BSP Financial Group Limited and Subsidiaries

ARBN 649 704 656

Interim Condensed Financial Statements

For the half-year ended

30 June 2022

Contents of the Interim Condensed Financial Statements

DIRECTORS' REPORT

The Directors of BSP Financial Group Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2022.

Directors and officers

The names of the Directors of BSP Financial Group Limited during or since the end of the half year are:

Sir K G Constantinou, OBE	Mr R Fleming, CSM
Mr S Davis	Mr E B Gangloff (resigned April 2022)
Mr R Bradshaw	Mr A Sam
Dr F Lua'iufi	Mr S Brewis-Weston
Ms P Kevin	Mr F Bouraga
Ms P T Seruvatu (appointed April 2022)	

Principal activities

The principal activity of the Bank is the provision of commercial banking and financial services throughout Papua New Guinea and the Asia Pacific region. The Group's activities also include fund management and life business services. BSP is a company listed dually on the PNG Exchange Markets (PNGX) and the Australian Securities Exchange (ASX), incorporated under the Companies Act 1977 of Papua New Guinea, and is an authorised Bank under the Banks and Financial Institutions Act of Papua New Guinea. The Group is also licensed to operate in the Solomon Islands, Fiji, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Laos. The registered office is at Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Port Moresby.

Review of operations

The net profit of the Group for the half year ended 30 June 2022, after tax was K396.120 million (half-year ended 30 June 2021: K449.320 million).

In the directors' opinion, the attached interim condensed financial statements and notes thereto are in accordance with the Companies Act 1997 of Papua New Guinea, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Bank and the Group.

Dated and signed at Port Moresby this 17th day of August 2022.

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

Report on review of interim condensed financial statements

to the Directors of BSP Financial Group Limited

Introduction

We have reviewed the accompanying interim condensed statements of financial position of BSP Financial Group Limited (the Bank) and its subsidiaries (the Group) as at 30 June 2022 and the related interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

Restriction on distribution or use

This report is made solely to the Directors of the Bank, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Bank, as a body, for our review work, for this report or for the conclusion we have formed.

PricewaterhouseCoopers

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
17 August 2022

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

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2022

	Note	Consolidated Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts expressed are in K'000		**2022**	**2021**	**2022**	**2021**
Interest income	2(a)	916,548	832,158	863,751	772,988
Interest expense	2(a)	(41,044)	(56,994)	(34,634)	(48,233)
Net interest income		**875,504**	**775,164**	**829,117**	**724,755**
Fee and commission income	2(b)	207,381	181,315	191,650	163,070
Other income	2(b)	194,408	177,682	209,002	196,366
Net insurance operating income		9,094	9,630	-	-
Net operating income before impairment and operating expenses		**1,286,387**	**1,143,791**	**1,229,769**	**1,084,191**
Impairment on financial assets	2(c)	20,203	(62,615)	25,381	(54,252)
Operating expenses	2(d)	(470,224)	(441,870)	(434,807)	(403,225)
Additional Company Tax	14	(190,000)	-	(190,000)	-
Profit before income tax		**646,366**	**639,306**	**630,343**	**626,714**
Income tax expense	4	(250,246)	(189,986)	(237,301)	(177,488)
Net profit for the period		**396,120**	**449,320**	**393,042**	**449,226**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency		(52,358)	(16,141)	(27,305)	(9,228)
Items that will not be reclassified to profit or loss:					
De-recognition of deferred tax on asset revaluation reserve		1,581	-	1,581	-
Fair value gain/(loss) on re-measurement of investment securities		(49)	20	(49)	20
Net movement in asset revaluation reserve		(515)	157	-	-
Other comprehensive income, net of tax		**(51,341)**	**(15,964)**	**(25,773)**	**(9,208)**
Total comprehensive income for the period		**344,779**	**433,356**	**367,269**	**440,018**
Earnings per share – Basic and diluted (toea)		**84.8**	**96.2**	**84.1**	**96.1**

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

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

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2022

		Consolidated		Bank	
All amounts expressed are in K'000	**Note**	**As at 30 June 2022**	**As at 31 December 2021**	**As at 30 June 2022**	**As at 31 December 2021**
ASSETS					
Cash and operating balances with Central Banks		2,661,649	2,807,628	2,038,663	2,203,587
Amounts due from other banks		1,285,878	1,310,247	1,197,857	1,152,073
Treasury and Central Bank bills		5,070,821	4,644,603	5,049,600	4,617,566
Cash reserve requirement with Central Banks		1,827,991	1,719,870	1,732,816	1,627,849
Other financial assets		4,571,049	4,079,167	3,990,709	3,457,639
Loans and receivables from customers	5	13,909,324	13,631,275	12,609,118	12,286,416
Property and equipment		914,164	906,443	716,626	700,614
Asset subject to operating lease		29,988	32,671	29,988	32,671
Investment in subsidiaries		-	-	399,361	388,798
Deferred tax assets		239,529	269,344	232,900	261,795
Other assets		1,104,048	1,025,258	468,976	436,598
Total assets		**31,614,441**	**30,426,506**	**28,466,614**	**27,165,606**
LIABILITIES					
Amounts due to other banks		266,833	248,792	485,357	336,101
Customer deposits		25,070,989	23,934,835	23,395,707	22,342,318
Insurance policy liabilities		1,110,160	1,132,176	-	-
Other liabilities		1,615,957	1,276,221	1,466,594	1,109,336
Deferred tax liabilities		40,335	39,517	-	-
Total liabilities		**28,104,274**	**26,631,541**	**25,347,658**	**23,787,755**
SHAREHOLDERS' EQUITY					
Ordinary shares	7	372,111	372,133	372,111	372,133
Retained earnings	7	2,797,011	3,025,125	2,501,055	2,728,885
Other reserves	7	340,318	396,929	245,790	276,833
Equity attributable to the members of the company		3,509,440	3,794,187	3,118,956	3,377,851
Minority interests		727	778	-	-
Total shareholders' equity		**3,510,167**	**3,794,965**	**3,118,956**	**3,377,851**
Total equity and liabilities		**31,614,441**	**30,426,506**	**28,466,614**	**27,165,606**

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

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

INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2022

All amounts expressed are in K'000	Share Capital	Reserves	Retained earnings	Minority interest	Total
GROUP					
Balance at 1 January 2022	**372,133**	**396,929**	**3,025,125**	**778**	**3,794,965**
Net profit	-	-	396,120	-	396,120
Other comprehensive income	-	(51,341)	-	-	(51,341)
Total comprehensive income	-	(51,341)	396,120	-	344,779
2021 final dividend paid	-	-	(629,378)	(177)	(629,555)
Share buyback	(22)	-	-	-	(22)
Profit attributed to minority interest	-	-	(126)	126	-
Total transaction with owners	(22)	-	(629,504)	(51)	(629,577)
Transfer from Asset Revaluation Reserve	-	(5,270)	5,270	-	-
Balance at 30 June 2022	**372,111**	**340,318**	**2,797,011**	**727**	**3,510,167**
Balance at 1 January 2021	**372,189**	**438,516**	**2,622,249**	**651**	**3,433,605**
Net profit	-	-	449,320	-	449,320
Other comprehensive income	-	(15,964)	-	-	(15,964)
Total comprehensive income	-	(15,964)	449,320	-	433,356
2020 final dividend paid	-	-	(493,070)	-	(493,070)
Share buyback	(42)	-	-	-	(42)
Total transaction with owners	(42)	-	(493,070)	-	(493,112)
Balance at 30 June 2021	**372,147**	**422,552**	**2,578,499**	**651**	**3,373,849**
BANK					
Balance at 1 January 2022	**372,133**	**276,833**	**2,728,885**	**-**	**3,377,851**
Net profit	-	-	393,042	-	393,042
Other comprehensive income	-	(25,773)	-	-	(25,773)
Total comprehensive income	-	(25,773)	393,042	-	367,269
2021 final dividend paid	-	-	(626,142)	-	(626,142)
Share buyback	(22)	-	-	-	(22)
Total transaction with owners	(22)	-	(626,142)	-	(626,164)
Transfer from Asset Revaluation Reserve	-	(5,270)	5,270	-	-
Balance at 30 June 2022	**372,111**	**245,790**	**2,501,055**	**-**	**3,118,956**
Balance at 1 January 2021	**372,189**	**300,725**	**2,360,983**	**-**	**3,033,897**
Net profit	-	-	449,226	-	449,226
Other comprehensive income	-	(9,208)	-	-	(9,208)
Total comprehensive income	-	(9,208)	449,226	-	440,018
2020 final dividend paid	-	-	(490,584)	-	(490,584)
Share buyback	(42)	-	-	-	(42)
Total transaction with owners	(42)	-	(490,584)	-	(490,626)
Balance at 30 June 2021	**372,147**	**291,517**	**2,319,625**	**-**	**2,983,289**

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

INTERIM CONDENSED STATEMENTS OF CASH FLOWS

FOR THE HALF-YEAR ENDED 30 JUNE 2022

		Consolidated Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts expressed are in K'000	**Note**	**2022**	**2021**	**2022**	**2021**
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		908,361	792,357	853,733	733,905
Fees and other income		351,565	316,068	401,362	356,828
Interest paid		(39,247)	(63,333)	(24,708)	(53,250)
Insurance premiums		102,695	83,505	-	-
Claims, surrenders & maturity payments		(62,050)	(42,718)	-	-
Amounts paid to suppliers and employees		(440,754)	(315,736)	(441,052)	(329,148)
Operating cash flow before changes in operating assets and liabilities		**820,570**	**770,143**	**789,335**	**708,335**
Decrease/(increase) in loans and receivables from customers		(419,001)	130,076	(415,563)	55,252
Increase in customer deposits		1,429,036	1,470,404	1,281,977	1,337,570
(Increase) in statutory deposits with the Central Banks		(127,207)	(105,651)	(121,007)	(100,662)
(Increase)/decrease in other assets		(57,373)	20,344	(9,927)	61,006
Increase in other liabilities		133,000	51,476	136,155	18,649
Net cash flow from operating activities		**1,779,025**	**2,336,792**	**1,660,970**	**2,080,150**
Income taxes paid		(177,996)	(150,762)	(155,853)	(138,431)
Net cash flow from operating activities		**1,601,029**	**2,186,030**	**1,505,117**	**1,941,719**
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in government securities		(941,580)	(1,614,556)	(962,494)	(1,610,310)
Expenditure on property, plant and equipment		(83,761)	(68,293)	(80,151)	(59,061)
Proceeds for disposal of property, plant and equipment		3,851	1,787	3,847	1,787
Additional funding of subsidiaries		-	-	(10,563)	(4,154)
Net cash flow used in investing activities		**(1,021,490)**	**(1,681,062)**	**(1,049,361)**	**(1,671,738)**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback		(22)	(42)	(22)	(42)
Dividends paid		(629,555)	(493,070)	(626,142)	(490,584)
Principal and interest repayments of borrowings		(7,095)	(4,145)	(7,095)	(4,145)
Net cash flow used in financing activities		**(636,672)**	**(497,257)**	**(633,259)**	**(494,771)**
Net increase/(decrease) in cash and cash equivalents		**(57,133)**	**7,711**	**(177,503)**	**(224,790)**
Effect of exchange rate movements on cash and cash equivalents		(131,256)	(36,229)	(90,893)	(27,206)
Cash and cash equivalents at the beginning of the year		3,869,083	3,958,386	3,019,559	3,281,249
Cash and cash equivalents at the end of the period	13	**3,680,694**	**3,929,868**	**2,751,163**	**3,029,253**

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

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

1. Statement of significant accounting policies

1.1 Statement of compliance

The half-year report is prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as well as the requirements of the Companies Act 1997. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

1.2 Basis of preparation

The interim condensed financial statements are denominated in Papua New Guinea Kina, which is the Bank's functional and reporting currency. All financial information presented in Papua New Guinea Kina has been rounded to the nearest thousand Kina, unless otherwise stated.

The interim condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2021 financial report for the financial year ended 31 December 2021. The Bank has streamlined the presentation of financial information. Where the presentation of financial information has changed, comparative information has been changed to ensure consistency.

IFRS 17 'Insurance contracts" (effective 1.1.23) replaces IFRS 4. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard introduces substantial changes in the presentation of the financial statements and disclosures introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting.

The Group continues to assess the impact and formulate the changes required for IFRS 17 as well as the impact of the limited amendments on the implementation to date. As at 30 June 2022, it was not practicable to quantify the potential impact on the Group's financial position or performance once these standards are adopted.

New and amended standards adopted by the group

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

1.3 Critical Accounting estimates and judgments

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

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

1.3 Critical Accounting estimates and judgments (continued)

The areas involving significant estimates and judgments are:

- Estimation of current tax liability in the multiple tax jurisdictions
- Estimated impairment of financial or non-financial assets
- Estimated insurance liability
- Estimation of fair value of financial and non-financial assets and liabilities – Note 9

Measurement of expected credit loss allowance for financial assets measured at amortised cost in line with IFRS 9 is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Losses (ECL) is further detailed in Note 6, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

Accounting Policy

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

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

Interest income is recognised for Stage 1 and Stage 2 financial assets measured at amortised cost by applying the EIR to gross carrying amounts of the financial instruments. For Stage 3 financial instruments, interest income is recognised by applying EIR on the net carrying value of the financial instrument.

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

2. Operating profit before income tax (continued)

	Consolidated		Bank	
All amounts expressed are in K'000	**June 2022**	**June 2021**	**June 2022**	**June 2021**
Interest income				
Loans and receivables from customers	591,896	571,037	539,198	511,487
Other financial assets - inscribed stock	177,192	149,817	176,515	149,602
Treasury bills	136,338	106,885	136,303	106,628
Central bank bills	4,172	-	4,172	-
Other	6,950	4,419	7,563	5,271
	916,548	**832,158**	**863,751**	**772,988**
Less:				
Interest expense				
Customer deposits	33,603	51,524	27,052	42,346
Other banks	4,843	4,137	5,204	4,721
Other borrowings	2,598	1,333	2,378	1,166
	41,044	**56,994**	**34,634**	**48,233**
	875,504	**775,164**	**829,117**	**724,755**

(b) Fee and commission income and other income

Accounting Policy

Fee and commission income

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

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

Foreign exchange income or losses

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

	Consolidated		Bank	
All amounts expressed are in K'000	**June 2022**	**June 2021**	**June 2022**	**June 2021**
Fee and commission income				
Product related	98,223	94,240	89,988	85,739
Trade and international related	10,882	9,202	9,665	8,214
Electronic banking related	79,723	59,051	78,444	57,734
Other	18,553	18,822	13,553	11,383
	207,381	**181,315**	**191,650**	**163,070**

2. Operating profit before income tax (continued)

(b) Fee and commission income and other income (continued)

All amounts expressed are in K'000	**Consolidated**		**Bank**	
	June 2022	**June 2021**	**June 2022**	**June 2021**
Other income				
Foreign exchange related[1]	175,833	154,149	158,044	139,269
Operating lease rentals	2,886	3,751	2,886	3,751
Other[2]	15,689	19,782	48,072	53,346
	194,408	**177,682**	**209,002**	**196,366**

[1] Foreign exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.
[2] Other income for Bank includes dividends of K34.996 million (June 2021: K38.052 million) from subsidiaries which are eliminated on consolidation.

(c) Impairment on financial assets

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

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

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

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

Note 6 provides more detail of how the expected credit loss allowance is measured.

Impairment on financial assets by asset class as follows:

All amounts expressed are in K'000	**Consolidated**		**Bank**	
	June 2022	**June 2021**	**June 2022**	**June 2021**
Loans and receivables from customers	(25,899)	54,143	(31,101)	45,780
Treasury and Central Bank Bills	2,544	4,138	2,545	4,137
Other financial assets – inscribed stock	3,152	4,334	3,175	4,335
	(20,203)	**62,615**	**(25,381)**	**54,252**

2. Operating profit before income tax (continued)

(d) Operating expenses

Accounting Policy

Staff costs include annual leave, long service leave, superannuation expense, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departure, leave utilisation and future salary. Superannuation expense includes expenses relating to defined contribution plans. Defined contribution expense is recognized in the period the service is provided.

Premises and equipment expenses include depreciation, which is calculated using the straight-line method over the asset's estimated useful life for right-of-use assets recognized under IFRS 16 and property and equipment. Right of Use assets are depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented as part of operating expenses.

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

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

	Consolidated		**Bank**	
All amounts expressed are in K'000	**June 2022**	**June 2021**	**June 2022**	**June 2021**
Staff costs	224,823	205,969	207,849	189,529
Depreciation	58,661	53,586	55,459	50,017
Computing	75,332	69,169	68,726	66,735
Premises and equipment	48,493	43,509	45,361	40,470
Administration and other costs	62,915	69,637	57,412	56,474
	470,224	**441,870**	**434,807**	**403,225**

3. Segment information

Accounting Policy

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

For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Group's management reporting system. The main business lines/segments for management purposes are banking services, split into PNG Bank, Offshore Banks and non-banking services which comprise insurance operations, fund management and asset financing activities. The Group's business segments operate in Papua New Guinea, Fiji, Solomon Islands, Cook Islands, Tonga, Samoa, Vanuatu, Laos and Cambodia. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

3. Segment information (continued)

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

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

Half Year Ended 30 June 2022 *All amounts expressed are in K'000*	**PNG Bank**	**Offshore Banks**	**Non-Bank Services**	**Inter Segment Adjustments**	**Total**
Interest income	741,921	161,914	16,795	(4,082)	916,548
Interest expense	(18,035)	(26,307)	(967)	4,265	(41,044)
Net Interest income	**723,886**	**135,607**	**15,828**	**183**	**875,504**
Other income	320,195	110,033	17,927	(46,366)	401,789
Net insurance income	-	-	9,350	(256)	9,094
Total operating income	**1,044,081**	**245,640**	**43,105**	**(46,439)**	**1,286,387**
Operating expenses	(360,133)	(104,135)	(9,351)	3,395	(470,224)
Impairment on financial assets	10,818	9,828	(443)	-	20,203
Additional company tax	(190,000)	-	-	-	(190,000)
Profit before income tax	**504,766**	**151,333**	**33,311**	**(43,044)**	**646,366**
Income tax	(208,969)	(35,012)	(6,265)	-	(250,246)
Net profit after income tax	**295,797**	**116,321**	**27,046**	**(43,044)**	**396,120**
As at 30 June 2022					
Total Assets	22,520,738	8,754,450	1,953,062	(1,613,809)	31,614,441
Total Liabilities	(19,980,262)	(7,653,481)	(1,463,073)	992,542	(28,104,274)
Net Assets	**2,540,476**	**1,100,969**	**489,989**	**(621,267)**	**3,510,167**

Half year Ended 30 June 2021 *All amounts expressed are in K'000*	**PNG Bank**	**Offshore Banks**	**Non-Bank Services**	**Inter Segment Adjustments**	**Total**
Interest income	641,415	177,576	18,537	(5,370)	832,158
Interest expense	(18,674)	(42,805)	(1,850)	6,335	(56,994)
Net interest income	**622,741**	**134,771**	**16,687**	**965**	**775,164**
Other income	287,201	99,122	18,232	(45,558)	358,997
Net insurance income	-	-	11,354	(1,724)	9,630
Total operating income	**909,942**	**233,893**	**46,273**	**(46,317)**	**1,143,791**
Operating expenses	(323,569)	(108,768)	(10,532)	999	(441,870)
Impairment on financial assets	(41,866)	(17,406)	(3,343)	-	(62,615)
Profit before income tax	**544,507**	**107,719**	**32,398**	**(45,318)**	**639,306**
Income tax	(157,001)	(26,938)	(6,047)	-	(189,986)
Net profit after income tax	**387,506**	**80,781**	**26,351**	**(45,318)**	**449,320**
As at 30 June 2021					
Total Assets	19,932,749	8,681,771	1,933,844	(1,652,690)	28,895,674
Total Liabilities	(17,553,855)	(7,592,279)	(1,445,207)	1,069,516	(25,521,825)
Net Assets	**2,378,894**	**1,089,492**	**488,637**	**(583,174)**	**3,373,849**

4. Income Tax Expense

Accounting Policy

Current Tax

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

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Interim Condensed Statement of Financial Position. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affect 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 Interim Condensed Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Critical accounting assumptions and estimates

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

Income tax expense

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2022**	**June 2021**	**June 2022**	**June 2021**
Tax calculated at 30% of bank profit before tax	189,103	188,014	189,103	188,014
Tax calculated at respective subsidiary tax rates	9,977	10,686	-	-
Expenses not deductible for tax[1]	58,728	1,010	57,524	423
Tax loss not recognised	3,412	2,703	-	-
Income not recognized for tax purposes	(13,224)	(12,963)	(10,499)	(11,416)
Adjustment to prior year estimates	2,250	536	1,173	467
Income tax expense	**250,246**	**189,986**	**237,301**	**177,488**

[1] K57.0m represents the non-deductibility of the K190.0m Additional Company Tax, which cannot be claimed as a tax deduction.

5. Loans and receivables from customers

Accounting Policy

Loans are originated by providing funds directly to the borrower and are recognised when cash is advanced to borrowers. Loans are subsequently measured at amortised cost using the effective interest rate method where they have contractual cash flows which represent SPPI on the principal balance outstanding and they are held within a business model whose objective is achieved through holding the loans to collect these cash flows. They are presented net of any provisions for ECL. Lease financing is provided to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles and plant and equipment.

	Consolidated		Bank	
All amounts are expressed in K'000	June 2022	Dec 2021	June 2022	Dec 2021
Overdrafts	943,842	714,477	878,934	651,803
Lease financing	206,078	225,578	171,646	193,699
Term loans	10,535,295	10,485,919	9,810,395	9,742,639
Mortgages	2,768,733	2,819,504	2,352,198	2,365,799
Policy loans	118,345	111,342	-	-
Gross loans and receivables from customers net of reserved interest	**14,572,293**	**14,356,820**	**13,213,173**	**12,953,940**
Less allowance for losses on loans and receivables from customers	(662,969)	(725,545)	(604,055)	(667,524)
At 30 June/31 December	**13,909,324**	**13,631,275**	**12,609,118**	**12,286,416**

Allowance for losses includes K68.191 million (Bank K60.066 million), December 2021: K66.522 million (Bank K59.823 million) provision taken up for interest recognized on stage 3 loans.

6. Allowance for Expected Credit Losses

6 (a) Accounting Policy

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

The ECL determined under IFRS 9 is recognised as follows:

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

Measurement

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

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

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

6. Allowance for Expected Credit Losses (continued)

Model stages

The three stages are as follows:

Stage 1: 12 months ECL - performing

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

Stage 2: Lifetime ECL – performing

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

Stage 3: Lifetime ECL – non-performing

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

Collective and individual assessment

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

Expected life

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

Movement between stages

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

Off-Balance Sheet amounts

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

Definition of default

The definition of default used in measuring expected credit losses is aligned to the definition used for internal credit risk management purposes. The default occurs when there are indicators that a debtor is unlikely to fully satisfy contractual credit obligations to the Group, or the exposure is 90 days past due.

Financial assets, including those that are well secured, are considered credit impaired for financial reporting purposes when they meet the definition of default. In subsequent periods, any recoveries of amounts previously written-off are credited to credit impairment charge in the Interim Condensed Statement of Comprehensive Income.

Critical accounting assumptions and estimates

Key judgements include when a significant increase in credit risk has occurred and estimation of forward looking macroeconomic information. Other factors which can impact the provision include the borrower's financial situation,

6. Allowance for Expected Credit Losses (continued)

the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Significant increase in credit risk

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

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

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

Probability weighting of each scenario

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

- Base case scenario
  This scenario utilises external economic forecasts used for strategic decision making and forecasting, resulting in the base case representing comparable market average default rates.

- Upside scenario
  This scenario represents a modest improvement on the base case scenario, which represents lower than market average default rates.

- Downside scenario
  This scenario represents a recession, with higher than market average default rates.

Forward looking macroeconomic information

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

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

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

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

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models. Judgements can change with time as new information becomes available which could result in changes to the provision for expected credit losses.

6 (b) Loss Allowance – Loans and receivables from customers

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

	Consolidated		**Bank**	
All amounts are expressed in K'000	**June 2022**	**Dec 2021**	**June 2022**	**Dec 2021**
Provision for impairment				
Movement in allowance for losses on loans and receivables from customers:				
Balance at 1 January	725,545	843,711	667,524	779,493
Net new and increased provisioning	(8,434)	(59,354)	(12,511)	(64,795)
Loans written off against provisions and write back of provisions no longer required	(54,142)	(58,812)	(50,958)	(47,174)
At 30 June / At 31 Dec	**662,969**	**725,545**	**604,055**	**667,524**

	Consolidated		**Bank**	
All amounts are expressed in K'000	**June 2022**	**Dec 2021**	**June 2022**	**Dec 2021**
Provision for impairment is represented by:				
Collective provision for on balance sheet exposure	348,353	396,161	318,142	359,988
Individually assessed or specific provision	255,392	277,077	229,203	257,109
Total provision for on balance sheet exposure	603,745	**673,238**	**547,345**	**617,097**
Collective provision for off balance sheet exposure	59,224	52,307	56,710	50,427
At 30 June / 31 Dec	**662,969**	**725,545**	**604,055**	**667,524**

	Consolidated		**Bank**	
All amounts are expressed in K'000	**June 2022**	**June 2021**	**June 2022**	**June 2021**
Loan impairment expense				
Net collective provision funding	(33,384)	16,016	(28,391)	15,269
Net new and increased individually assessed provisioning	24,950	30,857	15,880	24,705
Total new and increased provisioning	**(8,434)**	**46,873**	**(12,511)**	**39,974**
Recoveries during the period	(29,554)	(29,295)	(28,635)	(28,351)
Net (write back)/write off during the period	12,089	36,565	10,045	34,157
At 30 June	**(25,899)**	**54,143**	**(31,101)**	**45,780**

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

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

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

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

All amounts are expressed in K'000

EAD - Loans and receivables from customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2021	**11,738,796**	**2,147,480**	**538,588**	**14,424,864**
Transfers to/(from)				
Stage 1	(890,805)	867,548	23,257	-
Stage 2	95,031	(127,519)	32,488	-
Stage 3	-	6,037	(6,037)	-
Net financial assets originated	(79,741)	(32,616)	(50,092)	(162,449)
Total movement in EAD for the period	**(875,515)**	**713,450**	**(384)**	**(162,449)**
30 June 2021	**10,863,281**	**2,860,930**	**538,204**	**14,262,415**

ECL - Loans and receivables from customers				
1 January 2021	**183,776**	**333,680**	**272,821**	**790,277**
Transfers to/(from)				
Stage 1	(11,609)	11,113	496	-
Stage 2	9,668	(12,402)	2,734	-
Stage 3	-	378	(378)	-
Net financial assets originated	(21,771)	42,887	8,612	29,728
Movements due to risk parameter and other changes	(7,600)	8,356	22,050	22,806
Total net P&L charge for the period	**(31,312)**	**50,332**	**33,514**	**52,534**
Loans written off against provision/write back of provision no longer required	**-**	**-**	(18,030)	(18,030)
30 June 2021	**152,464**	**384,012**	**288,305**	**824,781**

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

All amounts are expressed in K'000

EAD - Loans and receivables from customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 July 21	**10,863,281**	**2,860,930**	**538,204**	**14,262,415**
Transfers to/(from)				
Stage 1	(422,119)	408,199	13,920	-
Stage 2	125,592	(147,932)	22,340	-
Stage 3	-	507	(507)	-
Net financial assets originated	1,354,934	(1,212,613)	(47,916)	94,405
Total movement in EAD for the period	**1,058,407**	**(951,839)**	**(12,163)**	**94,405**
31 December 21	**11,921,688**	**1,909,091**	**526,041**	**14,356,820**

ECL – Loans and receivables from customers				
1 July 21	**152,464**	**384,012**	**288,305**	**824,781**
Transfers to/(from)				
Stage 1	(23,831)	23,689	142	-
Stage 2	10,062	(12,156)	2,094	-
Stage 3	-	7	(7)	-
Net financial assets originated	25,167	(90,096)	7,121	(57,808)
Movements due to risk parameter and other changes	53,900	(127,057)	20,204	(52,953)
Total net P&L charge for the period	**65,298**	**(205,613)**	**29,554**	**(110,761)**
Loans written off against provision/write back of provision no longer required	**-**	**-**	**(40,782)**	**(40,782)**
31 December 21	**217,762**	**178,399**	**277,077**	**673,238**

EAD - Loans and receivables from customers				
1 January 2022	**11,921,688**	**1,909,091**	**526,041**	**14,356,820**
Transfers to/(from)				
Stage 1	(248,554)	228,975	19,579	-
Stage 2	625,730	(669,541)	43,811	-
Stage 3	-	45	(45)	-
Net financial assets originated	427,660	(130,337)	(81,850)	215,473
Total movement in EAD for the period	**804,836**	**(570,858)**	**(18,505)**	**215,473**
30 June 2022	**12,726,524**	**1,338,233**	**507,536**	**14,572,293**

ECL – Loans and receivables from customers				
1 January 2022	**217,762**	**178,399**	**277,077**	**673,238**
Transfers to/(from)				
Stage 1	(5,280)	5,114	166	-
Stage 2	59,267	(63,404)	4,137	-
Stage 3	-	9	(9)	-
Net financial assets originated	(41,347)	(1,483)	9,955	(32,875)
Movements due to risk parameter and other changes	15,551	(16,235)	18,208	17,524
Total net P&L charge for the period	**28,191**	**(75,999)**	**32,457**	**(15,351)**
Loans written off against provision/write back of provision no longer required	-	-	(54,142)	(54,142)
30 June 2022	**245,953**	**102,400**	**255,392**	**603,745**

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

Total off balance sheet

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

	June 2022		Dec 2021	
All amounts are expressed in K'000	Stage 1		Stage 1	
	Gross exposure	Loss allowance	Gross exposure	Loss allowance
Opening balance	3,284,336	52,307	2,984,144	53,434
Net decrease/(increase)	904,338	6,917	300,192	(1,127)
Closing balance	**4,188,674**	**59,224**	**3,284,336**	**52,307**

6 (c) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Model adjustments are also included within the ECL allowance. Model adjustments are used in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all relevant risk factors. The emergence of new macroeconomic factors, microeconomic factors and changes to parameters or credit risk data not incorporated into current parameters are examples of such circumstances.

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

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

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

The below three scenarios and respective weightings were applied to each economic variable at 30 June 2022:

Scenario	Base	Upside	Downside
Weight	50%	10%	40%

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

6 Allowance for Expected Credit Losses (continued)

Sensitivity Analysis

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

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

Set out below are the changes to the ECL as at 30 June 2022 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions, while keeping other factors constant:

All amounts are expressed in K'000	**30 June 2022**		**31 Dec 2021**	
	[-25%]	**[+10%]**	**[-25%]**	**[+10%]**
GDP Growth Rate	56,471	(18,845)	57,558	(20,118)

(GDP growth rate assumptions tested at 75% and 110% for all 3 scenarios. -25% sensitivity indicates a reduction in GDP base scenario from 3.0% to 2.3%, upside scenario from 3.2% to 2.4% and downside scenario from 2.3% to 1.7%. +10% sensitivity indicates an improvement in GDP the base scenario from 3.0% to 3.3%, upside scenario from 3.2% to 3.5% and downside scenario from 2.3% to 2.5%.)

	[-7%]	**[+25%]**	**[-7%]**	**[+25%]**
Change in proportion of downgrades	(1,277)	7,222	(1,175)	6,589

(Proportion of downgrades base scenario remained constant at 10%, upside scenario increased from -1.6% to-7%, downside scenario increased from 15% to 25%.)

	30 June 2022	**31 Dec 2021**
Change in Scenario weighting	(18,004)	(18,292)

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

Change in Scenario weighting	1,128	5,428

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

6 (d) Grouping of instruments for losses measured on a collective basis

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

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

Retail – Groupings for collective measurement
- Loan to value ratio band
- Risk Grade
- Product type (e.g. Residential/Buy to Let mortgage, Overdraft)

6 Allowance for Expected Credit Losses (continued)

6 (e) Maximum exposure to credit risk – Financial instruments subject to impairment

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

All amounts are expressed in K'000	**June 2022**				**December 2021**
ECL staging	**Stage 1**	**Stage 2**	**Stage 3**		
	12-month	**Lifetime**	**Lifetime**	**Total**	**Total**
Credit grade					
Standard monitoring	12,726,524	927,660	-	13,654,184	13,299,407
Special monitoring	-	410,573	-	410,573	531,372
Default	-	-	507,536	507,536	526,041
Gross carrying amount	**12,726,524**	**1,338,233**	**507,536**	**14,572,293**	**14,356,820**
Loss allowance	(245,953)	(102,400)	(255,392)	(603,745)	(673,238)
Net Carrying amount	**12,480,571**	**1,235,833**	**252,144**	**13,968,548**	**13,683,582**

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in the Accounting Policy *'Measurement'* section of this Note.

Off balance sheet items, which are in scope for impairment, totalled K4.231 billion and are classified as stage 1 with a loss allowance of K59.878 million.

The total balance of investment securities measured at amortised cost (K9.264 billion) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K54.237 million.

6 (f) Write-off policy

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

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

7. Shareholders' Equity

Accounting Policy

Share issue costs

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

Number of shares in '000s, Book value in K'000	Number of shares	Book value
1 January 2021	**467,229**	**372,189**
Share buyback	(3)	(56)
At 31 December 2021	**467,226**	**372,133**
1 January 2022	**467,226**	**372,133**
Share buyback	(2)	(22)
At 30 June 2022	**467,224**	**372,111**

In May 2014, the Directors introduced a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, any time before that. As at 30 June 2022, a total of K9.386m has been bought back under this scheme. The Directors resolved to cease the share-buyback scheme in July 2022.

Earnings per ordinary 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 period, adjusted for shares which are bought by the Bank.

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2022**	**June 2021**	**June 2022**	**June 2021**
Net Profit attributable to shareholders (K'000)	396,120	449,320	393,042	449,226
Weighted average number of ordinary shares in use ('000)	467,225	467,227	467,225	467,227
Basic and diluted earnings per share (expressed in toea)	**84.8**	**96.2**	**84.1**	**96.1**

Dividends on ordinary shares

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

On 23 February 2022, the directors declared a final dividend of 134 toea per share for the year ended 31 December 2021 which was paid on 23 June 2022. The declared final gross dividend amount was K629.378 million (June 2021: K493.070 million). Net dividend paid after dividend withholding tax was K620.858 million (June 2021: K489.325 million).

Retained earnings

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2022**	**Dec 2021**	**June 2022**	**Dec 2021**
At 1 January	3,025,125	2,622,249	2,728,885	2,360,983
Net profit for the year	396,120	1,075,218	393,042	1,036,455
Final dividends paid	(629,378)	(492,905)	(626,142)	(490,584)
Interim dividends paid	-	(183,388)	-	(182,218)
Disposal of assets – Asset revaluation	5,270	8,658	5,270	8,658
BSP Life policy reserve	-	(4,409)	-	(4,409)
Gain attributable to minority interest	(126)	(298)	-	-
At 30 June/31 December	**2,797,011**	**3,025,125**	**2,501,055**	**2,728,885**

7. *Shareholders' Equity (continued)*

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2022**	**Dec 2021**	**June 2022**	**Dec 2021**
Other reserves comprise:				
Asset revaluation reserve	119,528	123,732	106,248	109,937
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	56,642	56,691	56,642	56,691
Foreign currency translation reserve	141,935	194,293	82,265	109,570
At 30 June/31 December	**340,318**	**396,929**	**245,790**	**276,833**
Movement in reserves for the year:				
Asset revaluation reserve				
At 1 January	123,732	129,063	109,937	115,828
Asset revaluation increment/(decrement)	(515)	560	-	-
Transfer asset revaluation reserve to retained earnings	(5,270)	(7,457)	(5,270)	(7,457)
Deferred tax on disposal of properties	1,581	1,566	1,581	1,566
At 30 June/31 December	**119,528**	**123,732**	**106,248**	**109,937**
Capital reserve				
At 1 January	635	635	635	635
At 30 June/31 December	**635**	**635**	**635**	**635**
General reserve				
At 1 January	56,691	52,267	56,691	52,267
BSP Life policy reserve	-	4,409	-	4,409
Fiji Government green bond revaluation	(49)	15	(49)	15
At 30 June/31 December	**56,642**	**56,691**	**56,642**	**56,691**
Foreign currency translation reserve				
At 1 January	194,293	234,973	109,570	131,995
Movement during the year	(52,358)	(40,680)	(27,305)	(22,425)
At 30 June/31 December	**141,935**	**194,293**	**82,265**	**109,570**

Equity component of convertible notes

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

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

(i) The right to receive a dividend equal to the amount of dividend to be paid on BSP Ordinary Shares.

(ii) The same voting rights as a BSP Ordinary Share and effected through a special voting share held by the Chairman of BSP.

(iii) The Fiji Class Share may be exchanged on a one for one basis into BSP Ordinary Shares at a subsequent date and at the option of BSP on the occurrence of certain prescribed events.

8. Capital adequacy

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

The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well-capitalized, and also specifies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2022, 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 as set out under the standard are as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

The measure of capital used for the purposes of prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the 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 subordinate loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions. The leverage capital ratio is calculated as Tier 1 capital divided by total assets on the balance sheet.

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

	30 June 2022		31 Dec 2021	
Risk weighted capital ratios (unaudited)	**K'000**	**%**	**K'000**	**%**
Tier 1 capital	2,496,406	18.1	3,164,663	23.5
Total capital	3,174,757	23.0	3,457,550	25.7
Leverage capital ratio		8.0		10.6

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

9. Fair Values of Financial and Non-Financial Assets and Liabilities

There is no material difference between the fair values and carrying values of the financial assets and liabilities of the Group. The table below analyses the Group's financial instruments carried at fair value, by levels in the fair value hierarchy.

The different levels have been defined as follows:

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

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

Consolidated

All amounts are expressed in K'000

As at 30 June 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	279,869	7,982	287,851
Treasury bills	-	8,177	-	8,177
Government inscribed stock	-	252,203	-	252,203
Non-financial assets				
Land & Buildings	-	-	497,063	497,063
Investment properties	-	-	315,323	315,323
Assets subject to operating lease	-	-	29,988	29,988
Total assets	**-**	**540,249**	**850,356**	**1,390,605**
b) Financial liabilities				
Policy liability	-	-	(1,110,160)	(1,110,160)
Total liabilities	**-**	**-**	**(1,110,160)**	**(1,110,160)**

As at 31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	286,520	4,707	291,227
Treasury bills	-	8,089	-	8,089
Government inscribed stock	-	289,732	-	289,732
Non-financial assets				
Land & Buildings	-	-	524,920	524,920
Investment properties		-	273,170	273,170
Assets subject to operating lease	-	-	32,671	32,671
Total assets	**-**	**584,341**	**835,468**	**1,419,809**
b) Financial liabilities				
Policy liability	-	-	(1,132,176)	(1,132,176)
Total liabilities	**-**	**-**	**(1,132,176)**	**(1,132,176)**

Consolidated

Financial asset at fair value through profit & loss	**June 2022**	**Dec 2021**
Opening balance (Jan 2022/ 2021)	835,468	798,987
Total gains and losses recognized in:		
- Profit and loss	(16,179)	(28,315)
- Other comprehensive income	(1,627)	18,088
Purchases	59,625	61,942
Disposals	(1,512)	(4,045)
Translation movements	(25,419)	(11,189)
As at 30 June 2022 / 31 December 2021	**850,356**	**835,468**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the period ended 30 June 2022.

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

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

The frequency of valuation of valuations comply with Group policy. The significant inputs used in preparing the valuations relates to:

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

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

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

10. Contingent liabilities and commitments

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

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

FASU formal warning

The Bank has for some time been working to uplift and strengthen the Group's systems and processes to comply with the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (AML and CTF). BSP has implemented various improvements, involving significant investment in systems and personnel, to its AML/CTF Program. Improvements undertaken by BSP include a revision of governance structures to give Directors enhanced oversight over the Compliance and AML functions; increased AML staffing resources; updated Risk Assessments and Policies; implementation of and enhancements to transaction monitoring systems; improved customer documentation and identification procedures and a comprehensive AML/CTF training program for staff who support the AML/CTF Program, as well as an awareness program for all its staff. The Board also monitors the effectiveness of its AML and CTF program through internal and external audit reviews where specific compliance issues and weaknesses are brought to the attention of the Board. This is an ongoing process and further uplifting and strengthening of the AML and CTF program may be required.

In response to FASU's Formal Warning issued in July 2021, an External Auditor was appointed under Section 10 of the AML and CTF Act resulting in a Final Report being presented to the Board in July 2022. The Final Report of the External Auditor has also been delivered to FASU.

FASU issued an initial response to the KPMG Report on 28 July 2022 (received by BSP on 2 August 2022). Any potential penalties or the cost of remedial action cannot be reliably estimated at this time and accordingly, no provision has been raised for this matter.

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

10. Contingent liabilities and commitments (continued)

Off-balance sheet financial instruments

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

	Consolidated		**Bank**	
All amounts expressed are in K'000	**As at 30 June 2022**	**As at 31 Dec 2021**	**As at 30 June 2022**	**As at 31 Dec 2021**
Letters of credit	186,248	182,535	183,843	179,998
Guarantees and indemnities issued	287,063	257,304	275,763	246,901
Commitments to extend credit	3,715,363	2,844,497	3,561,043	2,747,793
	4,188,674	**3,284,336**	**4,020,649**	**3,174,692**
Commitments for capital expenditure				
Amounts with firm commitments, and not included in the accounts	**58,585**	**51,427**	**48,542**	**42,120**

Contingent liability

A number of legal proceedings against the Group were outstanding as at 30 June 2022. Based on information available at 30 June 2022, the Group estimates a contingent liability of K26.6 million in respect of these proceedings (31 December 2021: K24.0 million).

11. Derivative financial instruments

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

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

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

All amounts expressed are in '000

As at 30 June 2022		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Others**	**Total**
Selling	FCY	(7,299)	(716)	-	-	(47,309)	(614)	
	Kina	(25,702)	(1,738)	-	-	(1,223)	(2,164)	(30,827)
Buying	FCY	281	197	-	-	32,000	1,857	
	Kina	989	478	-	-	827	6,538	8,832

As at 31 Dec 2021		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Others**	**Total**
Selling	FCY	(52,957)	(6,295)	(193)	(10)	(86,884)	(530)	
	Kina	(185,819)	(16,031)	(764)	(47)	(2,648)	(1,861)	(207,170)
Buying	FCY	848	30,946	140	-	64,500	17,173	
	Kina	57,186	78,804	556	-	1,966	60,256	198,768

12. Related parties

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

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

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

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

	Consolidated	
All amounts expressed are in K'000	**As at 30 June 2022**	**As at 31 Dec 2021**
Loans to :		
Parties where the related party is a director	566,265	545,098
Parties where the related party is an executive	68,405	73,423
General staff	9,758	10,337
	644,428	**628,858**

13. Notes to interim condensed statements of cash flows

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

	Consolidated		**Bank**	
	As at 30 June		**As at 30 June**	
All amounts expressed are in K'000	**2022**	**2021**	**2022**	**2021**
Cash and balances with Central Banks	2,661,649	2,824,350	2,038,663	2,187,540
Amounts due from other banks	1,285,878	1,172,139	1,197,857	1,031,496
Amounts due to other banks	(266,833)	(66,621)	(485,357)	(189,783)
	3,680,694	**3,929,868**	**2,751,163**	**3,029,253**

The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks include deposits of K57.856 million (June 2021: K51.119 million) held with counter-party Banks that are not available for use by the Group.

14. Additional company tax

The Income Tax (Amendment) Act 2022 dated 23rd March 2022 was passed in the March 2022 sitting of Parliament and introduces an Additional Company Tax (the Tax), effective 25th March 2022. This legislation is intended to supersede the Income Tax (2022 budget) (Amendment) Bill dated 22 November 2021, which introduced the Market Concentration Levy.

The Tax applies a flat K190m on any bank that has over 40% market share of financial assets, which only applies to BSP as it is the only bank whose market share exceeds 40%. The Tax is payable by 30 September of each year and a penalty of up to K50m or up to 6 months imprisonment applies for non-payment. The Tax is non-deductible for tax purposes, and will have a direct impact on BSP's NPAT. In line with accounting standards, the full amount of the Tax has been taken up in the Statement of Comprehensive Income in Quarter 1 2022 as the legislation makes BSP liable for the tax on 1 January of each year.

Concerned about the discriminatory nature of the Tax, BSP is seeking a judicial review with an application being lodged at the Supreme Court to challenge the constitutional validity of this Tax.

15. Subsequent events

There are no adjusting or disclosing events after the end of the reporting period.