% growth in our Loan Portfolio for 2017. This growth was seen both in the Consumer and Business Portfolios. Unfortunately, we have seen some stress with some old consumer loans and the above growth has been achieved despite some tightening of policies on the consumer portfolio. This growth is a result of the lending team building their relationship with our customers and going out of their way to meet our customer's needs. This in turn brought with it the reputation that BSP SI was keen to do business and saw us win a number of Business transactions from other banks.

Foreign Exchange was another very good result for us in 2017 and income grew by 19%. This is also a result of providing quality service and proactively seeking Foreign Exchange business from other bank customers.

From the Retail side of the business, we have opened just under 12,000 accounts and provided financial literacy training to 9,500 individuals with approximately half of these training being conducted in Provincial areas of the Solomon Islands. BSP has branches in four Provincial towns with three of those branches being the only banking business in the town.

2017 has seen us concentrate on improving our Electronic Banking (e-Banking) channels and this has seen a significant increase in usage across all channels.

2018 will see us continue to have a focus on Electronic Banking and also to improve our customer service in our Retail Network. Part of this will see a complete refit of our Honiara Central branch (former Westpac) which is well overdue.

All staff here in the Solomon Islands are to be congratulated on the exceptional year that was 2017 as it could not have been achieved without their dedication and loyalty to the business. Additionally, we thank those staff in PNG who assisted in making 2017 an exceptional year for BSP SI and we look forward to their continued support in 2018.

COOK ISLANDS

Cook Islands economic growth more than halved to 3.2% in 2017, compared to 8.4% in 2016. The lower than anticipated growth was primarily due to low investment in the economy, which more than offset the positive impact from tourism growth. Economic growth is expected to decline to 1.6% in 2018. However, Cook Islands tourism sector continues to remain strong with 155,800 tourists visiting in 2017. This is expected to increase by 3.3% to 161,000 in 2018.

Despite the softening economy, BSP Cook Islands has delivered a strong financial result in 2017, a NPAT result of NZD2.03 million has been achieved, representing a 48% increase on 2016. The performance underpinned through solid loan growth of 6.1%, with 2017 finishing with a balance sheet position of NZD88.3 million. The growth has been driven by strong results

OVERSEAS BRANCHES & SUBSIDIARIES



Overall, 2017 has been an exceptional year and staff are to be congratulated for their efforts

in the retail sector and a strengthening commercial pipeline. Total deposits have grown 21% to NZD148.0 million, however this aggressive growth is not expected to continue with the Cook Island Government expected to increase spending on key infrastructure projects such as Te Mato Vai and Mei Ti Vai Ki Te Vai and the Manatua Cable in 2018. The ongoing focus on non-performing loans has continued and efforts have been rewarded with a total reduction of 2.8% in non-accrual loans.

Overall, 2017 has been an exceptional year and staff are to be congratulated for their efforts. Other successes include the delivery of financial literacy programs, Money Basics and Financial First Steps to all school students throughout Rarotonga and the outer islands of Aituaki, Atiu and Mangaia. New products and initiatives have been launched in 2017, including Visa Business Credit Cards and Personal Asset Loans with market penetration exceeding expectations. New and refreshed ATMs have been installed at key locations, a total upgrade of the EFTPoS fleet completed, and a new Mobile ATM has been introduced to service tourist and locals alike at the Punganui Market, the Avatiu wharf and the many festivals and events throughout Rarotonga.

With a productive and rewarding 2017 completed, we are confident the platform has been set for continued improvement throughout 2018. Our 2018 strategic focus includes solidifying our position as the leading bank of choice for merchant terminals and e-channel solutions. An investment has been made in acquiring an experienced Manager for Digital Banking to drive transformational change, customer advocacy and subsequent increasing profitability.

SAMOA

BSP Samoa reported a solid financial performance in 2017. This performance has been achieved despite a slowdown in real economic activity to around 0.1% compared to 6.5% in 2016. This economic decline is driven by sharp reductions in fishing, manufacturing, construction, transport and business as the significant growth from these sectors recorded in 2016 could not be replicated in 2017.



BSP Samoa reported a solid financial performance in 2017

Pleasingly, BSP performed above system growth and it continued to strengthen its balance sheet through a growth strategy which resulted in the loan book increasing by 18% to WST290 million year-on-year. Samoa reported a 4% growth in profit after tax of WST6.3 million, largely driven by a disciplined approach that increased operating income by 11% and managed total expenditure at 3% below budget.

During the year, there has been a 16% growth in customer numbers to 48,700 and 31% growth in consumer lending. Our commitment to excellence in customer experience is reflected in the \$4 million refurbishment of our main branch, which now includes Premium Personal and Commercial Banking facilities. This is supported by an expansion of our electronic channel (e-channel) network that includes 20 ATMs, 36 agencies and over 360 EFTPoS terminals across the country.

We supported our vision by participating in various community events throughout the year, placing priority on the empowerment of women and children, health, youth development, sports, education and the environment. BSP's main Community Project this year was conducted in partnership with the Samoa Victim Support Group, which focused on the provision of cooking facilities, sales booths and numerous other activities throughout the year to empower women and children who are victims of abuse and domestic violence.

The commitment of our staff and the strength of our culture have been reflected in the way we foster excellent customer relationships. Our values of Integrity, Professionalism, Leadership, Quality, People, Teamwork and Community are integral to our culture and this year we have been committed to embedding a values-driven approach to work by demonstrating how we live these values every day.

Staff are to be acknowledged for their ongoing dedication and commitment to our customers and business, making possible a good result in 2017.

The economic outlook for 2018 is a rebound in economic activity to around 4% percent real growth and 6% in nominal terms. Underpinning this improvement in real GDP are sharp increases expected mainly in manufacturing, commerce, construction, agriculture, communications and transport. In essence, this supports BSP's growth momentum as we continue to build a high performing culture by on-going investment in our people and digital innovation and embedding the BSP values in all our actions.



BSP Staff showing hotel staff the new EFTPoS features

BSP FINANCE

BSP Finance PNG recorded strong growth in its loan portfolio during the first two quarters of 2017 which resulted in an increase in revenue. However, more subdued economic activity contributed to an increase in delinquencies. These challenges meant that an inward focus was needed and the beginning of quarter three saw a reengineering of key internal processes which by quarter four led to a stabilisation of the level of arrears and increased efficiencies in the collections process. This and other measures resulted in improvements in the bottom line in quarter four and means that the business starts with a clean loan book in 2018. Despite these challenges, BSP Finance (PNG) has managed to maintain a stable

market share of 17% and now looks forward to growing its market share further in 2018.

BSP Finance Fiji performed exceedingly well in 2017, recording a profit for the year of FJD2.8 million which was 27% above budget. Loan volumes as well finished above target by 17% finishing at FJD44.3 million for the year. BSPF Fiji had a market share of 17.9% as of 31 October 2017 which means it was the third biggest asset financier in Fiji at that point. In November 2017, Loan Protection Insurance Cover was launched as an added feature for the Asset Finance (Consumer) segment, this announcement was well received by the consumer market. The BSP Finance brand continues to be aggressively marketed in Fiji and 2018 will be a year of further growth in the business and continued customer service excellence.

The acquisition of a 50% stake in BSP Finance Cambodia officially took place in May 2017 which was a landmark event for BSP Finance as well as BSP Group. Growth in the loan portfolio was slow for most of quarter three due to the rainy season however, by quarter four new loan volumes started to pick up again and by December 2017, a portfolio of US\$15 million was recorded. The business now operates out of a new premises and has recruited qualified people in key positions in the Finance and Operational Risk departments which should hold BSPF Cambodia in good stead going into 2018. A key strategic imperative of the business next year will be to expand the type of assets financed with a view to increasing market share which was 10% as at 31 December, 2017.

BSP Finance Solomon Islands was officially launched in September 2017 and as at 31 December 2017, had a portfolio of SBD5.7 million. The team continues to build brand awareness through marketing campaigns and visits to potential customers. 2018 is shaping as a year of growth for BSPFSI as efforts to increase traction in the market will intensify and to this end the business will continue to leverage off the BSP network in the Solomon Islands and enhance its speed to market proposition.

Other opportunities to launch an Asset Financing Business in South East Asia continue to be explored.



The acquisition of a 50% stake in BSP Finance Cambodia officially took place in May 2017 which was a landmark event for BSP Finance as well as BSP Group

BSP CAPITAL LIMITED

Challenging business conditions continued into 2017, despite a slight improvement in the economy with a growth rate of 2.4% compared to a 2.0% growth in 2016. BSP Capital net result saw a modest improvement compared to its 2016 performance with revenue streams remaining stable and steady reduction of costs reflecting the difficult trading conditions.

Stockbroking

The domestic bourse saw the total market turnover value more than doubled recording a total value of K74 million in 2017 compared to K31 million in 2016. The improvement in the value was attributed to increased share trades in BSP, Credit Corporation and Oil Search Limited. BSP Capital remains the largest broker by value with 75% market share in 2017. We

were successful in 2017 by sourcing a greater share of corporate business generating higher brokerage.

Corporate Advisory

2017 was a difficult year for Corporate Advisory as a number of assignments dragged over the year with a low success rate. BSP Capital also assisted clients with valuation work, strategic advice on capital raising, asset disposal and potential listings in 2017.

Funds Management

Funds under management remained stable at K1.458 billion as revenues declined 4% compared to the previous year.

We continued to see an interest in the retail segment while on the wholesale front saw BCAP miss out on a few opportunities in 2017 but we remain optimistic to see this area of our business grow stronger in the next 12 months. We expect steady growth in our Funds Management business in 2018, with several new opportunities on the horizon.

BSP LIFE FIJI

The Insurance business performance and achievements in 2017 in both financial and strategic initiatives overall, were pleasing in an environment that posed challenges for the Life Insurance business. The strong financial performance recorded in 2016 in our Life business and its investments continued into 2017 with results exceeding expectations. The Health business also showed further improvement in profitability driven by an exceptionally strong new business growth and good business retention.

Our key strategic initiative for 2017 was the implementation of the Life functionalities of our new core system. While significant progress was made on this important initiative, the implementation had to be deferred to 2018. The complex nature of the business meant more time was required to properly bed certain functionalities and the General Ledger Interface.

2017 also saw strong performances in our subsidiary businesses particularly Richmond Limited trading as Sofitel Fiji and Future Farms Limited trading as Rooster Poultry. Planned developments in our private hospital joint venture business were also successfully completed in the launch of its new Cardiac and Accident Emergency Centre at the Madras Institute of Orthopaedics and Traumatology (MIOT) Pacific Hospital in Suva.

The Insurance Group profit for 2017 was FJD20.1 million, 41% above the profit in 2016. Both the Life and Health businesses showed significant improved performance when compared to last year results. Life policyholder profits achievement was also pleasing at a record FJD28 million.

The Health new business also set a new record, achieving 83% above 2016 numbers which increased the inforce to FJD22.6 million, a staggering 30.3% growth. Life new business, however, was 19% below 2016 due to a specific change in salary deduction practice in one of our largest markets and also as a result of the changes implemented in our sales processes to improve business quality. Life inforce portfolio increased by FJD1.2 million to FJD69.0 million, 1.7% growth. The 13-month persistency rate on annual policy premium of 76.3% was 2.5% lower than last year. This relates to policies sold prior to 2017 and is anticipated to improve in 2018 following the changes in sales and performance standards implemented from 2017.

The Life insurance market continues to be dominated by endowment products. BSP Life has significant market share on inforce annual premium basis (excluding single premiums). The latest publicly available industry data indicates that BSP Life had 57% market share at the end of 2016. The same sources state that BSP Health Term Life market share on premium income was 60% while the Medical market share was 43% in 2016 which are expected to show significant improvements in 2017.

In 2018, BSP Life will build on the strong results achieved in recent years. The key strategic focus will be to successfully complete our core system change exercise with the implementation of our Life system which will further strengthen our service delivery capability and bring efficiency gains. The business will also provide support to the BSP Life insurance business in Papua New Guinea which started operations from 1 January, 2018.

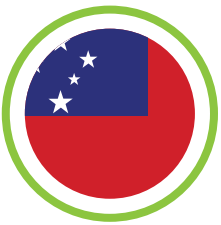


Kirsten Tangapiri

Merchant Officer, Retail

Kirsten comes from Titikaveka in Cook Islands and is seen wearing a head piece made from chicken feathers called Kiriau - Pata apuka.

Her traditional attire is worn during local dancing festivals and island night shows.



FINANCIAL STATEMENTS

DIRECTORS' REPORT

for the Year Ended 31 December 2017

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 2017. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

Principal activities

The principal activity of the Bank of South Pacific Limited (BSP) is the provision of commercial banking and finance services. The Group's activities also include stock broking, fund management and life business services throughout Papua New Guinea and the Asia 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 Group is also licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa, Tonga, Vanuatu and Cambodia. The registered office is at Douglas Street, Port Moresby.

Review of operations

For the year ended 31 December 2017, the Group's profit after tax was K757.003 million (2016: K643.451 million). The Bank's profit after tax was K720.953 million (2016: K606.674 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

Dividend payments totalling K521.858 million were paid in 2017 (2016: K413.973 million). A detailed breakup of this is provided in Note 23.

Directors and officers

The following were directors of the Bank of South Pacific Limited at 31 December 2017:

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

Details of directors' tenure and directors' and executives' remuneration during the year are provided in Note 27 of the Notes to the Financial Statements. The 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 79. Details of amounts paid to the auditors for audit and other services are shown in Note 41 of the Notes to the Financial Statements.

Donations and Sponsorships

Donations and sponsorship by the Group during the year amounted to K6.457 million (2016: K5.789 million).

Change in accounting policies

No changes in accounting policies significantly impacted the Group during the year.

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 28th day of February, 2018.



Sir Kostas G. Constantinou, OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Director

STATEMENTS OF COMPREHENSIVE INCOME

for the Year Ended 31 December 2017

<i>All amounts are expressed in K'000</i>	Note	Consolidated		Bank	
		2017	2016	2017	2016
Interest income	2	1,432,640	1,267,911	1,349,134	1,214,671
Interest expense	2	(154,964)	(160,225)	(141,106)	(153,783)
Net interest income		1,277,676	1,107,686	1,208,028	1,060,888
Fee and commission income	3	373,673	362,337	345,919	340,764
Other income	4	307,171	298,078	310,059	277,045
Net banking operating income		1,958,520	1,768,101	1,864,006	1,678,697
Net insurance premium income		131,022	118,418	-	-
Investment revenue		137,479	85,616	-	-
Increase in policy liabilities	39(b)	(64,813)	(45,036)	-	-
Policy maintenance and investment expenses		(95,078)	(80,395)	-	-
Claims, surrender and maturities		(90,393)	(71,390)	-	-
Share of profits from associates and jointly controlled entities		21,613	16,743	-	-
Net insurance operating income	39(a)	39,830	23,956	-	-
Net operating income before impairment and operating expenses		1,998,350	1,792,057	1,864,006	1,678,697
Impairment on loans and advances	13	(77,678)	(98,622)	(65,111)	(90,460)
Impairment on subsidiary	8	-	-	(6,749)	-
Operating expenses	5	(852,148)	(769,641)	(777,891)	(709,139)
Profit before income tax		1,068,524	923,794	1,014,255	879,098
Income tax expense	6	(311,521)	(280,343)	(293,302)	(272,424)
Net profit for the year		757,003	643,451	720,953	606,674
Other comprehensive income					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Translation of financial information of foreign operations to presentation currency	24	48,326	42,054	25,589	24,602
<i>Items that will not be reclassified to profit or loss:</i>					
Recognition of deferred tax on asset revaluation reserve	24	(10,165)	11,816	(8,977)	11,816
Net movement in asset revaluation	24	38,064	(1,265)	30,314	(1,832)
Other comprehensive income, net of tax		76,225	52,605	46,926	34,586
Total comprehensive income for the year		833,228	696,056	767,879	641,260
Earnings per share - basic and diluted (toea)	23	162.0	137.7	154.3	129.8

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

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2017	2016	2017	2016
ASSETS					
Cash and balances with Central Bank	10	1,205,196	1,656,260	985,803	1,410,008
Treasury and Central Bank bills	11	3,298,626	2,933,621	3,287,162	2,918,484
Amounts due from other banks	12	949,214	804,233	887,337	691,152
Statutory deposits with Central Banks	25	1,598,378	1,474,656	1,541,096	1,440,530
Other financial assets	16	2,457,327	2,331,472	2,062,341	2,044,905
Loans, advances and other receivables from customers	13	11,209,493	10,102,909	10,094,470	9,255,080
Property, plant and equipment	14	738,670	683,498	574,305	569,168
Assets subject to operating lease	14	70,689	44,668	70,689	44,668
Investment in associates and joint ventures	9	154,135	125,620	19,157	16,513
Investment in subsidiaries	8	-	-	338,400	318,261
Intangible assets	7	107,818	91,626	100,750	84,727
Investment properties	15	134,020	117,590	-	-
Tax receivable	6	-	576	-	3,670
Deferred tax assets	6	181,934	170,089	200,021	182,625
Other assets	17	264,361	294,985	202,142	247,535
Total assets		22,369,861	20,831,803	20,363,673	19,227,326
LIABILITIES					
Amounts due to other banks	18	160,400	47,323	238,272	73,855
Customer deposits	19	17,901,692	16,912,349	16,843,756	16,143,696
Subordinated debt securities	20	75,525	75,525	75,525	75,525
Other liabilities	21	1,382,888	1,312,462	596,633	618,402
Provision for income tax	6	31,708	-	25,231	-
Other provisions	22	189,313	169,807	173,254	156,398
Total liabilities		19,741,526	18,517,466	17,952,671	17,067,876
SHAREHOLDERS' EQUITY					
Ordinary shares	23	373,001	373,101	373,001	373,101
Retained earnings	24	1,904,462	1,670,595	1,777,627	1,576,974
Other reserves	24	346,388	266,090	260,374	209,375
Equity attributable to the members of the company		2,623,851	2,309,786	2,411,002	2,159,450
Minority interests		4,484	4,551	-	-
Total shareholders' equity		2,628,335	2,314,337	2,411,002	2,159,450
Total equity and liabilities		22,369,861	20,831,803	20,363,673	19,227,326



Sir Kostas G. Constantinou OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Director

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the Year Ended 31 December 2017

BANK		Share capital	Reserves	Ret. earnings	Min. Interests	Total
<i>All amounts are expressed in K'000</i>						
	Note					
Balance as at 1 January 2016		374,621	216,369	1,340,000	-	1,930,990
Net profit		-	-	606,674	-	606,674
Other comprehensive income		-	34,586	-	-	34,586
Total comprehensive income		-	34,586	606,674	-	641,260
2015 final dividend paid	23	-	-	(294,448)	-	(294,448)
2016 interim dividend paid	23	-	-	(116,832)	-	(116,832)
Share buyback	23	(1,520)	-	-	-	(1,520)
Total transactions with owners		(1,520)	-	(411,280)	-	(412,800)
Transfer from Asset Revaluation Reserve	24	-	(42,537)	42,537	-	-
BSP Life policy reserve	24	-	957	(957)	-	-
Balance at 31 December 2016		373,101	209,375	1,576,974	-	2,159,450
Net profit		-	-	720,953	-	720,953
Other comprehensive income		-	46,926	-	-	46,926
Total comprehensive income		-	46,926	720,953	-	767,879
2016 final dividend paid	23	-	-	(369,414)	-	(369,414)
2017 interim dividend paid	23	-	-	(149,541)	-	(149,541)
Share buyback	23	(100)	-	-	-	(100)
Total transactions with owners		(100)	-	(518,955)	-	(519,055)
Recognition of deferred tax		-	-	3,739	-	3,739
Transfer from Asset Revaluation Reserve	24	-	(1,418)	407	-	(1,011)
BSP Life policy reserve	24	-	5,491	(5,491)	-	-
Balance at 31 December 2017		373,001	260,374	1,777,627	-	2,411,002
GROUP						
Balance as at 1 January 2016		374,621	255,065	1,399,490	-	2,029,176
Net profit		-	-	643,451	-	643,451
Other comprehensive income		-	52,605	-	-	52,605
Total comprehensive income		-	52,605	643,451	-	696,056
2015 final dividend paid	23	-	-	(297,141)	-	(297,141)
2016 interim dividend paid	23	-	-	(116,832)	-	(116,832)
Minority interest capital		-	-	-	4,598	4,598
Share buyback	23	(1,520)	-	-	-	(1,520)
Total transactions with owners		(1,520)	-	(413,973)	4,598	(410,895)
Loss attributable to minority interests		-	-	47	(47)	-
Transfer from Asset Revaluation Reserve	24	-	(42,537)	42,537	-	-
BSP Life policy reserve	24	-	957	(957)	-	-
Balance at 31 December 2016		373,101	266,090	1,670,595	4,551	2,314,337
Net profit		-	-	757,003	-	757,003
Other comprehensive income		-	76,225	-	-	76,225
Total comprehensive income		-	76,225	757,003	-	833,228
2016 final dividend paid	23	-	-	(372,317)	-	(372,317)
2017 interim dividend paid	23	-	-	(149,541)	-	(149,541)
Share buyback	23	(100)	-	-	-	(100)
Loss attributable to minority interests	24	-	-	67	(67)	-
Total transactions with owners		(100)	-	(521,791)	(67)	(521,958)
Recognition of deferred tax		-	-	3,739	-	3,739
Transfer from asset revaluation reserve	24	-	(1,418)	407	-	(1,011)
BSP Life policy reserve	24	-	5,491	(5,491)	-	-
Balance at 31 December 2017		373,001	346,388	1,904,462	4,484	2,628,335

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

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2017	2016	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,432,265	1,269,316	1,330,842	1,185,621
Fees and other income		700,928	669,187	655,978	581,669
Interest paid		(145,505)	(161,093)	(135,083)	(155,774)
Amounts paid to suppliers and employees		(727,730)	(629,235)	(674,116)	(569,818)
Operating cash flow before changes in operating assets and liabilities	28	1,259,958	1,148,175	1,177,621	1,041,698
Increase in loans, advances and other receivables from customers		(1,164,516)	(1,392,582)	(887,123)	(1,130,592)
Increase in statutory deposits with the Central Banks		(123,723)	(115,050)	(100,566)	(98,880)
(Increase)/decrease in bills receivable and other assets		(4,430)	(78,874)	54,287	(48,610)
Increase in customer deposits		989,343	1,960,281	700,060	1,895,400
Increase in bills payable and other liabilities		120,241	92,305	38,252	20,999
Net cash flow from operations before income tax		1,076,873	1,614,255	982,531	1,680,015
Income taxes paid	6	(293,697)	(338,647)	(282,645)	(330,331)
Net cash flow from operating activities		783,176	1,275,608	699,886	1,349,684
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in government securities		(490,860)	(453,058)	(386,113)	(388,010)
Expenditure on property, plant and equipment		(118,518)	(69,179)	(72,321)	(39,597)
Expenditure on software development costs		(50,096)	(22,580)	(48,109)	(21,871)
Proceeds from disposal of property, plant and equipment		2,182	70,250	2,165	69,982
Purchase of controlled entities, net of cash acquired		-	162,870	-	(38,020)
Additional funding of subsidiaries		-	-	(26,889)	(20,372)
Net cash flow used in investing activities		(657,292)	(311,697)	(531,267)	(437,888)
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	23	(100)	(1,520)	(100)	(1,520)
Non-controlling interests shares		-	4,551	-	-
Dividends paid	23	(521,858)	(413,973)	(518,955)	(411,280)
Proceeds from borrowings	21	33,127	253,969	33,127	253,969
Principal and interest repayments of borrowings	21	(101,973)	-	(101,973)	-
Net cash flow used in financing activities		(590,804)	(156,973)	(587,901)	(158,831)
Net (decrease)/increase in cash and cash equivalents		(464,920)	806,938	(419,282)	752,965
Effect of exchange rate movements on cash and cash equivalents		45,760	37,955	26,845	21,085
Cash and cash equivalents at the beginning of the year	28	2,413,170	1,568,277	2,027,305	1,253,255
Cash and Cash Equivalents at the end of the year	28	1,994,010	2,413,170	1,634,868	2,027,305

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

1. ACCOUNTING POLICIES

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 (the Bank) 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, amendment and interpretations effective in the year ended 31 December 2017

There are a number of standards, amendments and interpretations that became applicable for the first time during the accounting period beginning 1 January 2017. Listed below is the amendment relevant to the Bank and Group:

- Amendments to IAS 7 'Statement of Cash Flows' on disclosure initiative. These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2017 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 2018 or later periods, but the entity has not early adopted them:

- Amendments to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions (effective 1 January 2018). This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- IFRS 9, 'Financial Instruments' (effective 1 January 2018) replaces the guidance in IAS 39 with a standard that is more principles based. The new standard simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within Other Comprehensive Income; this change can be adopted early without adopting IFRS 9. IFRS 9's new

impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment losses is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed.

Governance and project management

The adoption of IFRS 9 is a significant initiative for the Group, involving substantial resources and effort from both the finance and credit teams. The Group's existing credit policies are being refined and revised where required to meet the requirements of IFRS 9. The Group has applied many components of its existing credit risk management framework to ensure that appropriate validations and controls will be in place over new key processes and significant areas of judgment.

Adoption of IFRS 9 in 2018 will result in revisions to accounting policies and procedures, changes and amendments to internal control documents, applicable credit risk manuals, and implementation of new models to create expected loss rates and associated methodologies and new processes within risk management. Progress updates have been provided to executive management and the BSP Board throughout the span of this project and BSP is well positioned to adopt in 2018.

The following is a summary of key items that are important in understanding the impact of IFRS 9:

Classification and measurement

The Standard introduces new requirements to determine the measurement and classification of financial assets on the basis of cash flow characteristics and observable business model within which the financial assets are being managed. Accordingly, the basis of measurement for the Group's financial assets may change. The Standard allows recording of fair value changes through Other Comprehensive Income (OCI) where cash flows from the financial asset is solely payments of principal and interest and the business model is 'hold to collect and sell'.

The Group's insurance business measures its investments in fixed interest securities at 'Fair Value Through Profit and Loss' under IAS 39. However, these securities are held in the business model of hold to collect or sell and they meet the requirements of SPPI. Under IFRS 9, these assets could be classified as Fair Value through Other Comprehensive Income which will reduce volatility in the profit or loss account. Discussions are being held with the actuaries to ascertain the impact this will have, if any, on valuation of policy liabilities before a decision is made. For other financial instruments, the Group does not expect the implementation will result in a significant change in the classification and measurement of the Group's financial assets, between Amortized Cost, Fair Value through OCI and Fair Value through Profit and Loss.

Impairment

The adoption of IFRS 9 will have an impact on the Group's loan impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward looking compared to the current incurred loss approach. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts.

IFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

S&P Global Market Intelligence (S&P), given their understanding of the Group's internal rating system and comprehensive data bank accumulated over a significant time period, were engaged to assist with calculating the PD rates that are compliant with IFRS requirements. S&P's default experience is blended with BSP's internal default experience to derive a recalibrated master scale to produce Through the Cycle (TTC) PDs. Macroeconomic forecasts are applied to convert the TTC PDs into Point in Time (PIT) PDs

as required by IFRS 9 (refer “Macroeconomic Factors and Forward Looking Information” section below). This methodology of producing blended PDs is grounded in the theoretical principle as elucidated in paragraph 462 of the Revised Basel Accord, whereby attributing external credit assessment institution’s observed default rates to internal grades is acceptable as long as the underlying methodology of the internal models mimic the methodology of the external credit assessment institution. Management is still determining the most appropriate LGD and EAD to use in the calculation.

The IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – includes financial assets that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit losses (ECL) are recognized. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months.

Stage 2 – includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment at balance date. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – includes financial assets that have an objective evidence of impairment at reporting date. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses. Revenue recognition in stage 3 is based on the effective interest rate on the net balances as opposed to gross balances.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of Significant Increase in Credit Risk (SICR)

The assessment of SICR is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group’s existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at a portfolio level for retail exposures. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant. BSP will consider qualitative, quantitative factors and a backstop of 30 days in determination of SICR.

Macroeconomic Factors and Forward Looking Information

IFRS 9 requires an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. The systemic factors used by S&P include widely accepted economic indicators, market indicators as well as industry indicators. Some forecasts can be national, regional or global, reflecting the specificities of an institution’s exposure. The aim of the overlay is to convert PD curves based on long term average default rates (blended TTC PDs as described above) into forward looking PD curves (PiT PD) taking into account current and future economic conditions, as required by IFRS 9. The conversion process looks at the historical relationship between long term PDs for a particular year and the observed default rate for the same year (known as the Z-factor) and a set of systematic factors for the year. This is then compared to the expected systematic factors and long-term PDs for a future year to estimate the PiT PDs for that future year.

Experienced credit judgment

The Group’s ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Definition of Default and Write-off

Material exposures classified as stage 3 or approaching stage 3 are monitored on a monthly basis by the Restructure Committee which is governed by its own charter. Exposures are reviewed and decisions made on ongoing strategies to manage such accounts and appropriate provisioning requirements. The policy on the write-off of loans remains unchanged with the introduction of IFRS 9.

Transition impact

Given that the Group’s existing provisioning policies have adopted a prudent approach in respect to Stage 1 loans with the application of TTC probability of defaults whilst under IAS 39, it is expected that changes in provisions with the transition to IFRS 9 will not be material. The Group is in the process of assessing the actual impact upon transition. The Group continues to revise, refine and validate the impairment models and related processes leading up to the effective date of the standard of 1st January 2018 and applicable to the first financial reporting period for BSP ending 30th June 2018.

- IFRS 15 ‘Revenue from contracts with customers’ (effective 1 January 2018) is a converged standard from the IASB and FASB on revenue recognition and replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The entity will have to adopt a new 5-step process for the recognition of revenue:

- identify contracts with customers
- identify the separate performance obligations
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

The entity is in the process of determining the impact of IFRS 15 but does not expect the new standard to have a significant impact on current revenue practice.

- IFRS 16, ‘Leases’ (effective 1 January 2019) replaces the guidance in IAS 17 and will have an impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The timing of expense recognition will also be brought forward although the impact on reported profit is not expected to be significant.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

- Amendments to IFRS 4, 'Insurance contracts' (effective 1 January 2018) regarding implementation of IFRS 9. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021, in which case they will continue to apply IAS 39.
- Amendments to IAS 40, 'Investment property' (effective 1 January 2018) relating to transfers of investment property. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective 1 January 2018) addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made.
- IFRS 17 'Insurance contracts' (effective 1 January 2021) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- IFRIC 23, 'Uncertainty over income tax treatments' (effective 1 January 2019) clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- Annual improvements 2015 - 2017 Cycle
Makes amendments to the following standards:
 - IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
 - IAS 12 - The amendments clarify that all income tax consequences of dividends (ie distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
 - IAS 23 - The amendments clarify that if any specific borrowings remains outstanding after the related assets is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2017, 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 cost method of accounting, where:

- acquisition cost is measured at fair value of assets transferred, equity issued, liabilities assumed and any directly attributable costs of the transaction;
- identifiable net assets are recorded initially at acquisition, at their fair values;
- any excess of the acquisition cost over the relevant share of identifiable net assets acquired is treated as goodwill, and any deficiency is recognised directly in the Statement of Comprehensive Income;

All intercompany transactions and balances are eliminated.

C. Investment in Associates and Joint Arrangements

Investments in Associates

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

In the Financial Statements, these investments are accounted for under the equity method.

Interests In Joint Arrangements

The Group applies IFRS 11 to all joint ventures. Under IFRS 11 investments in joint arrangements are classified as either joint ventures or joint operations depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method in the Financial Statements. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the entity (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures

Interests in joint ventures classified as held for sale are accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

D. Revenue

Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income on an accrual basis using the effective interest method. The income arising from the various forms of instalment credit has been determined using the effective interest method.

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

Short term insurance contracts

These contracts are the Term Life, Medical and Travel policies sold and underwritten by BSP Health Care (Fiji) Limited.

These contracts protect the Group's customers from the consequences of events such as death, medical emergency or loss on travel. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policy holder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the Statement of Financial Position date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or beneficiaries. They include direct and indirect claims settlement costs and arise from events that have occurred up to the 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 estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Foreign exchange income/(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.

Long term insurance contracts

These contracts insure human life events (for example death, survival, disability or critical illness) over a long duration. Guaranteed benefits paid on occurrence of the specified insurance event are fixed or linked to the level of bonus declared on the policy. 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 generated 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 liability also includes policy owner retained earnings.

Insurance policy liabilities are further detailed in Note 39.

E. Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. All other risk related fees that constitute cost recovery are taken to income when levied. Loan origination fees are deferred over the expected term of the financial instrument according to the effective interest method. The effective interest method uses the rate that exactly discounts estimated future payments and receipts through the expected life of the instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

F. Borrowing expenses

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

G. Provision for loan impairment

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

All loans, advances and other receivables from customers are subject to continuous management review. A specific provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due under the terms of loans. The amount of the provision approximates the difference between the carrying amount and the recoverable amount, which is the current best estimate of the present value of expected future cash flows arising from the asset. All bad debts are written off against the specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries are credited to the provision for loan losses in the Statement of Comprehensive Income.

General provisions for impairment are maintained to cover incurred losses unidentified at balance date in the overall portfolio of loans, advances and other 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.

H. Goodwill

Goodwill represents the excess of the cost of any acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the exchange transaction. Goodwill is reported in the Statement of Financial Position as an intangible asset.

In determining goodwill, management considers various factors including net selling price of the acquired business, existing market share, potential growth opportunities, and other factors inherent in the acquired business. This assessment is reviewed at each balance date, so that any indication of impairment with implications for the recoverability of goodwill can be tested, and adjustments to the carrying value of goodwill made if necessary.

I. Computer systems development costs

Costs incurred to develop and enhance the Group's computer systems are capitalised to the extent that benefits do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the economic entity. These costs are amortised over the estimated economic life of four years using the straight-line method. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

J. Property, plant and equipment

Land and buildings are carried at revalued amounts, being their fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Fair value is determined on the basis of regular independent valuations prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings are not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it

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reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the Statement of Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in the Statement of Comprehensive Income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. Buildings under constructions are referred to as work in progress and are accounted for at cost and subsequently reclassified to buildings (premises) upon completion.

Depreciation is provided on property, plant and equipment, including buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful life, residual value and depreciation method is reviewed at the end of each annual reporting period.

The following basis and method of depreciation is used:

Class of asset	Method	Rate
Property (excluding land)	Straight line basis	2 - 3% p.a
Plant and equipment	Straight line basis	10 - 25% pa
Equipment under operating lease	Straight line basis	6 - 20% pa

Gains or losses on disposals (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Repairs and maintenance are taken into account in determining operating profit when the expenditure is incurred.

K. Leases

Bank is lessee

All leases entered into by the Group are operating leases. Total payments made are charged to the Statement of Comprehensive Income using the straight line method.

Bank is lessor

Finance leases are included in Loans, Advances and Other Receivables from Customers and are accounted for under the finance method whereby income is recognised using the effective interest method. Assets subject to operating leases are separately disclosed in the Statements of Financial Position, according to the nature of the asset. These assets are stated at cost or revalued amount less accumulated depreciation. The assets are depreciated on a straight line basis over the life of the operating lease. Lease income is recognised on a straight line basis over the term of the lease.

L. Cash and cash equivalents

For the purpose of the cash flow statement, Cash and cash equivalents comprise notes and coins, and balances due to and from other banks with original maturities of less than three months.

M. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current. The Group's financial assets at fair value through profit or loss comprise certain equity securities included under other financial assets in the Statement of Financial Position.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

c) Held to maturity investments

Held to maturity investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost. The Group's held to maturity investments comprise securities issued by Governments and Central Banks of respective countries (Treasury and Central Bank Bills) and certain debt securities included under other financial assets in the Statement of Financial Position.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other banking income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

N. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present

obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

O. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be recognised and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Post-employment benefits - defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund, and there is no recourse to the Group for employees if the fund has insufficient assets to pay employee benefits relating to service up to the balance sheet date.

The Group pays contributions to publicly or privately administered superannuation plans on a mandatory, contractual or voluntary basis in respect of services rendered up to balance sheet date by all staff members other than non-citizen contract staff for whom there is no legal obligation to do so. The contributions are at the current rate of employees' gross salary. Once the contributions have been paid, the Group has no further payment obligations for post-employment benefits from the date an employee ceases employment with the Group.

P. Income tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by 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. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws)

that have been enacted or substantively enacted by 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.

Q. 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.

R. Share capital

Share issue costs

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

Dividends on ordinary shares

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

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

S. Asset impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of

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goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

T. Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured, with certain exceptions, at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such a sale and the sale is highly probable. The sale of the asset (or disposal group) must be expected to be completed within one year from the date of classification, except in the circumstances where sale is delayed by events or circumstances outside the Group's control and the Group remains committed to a sale.

U. Investment property

Property held for long-term rental yields is classified as investment property. Investment property comprises freehold land and buildings. It is carried at fair value. The fair value have been arrived at on the basis of the valuation carried out by Rolle and Associates and Pacific Valuations Limited, independent valuers not related to the group. The valuers have appropriate qualifications and recent experience in the valuation of properties in Fiji. The valuations were arrived at by reference to current net rental income and capital expenditure and external factors in the Fiji commercial and residential environment such as current supply and demand and expected growth.

Changes in fair values are recorded in profit or loss.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by more than 50% by the companies in the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. The property is carried at fair value after initial recognition.

V. 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.

W. Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker.

X. Earnings per share

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.

Y. Comparatives

Comparative figures have been adjusted to conform to changes in presentation in the current year.

Z. 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.

The areas involving significant estimates of judgments are:

- Estimated impairment of financial and non-financial assets – note 1(g) and 1(s)
- Estimated goodwill impairment – note 1(h) and 7(a)
- Estimated insurance liability – note 1(d), note 21 note 39
- Estimation of fair value of financial assets and liabilities – note 1(m) and note 38
- Estimation of fair value of non-financial assets - note 38

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

2. NET INTEREST INCOME

Net interest income	Consolidated		Bank	
	2017	2016	2017	2016
<i>All amounts are expressed in K'000</i>				
Interest income				
Loans, advances and other receivables from customers	1,027,861	922,046	944,201	867,010
Other financial assets - inscribed stock	204,685	191,333	204,378	191,333
Treasury bills	195,093	146,692	194,093	146,684
Cash and balances with Central Bank	2,802	4,498	3,417	5,935
Central Bank bills	83	187	83	187
Other	2,116	3,155	2,962	3,522
	1,432,640	1,267,911	1,349,134	1,214,671
Less:				
Interest expense				
Customer deposits	134,381	140,229	120,177	133,757
Other banks	12,276	11,665	12,622	11,695
Subordinated debt securities	8,307	8,331	8,307	8,331
	154,964	160,225	141,106	153,783
	1,277,676	1,107,686	1,208,028	1,060,888

3. FEE AND COMMISSION INCOME

Fee and commission income				
Product related	206,882	205,788	195,720	198,864
Trade and international related	18,542	19,447	17,800	18,867
Electronic banking related	114,181	105,758	106,657	100,219
Other	35,142	32,288	26,771	23,720
	374,747	363,281	346,948	341,670
Less:				
Fee and commission expenses				
Agencies	627	384	582	346
International Finance Corporation fees	447	560	447	560
	1,074	944	1,029	906
	373,673	362,337	345,919	340,764

4. OTHER INCOME

Foreign exchange related	275,576	253,758	249,538	231,436
Operating lease rentals	9,430	10,104	9,430	10,104
Other	22,165	34,216	51,091	35,505
	307,171	298,078	310,059	277,045

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

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5. OPERATING EXPENSES

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Administration	136,209	138,176	121,797	127,119
Computing	121,922	75,205	104,682	63,277
Depreciation	72,331	62,125	61,701	58,299
Amortisation of computer development	27,427	32,508	26,359	30,522
Non-executive Directors costs	2,379	2,390	1,961	1,935
Non-lending losses	20,156	25,661	26,780	24,845
Fixed asset impairment expenses	6,682	12,003	6,682	12,003
Premises and equipment	92,978	84,238	85,089	77,987
	480,084	432,306	435,051	395,987
Staff costs				
Defined contribution plans	13,943	13,229	12,890	12,375
Statutory benefit contributions	9,389	10,318	8,485	9,826
Wages and salaries	288,116	255,902	264,233	236,020
Other staff benefits	60,616	57,886	57,232	54,931
	372,064	337,335	342,840	313,152
	852,148	769,641	777,891	709,139

6. INCOME TAX

Income tax expense				
Current tax	326,675	290,500	313,512	281,352
Deferred tax	(11,845)	(22,700)	(17,396)	(23,335)
Current year	314,830	267,800	296,116	258,017
Adjustments to prior year estimates	(3,309)	12,543	(2,814)	14,407
	311,521	280,343	293,302	272,424
Tax calculated at 30% of profit before tax (2016:30%)	294,622	263,729	304,277	263,729
Tax calculated at respective subsidiary tax rates	16,770	11,231	-	-
Expenses not deductible for tax	4,069	6,175	1,494	2,563
Tax loss not recognised	4,681	2,668	-	-
Income not recognised for tax purposes ¹	(5,312)	(16,003)	(9,655)	(8,275)
Adjustments to prior year estimates	(3,309)	12,543	(2,814)	14,407
	311,521	280,343	293,302	272,424
Provision for Income Tax				
At 1 January	576	(39,005)	3,670	(36,168)
Income tax provision	(326,675)	(290,500)	(313,512)	(281,352)
Adjustments to prior year estimates	694	(8,566)	1,966	(9,141)
Tax payments made	293,697	338,647	282,645	330,331
At 31 December	(31,708)	576	(25,231)	3,670

¹Income not recognised for tax purpose for the Bank includes dividends received from Subsidiaries which are eliminated upon consolidation whilst the Group number represents actuarial liabilities deductions allowable for BSP Life Fiji Limited.

6. INCOME TAX (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Deferred taxes				
Specific allowance for losses on loans, advances and other receivables from customers	33,694	34,251	30,109	32,666
General allowance for losses on loans, advances and other receivables from customers	132,752	117,976	131,576	113,807
Employee related provisions	23,390	20,459	22,809	19,213
Prepaid expenses	(1,228)	(1,126)	(1,228)	(1,204)
Other provisions	32,294	16,162	31,604	29,041
Property, plant and equipment	(60,565)	(39,842)	(34,969)	(30,500)
Unrealised foreign exchange gains	(897)	(4,250)	(897)	(4,320)
Accruals	22,494	26,459	21,017	23,922
At 31 December	181,934	170,089	200,021	182,625
Represented by				
Deferred tax asset	244,625	229,867	237,115	218,649
Deferred tax liability	(62,691)	(59,778)	(37,094)	(36,024)
At 31 December	181,934	170,089	200,021	182,625
Deferred taxes movement				
At 1 January	170,089	147,389	182,625	159,290
Current year movement	27,798	12,448	32,161	13,083
Revaluation recognised in equity	(10,165)	11,816	(8,977)	11,816
Adjustments to prior year estimates	(5,788)	(1,564)	(5,788)	(1,564)
At 31 December	181,934	170,089	200,021	182,625

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7. INTANGIBLE ASSETS

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
7(a) Goodwill				
At 1 January	45,307	42,374	41,051	35,672
Net movement	-	2,933	-	5,379
Gross carrying amount	45,307	45,307	41,051	41,051
Goodwill was tested for impairment as at 31 December 2017 and no impairment has been recognised in the Statement of Comprehensive Income.				
7(b) Computer development costs				
At 1 January	46,319	67,852	43,676	63,929
Additions	50,096	22,580	48,109	21,871
Disposals	(5,727)	(11,605)	(5,727)	(11,602)
Amortisation expense	(28,177)	(32,508)	(26,359)	(30,522)
At 31 December	62,511	46,319	59,699	43,676
Total intangible assets	107,818	91,626	100,750	84,727

8. INVESTMENTS IN SUBSIDIARIES

<i>All amounts are expressed in K'000</i>	Principal activity	Place of Incorporation and Operation	Ownership %	Balance of Investment	
Name of Subsidiary				2017	2016
BSP Capital Ltd	Share brokerage/Fund Management/Capital Raising	PNG	100%	2,251	5,500
BSP Life (Fiji) Ltd	Life Insurance	Fiji	100%	87,599	87,599
BSP Life PNG Ltd	Life Insurance	PNG	100%	6,000	-
BSP Convertible Notes Ltd	Capital Raising	Fiji	100%	371	371
BSP Finance Ltd	Credit Institution	PNG	100%	61,837	44,449
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				338,400	318,261

Represented by:

<i>All amounts are expressed in K'000</i>	2017	2016
At 1 January	318,261	259,869
Additional capital	26,888	58,392
Provision for Impairment of BSP Capital Limited	(6,749)	-
At 31 December	338,400	318,261

Provision for Impairment of the Investment in BSP Capital Limited

During the year the directors determined that the investment in BSP Capital Limited had been materially impaired as the carrying amount of the investment was greater than its recoverable value. As of the reporting date that year, the investment amount is written down to its net book value.

9. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Entity	Joint Venture/ Associate	Principal activity	Place of incorporation and operation	Proportion of ownership and voting power held	
				2017	2016
Suva Central Ltd	Joint Venture	Property rental	Fiji	50%*	50%*
Richmond Ltd	Joint Venture	Hotel operation	Fiji	61.3%** ,50%***	61.3%** ,50%***
Williams and Gosling Ltd	Associate	Freight forwarding	Fiji	-	27.7%*
BSP Finance Cambodia Plc	Joint Venture	Finance	Cambodia	50%*	-

The investments above are accounted for using the equity method in the Financial Statements.

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

Shares held in Williams and Gosling Limited (Associate) was divested in 2017. As at 31 December 2016, the net investment in the Associate was K12.859 million. The total net assets of the business was K36.963 million and the Group's share of profit in the Associate was K3.597 million.

All amounts are expressed in K'000	Consolidated		Bank	
	2017	2016	2017	2016
Joint ventures				
Investment in joint ventures	112,762	93,620	16,513	14,570
Investments during the year	11,370	-	-	-
Translation movement	6,715	4,804	969	752
Share of profit for the year	23,288	14,338	1,675	1,191
Net investment at 31 December	154,135	112,762	19,157	16,513
Summarised financial information of joint ventures:				
Total assets	275,782	180,793	81,740	62,959
Total liabilities	(117,841)	(57,663)	(43,426)	(29,933)
Net assets	157,941	123,130	38,314	33,026
Share of profits	12,470	6,574	1,675	1,191
Group fair value alignment	10,818	7,764	-	-
Share of profit in Group	23,288	14,338	1,675	1,191
Associates and Joint Ventures				
Share of associate's net assets - equity	-	12,859	-	-
Shares held in jointly owned entity - at cost less impairment	154,135	112,761	19,157	16,513
Total investments in associates and joint ventures	154,135	125,620	19,157	16,513

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

10. CASH AND BALANCES WITH CENTRAL BANK

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Notes, coins and cash at bank	475,020	483,966	461,827	445,503
Balances with Central Bank other than statutory deposit	730,176	1,172,294	523,976	964,505
Total cash and balances with Central Bank	1,205,196	1,656,260	985,803	1,410,008

11. TREASURY AND CENTRAL BANK BILLS

Treasury and Central Bank bills – face value	3,370,252	3,000,888	3,358,788	2,985,751
Discount for interest receivable	(71,626)	(67,267)	(71,626)	(67,267)
At 31 December	3,298,626	2,933,621	3,287,162	2,918,484

Treasury and Central Bank bills are debt securities issued by Central Banks. These bills are classified as assets held for trading and carried at fair value by the Insurance business and as assets held to maturity and carried at amortised cost by the Banking businesses.

12. AMOUNTS DUE FROM OTHER BANKS

Items in the course of collection	29,156	29,779	29,154	29,779
Placements with other banks	920,058	774,454	858,183	661,373
At 31 December	949,214	804,233	887,337	691,152

The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. There is also a cash and cash equivalent of K26.742 million held with counter-party Banks that are not available for use by the Group.

13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS

Overdrafts	830,851	731,500	776,190	692,256
Lease financing	172,334	198,457	135,700	175,445
Term loans	8,675,849	7,976,794	8,016,448	7,458,125
Mortgages	2,054,173	1,672,965	1,705,081	1,417,495
Policy loans	53,472	46,854	-	-
Gross loans, advance and other receivables due from customers net of reserved interest	11,786,679	10,626,570	10,633,419	9,743,321
Less allowance for losses on loans, advances and other receivables from customers	(577,186)	(523,661)	(538,949)	(488,241)
At 31 December	11,209,493	10,102,909	10,094,470	9,255,080

The spread of the loans are detailed in the maturity analysis table on Note 34. The loans are well-diversified across various sectors and are further analysed on Note 33.

13. LOANS, ADVANCES AND OTHER RECEIVABLES FROM CUSTOMERS (continued)**Lease financing**

The Group and the bank 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 lease receivables are included within loans, advances and other receivables from customers and are analysed as follows:

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Gross investment in finance lease receivable				
Not later than 1 year	50,224	38,130	30,372	35,604
Later than 1 year and not later than 5 years	142,734	181,996	118,539	156,783
	192,958	220,126	148,911	192,387
Unearned future finance income				
Not later than 1 year	(6,212)	(1,646)	(2,595)	(1,441)
Later than 1 year and not later than 5 years	(14,412)	(20,023)	(10,616)	(15,501)
	(20,624)	(21,669)	(13,211)	(16,942)
Present value of minimum lease payment receivable	172,334	198,457	135,700	175,445
Present value of minimum lease payment receivable is analysed as follows:				
Not later than 1 year	44,012	36,484	27,777	34,163
Later than 1 year and not later than 5 years	128,322	161,973	107,923	141,282
At 31 December	172,334	198,457	135,700	175,445
Provision for impairment				
Movement in allowance for losses on loans, advances and other receivables from customers:				
Balance at 1 January	523,661	446,872	488,241	428,528
Net new and increased provisioning	63,181	75,406	52,853	70,096
Loans written off against provisions / (Write back of provisions no longer required)	(9,656)	1,383	(2,145)	(10,383)
At 31 December	577,186	523,661	538,949	488,241
Provision for impairment is represented by:				
Collective provision	461,389	398,988	438,585	379,355
Individually assessed or specific provision	115,797	124,673	100,364	108,886
At 31 December	577,186	523,661	538,949	488,241
Loan impairment expense				
Net collective provision funding	40,926	60,786	38,386	58,491
Net new and increased individually assessed provisioning	22,255	14,620	14,467	11,605
Total new and increased provisioning	63,181	75,406	52,853	70,096
Recoveries during the year	(64,563)	(49,721)	(63,067)	(49,104)
Net write back/(write off)	79,060	72,937	75,325	69,468
At 31 December	77,678	98,622	65,111	90,460

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

14. PROPERTY, PLANT AND EQUIPMENT

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Carrying value				
Capital Work in Progress	70,711	157,713	51,065	144,975
Premises	650,409	522,393	532,564	475,696
Accumulated depreciation	(90,390)	(119,927)	(81,283)	(112,856)
	560,019	402,466	451,281	362,840
Equipment	355,667	335,088	265,504	227,004
Accumulated depreciation	(247,727)	(211,769)	(193,545)	(165,651)
	107,940	123,319	71,959	61,353
At 31 December	738,670	683,498	574,305	569,168
Reconciliation is as follows:				
Capital work in progress				
At 1 January	157,713	158,621	144,975	151,589
Additions	85,536	51,932	64,049	45,847
Transfers	(172,538)	(52,840)	(157,959)	(52,461)
At 31 December	70,711	157,713	51,065	144,975
Premises				
At 1 January	402,466	469,585	362,840	422,672
Additions	192,702	20,723	139,884	15,800
Disposals	(1,683)	(78,279)	(1,527)	(57,144)
Revaluation gains/ (losses)	(5,418)	14,915	(23,338)	4,249
Depreciation expense	(28,048)	(24,478)	(26,578)	(22,737)
At 31 December	560,019	402,466	451,281	362,840
Equipment				
At 1 January	123,319	93,254	61,353	58,247
Additions	24,099	66,312	40,401	32,014
Disposals	(1,485)	(1,752)	(962)	(1,535)
Depreciation expense	(37,993)	(34,495)	(28,833)	(27,373)
At 31 December	107,940	123,319	71,959	61,353

14. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Assets subject to operating lease				
Carrying value				
Aircraft	74,267	130,122	74,267	130,122
Accumulated depreciation	(3,578)	(85,454)	(3,578)	(85,454)
At 31 December	70,689	44,668	70,689	44,668
Reconciliation of carrying value of aircraft is set out below:				
Aircraft				
At 1 January	44,668	52,857	44,668	52,857
Depreciation	(6,290)	(8,189)	(6,290)	(8,189)
Revaluation net increase	32,311	-	32,311	-
At 31 December	70,689	44,668	70,689	44,668
Future minimum lease receipts				
Not later than 1 year	3,334	5,219	3,334	5,219
Later than 1 year and not later than 5 years	-	-	-	-
At 31 December	3,334	5,219	3,334	5,219
The carrying amount of land and buildings and aircraft had they been recognised under the cost model are as follows:				
Land	18,951	18,911	18,363	18,433
Buildings	187,607	122,706	178,447	118,655
Aircraft	14,962	18,070	14,962	18,070
At 31 December	221,520	159,687	211,772	155,158

Land and buildings carried at fair value

Independent valuations of the Bank's land and buildings were performed by The Professional Valuers of PNG Limited to determine the fair value of the land and buildings. The valuations, which conform to International Valuation Standards, were determined by reference to capitalisation of the notional income stream approach on the Market Value basis. The recent valuation was dated 30th November 2017.

Assets subject to operating lease – aircraft

An independent valuation of the Bank's aircrafts was performed by Charles Taylor Aviation Asset Management to determine the current realistic fair value for each of the aircraft. The valuation, which conforms to International Valuation Standards, takes into consideration the current global market variations for the specific types of aircrafts. The effective date of the valuation was 31st May 2017.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

15. INVESTMENT PROPERTIES

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Opening net book value	117,590	101,019	-	-
Additions	5,006	4,127	-	-
Translation movement	6,652	5,250	-	-
Gain on revaluation	4,772	7,194	-	-
At 31 December	134,020	117,590	-	-

16. OTHER FINANCIAL ASSETS

Securities – held to-maturity:

Inscribed stock – issued by Central Bank	2,310,279	2,218,037	2,062,341	2,044,905
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Financial assets carried at fair value through profit and loss:

Equity securities	147,048	113,435	-	-
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At 31 December	2,457,327	2,331,472	2,062,341	2,044,905
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17. OTHER ASSETS

Funds in transit and other assets	107,399	150,018	97,642	145,353
Accrued interest income	82,784	82,409	75,007	74,093
Intercompany account	-	-	10,665	12,344
Outstanding premiums	39,513	35,902	-	-
Inventory	12,749	7,698	-	-
Prepayments	19,664	16,269	17,851	14,999
Accounts receivable	2,252	2,689	977	746
At 31 December	264,361	294,985	202,142	247,535

18. AMOUNTS DUE TO OTHER BANKS

Vostro account balances	24,479	24,773	55,811	50,038
Other borrowings	135,921	22,550	182,461	23,817
At 31 December	160,400	47,323	238,272	73,855

19. CUSTOMER DEPOSITS

On demand and short term deposits	13,438,449	12,832,771	12,800,761	12,272,022
Term deposits	4,463,243	4,079,578	4,042,995	3,871,674
At 31 December	17,901,692	16,912,349	16,843,756	16,143,696

The majority of the amounts are due to be settled within twelve months of the balance sheet date as shown in the maturity analysis table on note 34. The deposits are diversified across industries and region.

20. SUBORDINATED DEBT SECURITIES

At 31 December, there is K75.525 million of debt securities outstanding, expected to be settled more than 12 months after the balance sheet date. The notes were issued during 2009, with a maturity date in 2019, and interest is payable semi-annually at 11% per annum. They are valued at amortised cost. There have been no defaults of interest or other breaches with respect to these debt securities since issue.

21. OTHER LIABILITIES

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2017	2016	2017	2016
Policy liabilities	39(b)	749,876	640,043	-	-
Items in transit and all other liabilities		259,582	293,870	271,407	281,447
Borrowings		199,294	253,968	199,294	253,968
Creditors and accruals		150,525	104,679	125,932	82,987
Premiums received in advance		6,327	5,295	-	-
Outstanding claims		15,060	13,211	-	-
Claims incurred but not reported (IBNR)		2,224	1,396	-	-
At 31 December		1,382,888	1,312,462	596,633	618,402

Reconciliation of changes in liabilities arising from financing activities

A loan amounting to K253.969 million (USD80 million) was obtained in 2016 with principal repayment to commence in 2017. During the year, the Bank paid K90.775 million and additional loan of K33.127 million was received. Foreign currency loss of K2.974 million was recognised arising from translation.

22. OTHER PROVISIONS

Staff related	88,071	76,684	75,233	65,206
Provision for non-lending loss	64,310	52,163	64,260	51,944
Provisions – other	36,932	40,960	33,761	39,248
	189,313	169,807	173,254	156,398
Staff related provisions:				
At 1 January	76,684	62,205	65,206	55,274
Provisions charge	62,476	54,303	58,438	51,157
Payouts	(51,089)	(39,824)	(48,411)	(41,225)
At 31 December	88,071	76,684	75,233	65,206

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

23. ORDINARY SHARES

<i>Number of shares in '000s, Book value in K'000</i>	Number of shares	Book value
At 31 December 2015/1 January 2016	467,521	374,621
Share buyback	(196)	(1,520)
At 31 December 2016 / 1 January 2017	467,325	373,101
Share buyback	(13)	(100)
At 31 December 2017	467,312	373,001

In May 2014, the Directors agreed to introduce 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, anytime before that.

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Earnings per ordinary share				
Net Profit attributable to shareholders (K'000)	757,003	643,451	720,953	606,674
Weighted average number of ordinary shares in use ('000)	467,323	467,427	467,323	467,427
Basic and diluted earnings per share (expressed in toea)	162.0	137.7	154.3	129.8

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.

Dividend paid on ordinary shares

Interim ordinary dividend (2017:32 toea; 2016:25 toea)	149,541	116,832	149,541	116,832
Final ordinary dividend (2016:79 toea; 2015:63 toea)	372,317	297,141	369,414	294,448
	521,858	413,973	518,955	411,280

24. RETAINED EARNINGS AND OTHER RESERVES

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Retained earnings				
At 1 January	1,670,595	1,399,490	1,576,974	1,340,000
Net profit for the year	757,003	643,451	720,953	606,674
Dividends paid	(521,858)	(413,973)	(518,955)	(411,280)
Disposal of assets – Asset revaluation	407	42,537	407	42,537
Recognition of deferred tax	3,739	-	3,739	-
BSP Life policy reserve	(5,491)	(957)	(5,491)	(957)
Loss in minority interest	67	47	-	-
At 31 December	1,904,462	1,670,595	1,777,627	1,576,974
Other reserves comprise				
Revaluation reserve	161,373	134,892	150,389	130,470
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	37,496	32,005	37,496	32,005
Exchange reserve	125,306	76,980	71,854	46,265
	346,388	266,090	260,374	209,375
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	134,892	166,878	130,470	163,023
Asset revaluation increment	38,064	(1,265)	30,314	(1,832)
Transfer assets revaluation reserve to retained earnings	(1,418)	(42,537)	(1,418)	(42,537)
Deferred tax on disposal of properties	426	11,816	426	11,816
Deferred tax on asset revaluation – current year	(10,591)	-	(9,403)	-
At 31 December	161,373	134,892	150,389	130,470
Capital reserve				
At 1 January	635	635	635	635
At 31 December	635	635	635	635
General reserve				
At 1 January	32,005	31,048	32,005	31,048
BSP Life policy reserve	5,491	957	5,491	957
At 31 December	37,496	32,005	37,496	32,005

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

24. RETAINED EARNINGS AND OTHER RESERVES (continued)

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Exchange reserve				
At 1 January	76,980	34,926	46,265	21,663
Movement during the year	48,326	42,054	25,589	24,602
At 31 December	125,306	76,980	71,854	46,265

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 Share.
- (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.

25. CONTINGENT LIABILITIES AND COMMITMENTS

Off-balance sheet financial instruments

Standby letters of credit	35,637	29,230	35,637	29,230
Guarantees and indemnities issued	367,866	346,729	352,525	334,873
Trade letters of credit	60,505	92,540	58,462	85,897
Commitments to extend credit	1,001,653	1,196,875	966,118	1,163,392
At 31 December	1,465,661	1,665,374	1,412,742	1,613,392

Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2017. Based on information available at 31 December 2017, the Group estimates a contingent liability of K18.6 million (2016: K17.9 million) in respect of these proceedings.

Statutory deposits with Central Banks

Cash reserve requirement: requisite reserve requirements of respective countries	1,598,378	1,474,656	1,541,096	1,440,530
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Commitments for capital expenditure

Amounts with firm commitments, and not reflected in the accounts	32,714	28,753	26,665	19,899
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Operating lease commitments - predominantly premises

Not later than 1 year	32,434	52,259	29,333	49,776
Later than 1 year and not later than 5 years	70,974	60,287	67,333	56,480
Later than 5 years	20,418	26,082	19,591	25,418
At 31 December	123,826	138,628	116,257	131,674

26. FIDUCIARY ACTIVITIES

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

27. DIRECTORS AND EXECUTIVE REMUNERATION

Directors remuneration

Directors of the company received remuneration including benefits during 2017 as detailed below:

<i>All amounts in Kina</i>			Total remuneration	
Name of Director	Meetings attended /total held	Appointed/ (Resigned)	2017	2016
Sir K. G. Constantinou, OBE	8/8	-	358,533	347,393
T. E. Fox, OBE	-	(21/06/16)	-	182,818
Dr. I. Temu	2/4	(25/08/17)	102,680	130,511
Sir N. Bogan, KBE	-	(11/11/16)	-	135,546
R. Fleming, CSM	8/8	-	-	-
G. Aopi, CBE	5/5	(13/09/17)	110,486	140,434
G. Robb, OAM	8/8	-	400,366	373,776
F. Talao	7/8	-	199,508	190,511
E. B. Gangloff	8/8	-	175,366	135,546
A. Mano	6/8	-	122,881	117,141
A. Sam	8/8	-	161,488	60,268
Dr. F. Lua'iu'fi	8/8	-	126,387	-
S. Davis	4/4	25/08/17	115,107	-
R. Bradshaw	3/3	13/09/17	36,627	-
			1,909,429	1,813,944

Non-executive Board Members of the Board - Constantinou, Fox and Robb received an allowance of K60,000 as Directors of BSP Capital Ltd which forms part of the Group.

* 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.

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for the Year Ended 31 December 2017

27. DIRECTORS AND EXECUTIVE REMUNERATION (continued)

Executive remuneration

The number of employees or former employees whose income from the Bank was equal to or greater than K100,000 during the year, are classified in income bands of K10,000 as follows:

Remuneration K'000	2017 No.	2016 No.	Remuneration K'000	2017 No.	2016 No.	Remuneration K'000	2017 No.	2016 No.
100 – 110	58	30	440 – 450	-	1	860 – 870	-	1
110 – 120	41	27	460 – 470	5	3	870 – 880	3	-
120 – 130	24	28	470 – 480	4	-	880 – 890	1	1
130 – 140	35	24	480 – 490	-	1	890 – 900	-	1
140 – 150	22	16	490 – 500	-	2	910 – 920	-	1
150 – 160	14	16	500 – 510	-	2	920 – 930	2	-
160 – 170	20	15	510 – 520	2	1	930 – 940	1	-
170 – 180	11	9	520 – 530	2	2	960 – 970	1	-
180 – 190	15	11	530 – 540	-	1	970 – 980	-	2
190 – 200	14	9	540 – 550	1	1	1000 – 1010	1	2
200 – 210	5	7	550 – 560	1	1	1010 – 1020	1	1
210 – 220	9	4	580 – 590	-	1	1040 – 1050	-	1
220 – 230	5	5	590 – 600	-	2	1050 – 1060	1	1
230 – 240	9	2	600 – 610	-	1	1060 – 1070	1	-
240 – 250	3	3	620 – 630	1	-	1100 – 1110	2	-
250 – 260	2	5	640 – 650	-	1	1120 – 1130	1	-
260 – 270	5	1	650 – 660	1	3	1130 – 1140	1	-
270 – 280	-	5	660 – 670	4	2	1180 – 1190	1	1
280 – 290	2	4	670 – 680	2	-	1220 – 1230	-	2
290 – 300	3	3	680 – 690	1	-	1280 – 1290	-	3
300 – 310	9	11	690 – 700	-	3	1290 – 1300	1	-
310 – 320	6	5	700 – 710	1	1	1370 – 1380	-	1
320 – 330	1	2	710 – 720	1	-	1380 – 1390	1	-
330 – 340	3	3	720 – 730	2	2	1400 – 1410	1	-
340 – 350	5	3	730 – 740	-	1	1460 – 1470	1	-
350 – 360	9	3	740 – 750	1	-	1530 – 1540	-	1
360 – 370	4	4	750 – 760	2	1	1680 – 1690	1	-
370 – 380	2	2	760 – 770	2	5	1700 – 1710	-	1
380 – 390	4	5	770 – 780	-	3	1880 – 1890	-	1
390 – 400	5	3	780 – 790	1	1	2050 – 2060	1	-
400 – 410	2	2	790 – 800	1	3	2220 – 2230	1	-
410 – 420	2	4	820 – 830	2	2	4510 – 4520	-	1
420 – 430	3	3	830 – 840	1	1	4670 – 4680	1	-
430 – 440	1	1	850 – 860	2	-			
Total							419	345

The specified executives during the year were:

Robin Fleming, CSM
Peter Beswick
Haroon Ali

Robert Loggia
Rohan George
Edward Ruha

Paul Thornton
Christophe Michaud
Richard Borysiewicz

Hari Rabura
Aho Baliki, OBE
Johnson Kalo (Resigned April 2017)

27. DIRECTORS AND EXECUTIVE REMUNERATION (continued)

Specified executives' remuneration in aggregate (K'000)

Year	Salary	Primary bonus	Non - monetary	Super	Post-employment prescribed benefits	Other	Equity options	Other benefits	Total
2017	14,163	3,802	426	33	1,955	-	-	401	20,780
2016	14,595	3,274	272	249	204	-	960	413	19,967

28. RECONCILIATION OF OPERATING CASH FLOW

All amounts are expressed in K'000	Consolidated		Bank	
	2017	2016	2017	2016
Reconciliation of operating profit after tax to operating cash flow before changes in operating assets				
Operating profit after tax	757,003	643,451	720,953	606,674
Add: Tax Expense	311,521	280,343	293,302	272,424
Operating profit before income tax	1,068,524	923,794	1,014,255	879,098
Major non-cash amounts				
Depreciation	72,331	66,401	61,701	58,299
Amortisation of deferred acquisition and computer development costs	27,427	32,508	26,359	30,522
Net profit on sale of fixed assets	-	(15,184)	-	(15,145)
Movement in forex income accrual	(436)	2,385	(436)	2,385
Impairment on loans and advances	53,525	76,789	50,708	59,713
Movement in payroll provisions	11,387	14,479	10,027	9,932
Impairment of subsidiary	-	-	6,749	-
Impairment of fixed assets	6,682	12,003	6,682	12,003
Net effect of other accruals	20,518	35,000	1,576	4,891
Operating cash flow before changes in operating assets & liabilities	1,259,958	1,148,175	1,177,621	1,041,698
Cash and cash equivalents				
For the purposes of the cash flow statements, cash and cash equivalents comprise the following balances with less than 90 days maturity.				
Cash and balances with Central Banks (note 10)	1,205,196	1,656,260	985,803	1,410,008
Amounts due from other banks (note 12)	949,214	804,233	887,337	691,152
Amounts due to other banks (note 18)	(160,400)	(47,323)	(238,272)	(73,855)
	1,994,010	2,413,170	1,634,868	2,027,305

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for the Year Ended 31 December 2017

29. SEGMENT INFORMATION

The Bank and the Group comprise various segments, these being the provision of banking services and products, stock broking and insurance services and asset financing. For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Bank and Group's management reporting system. The main business lines for management purposes are core banking services in PNG, Banking Services in other jurisdictions outside PNG, insurance operations, stock broking, 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 and Cambodia. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations included funds transfer pricing.

Consolidated <i>All amounts are in K'000</i>	PNG Bank	Non PNG Bank	Non Bank Entities	Adjust Inter Segments	Total
Analysis by segments					
Year ended 31 December 2017					
Net interest income	1,053,079	200,692	22,302	1,603	1,277,676
Other income	499,794	204,295	11,391	(34,636)	680,844
Net insurance income	-	-	41,266	(1,436)	39,830
Total operating income	1,552,873	404,987	74,959	(34,469)	1,998,350
Operating expenses	(626,860)	(212,647)	(20,937)	8,296	(852,148)
Impairment expenses	(44,633)	(24,732)	(8,313)	-	(77,678)
Profit before income tax	881,380	167,608	45,709	(26,173)	1,068,524
Income tax	(257,967)	(42,360)	(11,194)	-	(311,521)
Net profit after income tax	623,413	125,248	34,515	(26,173)	757,003
Year ended 31 December 2016					
Net interest income	913,532	179,807	14,347	-	1,107,686
Other income	470,708	185,400	11,753	(7,446)	660,415
Net insurance income	-	-	23,956	-	23,956
Total operating income	1,384,240	365,207	50,056	(7,446)	1,792,057
Operating expenses	(556,709)	(193,365)	(22,757)	3,190	(769,641)
Impairment expenses	(68,947)	(24,642)	(5,033)	-	(98,622)
Profit before income tax	758,584	147,200	22,266	(4,256)	923,794
Income tax	(241,352)	(37,830)	(1,161)	-	(280,343)
Net profit after income tax	517,232	109,370	21,105	(4,256)	643,451

30. 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 2017, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

<i>All amounts are expressed in K'000</i>	Consolidated	
	2017	2016
Customer deposits		
Opening balances	65,503	102,940
Net movement	(47,772)	(37,437)
Closing balance	17,731	65,503
Interest paid	18	54
Loans, advances and other receivables from customers		
Opening balances	673,674	618,985
Loans issued	166,939	241,746
Interest	27,901	24,387
Charges	3,752	4,228
Loan repayments	(240,616)	(215,672)
Closing balance	631,650	673,674

Incentive-based transactions are provided for staff. Such transactions include marginal discounts on rates, and specific fee concessions. These incentives are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2017, staff account balances were as follows:

<i>All amounts are expressed in K'000</i>	2017	2016
Housing loans	145,551	116,936
Other loans	51,819	42,794
	197,370	159,730
Cheque accounts	6,097	7,997
Savings accounts	15,583	10,082
At 31 December	21,680	18,079

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

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These risks (risk of an advance 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 Audit, Risk and Compliance Committee of the Board, and ultimately to the Board of Directors.

32. 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 and Cambodia 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 and the National Bank of Cambodia (NBC). 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 2017, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%.

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

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

The Group's capital adequacy level is as follows:

All amounts are expressed in K'000	Balance sheet/Notional amount		Risk weighted amount	
	2017	2016	2017	2016
Balance sheet assets (net of provisions)				
Currency	2,803,574	3,130,916	-	-
Loans, advances and other receivables from customers	11,209,493	10,102,909	8,333,566	7,851,477
Investments and short term securities	5,755,953	5,265,093	147,048	113,440
All other assets	2,600,841	2,332,885	1,611,670	1,437,945
Off-balance sheet items	1,465,661	1,665,374	303,195	279,385
Total	23,835,522	22,497,177	10,395,479	9,682,247

32. CAPITAL ADEQUACY (continued)

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio (%)	
	2017	2016	2017	2016
<i>All amounts are expressed in K'000</i>				
a) Tier 1 capital	2,212,167	1,916,502	21.3%	19.8%
Tier 1 + Tier 2 capital	2,549,443	2,233,493	24.5%	23.1%
b) Leverage Capital Ratio	-	-	10.0%	9.3%

33. CREDIT RISK AND ASSET QUALITY

The Bank incurs risk with regard to loans, advances and other 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.

As indicated in Accounting Policy G – Loans and provision for loan impairment, 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.

Large credit exposures are also monitored as part of credit risk management. These are classified as the largest 25 individual accounts or groups of related counter-parties. As at 31 December 2017, the 25 largest exposures totaled K5.5 billion, accounting for over 51% of the Bank and 47% of the Group's total loan portfolio (2016: K5.4 billion, accounting for over 55% and 51% of the bank and the Group respectively).

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

An analysis by credit quality of loans outstanding at 31 December 2017 is as follows:

Consolidated 2017						
<i>All amounts are expressed in K'000</i>	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
<i>Neither past due nor impaired</i>	738,615	7,859,834	1,819,614	151,258	53,472	10,622,793
<i>Past due but not impaired</i>						
- Less than 30 days	80,923	399,877	132,249	14,249	-	627,298
- 30 to 90 days	1,144	283,988	65,245	3,763	-	354,140
- 91 to 360 days	3,384	19,283	6,967	-	-	29,634
- More than 360 days	583	-	-	-	-	583
	86,034	703,148	204,461	18,012	-	1,011,655
<i>Individually impaired loans</i>						
- Less than 30 days	4,076	12,159	3,219	585	-	20,039
- 30 to 90 days	37	4,822	1,886	471	-	7,216
- 91 to 360 days	1,413	36,185	10,668	1,804	-	50,070
- More than 360 days	676	55,701	14,325	204	-	74,906
	6,202	112,867	30,098	3,064	-	152,231
Total gross loans, advances and other receivables from customers	830,851	8,675,849	2,054,173	172,334	53,472	11,786,679
Less impairment provisions	-	-	-	-	-	(577,186)
Net loans and advances	830,851	8,675,849	2,054,173	172,334	53,472	11,209,493

33. CREDIT RISK AND ASSET QUALITY (continued)

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.

Economic sector risk concentrations

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

Consolidated				
<i>All amounts are expressed in K'000</i>				
As at 31 December	2017	%	2016	%
Commerce, finance and other business	5,910,485	53	5,725,076	57
Private households	2,421,546	22	2,001,460	20
Government and public authorities	374,109	3	331,130	3
Agriculture	249,295	2	240,974	2
Transport and communication	1,149,570	10	925,674	9
Manufacturing	226,427	2	202,423	2
Construction	878,061	8	676,172	7
Net loan portfolio balance	11,209,493	100	10,102,909	100

Ownership risk concentrations

Ownership risk concentrations within the customer loan portfolio are as follows:

Corporate / Commercial	5,885,419	53	5,222,193	52
Government	2,728,957	24	2,665,135	26
Retail	2,595,117	23	2,215,581	22
Net loan portfolio balance	11,209,493	100	10,102,909	100

34. LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Board, through the Asset and Liability Committee, sets liquidity policy to ensure that the 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 2017

The maturity profile of material Assets and Liabilities as at 31 December 2017 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. The Directors are also of the view that the Group is able to meet its financial obligations as they fall due for the following additional reasons:

- The Bank and the Group complies with the Cash Reserve Requirement (“CRR”) set by the regulatory authorities of the jurisdictions that the Bank 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 Bank. The Bank complies with this daily requirement on an ongoing basis. The balance of the CRR account is shown in Note 10, Cash and Balances with Central Bank, and Note 28, Cash and Cash Equivalents.

34. LIQUIDITY RISK (continued)**Maturity of assets and liabilities**

Consolidated						
<i>All amounts are expressed in K'000</i>						
As at 31 December 2017	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	2,803,574	-	-	-	-	2,803,574
Treasury and Central Bank bills	518,700	875,315	1,950,772	35,521	-	3,380,308
Amounts due from other banks	934,197	5,305	9,712	-	-	949,214
Loans, advances and other receivables from customers	1,775,843	489,111	3,010,777	4,530,950	4,307,179	14,113,860
Other financial assets	1,465,879	256,100	654,317	1,767,456	725,339	4,869,091
Total assets	7,498,193	1,625,831	5,625,578	6,333,927	5,032,518	26,116,047
Liabilities						
Amounts due to other banks	82,146	78,254	-	-	-	160,400
Customer Deposits	12,732,092	1,208,856	2,247,610	202,782	1,672,447	18,063,787
Other liabilities	1,183,594	-	-	274,819	-	1,458,413
Other provisions	221,021	-	-	-	-	221,021
Total liabilities	14,218,853	1,287,110	2,247,610	477,601	1,672,447	19,903,621
Net liquidity gap	(6,720,660)	338,721	3,377,968	5,856,326	3,360,071	6,212,426
As at 31 December 2016						
Total assets	5,654,174	1,685,014	3,922,091	6,411,222	5,406,525	23,079,026
Total liabilities	13,880,976	1,542,508	1,333,995	271,194	1,649,490	18,678,163
Net liquidity gap	(8,226,802)	142,506	2,588,096	6,140,028	3,757,035	4,400,863

35. 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 organisation's compliance with them. The Operational Risk Committee coordinates the management process across the organisation.

An independent internal audit function also conducts regular reviews to monitor compliance with 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.

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for the Year Ended 31 December 2017

36. FOREIGN EXCHANGE RISK

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

Consolidated						
<i>All amounts are expressed in K'000</i>						
As at 31 December 2017	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Bank	1,632,181	497,338	342,486	2,941	328,628	2,803,574
Treasury & Central Bank bills	3,033,881	5,537	252,175	-	7,033	3,298,626
Amounts due from other banks	89,932	67,902	9,699	170,893	610,788	949,214
Loans, advances and other receivables from customers	6,647,588	2,634,127	440,326	415,889	1,071,563	11,209,493
Other financial assets	2,059,729	360,789	-	-	36,809	2,457,327
Other assets	911,412	578,386	70,533	861	90,435	1,651,627
Total assets	14,374,723	4,144,079	1,115,219	590,584	2,145,256	22,369,861
Liabilities						
Amounts due to other banks	(75,016)	(71,883)	(1,251)	-	(12,250)	(160,400)
Customer Deposits	(11,875,688)	(2,782,064)	(843,836)	(513,112)	(1,886,992)	(17,901,692)
Other liabilities	(480,311)	(906,215)	(41,428)	(201,640)	(49,840)	(1,679,434)
Total liabilities	(12,431,015)	(3,760,162)	(886,515)	(714,752)	(1,949,082)	(19,741,526)
Net on - balance sheet position	1,943,708	383,917	228,704	(124,168)	196,174	2,628,335
Off - balance sheet net notional position	(299)	-	-	(46,380)	30,583	(16,097)
Credit commitments	1,032,450	373,703	9,355	-	52,072	1,467,580
31 December 2016						
Total Assets	13,952,229	3,517,396	1,095,732	681,479	1,584,967	20,831,803
Total Liabilities	(12,254,906)	(3,193,631)	(893,609)	(716,296)	(1,459,024)	(18,517,466)
Net on - balance sheet position	1,697,323	323,765	202,123	(34,817)	125,943	2,314,337
Off - balance sheet net notional position	(18,957)	-	-	(122,730)	127,138	(14,549)
Credit commitments	1,308,204	307,432	6,588	-	41,896	1,664,120

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:

<i>All amounts are expressed in K'000</i>	At 31 December 2017		At 31 December 2016	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 1% (2016 – 1%)	1,146	1,146	1,408	1,408
USD dollar weakening by 1% (2016 – 1%)	(1,123)	(1,123)	(1,380)	(1,380)
AUD strengthening by 1% (2016 – 1%)	(39)	(39)	-	-
AUD dollar weakening by 1% (2016 – 1%)	38	38	-	-

37. INTEREST RATE RISK

Interest rate risk in the balance sheet arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process governed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the Group. The objective of interest rate risk control is to minimise these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. The table below illustrates the interest sensitivity of assets and liabilities at the balance date.

Given the profile of assets and liabilities as at 31 December 2017 and prevailing rates of interest, a 1% increase in markets rates will result in a K40.2 million increase in net interest income, whilst a 1% decrease in rates will result in a K49.5 million decrease in net interest income.

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

Consolidated						
<i>All amounts are expressed in K'000</i>						
At 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Assets						
Cash and Central Bank assets	-	-	-	-	-	1,205,196
Treasury and Central Bank bills	502,496	848,977	1,911,632	35,521	-	-
Amounts due from other banks	483,195	5,305	9,712	-	-	451,002
Statutory deposits - Central Bank	-	-	-	-	-	1,598,378
Loans, advances and other receivables from customers	9,618,884	177,977	783,207	498,884	130,541	-
Other Financial Assets	115,710	163,685	509,298	1,346,239	476,530	-
Other assets	-	-	-	-	-	1,497,492
Total assets	10,720,285	1,195,944	3,213,849	1,880,644	607,071	4,752,068
Liabilities						
Amounts due to other banks	93,829	18,806	-	-	-	47,765
Customer deposits	7,928,614	1,196,875	2,148,215	153,629	65	6,474,294
Other liabilities	-	-	199,294	75,525	-	1,183,594
Other provisions	-	-	-	-	-	221,021
Total liabilities	8,022,443	1,215,681	2,347,509	229,154	65	7,926,674
Interest sensitivity gap	2,697,842	(19,737)	866,340	1,651,490	607,006	(3,174,606)
As at 31 December 2016						
Assets						
Cash and Central Bank assets	-	-	-	-	-	1,656,260
Treasury and Central Bank Bills	267,696	826,806	1,829,719	9,400	-	-
Amounts due from other banks	313,687	1,196	-	9,281	-	480,069
Statutory deposits - Central Bank	-	-	-	-	-	1,474,656
Loans, advances and other receivables from customers	8,775,060	155,994	651,630	385,975	134,250	-
Investments	294,354	291,914	128,461	1,238,363	504,000	-
Other assets	44,545	-	-	-	-	1,358,487
Total assets	9,695,342	1,275,910	2,609,810	1,643,019	638,250	4,969,472
Liabilities						
Amounts due to other banks	-	-	-	-	-	47,323
Customer deposits	7,542,495	1,512,379	1,285,789	194,552	39	6,377,095
Other liabilities	-	-	253,969	75,525	-	1,058,493
Other Provisions	-	-	-	-	-	169,807
Total liabilities	7,542,495	1,512,379	1,539,757	270,077	39	7,652,718
Interest sensitivity gap	2,152,847	(236,469)	1,070,053	1,372,942	638,211	(2,683,246)

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

The table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy.

The different levels have been defined as follows:

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

Consolidated				
<i>All amounts are expressed in K'000</i>				
At 31 December 2017	Level 1	Level 2	Level 3	Total
Financials assets				
Equity securities	-	144,911	2,137	147,048
Non-financial assets				
Land and buildings	-	560,019	-	560,019
Assets subject to operating lease	-	-	70,689	70,689
Total	-	704,930	72,826	777,756

Financials liabilities

Policy liabilities	-	-	749,876	749,876
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At 31 December 2016				
Financial assets				
Equity securities	-	111,612	1,823	113,435
Non - financial assets				
Land and buildings	-	402,466	-	402,466
Assets subject to operating lease	-	-	44,668	44,668
Total	-	514,078	46,491	560,569

Financial liabilities

Policy liabilities	-	-	640,043	640,043
Total liabilities	-	-	640,043	640,043

Financial asset at fair value through profit & loss	2017	2016
Opening balance	46,491	54,392
Total gains and losses recognized in:		
- Profit & loss	(5,977)	(7,901)
- Other comprehensive income	32,311	-
Closing balance	72,825	46,491

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2017. 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. Disposal cost for properties classified as held for sale is not expected to be material.

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.

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Forward exchange contracts outstanding at 31 December 2017 stated at the face value of the respective contracts are:

<i>All amounts are expressed in respective FCY'000 and K'000</i>								
At 31 December 2017		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(21,155)	(572)	-	(270)	(540,715)	(3,319)	-
	Kina	(10,189)	-	-	-	-	-	(10,189)
Buying	FCY	6,801	9,850	-	-	56,000	10,207	-
	Kina	9,890	-	-	-	-	-	9,890
At 31 December 2016		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(55,034)	(1,410)	-	(1,700)	(360,607)	(1,094)	-
	Kina	(38,981)	-	-	(4,796)	-	-	(43,777)
Buying	FCY	16,374	60,315	-	1,197	37,100	1,914	-
	Kina	16,420	-	-	-	8,400	-	24,820

39. INSURANCE
(a) Net insurance operating income

	Consolidated		Bank	
	2017	2016	2017	2016
<i>All amounts are expressed in K'000</i>				
Net insurance income	39,830	23,956	-	-

Presentation of insurance business results in the Statement of Comprehensive Income has been regrouped to more accurately reflect the insurance business contribution to shareholder profits.

(b) Policy liabilities

Key assumptions used in determining this liability are as follows:

Discount rates

For contracts in Statutory Fund 1 which have a Discretionary Participating Feature (DPF), the discount rate used is linked to the assets which back those contracts. For 31st December 2017 this was 5.916% per annum (31st December 2016: 6.24% per annum), based on current 10 year government bond yields and expected earnings from the investment portfolio. For contracts without DPF and Accident Business, a rate of 4.8% per annum was used at 31st December 2017 (31st December 2016: 5.16% per annum). These rates were based on the 10 year government bond rate as published by the Reserve Bank of Fiji.

Investment and maintenance expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation in Fiji has been assumed to be 3.5% per annum (31st December 2016: 3.5% per annum) for determining future expenses.

Taxation

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

Mortality and morbidity

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male. These are then adjusted for the Group's own experience. The mortality rate used was 70% of the FJ90-94 Male table for participating business in Statutory Fund 1.

Rates of discontinuance

Best estimate assumptions for the incidence of withdrawal and discontinuance vary by product and duration and are based on the Group's experience which is reviewed regularly. Rates used were adjusted for recent experience at certain durations. Rate used for the long term insurance contracts are as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2017

39. INSURANCE (continued)

	2017	2016
Whole of Life and Endowment Insurance	14%	15%
Term Insurance	16%	18%
Accident Insurance	17%	14%

Basis of calculation of surrender values

Surrender values are based on the provisions specified in the policy contracts. There have been no changes to surrender bases during the period (or the prior periods) which have materially affected the valuation result.

Discretionary Participating Business

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

In applying the contract holders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of contracts in force. Assumed future bonus rates included in the liability for the long term insurance contracts were set such that the present value of the liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in distributions.

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.

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

<i>All amounts are expressed in K'000</i>	2017	2016
Policy Liabilities		
Opening balance	640,043	563,441
Translation movement	38,525	24,541
Increase in policy liabilities	64,813	45,036
Increase in policy liabilities on revaluation of land	6,495	7,025
Total policy liabilities	749,876	640,043

40. EVENTS OCCURRING AFTER BALANCE SHEET DATE

The Bank of Papua New Guinea (BPNG) granted BSP a licence to operate a life insurance company in PNG on 25 January 2018. The life insurance business will be conducted by BSP Life PNG Limited, a fully owned subsidiary of BSP. The business will be launching a variety of life insurance products during the course of 2018.

41. REMUNERATION OF AUDITOR

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2017	2016	2017	2016
Financial statement audits	2,871	2,762	2,137	2,081
Other services	1,350	999	1,130	947
	4,221	3,761	3,267	3,028

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 and general training.



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 2017, 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 that 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 2017 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 2017, and their financial performance and cash flows for the year then ended.

Basis for opinion

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

We believe 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 services for the Group in the areas of audit-related, non-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.



<i>Materiality</i>	<i>Audit Scope</i>	<i>Key Audit Matters</i>
<ul style="list-style-type: none"> For the purpose of our audit of the Group we used overall group materiality of K52.3 million 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. 	<ul style="list-style-type: none"> We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea (PNG), which are the most significant to the Group, and directed the scope of the audit of other subsidiaries included in the Group financial statements sufficient to express an opinion on the financial statements as a whole. For the Group's activities in Fiji, Samoa, Tonga, Solomon Islands, Cook Islands, and Vanuatu the audit work was performed by other PwC network firms or other firms operating under our instructions. In addition we visit significant overseas operations and this year we met with management and the local audit team in Fiji, Samoa and Solomon Islands. Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee: <ul style="list-style-type: none"> Loan loss provisioning IT systems and controls These matters are further described in the Key audit matters section of our report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. 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.

<i>Key audit matter</i>	<i>How our audit addressed the key matter</i>
<p>Loan loss provisioning amounting to K577.186m - Refer to Note 13</p> <p>Our audit focused on this area, owing to the significance of loans and advances to the financial statements, the prevailing economic environments in the markets in which the group operates, particularly PNG, and the subjectivity and management judgements involved in determining whether loans within the portfolio are impaired, and the amount of impairment loss that should be recognised in the current period.</p> <p>In making an assessment of loans that are impaired and determining the impairment provision required, the Group generally takes a portfolio approach, except in the case where a specific provision is required based on an assessment of individual exposures. In either case, the application of the Group's policy is inherently judgmental.</p> <p>For the individual assessment or specific provision, loans (excluding retail personal loans) are reviewed for impairment indicators, using various event thresholds, such as repayment performance. Where an impairment indicator exists, the amount of the expected future cash flows related to the loan is estimated, together with the expected realisable value of collateral held.</p> <p>All other loans are collectively assessed on a portfolio basis. For this assessment impairment models are used which aim to build in the impact of credit conditions and default risk for determining the provision. The inputs to these models also include judgmental overlays which aim to take into account emerging trends or particular situations which are not captured by the models, such as sectoral weaknesses in particular markets. This assessment involves various judgements, for example how loans are categorised for credit risk purposes and the probability of default associated with each risk grade.</p>	<p>The procedures we performed to support our audit conclusions, included:</p> <ul style="list-style-type: none"> Assessing the design and testing the operating effectiveness of the controls over loan impairment provisioning processes. The key controls over this process include the role of the Credit Committee in ensuring governance and monitoring of the credit function, appropriate identification of emerging credit risks, including stress testing, and its impact on key inputs to the loan provisioning process, identification and management of material exposures and the establishment of impairment models to capture losses. For individually assessed provisions, applying sampling procedures for testing the operating effectiveness of controls over the Credit Inspection Unit's customer loan file reviews, testing the completeness of the credit watch list and delinquencies, assessing the Group's estimates of specific provisions, and re-performing the calculations for accuracy. For collectively assessed provisions, critically examining the model methodology for consistency and appropriateness, evaluating the probability of default factors used for appropriateness, testing the accuracy of data, such as risk grades used in the models and re-performance of model calculations. For judgmental overlays to model calculations, we considered the potential for impairment to be affected by events not captured in the models. This included making our own independent assessment of the credit environment and evaluating the impact of the Group's stress testing of loans on the credit watch list.

Key audit matter	How our audit addressed the key matter
<p>IT systems and controls</p> <p>We focused on this area because the Group is heavily dependent on complex IT systems for the processing of significant volumes of transactions and for financial accounting and reporting purposes. For example, these systems are also critical to capturing various data that are used to produce reports which management use to make decisions, monitor and control the business and for financial reporting purposes.</p> <p>Our audit approach relies on reports that are generated from these critical IT systems, and therefore the operating effectiveness of automated controls as well as IT dependent manual controls is important to enable that reliance.</p> <p>In particular, our audit focused on access rights, because they aim to ensure that changes to applications are authorised and made appropriately. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud and error as a result of a change to an application or underlying data.</p>	<p>The procedures we performed to support our audit conclusions, included:</p> <ul style="list-style-type: none"> We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting and upon which we relied for the purpose of our audit. We examined the framework of governance over the Group's IT organisation, the controls over program changes and development, access to programs and data and IT operations, including compensating controls where required. We also carried out procedures over certain aspects of security of the Group's IT systems including access management and segregation of duties. <p>The combination of the tests of controls and substantive audit procedures we performed gave us sufficient evidence to enable us to rely on the continued and proper operation of the Group's IT systems for the purposes of our audit.</p>

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 financial statements 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 any of its subsidiaries, 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 2017:

- 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.

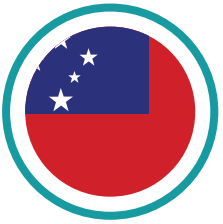
Who we report to

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

Jonathan Seeto
Partner

Registered under the Accountants Act 1996
Port Moresby
1 March 2018



SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

The following is a summary of pertinent issues relating to shareholding in the Group. The Constitution of BSP may be inspected during normal business at the Registered Office.

RIGHTS ATTACHING TO ORDINARY SHARES

The rights attaching to shares are set out in Bank of South Pacific Limited's Constitution and in certain circumstances, are regulated by the Companies Act 1997, the POMSoX Listing Rules and general law. There is only one class of share. All shares have equal rights. Other rights attached to ordinary shares include:

General meeting and notices

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

Voting rights

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

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

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

Issues of further shares

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

Variation of rights

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

Transfer of shares

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

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

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

Partly paid shares

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

Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests. The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, each share in a class of shares in respect of which a dividend has been declared will be equally divided. Each share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the share (excluding any amount paid in advance of calls) bears to the total issue price of the share.

Dividend payouts over the last six years are disclosed in the schedule of Historical Financial Performance elsewhere in this Annual Report.

Liquidation

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

Directors

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

Appointment of directors

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

Powers of the Board

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

Share buy backs

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

Officers' indemnities

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

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

Twenty largest registered fully paid ordinary shareholders.

At the 31 December 2017, the twenty largest registered fully paid shareholders of the Company were:

	Share Held	%
1 Kumul Consolidated Holdings	84,811,597	18.15%
2 Nambawan Super Ltd	57,592,261	12.32%
3 Petroleum Resources Kutubu Ltd	46,153,840	9.88%
4 National Superannuation Fund Ltd	45,318,417	9.70%
5 Credit Corporation (PNG) Ltd	33,692,696	7.21%
6 Motor Vehicles Insurance Ltd	31,243,736	6.69%
7 PNG Sustainable Development Program Ltd	29,202,767	6.25%
8 IFC Capitalization (Equity) Fund IP	22,796,644	4.88%
9 International Finance Corporation	22,796,644	4.88%
10 Teachers Savings & Loan Society Ltd	15,317,366	3.28%
11 Comrade Trustee Services Ltd	14,456,052	3.09%
12 Lamin Trust Fund	3,518,132	0.75%
13 Capital Nominees Ltd	3,135,131	0.67%
14 Credit Corporation (PNG) Ltd	3,000,000	0.64%
15 Mineral Resources Ok Tedi No 2 Ltd	2,890,000	0.62%
16 Solomon Islands National Provident Fund Board	2,500,001	0.53%
17 Nominees Niugini Ltd	2,369,495	0.51%
18 Catholic Diocese Of Kundiawa	2,165,688	0.46%
19 Southern Highlands Holdings Ltd	2,000,000	0.43%
20 Mineral Resources Star Mountain Ltd	1,975,799	0.42%
Other shareholders	40,375,925	8.64%
	467,312,191	100%

Distribution of Shareholding

At the 31 December 2017, the Company had 5,745 shareholders. The distribution of shareholdings is as follows:

Range (number)	Number of Shareholders	Number of Shares
1 to 1,000	4,793	1,224,805
1,001 to 5,000	600	1,213,803
5,001 to 10,000	95	684,228
10,001 to 100,000	168	6,381,583
100,001 and above	89	457,807,772
	5,745	467,312,191

Unmarketable Parcels:

As at 31 December 2017, the BSP Share Price was K9.55. There were 958 shareholders (2% of total shareholders) who held less than a marketable parcel of BSP shares, being holdings of K1,000 or less in market value.

Interest in shares in the Bank

Directors hold the following shares in the Bank:

Director	Shares Held	%
R Fleming	93,000	0.00

Registered Office

Bank of South Pacific Ltd
PO Box 78,
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 322 9700

Australian Registered Office

Level 26
181 William Street, Melbourne
VIC 3000

Home Exchange for BSP Shares

Port Moresby Stock Exchange Ltd (POMSOX)
PO Box 1531
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 320 1980

Home Exchange for BSP Convertible Notes

South Pacific Stock Exchange
GPO Box 11689
SUVA, FIJI
Telephone: +679 330 4130

Share Registry

PNG Registries Ltd
PO Box 1265,
PORT MORESBY
National Capital District, PAPUA NEW GUINEA
Telephone: +675 321 6377

Website

www.bsp.com.pg

Australian Share Registry

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

APRA Disclaimer:

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

DIRECTORS' INFORMATION

Name	Nature of Interest	
Sir K. G. Constantinou, OBE	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Grand Pacific Hotel Ltd, City Centre Development Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, Southern Seas Investments Ltd, Texas Chicken South Pacific Ltd. BSP Finance Ltd, Bank South Pacific (Tonga) Ltd, Bank South Pacific (Samoa) Ltd, Loloata Island Resort and K G Property Ltd
	Shareholder	Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Texas Chicken South Pacific Ltd and K G Property Ltd
	Member	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
R. Fleming, CSM, MBA, MMGT	Director	Bank of South Pacific Ltd, BSP Capital Ltd, BSP Convertible Notes Ltd, BSP PNG Holding Ltd, BSP Life (Fiji) Ltd, BSP Saleco Ltd, Capital Nominees Ltd, BSP Nominees Ltd, BSP Finance Ltd, BSP Finance (PNG) Ltd, BSP Finance (Fiji) Ltd, BSP Services (Fiji) Ltd, BSP Health Care (Fiji) Ltd, Credit & Data Bureau Ltd, Bank South Pacific (Tonga) Ltd, Bank South Pacific (Samoa) Ltd, Bank South Pacific (Vanuatu) Ltd, 3 Kundu Pte Ltd
	Shareholder	Bank of South Pacific Ltd
	Member/Trustee	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
G. Aopi, CBE, MBA (Resigned September, 2017)	Director	Bank of South Pacific Ltd, Oil Search Ltd, Steamships Trading Co Ltd, POMSoX Ltd, Marsh Ltd, Hiram Ltd, Wahinemo Ltd, FM Morobe Ltd, CDI Foundation, BSP Finance Ltd
	Shareholder	Bank of South Pacific Ltd, Oil Search Ltd, Hiram Ltd, Wahinemo Ltd, Newcrest Ltd, Highlands Pacific Ltd, Melanesian Trustees (ICPNG), Kumul Asset Management
	Member/Trustee	Institute of National Affairs, Business Council of PNG, PNG Chamber of Mines & Petroleum, Oil Search Health Foundation, PNG Cancer Foundation
Dr. I. Temu, PhD, MEd, BEcon (Resigned August, 2017)	Director	Bank of South Pacific Ltd, Telemu Ltd, Kina Petroleum Ltd, Kumul Petroleum Holdings Ltd, Savitec Ltd, Barrick Niugini Ltd
	Shareholder	Telstra Ltd, Nautilus Minerals Ltd, Kina Petroleum Ltd
	Employee	Barrick Niugini Ltd
	Member	Divine Word University Council
S. Davis, LLB (Appointed August, 2017)	Director	Bank of South Pacific Ltd, Next DC Ltd, PayPal Australia Ltd, NextDC Ltd, Avondale Golf Club Ltd, Asia Society of Australia, Australia India Business Council
	Member	Australian Institute of Company Directors, Avondale Golf Club Ltd
R. Bradshaw, LLB (Appointed September, 2017)	Director	Bank of South Pacific Ltd
	Member	Papua New Guinea Law Society

Name	Nature of Interest	
G. Robb, BA, MBA, OAM, MAICD, GAICD	Director	Bank of South Pacific Ltd, BSP Capital Ltd, Bank of South Pacific Tonga Ltd
	Member/Graduate	Australian Institute of Company Directors
F. K. Talao, LL.M, MPHIL	Director	Bank of South Pacific Ltd, Director Partnership Pacifica, Chayil Investment Ltd, Human Rights PNG, Consultant to Holding Redlich Lawyers - Australia
	Member	Papua New Guinea Law Society, Australian Institute of Company Directors
E. B. Gangloff, CPA, MAICD, MIIA, PNGID	Director	Bank of South Pacific Ltd, Gangloff Consulting Ltd, New Britain Palm Oil Ltd, Dubara Holdings Ltd, Sir Theophilus Constantinou Foundation, BSP Finance (Fiji) Ltd, Pacific Training Consortium Ltd
	Member	PNG Institute of Directors, Certified Practising Accountants of Papua New Guinea, MSME Business Inc, Institute of National Affairs, Australian Institute of Company Directors, Institute of Internal Auditors
A. Mano, BEcon, MSc.	Director	Bank of South Pacific Ltd, Mineral Resources Development Company Ltd, Pearl Resort (Fiji) Ltd, Speedy Hero Ltd, Insurance Pacific Ltd, Civpac Ltd, Handy Group Ltd, SMA Investments Ltd, Hevi Lift Group Ltd, PNG Air Ltd, Leisure Holidays Ltd, Gobe Freight Ltd, Mineral Resource Ok Tedi Ltd, Mineral Resources Star Mountain Ltd, Petroleum Resources Kutubu Ltd, Petroleum Resources Moran Ltd, Petroleum Resources Gobe Ltd, Mineral Petroleum Resources Madang Ltd, Mineral Resources Ramu Ltd, Gas Resources Hides Ltd, Gas Resources Hides 4 Ltd, Gas Resource Angore Ltd, Gas Resource Juha Ltd, Bank South Pacific (Samoa) Ltd, Star Mountain Plaza, Taumeasima Island Resort
	Shareholder	SMA Investments Ltd, INSPAC Ltd
	Employee	Mineral Resources Development Company Ltd
A. Sam, BComm, CPA, MAICD	Director	Bank of South Pacific Ltd, Sam Kiak Tubangliu Certified Practising Accountants, Silver Dawn Holdings Ltd
	Shareholder	JAJ & Associates, Silver Dawn Holdings Ltd
	Member	CPA PNG, Australian Institute of Company Directors
Faamausili Dr. M. Lua'iufi, BA, MSc, PhD	Director	Bank of South Pacific Ltd, Paradise Consulting, National University of Samoa
	Shareholder	Paradise Consulting
	Member	Executive Committee of the National University of Samoa, Samoa Institute of Directors, British Institute of Consulting



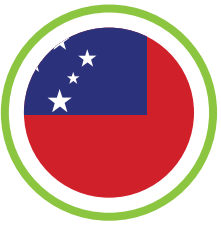
Western Midi

Recovery Officer,
Asset Management

Western Midi is from East New Britain Province. His head piece is made from four pieces of sticks tied together with birds feathers.

The necklace worn is traditional shell money called "Tabu".

The black face paint consist of charcoal and coconut oil, while the red is soil mixed with water, lime and coconut oil.



MANAGEMENT TEAMS & DIRECTORIES

SENIOR MANAGEMENT



Robin Fleming, CSM
Group Chief Executive Officer

Robin Fleming was appointed CEO of Bank of South Pacific Ltd in April 2013. Before his appointment as CEO, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr. Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate & International, and Head of Risk Management with BSP. Prior to the merger of BSP and PNGBC, Mr. Fleming held senior management roles with PNGBC. He has worked in PNG for over 35 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 PNG Government for services to banking and the community.



Roberto Loggia
Group Chief Operating Officer

Roberto Loggia joined BSP in April 2011 after having been CEO of State Bank, Mongolia in its initial stages of development wherein the sound assets of two failed institutions were consolidated into a new viable state sponsored bank with the support of EBRD, London. After having obtained his Bachelor of Commerce degree in Finance from McGill University, Montreal and initiation into banking at Toronto Dominion Bank, he eventually became a career banker with more than thirty years' experience working mostly throughout Asia but also in emerging markets in Central Europe, South America and Africa. In terms of scope of responsibility, most of his assignments have been as Chief Operating Officer responsible for middle and back office functions supporting businesses in Retail Banking, Corporate & Investment Banking and Private Banking. Mr. Loggia has also participated as a key Manager in Greenfield Banks in Japan, Indonesia, Laos and Angola. Lastly, he has held senior line management responsibility within Retail Banking in Nigeria as well as consulting assignments within Retail Banking in China and Risk Management in Thailand.



Eddie Ruha
Group Chief Financial Officer

Eddie Ruha was appointed to Group Chief Financial Officer on the 3rd April 2017, after the resignation of Mr Johnson Kalo. Prior to that Mr. Ruha joined BSP on the 1st of November 2012, as the Chief Financial Officer – PNG. Previously he worked for Steamships Trading Company here in PNG for 22 years, commencing there in 1990, working in the Steamships Merchandising Division for eight years, before transferring to Head Office as Group Systems Accountant and then Group Accountant, General Manager Finance and then from 2008 to 2012 as Finance Director and Company Secretary. In New Zealand Mr. Ruha initially worked for KPMG Auckland office as an Auditor. Mr. Ruha is a commerce graduate from Auckland University in New Zealand (1984) and has a Master of Business Administration from Charles Sturt University (2000) and is a member of CPA Papua New Guinea and a member of the Chartered Accountants Australia and New Zealand as well as a member of the Australia Institute of Company Directors.



Haroon Ali
Group Chief Risk Officer

Haroon Ali is a highly skilled Senior Banking Executive with 38 years of diverse experience in Fiji, Australia and Papua New Guinea. He was appointed Group Chief Risk Officer in July 2013 taking over from Robin Fleming who is now the Group Chief Executive Officer. Prior to joining BSP as the Bank's Chief Risk Officer in Fiji, Mr Ali worked for the ANZ Group for more than 30 years with his last role as Head of Retail Banking in Fiji. He is a generalist banker specialising in risk management, corporate/commercial/SME banking, trade finance and retail banking. Mr. Ali holds a Master of Management in Strategic Management from the Southern Cross University in Sydney. He is a "Fellow" of the Financial Institute of Australasia and holds an Honorary Fellowship from the Fiji Institute of Bankers.



Paul Thornton
Group General Manager Retail Banking

Paul Thornton was appointed General Manager Retail in August 2013 and brings to the position 44 years of retail banking experience, 36 years of which have been in Papua New Guinea. Mr. Thornton was previously the Executive Manager Strategic Planning with the PNG Banking Corporation and was the founding Managing Director of PNG Microfinance Limited. Since returning to BSP in 2010, he has held the positions of Head of BSP Rural, Deputy General Manager Retail and General Manager Network before being appointed to this current position.



Peter Beswick
Group General Manager Corporate Banking

Peter Beswick was appointed General Manager of BSP Corporate Banking in June 2011. He has over 25 years Banking and Finance experience, covering Australia and South East Asia with Commonwealth Bank of Australia, National Australia Bank and Bank of New Zealand; holding senior executive positions in Risk Management and Business Development. Mr. Beswick's most recent appointment has been CEO of a national wholesale, import and retail business in Australia. He 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 PWC and most recently completed an MBA with Macquarie University in Australia.



Hari Rabura
General Manager Human Resources

Hari Rabura was appointed General Manager Human Resource in April 2016. She first joined BSP as a graduate trainee in 2001 and worked in various positions within HR in BSP and various private firms. Ms Rabura is the first female employee to reach executive management level as a General Manager in one of the key Strategic Business Unit (SBU) within the organisation. She is experienced in implementing and delivering HR strategies, policies, and services that create, support and sustain a high performance culture in BSP. As a former member of the Leadership and Management Development Program (LMDP) in BSP, she has undergone General Management training in INSEAD Business School in France and Melbourne Business School in Australia.



Aho Baliki, OBE
General Manager Paramount Banking

Aho Baliki is a career Banker having joined the Commonwealth Banking Corporation on 11th February 1974. Since joining the bank, he has progressed through the banking hierarchy to the position of Chief Executive Officer of the PNG Banking Corporation (PNGBC) in 1999. He was further appointed as General Manager Human Resources in 2000 when PNGBC merged with Bank of South Pacific Ltd (BSP). Mr. Baliki currently holds the position of General Manager Paramount Banking since his appointment in 2002.



Rohan George
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 over 30 years, covering fixed income, foreign exchange, commodities and structured derivatives markets. He is passionate about financial markets, managing market risk, liquidity risk and providing value add solutions for clients. Prior to joining BSP, Mr. George worked at ANZ as Head of Global Markets, Cambodia & Laos (5 years), at Westpac as Treasurer PNG & Pins (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 both the Australian Financial Markets Association and the Sydney Futures Exchange.



Christophe Michaud
General Manager and Director BSP Finance Ltd

Christophe Michaud was appointed General Manager and Director of BSP Finance Ltd in May 2015. Prior to this appointment, he spent 4 years with BSP in corporate banking as Senior Relationship Manager then Deputy General Manager. Prior to joining BSP, Mr. Michaud held various positions in the banking industry in corporate banking, project finance, private banking with BNPParibas, Banque Indosuez and Cr dit Agricole in France, India, Pakistan, Turkey, Indonesia and Singapore. He brings with him more than 35 years of banking experience. Christophe holds a Master of Business Administration from Neoma Business School in France.



WE ARE **BSP** WE ARE **PACIFIC**



Leading Bank of the South Pacific,
providing **Global Banking Solutions**
locally.

PAPUA NEW GUINEA

FIJI

SOLOMON ISLANDS

COOK ISLANDS

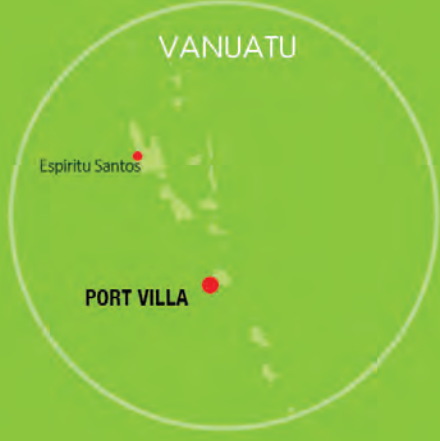
SAMOA

TONGA

VANUATU

CAMBODIA

PAPUA NEW GUINEA



COOK ISLANDS



Standing (L - R):

Achaal Pandesi - Manager of Technology
Tutu Inamata - Business Manager
Massey Mateariki - Risk and Compliance Manager
Gabe Raymond - Finance Manager

Seated (L - R):

David Street - Country Manager
Tokoa Harmon - Branch Manager
Chris Doran - Head of Business Banking

FIJI



Standing (L-R):

Rajeshwar Singh - Chief Financial Officer
Howard Politini - GM Human Resource
William Wakeham - Chief Operating Officer
Omid Saberi - Chief Information Officer
Ravindra Singh - GM Retail Bank

Seated (L - R):

Alvina Ali - GM Legal
Kevin McCarthy - Country Manager
Cecil Browne - GM Corporate & International
Ashleigh Matheson - Chief Risk Officer

SAMOA



Standing (L - R):

Rodney Greed - Manager Projects
Bharat Chovan - Head of Financial Markets
Taitu'uga Maryann Lameko-Vaai - Country Manager
Epeli Racule - Operations Manager
Edward Yee - Head of Business Banking

Seated (L - R):

Jennifer Fruean - Head of Finance
Shirley Pauga - Head of Retail Banking
Peti Leiataua - Manager Operational Risk and Compliance
Michelle Lemisio - Business Manager

SOLOMON ISLANDS



Standing (L-R)

Lucy Bonunga - Senior Internal Auditor
 Lynette Taoti - Manager Credit Administration
 Alphonse Taoti - Manager Retail Services
 Christopher Robertson - Head of Relationship Banking
 Rolland Manetiva - Manager Risk & Compliance
 Sharneet Singh - Financial Controller
 Joan Ramo - Manager International Operations

Sitting(L-R)

Lyn Fa'arodo - Manager E-Channels/Electronic Banking
 David Anderson - Country Manager
 Freda Fa'a'ittoa - Manager Human Resources
 Winterford Maehau - Manager Information Systems

TONGA



Standing (L - R):

Salesi Fineanganofa - Business Manager
 Viliami Vailea - Manager Finance
 Josiah Kalfabun - Manager Operational Risk

Seated (L - R):

Emilio Tapueluelu - Manager Operations
 Mele'ana Fifita - Manager Global Transactional Solution
 Daniel Henson - Country Manager

VANUATU



Standing (L - R):

Edmond Williamson – Manager Operational Risk and Compliance
 Teresa Jordan – Manager Operations
 Nik Regenvanu - Head of Business Banking
 Peter Dinsmore – Manager Finance
 Carol Veremaito – Business Manager

Seated (L - R):

Liz David - Manager LMU
 Stuart Beren - Country Manager
 Moana Korikalo - Head of Retail & Marketing

BSP CAPITAL LTD



Standing (L - R):

Willie Konga – Manager, Funds Management
 Gheno Minia – Head of Equities & Dealing
 Salaniet Mathew – Manager Settlements & Nominees
 Theresa Kalivakoyo- Business Controller

BSP FINANCE - GROUP



Standing (L - R):

Christophe Michaud (General Manager),
 Pochon Lili (Financial Controller)
 Anna Puri (Credit Manager),
 Mea Manasseh (Credit Manger),
 Sharon Andoieye (Operational Risk & Compliance
 Manager)

BSP FINANCE - PAPUA NEW GUINEA



Standing (L - R):

Brett Tayler (Country Manager)
 Shauna Paike (Head of Lending –Sales),
 Debra Lessi (Finance Manger),
 Dulcie Pilake (Collections Manager)

BSP FINANCE - FIJI



Standing (L - R):

Sudeshwar Ram (Area Manager – East),
 Vimal Raj (Senior Lending Officer – SME/Hire
 Purchase), Sanjeet Narsey (Finance Manager)
 Shainesh Vikash Lal (Area Manager – West)

Seated (L-R):

Shelvina Sharon Lata (Accountant),
 Krishna Raju (General Manager)
 Animul Sheryn Khan (Supervisor Lending
 Support)

BSP FINANCE - CAMBODIA



Centre:
Etienne Kettenmeyer (Country Manager), with Management and staff of BSP Finance Cambodia

BSP LIFE - FIJI



Standing (L - R):
Michael Nacola (GM Distribution & Marketing)
Vandhna Narayan (GM Legal and Compliance)
Munendra Naidu (Chief Financial Officer)
Pramesh Sharma (GM Investments)
Atelina Muavono (Chief Operating Officer)

Seated:
Malakai Naiyaga (Managing Director)

OVERSEAS DIRECTORY

Cambodia

Country Manager Etienne Kettenmeyer 855 (0) 2388 52064

Cook Islands

Country Manager David Street 682 22014
Head of Business Banking Chris Doran 682 22014
Rarotonga Branch Tokoia Harmon 682 22014
Aitutaki Rosa Henry 682 22014

Fiji

Country Manager Kevin McCarthy 679 3214454
Damodar City Branch Manjila Goundar 679 3342333
Thomson St Branch Mohammed Arif 679 3314400
Nausori Branch Shailendra Roy 679 3478499
Pacific Harbour Branch(OIC) Ravikashni Prakash 679 3452030
Pacific House Sales & Bus.Centre Shalit Kumar 679 3314400
Samabula Sales & Bus. Centre(OIC) Pio Vatanitawake 679 3387999
Suva Central Branch Mereani Peters 679 3314400
Ba Branch Anupa Kumar 679 6674599
Westfield Branch Madhur Kumar 679 6661769
Nadi Branch Devendran Pillay 679 6700988
Namaka Branch Ann Pesamino 679 6627320
Rakiraki Branch (OIC) Ronica Prakash 679 6694200
Sigatoka Branch Reginald Kumar 679 6500900
Tavua Branch (OIC) Razia Tahir 679 6681507
Labasa Branch Eka Takayawa 679 8811888
Savusavu Branch (OIC) Vineeta Prasad 679 8850199
Taveuni Branch Marica Mara 679 8880433

Samoa

Country Manager Maryanne Lameko - Vaai 685 66115
Retail Head Shirley Greed 685 66170
Savaii Branch Leilani Kelemete 685 51208
Vaitele Branch Amelia Iakopo 685 23005

Solomon Islands

Country Manager David Anderson 677 21874
Auki Branch Michael Noda 677 40484
Gizo Branch Clotilda Londeka 677 60539
Heritage Park Branch Joy Vave 677 21814
Honiara Central Gordon Ifiumae 677 21222
Munda Branch Tanya Saiqoro 677 62177
Noro Branch Richard Bero 677 61222
Point Cruz Branch Fred Osifelo 677 21874
Ranadi Branch Tricia Tura 677 39403

Tonga

Country Manager Daniel Henson 676 20807
Nuku'alofa Branch Emele Hia 676 20809
Vava'u Branch Sosefina Tangitau 676 71268
Ha'apai Sub Branch Mo'unga Akoteu 676 60933
'Eua Sub Branch Tokilupe Toe'api 676 50145

Vanuatu

Country Manager Stuart Beren 678 5580001
Head of Retail & Marketing Moana Korikalo 678 5580009
Santo Edwige Wensi 678 5580034
Port Vila Danica Rapouel 678 5580016
Tanna Branch Dolores Charlie 678 5580041

PAPUA NEW GUINEA BRANCH MANAGERS



Alex Wafimbi
Aitape



Karen George
Arawa



Betty Posangat
Alotau



Maureen Wanu
Boroko



Dora Raphael
Bialla



Nelson Kerua
BSP First HC



Julie Warren
Buka



Bevilon Homuo
Bulolo



Antonia Dru
Gordons



Reuben Attai
Daru



Livikonimo Koki
Goroka



Mary Kundi
Harbour City



Marco Hamen
Kainantu



Mathias Manawo
Kavieng



Ruby Patu
Kimbe



Ivy David
Kiunga



Joe Makinta
Kokopo



Rita Singut
Kundiawa



Agnes Mark
Lae Top Town



Robinson Panako
Lae Commercial



Josephine Komuru
Lae Market



Johnson Tetaga
Lihir



Ruth Kagl
Lorengau



Barry Namongo
Madang



Philip Solala
Mendi



Meck Kaum
Moro



David Ila
Moro



Theresa Pilamp
Mt Hagen



Susie Yapen
Motukea



Diana Guria
Port Moresby



Eileen Goviro
Popondetta



Mary Koi
Porgera



Kalat Tiriman
Rabaul



Dianne Rali
Tabubil



Samuel Okti
Tari



Delilah Kanit
Vanimo



Rawalo Rawalo
Vision City



Rova Olemau
BSP First Gordons



Thomas Temb
Wabag



Alex Kuna
Waigani B/Centre



Madeleine Leka
Waigani Drive



Gabriel Ak
Wewak



Tony Waningu
SME - Port Moresby



Richard La'a
SME - Lae



Reuben Elizah
Highlands Area
Manager



Dennis Lamus
Momase Area
Manager



Natasha Sirimai
NCD Area Manager



Jeffrey Singer
NGI Area Manager



Billy Veveloga
Southern Area
Manager

Aitape	Alex Wafimbi	457 2042	Mendi	Philip Solala	549 1070
Alotau	Betty Posangat	641 1284	Moro	Meck Kaum	276 1566
Arawa	Karen George	276 9244		David Ila	276 1569
Bialla	Dora Raphael	983 1095	Motukea	Susie Yapen	305 7849
Boroko			Mt Hagen		
Branch	Maureen Wanu	303 4320	Branch	Theresa Pilamp	542 1877
Premium	Sheila John	303 4354			542 2022
			Premium	Beverly Elizah	542 1877
Buka			Popondetta	Eileen Goviro	629 7443
Branch	Julie Warren	973 9042	Porgera	Mary Koi	547 6900
		7202 9203			
Premium	Rosemary Paula Seeto	973 9087	Port Moresby		
			Branch	Diana Guria	305 7104
Bulolo	Bevilon Homuo	474 5331	Premium	Bau Kiso	305 6189
Daru	Ruben Attai	645 9416	BSP First	Jessie Toran	305 7724
Goroka	Livikonimo Koki	532 1633			
Gordons			Rabaul	Kalat Tiriman	982 1744
BSP First	Rova Olemau	302 5245	Tabubil	Dianne Rali	649 9179
Premium	Antonia Dru	302 5202	Tari	Samuel Okti	276 1651
			Vanimo	Delillah Kanit	457 1209
Harbour City			SME		
Branch	Mary Kundi	305 6110	Port Moresby	Tony Waningu	305 6400
Premium	Merai Nureo	3056105	Lae	Richard La'a	479 5676
BSP First	Nelson Kerua	305 7935	Goroka	Samuel Mulina	479 5676
Kainantu	Marco Hamen	537 1251	Vision City		
Kavieng	Mathias Manowo	9842082	Branch	Rawalo Rawalo	300 9100
Kimbe	Ruby Patu	983 5166	Premium	Damaris Toran	300 9103
Kiunga	Ivy David	649 1313			
Kokopo			Wabag	Thomas Tembil	547 1237
Branch	Joe Makinta	982 9088			
Premium	Jennifer Tiolam	982 9068	Waigani Banking Centre		
			Branch	Alex Kuna	305 6102
Kundiawa	Rita Singut	535 1025	Premium	Lorraine Siaoa	300 9645
Lae			Waigani Drive	Madeleine Leka	302 5301
Top Town	Agnes Mark	473 9876	Wewak	Gabriel Ak	456 2344
Main Market	Josephine Komoru	473 9609			
Commercial	Robinson Panako	472 9088	Highlands Region	Reuben Elijah	542 2002
BSP First	Elizabeth Gavul	478 4949	Momase Region	Dennis Lamus	478 4998
Lihir	Johnson Tetaga	986 4062	NGI Region	Jeffrey Singer	982 9285
Lorengau	Ruth Kagl	970 9244	NCD Region	Natasha Sirimai	305 7195
			Southern Region	Billy Veveloga	305 7886
Madang					
Branch	Barry Namongo	422 2477			
Premium	Ruth Makel	422 2621			

SUB BRANCH DIRECTORY

AIYURA	Gomah Benson	7230 8313	LABA	Heni Nao	7197 6008
BANZ	Kessy Elly	7100 9078	LAKURUMAU	Lorraine Koma	7197 6005
BUIN	Melchior Tania	7100 7855	LOUSIA	Lorna Solomon	7031 2617
CHUAVE	Koiya Kupa	7197 6001	MAPRIK	Christian Tatu	7168 7815
DAULO	Merolyn Sirifave	7100 6763	MINJ	Kui Tai	7100 9076
GEMBOGL	William Koima	7313 4177	MUTZING	Gordon Robert	7100 2488
GUSAP	Lee Sinemaue	7091 1396	NAMATANAI	Mathew Tabakas	7197 6007
HENGANOFI	Emos James	7100 7859	NAVO	Hannah Brunim	7090 4272
HIGATURU	Stephanie Orovo	7275 1365	NINGERUM	Todin Kasi	7916 5583
HOSKINS	Ruddy Samson	7031 2627	OKAPA	Arafat Tovari	7055 0955
IALIBU	Philemon Kumi	7041 1624	PADIPADI	Lelly Mick	7090 4463
KABWUM	Inna Buneng	7346 1426	PALMALMAL	Freda Nablup	7323 9181
KAMTAI	Robert Kom	7243 4695	PANGIA	Karen James	7197 6003
KEREMA	Aisi Aua	7100 2889	TAMBUL	Joseph Paul	7100 7863
KEREVAT	Kilala Kindau	7190 8231	TELEFOMIN	Jobartan Bickie	7255 8421
KEROWAGI	Leah Taia	7100 9077	WAKUNAI	Melvin Kusa	7100 7856
KINIM	Malapun Bannick	7100 7861	WALIUM	Brenda Igusam	7031 2127
KIKORI	Leah Kimave	7163 0597	WAPENAMANDA	Feta Isin	7100 7862
KOMO	Mark Tom	7362 0760	YANGORU	Brendon Iromo	7127 0000
KONOS	Clarinda Tangabe	7197 6006	YONKI	Usik Asino	7185 5768
KUPIANO	Andrew Baine Jnr	7288 4140			

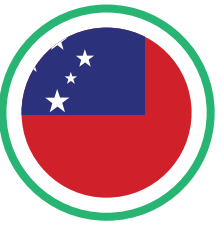


Alena Naiyala

Associate IT Client Support Engineer

Alena is part Nadi and Yasawa-i-rara, Fiji. The necklace she wears is called a "salusalu" and is the Fijian traditional garland used during special occasions.

Alena's attire is a three-piece masi, which is a Fijian traditional attire worn at weddings known locally as 'Sulu ni Vakamau'.



CORPORATE SOCIAL RESPONSIBILITY

SPONSORSHIPS AND DONATIONS



BSP Staff and their families visit to Gerehu Hospital in Port Moresby, prior to Christmas

BSP takes great pride in supporting the organisations and worthy causes that are important to our employees and customers throughout PNG and the Pacific. BSP has built strong partnerships with various Organisations, Committees, Events and Charities who champion, cultural unity, environmental sustainability, professional development, sports and health and wellbeing. Through our respected and valuable partnerships, we are able to increase our reach and support to these areas financially. In 2017, BSP as a Group supported to the tune of K6.6 million in sponsorships and donations.

Sponsorships



K4.4
Million in
Sponsorships

Donations



K2.2
Million in
Donations

Events



K753
Thousand in
Events

At BSP we respect, value and support the communities in which we operate in. Some of the organisations and activities we supported in 2017 in PNG included:

CHARITY AND NGO

- Anglicare
- Buk Bilong Pikinini
- Burnett Institute
- Business and Professional Women
- Coalition for Change PNG
- Kokoda Track Foundation
- Operation Open Heart
- Port Moresby Cancer Society
- Salvation Army

SPORTS AND CULTURE

- Cricket PNG
- Game Fishing Club
- Morobe Agricultural Show
- Morobe Golf Open
- National Mask and Warwagira Festival
- PNG Golf Open and BSP Junior Pro Am
- PNG Snooker and Billiards Nationals
- PNG Swimming Inc
- Rabaul Frangipani Festival

CONFERENCES AND EVENTS

- Certified Practising Accountants
- BPNG Financial Inclusion Expo
- Institute of Internal Auditors
- Australia PNG Business Council Forum
- PNG Mining and Petroleum Conference
- PNG Human Resource Institute Event
- PNG International Business Summit
- Regional Tuna Industry and Trade Conference
- University of PNG MBA Pinnacle

COMMUNITY PROJECTS IN PAPUA NEW GUINEA



Port Moresby Branch presented cooking utensils and officially opened the newly constructed "hauswin" to Moale Haus, Four Square Church in Kaugere

Themed "Empowering Women and Children," BSP Community Projects were focused on improving the lives of women and children in the communities we operate. In PNG 49 projects were handed over to respective communities and partners to the value of K1.2 million.

- **35% of projects focused to the community** | Renovated playgrounds, libraries, and shelters.
- **43% of projects focused on health, water and sanitation** | Water tanks and refurbished health centres
- **22% of projects focused on education** | Renovated classrooms, ablution blocks and donated books

Quick Facts - PNG



K7.8
million invested
in projects since
2009.



336
projects
delivered in the
past 8 years.



K1.2
million
invested in
2017.

Moale Haus is an orphanage centre run by the church. It has been in operation for over 10 years. The centre runs literacy programs for the community, and feeds orphans and the homeless. I am pleased to handover this project on behalf of BSP" - **Diana Guria, Branch Manager, Port Moresby**



BSP Buka built a haus win for Nazareth Centre for Rehabilitation (NCFR)



BSP Bulolo construction of Violence against Women office



BSP Kundiawa Installation of water tank and pump for Kundiawa Urban Clinic



Boreboa school gets new water tank

“Classes were suspended due to water disruptions, but with the new tank and water pump, we now have reliable back up of clean water for students and staff. The renovated ablution blocks reinforce our schools aim to promote a healthy living environment.” Brian Kagayabi, Head Master of Boreboa Primary School.

Projects delivered through our Strategic Business Units

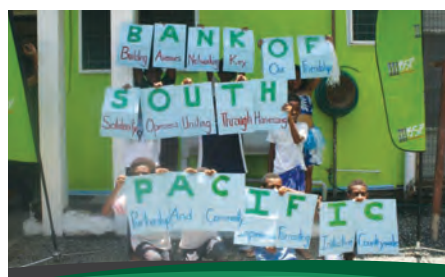
- Safe House at Femili PNG Lae, Installation of solar lights, Corporate Lae
- POM General Hospital - Family Planning, extension and maintenance of Susu Mama Clinic, Corporate POM
- St Theresa Clinic refurbishment, Finance and Planning
- Gerehu Hospital, Construction of a hauswin, Group Risk Management
- Hohola Demonstration Primary School, Construction of drinking shed and tank, Human Resource
- Konedobu Clinic, Installation of 2x water tanks and refurbishment, Operations
- St Martin De Poress Clinic - Morata, Installation of water tank, repairing of benches and donation of medical equipment, Paramount Banking
- Lifeline PNG - Renovation of rooms for the abused women - Retail Banking
- Operation Food for Life, Construction of a new fence and Resource Centre, Treasury

Projects Delivered through our Subsidiary Companies

- The Sacred Heart Brothers – Save our children and youth program, Construction of shelter and ablution block, BSP Capital
- Evadahana Primary School, Renovation of ablution block and installation of water pump, BSP Finance



BSP Daru built a cop shop at the main market



BSP Capital Ltd renovated an ablution block for Save our Children and Youth



BSP Kokopo renovated the ablution block for Napapar Health Clinic



Madang Branch
Renovation of the Gynaecology Ward at
Modilon General Hospital, Madang Province



“As a patient, I felt that it was important for women recovering from an operation to stay in a clean environment. “Through BSP and this community project initiative, I know that many women will benefit from the project. They will now have well protected and better living environment to rest and recover.” Sea Moa, BSP Madang Staff.

Other projects delivered through our Branches

- Aitape Branch - Construction of a double classroom at Lumi Primary School.
- Alotau Branch - Installation of water tank, donation of mattresses, pillows, curtains & repainting of two birthing houses, Losuia Island.
- Arawa Branch - Installation of 2x water tanks, Arawa General Hospital.
- Biaila Branch - Installation of water tank and donation of mattresses at Silanga & Ullamona Catholic Health Centre.
- Boroko Branch - Construction of waiting shelter for the Antenatal ward at 6mile clinic.
- BSP First - Drainage, installation of Tuffa Tank & donation of Davy Pump, PNG Children's Foundation.
- BSP Haus - Installation of water tank & construction of a store room at the Haus of Hope.
- Buka Branch - Construction of Hauswin at Nazareth Centre for Rehabilitation (NCFR),
- Bulolo Branch - Construction of Violence against Woman office & Installation of water tank at Bulolo Police Station
- Daru Branch - Renovation of Daru Police Station Cop Shop.
- Gordons Commercial - Renovation of 2x storage containers, Cheshire Disability Centre.
- Goroka Branch - Installation of water tanks at 7-Mile Notofana Village
- Kainantu Branch - Construction of sewing machine tables & presentation of sewing machines to All Churches in Kainantu.
- Kavieng Branch - Refurbishment of Maternity Ward for Kavieng General Hospital.
- Kimbe Branch - Construction of Mini Library and donation of mattresses for the Children's ward at Kimbe Provincial Hospital.
- Kiunga Branch - Construction of a new Baking shelter for the Home of Hope Women Centre.
- Kokopo Branch - Renovation of Cervix Examination Room for St Mary's Hospital - Yunapope
- Kundiawa Branch - Installation of water tank and pump for Kundiawa Urban Clinic
- Lae Commercial - Extension of the Patients' waiting bay for Centre of Mercy.



BSP Lae Market Branch cleaned up Family Support Centre



BSP Alotau renovated two Birth Houses and installed water tanks



BSP Treasury built a new fence and donated computers to Operation Food for Life program



Operations and IT renovated the Konedobu Clinic and installed two water tanks

Other projects delivered through our Branches

- Lae Market Branch - General clean up and donation at Family Support Centre
- Lae Top Town - Construction of an antenatal waiting house for pregnant mothers at Situm Health Centre
- Lihir Branch - Renovation of Kids Centre at Kunaye Adventist
- Lorengau Branch - Clean up of East and West Clinic in Lorengau Town and donation of health equipment and furniture
- Madang Branch - Renovation of Gynaecology Ward in Modilon General Hospital
- Mendi Branch - Renovation of persons with disabilities classroom, abluion block and construction of a mini children's play area at Callan Services
- Moro Branch - Water catchment area and installation of tank at Ibutaba village
- Mt Hagen Branch - Donation of furniture and computer Set for Women Well Clinic at Mt Hagen General Hospital
- Port Moresby Branch - Construction of hauswin and supply of utensils, Moale Ministry
- Popondetta Branch - Installation of water tank and renovation of classroom at Popondetta Elementary School
- Porgera Branch - Installation of water tank at Foursquare Christian Elementary School
- Rabaul Branch - Renovation of abluion block at Napapar Health Centre
- Tabubil Branch - Renovation of a classroom at Kwrioknai Primary School
- Tari Branch - Purchase of 2x Obstetric beds and cleanup of Hela Provincial Hospital
- Vanimo Branch - Donation of library books and General Clean up of Vanimo Primary, Damili Primary and Dapu Primary
- Wabag Branch - Installation of audio visual, construction of laundry room & waiting shed for the mothers and children's ward for Emmanuel Lutheran Hospital
- Waigani Banking Centre - Renovation of Classroom for Taurama Army Barracks Pre-School
- Waigani Drive - Installation of water tank/water pump and general maintenance of the abluion block for Taurama Elementary School
- Wewak Branch - Construction of cabin haus for Mission Franciscan Sisters that caters for abused women



BSP Biialla donated mattresses for Biialla clinic



BSP Human Resource built a drinking shed for Hohola Demonstration School



BSP Group Risk Management built a waiting area for patients at Gerehu Hospital



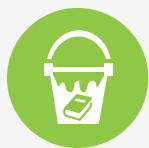
BSP Tonga built a playground at the carpark behind the Branch

We recognise that as a growing Bank in the Pacific, we have a special responsibility to our people, our customer and our community. BSP Community Projects are executed through all our Branches in PNG, Fiji, Solomon Islands, Cook Islands, Samoa, Tonga and Vanuatu. Our staff volunteer their time to assist in the completion of each project. Our Community Project are also undertaken by Strategic Business Units (SBUs).

BSP Group Project Initiatives 2017



26
Health
Projects



18
Education
Projects



13
Projects focused
on Community
Wellbeing



6
projects focused
on Water and
Sanitation



BSP Vanuatu Soccer Sevens



Paddling for Healthy Oceans Rubbish collection along Rewa & Navua Villages



BSP Fiji Marketing Team: Agatha, Jessie, Michael, Nirdesh with Iris and Eroni of Save the Children Fiji



BSP Cook Islands built scoreboards



BSP Solomon Islands renovated a market shelter



BSP Solomon Islands donate to Ambae Community



Vanuatu BSP Women's Grant Scholarship has assisted young women pursue and further their education.

Our teams in the Pacific Islands also delivered worthy projects in their communities.

14 A total of 14 community projects were handed over in 2017.
 Fiji - 4 | Solomon Islands - 6 | Tonga - 1 | Cook Islands - 1 | Samoa - 1 | Vanuatu - 1

SOLOMON ISLANDS

- Gizo Branch - Rebuilding and Painting of Market House for Vonunu Secondary School
- BSP Auki Branch - Building a Leaf hut for sick Patients waiting place
- BSP Noro Branch - Painting and donating Reading Books and toys for Auki Clinic
- BSP Munda Branch - Repainting Helena Goldie Hospital Chapel
- BSP Pointcruz- Donation of Gabbage Bins and Rakes for Kakabona and Kauvare community
- BSP Ranadi Branch- Building Ablution Block for Madela Inclusive Primary School
- G'Day Solomon Islands Fun Run
- Financila Inclusion Committee
- Pinktober
- Rotary Club of Honiara

COOK ISLANDS

- Rotary Club of Rarotonga
- Aututaki Vaka Iti

SAMOA

- The Two Million Trees Campaign
- Samoa Small Business Enterprise Centre (Sbec)
- Pinktober
- Little Sisters Of The Poor And Residents Of Mapuifagalele
- Samoa Weightlifting Federation
- Samoa Medical Association (Sma)
- 29th Marist Sevens 2017
- Manu Samoa
- Goshen Trust, Samoa Victim Support And Ola Toefuataina (Tafaigata Prisons)

TONGA

- Tonga Red Cross Society

VANUATU

- Renovation of Vanuatu netball house
- Amicale Football Club
- Vanuatu Pro Medical Services
- Port Vila Women's Futsal League
- Vanuatu Cricket
- Santo Rodeo
- Vila Rodeo
- Kiwanis Golf day
- Vanuatu Aquatics Swim
- Ambae Volcano Relief
- Tanna Hospital
- Vanuatu Women's Center
- Kaweriki Road Market
- International Women's Group
- Vanuatu Red Cross Society
- National Forestry Day
- Sumalapa Community



BSP School Kriket



BSP Samoa Staff with donation to Samoa Victim Support



Fishing Club Committee with BSP Sponsors and Representatives Tutu Inamata and Jacqui Lemaire

COMMUNITY CONTRIBUTIONS: OFFSHORE BRANCHES



BSP Fiji participated in Oceans Day and partnered with Paddle for Healthy Oceans to do rubbish collection.

Our Contributions in Fiji go beyond banking.

CORPORATE SOCIAL RESPONSIBILITY PARTNERS

- Save the Children Fiji - Provision of stationery for Nuku District School Students
- Fiji Cancer Society - Donation of recliner chairs for cancer patients on chemotherapy
- WOWS - "Shave or Save" Campaign to raise funds for Children's Cancer. Staff collected over \$14k. This was topped up to \$20,000 by the company
- PinkTober - Observance of Pinktober to raise awareness on Breast Cancer. Staff are also fundraising for this. Funds collected were donated to the Fiji Cancer Society

SPONSORSHIPS

- South Pacific Tourism Organisation - Sponsorship of the South Pacific Tourism Exchange Convention, Sydney
- Friends of Fiji Heart Foundation - Donation towards Heart Surgery Team
- Fiji Hobies - Oceania Hobies Championship
- Suva Marathon - Sponsorship of the event
- Ba Women's Forum - Donation of laptops
- Fiji Human Resources Institute - Sponsorship of FHRI Convention

OTHER

- Toea Wisil - Fiji Visit - BSP Brand Ambassador, Toea Wisil visited two girls high schools to deliver motivational speeches

“ Every penny we make from this will go a long way in the fight against this terrible disease” **Kali Turagaiviu of the Fiji Cancer Society, acknowledged BSP's support.**



PinkTober Breast cancer awareness



BSP Brand Ambassador Toea Wisil visits schools in Fiji



BSP Fiji A brave team, Inoke Ruramate, Kevin McCarthy and Krishna Raju volunteered to shave and save



BSP Samoa staff at the launch of Go Green Clean Up



Bank South Pacific is proud to be a part of the community and continues to promote the Go Green message to encourage our staff and communities to respect the environment we live in.

As part of our environment strategy, we observed environment related events such as the Earth Hour, Earth Day and World Environment Day. We also support organisations and initiatives that foster an understanding of environmental issues and provide practical support to building sustainable communities.

We are continually seeking new ways to decrease our environmental impact in our daily operations by reduction of resources and materials used wherever possible. A recent initiative by the bank can be seen in our community Projects for 2018. The theme, "Solar Lights in the Community" will see BSP Staff in their respective Branches, SBUs and BUs selecting schools and institutions to install solar powered lights to brighten up their Schools and encouraging students to study more effectively combating greenhouse gas emissions.



Some events on Environmental Responsibility:



World Environment Day PNG, at the Port Moresby Nature Park



BSP Samoa take on Go Green Clean Up

FINANCIAL LITERACY & BANKING EDUCATION



Banking Education and Financial Literacy remains an important part of BSP and its customers

Whether it's teaching people how to manage money, using the right product and service or opening new accounts for children, students and adults, we go to where our customers are, even if it means enduring rugged terrain. Here are some highlights:

- 43 new certified trainers joined in March 2017 to continue driving FLT program.
- Business Developments Skills was also introduced to the trainers as one of the important training modules targeting MSME customers.
- BSP and ADB signed a MoU for Banking Education Assessment Study project piloted in ESP in September 2017 which BSP Wewak Branch visited wards and districts to drive FLT to actually determine their behavioural change in terms of utilising new kundu and savings accounts that they opened.
- SMS Blast service was organised every Mondays from September – December to promote the importance of savings.

21,985

Individuals participated in the Financial Literacy. 48% of the participants are women.

137

We have 137 qualified Financial Literacy Trainers based throughout all our branches in PNG.

148

BSP reached over 148 Communities, across PNG in 2017.

8,378

BSP educated over 8,378 students in 108 schools throughout PNG.



Customers opening account after Financial Literacy Training



Financial Literacy Training for fashion designers



Banking Education Team conducting training

FINANCIAL LITERACY AND BANKING EDUCATION



BSP trained an additional 143 Financial Literacy Trainers

BANKING EDUCATION & FINANCIAL LITERACY IN PNG

In 2017, More Customers chose Smarter and Affordable Ways to Bank.



1.26 Million
Customers use
Fee Free Accounts

This means that 77% of BSP's personal customers have a transaction account where they do not pay a monthly account maintenance fee.



22 Million
Visa and KunduCard
Transactions in **2017**

More customers use Cards to purchase their shopping avoiding the need for cash and reducing security risks for cardholders and merchants.



2.5 Million
Transfers via
Mobile Banking

BSP's Mobile Banking customers made 2,500,000 transfers of funds in 2017 to other customers, family and friends using their mobile phone rather than paying in cash or visiting the Bank to make a deposit.

Local Knowledge, Global Solution.

With the largest branch and electronic network in the Pacific, BSP is a modern and energetic bank providing world class banking.





WE ARE **BSP**



PNG



FIJI



SOLOMON IS.



SAMOA



TONGA



COOK IS.



VANUATU



CAMBODIA



| www.bsp.com.pg

